

**MINUTES** of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 10 February 2017 at Members Conference Room.

These minutes are subject to confirmation by the Committee at its next meeting.

**Elected Members:**

- \* Ms Denise Le Gal (Chairman)
- Mr Alan Young (Vice-Chairman)
- Mr W D Barker OBE
- \* Mr Tim Evans
- \* Mr Stuart Selleck
- \* Mrs Hazel Watson

**Ex officio Members:**

Mrs Sally Ann B Marks, Chairman of the County Council  
Mr David Hodge CBE  
Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity  
Mr Nick Skellett CBE, Vice-Chairman of the County Council

**Co-opted Members:**

- \* Mr Tony Elias, Borough/District Representative
- \* District Councillor Peter Stanyard, Borough/District representative
- \* Philip Walker, Employees

**In attendance**

Mr Nick Harrison, Chairman Local Pension Board

**1/17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Alan Young and Bill Barker.

**2/17 MINUTES OF THE PREVIOUS MEETING - 11 NOVEMBER 2016 [Item 2]**

The Minutes were approved as an accurate record of the previous meeting.

**3/17 DECLARATIONS OF INTEREST [Item 3]**

There were none.

**4/17 QUESTIONS AND PETITIONS [Item 4]**

There were none.

**5/17 ACTION TRACKING [Item 5]**

**Key points raised during the debate:**

a) A5/16 – The Chairman reported back on a meeting she had had with Marcus Jones MP regarding pooling. There were several issues discussed regarding MIFID 2 but they would be for the pool to deal with. It was confirmed that Government could not mandate for infrastructure investment into specific things.

b) A6/16 – The investment strategy was an item on the agenda for review.

## **6/17 PRESENTATION BY DARWIN PROPERTY INVESTMENT MANAGEMENT [Item 6]**

### **Declarations of interest:**

None

### **Witnesses:**

Anthony Esse and James Penney both directors of Darwin Alternatives.

### **Key points raised during the discussion:**

Further to Minute 81/16 when the committee discussed an investment opportunity for Darwin Property II, representatives were invited to give a presentation to the Committee.

Anthony Esse and James Penney both directors of Darwin Alternatives tabled a presentation and described the experience and expertise of the investment team as well as the performance data of Darwin Leisure Property Fund. They went on to describe the new investment opportunity including fund structure, potential acquisitions and fee structure.

Members of the committee asked detailed questions and received replies regarding the following topics:

1. refurbishment and renewal of new sites,
2. the rationale for using Gearing,
3. when returns would be realised, and
4. sustainability during economic downturn.

### **Resolved:**

Members agreed that they were happy with the lock-in of 10 years and the levels of fees. The final committee decision regarding this investment is available under Minute 09/17 – Manager Issues and Investment Performance.

## **7/17 ASSET POOLING: BORDER TO COAST PENSIONS POOL [Item 7]**

### **Declarations of interest:**

None

### **Witnesses:**

Phil Triggs, Strategic Manager Pension Fund & Treasury  
David John, Audit Performance Manager  
Sheila Little, Director of Finance

### **Key points raised during the discussion:**

1. That this report would be going to Full Council in March if the committee agreed the recommendations.
2. It was confirmed that shareholder board members could be officer or member but the joint committee needed to be a member. Pools were able to employ their own advisors.
3. The relationship between the Pool Shareholder Board, Joint Committee and the Administering Authority was explained and discussed.
4. The use of A (voting share) and B shares (regulatory capital) and how this may change over time depending on regulatory changes.
5. It was explained that the private equity investments will remain with the council and the distributed cash will then go to the Pool.
6. There was some discussion about why Surrey was not entering the local regional pool and the Director of Finance would ensure that the report to Council would make the reasons clear why Border to Coast had been chosen.
7. The optimum level for a pooled fund was said to be between £20bn to £50bn.
8. The potential for academies being removed from the LGPS in the future and how this would change the fund completely.

### **Actions/ further information to be provided:**

Members requested that the 4<sup>th</sup> bullet point of paragraph 9 of the main report be amended to include examples of 'complex asset classes'.

### **Resolved:**

The Committee supported the recommendations and resolved to recommend to Full Council to:

1. Approve the Border to Coast Pensions Partnership Limited (BCPP) as its pooling option to provide compliance with the legislation that mandates pooling.
2. Approve the acquisition by the Council, as Administering Authority of the Pension Fund, one share in the Border to Coast Pensions Partnership Limited and nominate the Chairman of the Surrey Pension Fund Committee (or Vice Chairman in their absence) to attend any meetings of the BCPP Shareholder Board on behalf of the Council.
3. Approve the creation of the BCPP Joint Committee with the Chairman of the Surrey Pension Fund Committee (or Vice Chairman in their absence) nominated to attend on behalf of the Council.
4. Delegate to the Director of Finance and the Monitoring Officer, in consultation with the Chairman of the Surrey Pension Fund Committee, to update the Council's Constitution to reflect the above approvals and to approve for execution by the Council the final versions of any documents necessary to put these decisions into effect.

5. To approve the revised Surrey Pension Fund Committee Terms of Reference functions as set out within the Constitution with the following addition: "Receive minutes and consider recommendations from and ensure the effective performance of the Joint Committee of the Border to Coast Pensions Pool and any other relevant bodies."

**Reasons for decision:**

1. To comply with legislation.
2. To conform to best local authority pensions practice.

*The Committee took a comfort break at 11.26am and reconvened at 11.42am.*

**8/17 ACTUARIAL VALUATION 2016: OUTCOME [Item 8]**

**Declarations of interest:**

None

**Witnesses:**

Barry McKay, Hymans Robertson  
Phil Triggs, Strategic Manager Pension Fund & Treasury

**Key points raised during the discussion:**

1. The representative from Hymans Robertson introduced the report and explained that the final document was to be signed off by 31 March 2017. He also offered that the committee see the full compliance details before the next meeting on 2 June 2017 if they so wished. He explained the methodology for the triennial valuation.
2. Thanks were given to Neil Mason, Senior Advisor, for his work on risk categorisation and thanks given to Barry McKay of Hymans Robertson.
3. The representative from Hymans Robertson reported that there was no quarterly monitoring report this quarter but that the funding level was at 93%

**Actions/ further information to be provided:**

None

**Resolved:**

To note the report and adopt the 2016 actuarial valuation.

**Reason for decision:**

A triennial actuarial valuation is a statutory requirement for the pension fund

## **9/17 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 9]**

### **Declarations of interest:**

None

### **Witnesses:**

John Harrison, Advisor  
Phil Triggs, Strategic Manager Pension Fund & Treasury

### **Key points raised during the discussion:**

1. John Harrison presented the report to the committee. An updated annex 1, Asset Allocation Update, was tabled as were notes from meetings with fund managers.
2. Each of the fund managers were discussed regarding performance and issues arising.
3. The Strategic Manager Pension Fund & Treasury suggested asking Mercer to review the asset allocation and risks as there may be a risk of being overweight in equities. John Harrison explained that a strategic review would look at how the fund stood today and at what point to move or act. It would need to have trigger points for future consideration/action.
4. The Committee discussed the potential review of asset allocation and talked about the need for costings in a specification paper.
5. The Committee also discussed the potential investment opportunities with Darwin and Hg Capital.
6. There was some concern expressed with the Hg management fee of 1.75%.
7. Discussion was had regarding the potential for investment in Standard Life. It was explained that Standard Life focus on northern Europe and the US and on the secondary market. It was also explained that secondaries were opportunities that can come unexpectedly, so there was not the detail on where investment goes.
8. The Committee gave thanks for the work and support of Alex Moylan, Senior Accountant, who was leaving the Council. The Committee wished him well for the future.

### **Actions/ further information to be provided:**

None.

### **Resolved:**

1. To request that a specification paper for the strategic review of asset allocation by Mercer, be sent to all Members of the Pension Committee for approval.
2. To delegate authority to the Strategic Manager Pension Fund & Treasury to arrange for Mercer to provide strategic review options but only if there was agreement from Pension Fund Committee to the specification paper.
3. An investment commitment of between £35m and £40m to Darwin Properties II (at the discretion of the Strategic Manager Pension Fund & Treasury) on the proviso that the agreed fee level was achieved.

4. Not to invest £15m to Hg Capital 8 Fund due to concerns about management fees.
5. To committee £15m to Standard Life Secondary Opportunities III Fund.

**Reason for decision:**

In order to achieve best possible performance alongside optimal risk.

**10/17 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE [Item 14]**

**Declarations of interest:**

None

**Witnesses:**

Jason Bailey, Pensions Lead Manager  
Nick Harrison, Chairman Local Pension Board

**Key points raised during the discussion:**

1. The Pensions Lead Manager introduced the report and said that there was a slight improvement on the last quarter but there was still some concern about initial contact with fund members. It was also reported that employer performance was not measured at present and ways were being explored on how to factor that in.
2. The Chairman of the Local Pension Board was invited to give his thoughts. He stated that customer service improvements were not going fast enough and that he would like to see a plan with data.
3. It was agreed to review the Administration Strategy in September 2017.

**Actions/ further information to be provided:**

That where five days meant five working days then this should be stated. To include Administration Strategy on the committee forward plan for September 2017.

**Resolved:**

The Committee noted the report and the Key Performance Indicator statement shown in annex 1 to the report.

**Reason for decision:**

To comply with best practice.

**11/17 PENSION FUND BUSINESS PLAN 2017/18 [Item 10]**

**Declarations of interest:**

None

**Witnesses:**

Phil Triggs, Strategic Manager Pension Fund & Treasury

**Key points raised during the discussion:**

1. The Committee considered the updated Pension Fund Business Plan 2017/18 as presented.

**Actions/ further information to be provided:**

None

**Resolved:**

To adopt the Pension Fund Business Plan 2017/18 as in annex 1 to the report.

**Reason for decision:**

A business plan is required by best practice in order to set relevant targets and monitor progress.

**12/17 INVESTMENT STRATEGY STATEMENT [Item 11]**

**Declarations of interest:**

None

**Witnesses:**

Phil Triggs, Strategic Manager Pension Fund & Treasury

**Key points raised during the discussion:**

1. An updated investment strategy statement was tabled and is attached as an appendix to these minutes.
2. It was explained that the Investment Strategy Statement was a working document and would continue to be presented to the committee at every meeting.
3. Discussion was had around the request for the Local Pension Board to review the Environmental, Social and Governance (ESG) Policy and to feed back its findings to the 2 June 2017 meeting of the Pension Committee.

**Actions/ further information to be provided:**

To request that the Local Pension Board review the ESG Policy and feed back its findings to the 2 June 2017 Pension Committee.

**Resolved:**

The new Investment Strategy Statement, as appended to the minutes, was approved.

**Reason for decision:**

The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.

**13/17 GOVERNANCE COMPLIANCE STATEMENT [Item 12]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Specialist Advisor

**Key points raised during the discussion:**

The Committee considered this report which reviewed the Governance Compliance Statement which is comprised of the Compliance to Statutory Guidance Statement and a Governance Policy Statement.

**Actions/ further information to be provided:**

None

**Resolved:**

1. The Pension Fund Committee noted the amendments to the Compliance to Statutory Guidance Statement attached as Annex 1 to the report.
2. The Pension Fund Committee noted the amendments to the Governance Policy Statement attached as Annex 2 to the report.

**Reason for decision:**

To comply with legislation and best practice.

**14/17 PENSION FUND RISK REGISTER [Item 13]**

**Declarations of interest:**

None

**Witnesses:**

Phil Triggs, Strategic Manager Pension Fund & Treasury

**Key points raised during the discussion:**

1. The Strategic Manager Pension and Treasury introduced the risk register report highlighting that there was a new entry for cyber security which needed further work. The Committee were pleased that this new entry had been added.

**Actions/ further information to be provided:**

To invite Northern Trust and other experts to speak at a future committee meeting.

**Resolved:**

The revised Risk Register in Annex 1 to the report was noted.

**Reason for decision:**

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

**15/17 CORPORATE GOVERNANCE SHARE VOTING [Item 15]**

**Declarations of interest:**

None

**Witnesses:**

Phil Triggs, Strategic Manager Pension Fund & Treasury

**Key points raised during the discussion:**

1. The Strategic Manager Pensions and Treasury presented the report that provided a summary of the Fund's share voting process in Q3 of 2016/17 (1 October 2016 to 31 December 2016).

**Actions/ further information to be provided:**

None.

**Resolved:**

1. To note the report.
2. The latest version of the Responsible Investment and Stewardship Policy was approved.

**Reason for decision:**

The Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares held within the pension fund.

**16/17 FORWARD PLAN [Item 16]**

The forward plan was NOTED.

**17/17 DATE OF NEXT MEETING [Item 19]**

The date of the meeting was NOTED.

Meeting ended at: 1.50 pm

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**Chairman**

## Asset Allocation Update

The table shows the actual managed asset allocation as at 27 January 2017 (taking into account the transition of assets from Marathon to LGIM UK Equity and Majedie)

	Category	Allocation Policy %	Allocation	Variance %
<b>Equities</b>		<b>63.0</b>	<b>65.5</b>	<b>+2.5</b>
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	9.9	-0.1
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	11.1	0.1
<i>UBS</i>	<i>Core Active</i>	8.0	8.6	0.6
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	13.9	-0.1
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	13.5	1.5
<i>Newton</i>	<i>Core Active</i>	8.0	8.5	0.5
<b>Property</b>		<b>6.5</b>	<b>6.7</b>	<b>0.2</b>
<i>CBRE</i>	<i>Core Active</i>	6.5	6.7	0.2
<b>Alternatives</b>		<b>12.0</b>	<b>11.3</b>	<b>-0.7</b>
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.1	0.1
<i>Ruffer</i>	<i>Diversified growth</i>	4.0	3.6	-0.4
<i>Aviva</i>	<i>Diversified growth</i>	4.0	3.6	-0.4
<b>Bonds</b>		<b>18.5</b>	<b>16.5</b>	<b>-2.0</b>
Index linked gilts				
<i>Legal and General</i>	<i>Core Active</i>	5.8	5.7	-0.1
Investment grade credit				
<i>Western</i>	<i>Core Active</i>	5.5	5.0	-0.5
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6	2.0	-0.6
Multi Asset Credit				
<i>Western</i>	<i>Unconstrained</i>	4.6	3.8	-0.8
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

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**Manager Review meetings – 6<sup>th</sup> February 2017**

## Newton: Global Equities

Jeff Munroe (Head of Global Equities)  
David Moylett (Client Relationship)

- Mandate size: £295m
- Target: MSCI AC World Index +2% pa (gross of fees) over rolling 3 years
- Performance: 1 year: 6.0% below index (+21.0% vs +28.7%)  
3 years: **0.4% pa ahead of index (+14.2% pa vs +13.7% pa)**  
5 years: 1.3% pa ahead of index (+16.0% pa vs +14.5% pa)

Having outperformed by 7% in 2015, Newton has given up most of the gains in 2016 without significant changes to the key themes or sector positions. What has changed is the market perception of risk. In 2015, investors were fearful about slowing global trade growth, falling commodity prices and potential bad debts in the Chinese banking system. The bounce in oil prices, continued credit growth in China and the prospect of fiscal stimulus following the US Presidential Election have prompted a reversal in market leadership. The laggards of 2015 (financials, energy and materials) have been the leaders in 2016. The leaders in 2015 (healthcare, consumer staples and consumer discretionary) have been the laggards in 2016.

We challenged Newton as to why they had not closed the underweight positions in financials and energy stocks in late 2015, given the significant falls in share prices that had been seen. They did debate whether or not to move closer to the index to 'lock down' commercial risk, but decided that this would be counter to their investment views. They believe that aging populations and high debt burdens remain headwinds to global economic growth and that the balance sheets of many cyclical businesses are too highly geared. They therefore stuck to quality sectors and stocks, which has resulted in poor relative performance in a rampantly cyclical market.

Looking forward, they remain cautious and the portfolio has a defensive bias. The major overweights are IT, consumer staples and healthcare and the underweights are financials, materials and energy. European markets are valued at a 24-year low relative to US\$ stocks, although a lot of the difference is due to different sector weightings rather than genuine valuation anomalies. The portfolio is overweight Europe and UK and underweight US and emerging, but the bias within Europe is to US earners rather than domestic businesses.

We asked if the big relative swings of the last two years indicated a change in risk profile within the portfolio. The active risk models suggest that 'theoretical' risk is similar but the outcomes have been wider. This may reflect the failure of risk models to capture the correlation of risk on/risk off trades.

**Adviser view:** *Newton's performance last year was clearly very disappointing, but should be seen in the context of the longer term results, which have been ahead of the index over the last three and five years. Their investment process is based on robust fundamental research, both in economic and company analysis. They do not try to second guess short term market behaviour and will experience erratic relative performance in markets that flip between fear (e.g. 2015) and greed (e.g. 2016). The critical issue is whether their long-term views are correct. I have a lot of sympathy with their caution about current market optimism. Our manager structure comprises two managers that have consistent philosophies (UBS for value and Newton for quality/growth) and two with a more flexible approach (Majedie and Marathon). This is a well-diversified structure that I would be reluctant to change at present.*

## **Ruffer: Diversified Growth/Absolute Return**

Alex Lennard (Investment Director)

Trevor Bradley (Investment Director)

- Mandate size: £125m
- Inception: 20 September 2016
- Performance: +2.6% in period from inception to end 2016

Ruffer had performed well in the nine months prior to taking on our mandate during a period of falling bond yields, so were pleased that they had continued to deliver positive returns in Q4 given the sharp rises in bond yields. They successfully de-risked their bond exposures in summer 2016, prompted by seeing Swiss corporates issuing bonds on negative nominal yields. The portfolio retains a large exposure to long-dated index-linked gilts and gold, both of which were detractors, but this was more than made up from gains on equities, particularly in Japan.

They characterise the market behaviour of recent years as having an over reliance on central banks being able to “catch the vase before it hits the floor”. However, with interest rates so low and the effectiveness of QE diminishing, central bankers are highlighting the need for fiscal policy to take over from monetary policy. President Trump’s reflationary policies are consistent with this requirement, although the impact of growing protectionism is less clear.

The problem for assessing financial valuations is that everything has been distorted by excessively low and ultimately unsustainable interest rates – likened to “poisoning the river at source”. Liquidity constraints may also be destabilising, particularly in corporate credit markets where overall issuance has expanded the market hugely while the trading depth has been shrinking – likened to “doubling the size of the stadium while narrowing the fire exits”.

Overall, the portfolio has about 40% in index-linked bonds (23% in UK and the rest in US and Canada), about 40% in equities (of which Japan 16% and UK 11%) and 20% in cash/gold/options/illiquid strategies.

**Adviser view:** *it is very early days in our relationship, but it is already clear that Ruffer’s portfolio will be very different from any of our other mandates. The quality of analysis and clarity of thought is impressive and they certainly back their views robustly.*

## CBRE: Property

DJ Dhananjai (Portfolio Manager)  
Nandika Sharma (Analyst)

- Mandate size: £225m
- Target: AREF/IPD UK All Balanced Property index +0.5% pa (gross of fees)
- Performance: 1 year 0.8% ahead of index (3.6% vs 2.8%)  
**3 years 0.2% pa ahead of index (10.9% pa vs 10.7% pa)**

The commitment to the Global Alpha fund is starting to be drawn, with £22m invested by end 2016 and a further £13m drawn in January 2017. There is a further £19.6m to invest, of which £2.6m is in cash already held by CBRE. The current weighting is 16% and the target is 25%.

CBRE became more cautious of the UK property environment in 2016 and 2017 following the UK Referendum, but expects yields to stabilise by 2018. Their current forecast is for a return below 2% in 2017, but above 5% pa thereafter, mostly from income. Within this they expect offices to perform less well than industrials and retail.

The key themes in the UK are to favour logistics/multi-let industrial, secure income and defensives, such as student accommodation and leisure. They are diversifying regionally away from the expensive London market. Similar themes apply overseas, but with the addition of cyclical office exposure in some US and Australian cities. The overall portfolio currently has 28 holdings, but this will fall to about 20 when planned disposals are executed in 2017. Leverage will rise from 18.5% to close to 20% given the extra investment in Global Alpha.

Performance was helped in 2016 by currency positions, which added 0.9% in Q4. There was a much above average activity in 2016, with well-timed disposals in Q2 and acquisitions at discounts in Q3. Lower activity is expected in 2017.

**Adviser view:** *CBRE's performance would have been lacklustre had it not been for the currency kicker in Q4. Having said that they have coped well with the transition of the fund post Brexit and the integration of the Global Alpha holding. The portfolio provides a well-diversified property exposure.*

## Franklin Templeton: Absolute return bonds

Vivek Ahuja (Portfolio Manager) by phone  
Chris Orr (Client Relationship)

- Mandate size: £70m
- Target: 5 – 7% pa
- Performance: 1 year 7.9% (bond index 2.8%)  
3 years **1.7% pa (bond index 0% pa)**

What a difference a quarter makes. The +9.4% return in Q4 was achieved in a falling bond market, with the Barclays Multiverse index returning -6.7%. This is a dramatic reversal of fortunes after three successive quarters of negative returns.

Our concern ahead of the meeting was that currency positions had become too dominant making this more of a currency trading fund than a bond portfolio. Currency did have a big impact this quarter as well, with the 40% short Yen position, delivering +6.5% out of a total return in Q4 of +9.4%. Over the year as a whole, however, the attribution of returns shows that currency accounted for about a quarter of the total return, compared with three quarters from country yield curve or credit exposures.

FT's process identifies three potential sources of return: currency, curve and credit. Currency views can be based on relative valuation (e.g. Mexico in the wake of a 17% fall relative to the US\$ in 2016) or on carry (e.g. high interest rates in Brazil, Indonesia and India). The higher interest rate markets may also merit duration views (e.g. Argentina).

The current portfolio has very little exposure to developed market sovereigns. FT believes the threats of protectionism and/or inflation are high and yields far too low. This includes holding no government bonds in US, Japan, Germany or UK. The overall duration is only 0.26 years (versus a bond index of 6.74 years), so there is very little interest rate sensitivity. The yield is over 9%, reflecting very high yields on emerging market bonds.

**Adviser view:** *FT is the opposite of a benchmark aware investor. The positions taken are punchy, both in the scale of positions in esoteric markets and in currency views. When many sovereign bonds yield nothing or less and the broader global bond market index yields less than 2%, a yield of over 9% on a well-diversified portfolio of lower rated bonds appears remarkably attractive. The extra yield more than compensates for the additional default risk on all but the most disastrous scenarios.*

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## SURREY PENSION FUND

### INVESTMENT STRATEGY STATEMENT

#### 1. Introduction

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund (“the Fund”) on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee (“the Committee”), which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Leaders;
- one representative from the external employers;
- one representative of the members of the Fund.

The Committee is advised by a representative of the Fund’s professional investment advisor, an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury). The Committee meets on a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the Local Pension Board, which is made up of:

- four employer representatives;
- four employee representatives;
- two independent representatives.

The Local Pension Board is advised by the Director of Finance and the Senior Specialist Advisor.

The Local Pension Board meets on a half yearly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement will be an important governance tool for the Fund, as well providing transparency in relation to how the Fund’s investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund’s compliance with the principles.

## **Key Investment Beliefs**

The Fund's key investment beliefs are set out below:

### **(i) Investment Governance**

The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as private equity and cash.

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), but it is difficult to identify and exploit such opportunities, and may require the Fund to be willing to take-on unconventional risk, thus requiring Committee members to have a full understanding of the risk.

### **(ii) Long Term Approach**

The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers.

Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

### **(iii) Appropriate Investments**

Allocations to asset classes other than equities and government bonds (e.g., Corporate Bonds, Private Equity, Diversified Growth Funds and Property) offer the Fund other forms of risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may also use bond based strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

#### **(iv) Management Strategies**

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

Active managers can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value, over the long term.

The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.

Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

#### **Objectives**

The Committee seeks to ensure that the Fund has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members, i.e. over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

- i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.
- ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the Fund's liabilities.
- iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.

- iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.
- v. To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- vi. To achieve an overall Fund return 1% per annum in excess of the combined portfolio benchmark over rolling three-year periods.

This statement will be reviewed by the Committee at least tri-annually, or more frequently should any significant change occur.

## **2. Investment strategy and the process for ensuring suitability of investments**

The Fund's benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

<b>Asset class</b>	<b>Allocation %</b>	<b>Advisory ranges %</b>	<b>Role(s) within the strategy</b>
<b>Listed Equities</b>	<b>59.8</b>	<b>56.8 – 62.8</b>	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	27.5		
Global Developed Markets Equity	28.5		
Emerging Markets	3.8		
<b>Private Equity</b>	<b>5.0</b>	<b>2.0-8.0</b>	Generate returns in excess of inflation, through exposure to companies that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
<b>Property</b>	<b>6.2</b>	<b>3.2 - 9.2</b>	Generate returns in excess of inflation through exposure to UK and overseas property markets through income and capital appreciation, whilst providing some diversification away from equities and bonds.
<b>Diversified Growth</b>	<b>11.4</b>	<b>8.4 – 14.4</b>	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
<b>Growth Fixed Income Assets</b>	<b>12.1</b>	<b>9.1-15.1</b>	

Investment Grade Credit	5.3		Expected to provide a relatively low risk income stream and returns in excess of government bonds by investing in bonds issued by high quality companies.
Total Return	2.4		Offer diversified, unconstrained exposure to global fixed income markets.
Multi Asset Credit	4.4		Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
<b>Inflation Linked Gilts</b>	<b>5.5</b>	<b>2.5-8.5</b>	
Index Linked Gilts	5.5		Low risk income stream with an explicit linkage to inflation.
<b>Total</b>	<b>100.0</b>		

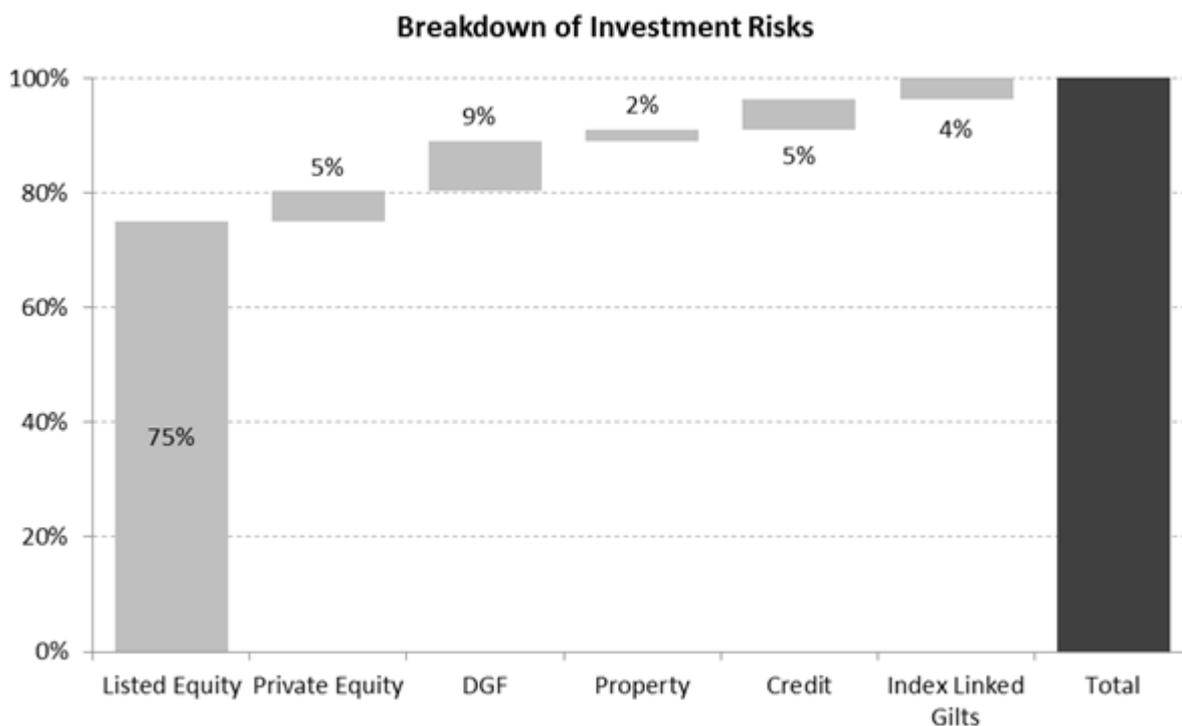
**Note:** Full details of the asset allocation, including the investment managers and their respective performance benchmarks are included in Appendix B.

### **3. Risk measurement and management**

There are a number of risks to which any investment is exposed. The Committee recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the Fund's volatility of returns.



Note: Credit risk encompasses the risks within Investment Grade Credit, Total Return Fixed Income and Multi Asset Credit. The chart excludes the risk associated with the change in value of the Fund's liabilities.

The following risks are recognised and considered by the Committee:

**Valuation risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to unexpected increases in CPI, or if the assets do not deliver as expected.

**Longevity risk:** this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

**Sponsor Covenant risk:** the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

**Diversification risk:** the Committee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

**Concentration risk:** the Committee takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

**Liquidity risk:** the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

**Manager risk:** the Fund's assets are invested with a number of managers to provide appropriate diversification.

**Regulatory and political risk:** across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

**Exchange rate risk:** this risk arises from unhedged investment overseas. The Fund has a currency hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

**Cashflow risk:** the Fund is cashflow positive, in that contributions are expected to exceed outgoings (outgoings are largely expected to be in the form of meeting benefit payments). Excess cashflows are used to rebalance the investment policy closer into line with the target. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

**Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

**Environmental, Social and Governance:** the Committee wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Committee requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

The full ESG policy of the Fund is outlined in Section 5.

#### **4. Approach to asset pooling**

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

Asset values total £35.9 billion, supporting 906,000 scheme members and 2,166 employers (data at 31 March 2015).

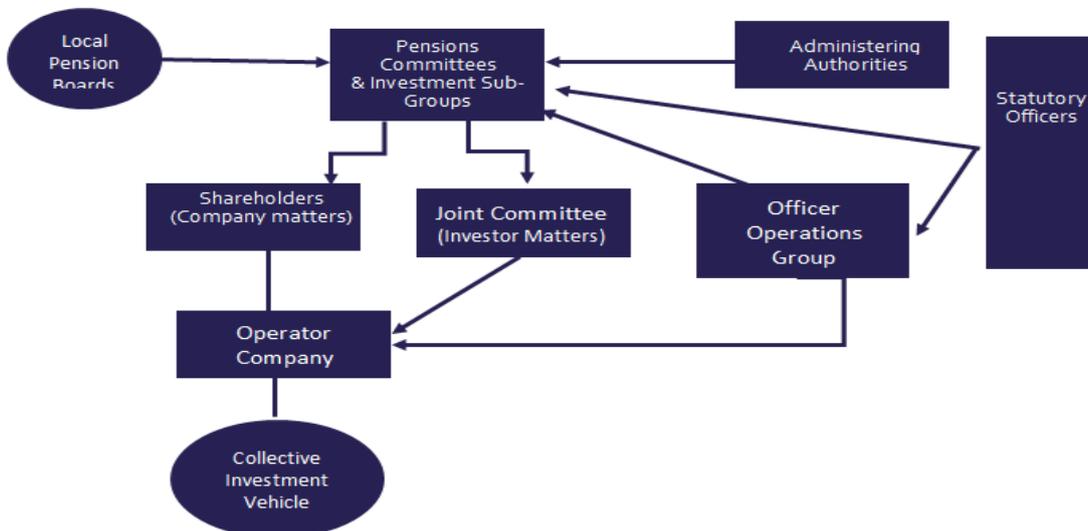
BCPP is a partnership of the following administering authorities:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The basis of the pooling will be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

- a. Benefits of scale - a minimum asset size per pool of £25bn.
- b. Strong governance and decision making
- c. Reduced costs and value for money
- d. Improved capacity to invest in infrastructure

The proposed governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the BCPP Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited. Each Fund has an equal share in the company.
- A representative on the BCPP Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The regulatory changes do not affect the sovereignty of the Surrey Pension Fund which will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited. The pooling of LGPS assets will have no impact on the pension entitlement of members of the fund (pensioners, current employees, and deferred members who are yet to draw their pension).

BCPP has been created by like-minded funds, established around key principals:

- one fund one vote, regardless of size, all Funds will be treated equally;
- equitable sharing of costs;
- to drive efficiencies and work effectively, partner funds must have a complementary investment ethos, risk appetite and investment strategy.

BCPP will have an internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool (existing private equity investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into BCPP.

## **5. Environmental, social and corporate governance (ESG) policy**

The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues. However external fund managers are expected to take into account ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection.

The Fund also holds expectations of its fund managers to hold companies to account reference the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria.

The Fund aims to to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

Responsibility for investment decisions is delegated by the Administering Authority to the Pension Fund Committee. The structure of the Committee, as set out in the opening section of this ISS, includes specific representative members for both employers within the Fund and the scheme membership.

## **6. Policy of the exercise of rights (including voting rights) attaching to investments**

### **Stewardship Code Statement**

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF. When this occurs, the Committee will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

The policy is reviewed at least annually in order to take account of regulatory developments. Controversial issues may be discussed at Committee meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Committee and employer member representatives at the Annual Meeting where members have an opportunity to ask specific questions.

In addition, quarterly reports of voting actions are posted on the Fund's website ([www.surreypensionfund.org](http://www.surreypensionfund.org))

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

### **Advice Taken**

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment advisor (Mercer Limited), an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury).

## **Appendix A: Myners Investment Principles Compliance Statement**

### **Principle 1: Effective Decision-making**

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### **✓ Full compliance**

The Committee and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance and the Pension Fund and Treasury Manager.

Members of the both Boards participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

### **Principle 2: Clear Objectives**

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

#### **✓ Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

### **Principle 3: Risk and liabilities**

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

#### **✓ Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

#### **Principle 4: Performance assessment**

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### ✓ **Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

#### **Principle 5: Responsible ownership**

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

#### ✓ **Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

### **Principle 6: Transparency and reporting**

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

#### **✓ Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Committee and half yearly reports to the Local Pension Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

**Appendix B: Investment Manager Performance Targets and Benchmarks**

Manager	Portfolio	Allocation (%)	Benchmark Index	Performance Target
UBS	UK Equities	7.6	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	10.4	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Marathon	Global Equities	11.4	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Newton	Global Equities	7.6	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Various*	Private Equity	5.0	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
CBRE	Property	6.2	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	3.8	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Ruffer	Diversified Growth	3.8	-	First objective is not to lose money on a rolling 12 month basis. Second objective is to outperform cash and inflation on a consistent basis.
Aviva	Diversified Growth	3.8	UK Base Rate	+5.0% p.a. (gross of fees) over rolling 3-year periods
Western	Investment Grade Credit Multi Asset Credit	5.3 4.4	Merrill Lynch Sterling Non-Gilts Index Total return benchmark	+0.75% p.a. (gross of fees) over rolling 3-year periods +5% to 7% per annum over the market cycle
Franklin Templeton	Unconstrained Global Fixed Income	2.4	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds N - UK Equity Index RX - World (ex UK) Dev Equity Index HN – World Emerging Markets Equity Index CN - AAA-AA-A	28.3	FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP Non Gilts ex BBB All stock  Portfolio of single stock funds structured	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

	Bonds – All Stocks Index		by reference to Fund liabilities	
	Index-Linked Gilts			
Internal	Cash		LIBID 7-day rate	LIBID 7 day rate

\*See Appendix C

### **Appendix C: Private Equity**

The table below outlines details on the Fund's private equity commitments. The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Committee reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers.

<b>Name</b>	<b>Currency</b>	<b>Inception</b>	<b>Commitment</b>
<b>UK Funds</b>			<b>£/€/ \$m</b>
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Capital Dynamics LGPS CPAV	£	2016	24.0
<b>Euro Fund of Funds</b>			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	\$	2013	20.0
Standard Life SOF II	\$	2014	20.0
Standard Life SOF III	\$	2016	25.0
<b>US Fund of Funds</b>			
Blackrock Div PEP I	\$	2001	5.0
Blackrock Div PEP II	\$	2003	5.0
Blackrock Div EP III	\$	2005	17.5
GSAM PEP 2000	\$	2000	10.0
GSAM PEP 2004	\$	2004	10.0
GSAM PEP 2005	\$	2006	17.0
GSAM PEP X	\$	2008	18.0
GSAM PEP XI	\$	2011	18.0
GSAM Vintage Fund VI	\$	2013	20.0
GSAM Vintage Fund VII	\$	2016	50.0
<b>US Funds</b>			
Capital Dynamics US Solar Fund	\$	2011	25.0

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