

SURREY PENSION FUND

ACCOUNTS 2013/2014

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2013/2014 and of the disposition of its assets at 31 March 2014.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The fund exists to provide pensions and other benefits for employees, their widows or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2013 and 31 March 2014 are:

| 31 Mar 2013 | | 31 Mar 2014 |
|--------------------|-----------------------|--------------------|
| 30,608 | Employees in the fund | 32,530 |
| 20,553 | Pensioners | 21,598 |
| 27,648 | Deferred pensioners | 30,639 |
| 78,809 | Total | 84,767 |

Surrey pension fund account

| 2012/2013 £000 | | Note | 2013/2014 £000 |
|---|---------------------------------------|------|-------------------|
| Contributions and benefits | | | |
| 159,544 | Contributions receivable | 7 | 149,615 |
| 13,833 | Transfers in | 8 | 14,751 |
| 173,377 | | | 164,366 |
| -113,893 | Benefits payable | 9 | -119,223 |
| -7,945 | Payments to and on account of leavers | 10 | -6,255 |
| -1,867 | Administrative expenses | 14 | -1,928 |
| -123,705 | | | -127,406 |
| Net additions from dealings with members | | | |
| 49,672 | | | 36,960 |
| Return on investments | | | |
| 41,687 | Investment income | 17 | 47,758 |
| -1,042 | Taxes on income | 16 | -1,081 |
| 278,985 | Change in market value of investments | 18 | 175,422 |
| -6,856 | Investment management expenses | 15 | -10,275 |
| 312,774 | Net return on investments | | 211,824 |
| Net increase in the fund during the year | | | |
| 362,446 | | | 248,784 |
| Net assets of the fund | | | |
| 2,196,270 | At 1 April | | 2,558,716 |
| 2,558,716 | At 31 March | | 2,807,500 |

Net asset statement

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| 31 Mar 2013 | Note | 31 Mar 2014 |
|---|------|----------------------|
| £000 | | £000 |
| Investment assets | 18 | |
| 347,863 Fixed interest securities | | 352,134 |
| 99,100 Index linked securities | | 94,675 |
| 1,574,687 Equities | | 1,747,131 |
| 120,748 Property unit trusts | | 165,824 |
| 238,986 Diversified growth | | 270,937 |
| 90,336 Private equity | | 101,814 |
| Derivatives | 18c | |
| - - Futures | | 31 |
| 2,153 - Foreign exchange contracts | | 7,865 |
| 59,723 Cash | | 39,212 |
| 11,128 Other investment balances | 18b | 9,676 |
| Investment liabilities | | |
| Derivatives | 18c | |
| -310 - Futures | | -66 |
| -7,500 - Foreign exchange contracts | | -3 |
| -3,810 Other investment balances | 18b | -7,718 |
| - Borrowings | | -4,500 |
| 2,533,104 Net investment assets | | 2,777,012 |
| 16,335 Long-term debtors | 12 | 14,520 |
| 13,582 Current assets | 11 | 20,761 |
| -4,305 Current liabilities | 13 | -4,793 |
| 2,558,716 Net assets of the fund at 31 March | | 2,807,500 |

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 26 of these accounts.

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership & Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management & Investment of Funds) Regulations 2009

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

During 2013/14 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates will

apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Pension benefits accrued under the LGPS to 31 March 2014 are based on final pensionable pay and length of pensionable service.

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>).

The LGPS was changed on the 1st April 2008 adjusting the method by which entitlements are accrued. Benefits earned prior to the change are unaffected.

| | Service pre 1 April 2008 | Service 1 April 2008 until 31 March 2014 |
|------------------|--|--|
| Basis of pension | 1/80 th of final salary | 1/60th of final salary |
| Lump sum | Automatic lump sum 3 x salary Trade £1 of annual pension for £12 lump sum | No automatic lump sum Trade £1 of annual pension for £12 lump sum |

e) New LGPS Scheme 2014

The current UK national government requested Lord Hutton to chair a commission on the reform of public sector pensions. Following the publication of this report in 2011, a new scheme design for the LGPS was agreed. The new scheme commenced on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up to 31 March 2014 will be treated according to the existing scheme rules.

| | Service 1 April 2008 until 31 March 2014 | LGPS 2014 scheme |
|------------------------------------|--|--|
| Basis of pension | Final salary | Career average revalued earnings |
| Accrual rate | 1/60 th of salary | 1/49 th of salary |
| Revaluation rate | No revaluation: based on final salary | Inflation rate: consumer prices index (CPI) |
| Pensionable pay | Pay excluding non-contractual overtime and non-pensionable additional hours | Pay including non-contractual overtime and additional hours for part time staff |
| Employee contribution | See below table | See below table |
| Normal pension age | 65 | Equal to the individual member's State Pension Age |
| Lump sum trade off | Trade £1 of annual pension for £12 lump sum | Trade £1 of annual pension for £12 lump sum |
| Death in service lump sum | 3x pensionable payroll | 3x pensionable payroll |
| Death in service survivor benefits | 1/160th accrual based on Tier 1 ill health pension enhancement | 1/160th accrual based on Tier 1 ill health pension enhancement |
| Ill Health Provision | Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years | Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years |
| Indexation of pension in payment | Inflation rate: CPI (RPI for pre-2011 increases) | Inflation rate: CPI |

| Pre 2014 employee contribution rates | |
|---|-------------------|
| Pensionable payroll banding | Contribution rate |
| Up to £13,700 | 5.5% |
| £13,701 to £16,100 | 5.8% |
| £16,101 to £20,800 | 5.9% |
| £20,801 to £34,700 | 6.5% |
| £34,701 to £46,500 | 6.8% |
| £46,501 to £87,100 | 7.2% |
| More than £87,100 | 7.5% |
| | |
| | |
| Estimated overall LGPS average | 6.5% |

| LGPS 2014 employee contribution rates | |
|--|-------------------|
| Pensionable payroll banding | Contribution rate |
| Up to £13,500 | 5.5% |
| £13,501 to £21,000 | 5.8% |
| £21,001 to £34,000 | 6.5% |
| £34,001 to £43,000 | 6.8% |
| £43,001 to £60,000 | 8.5% |
| £60,001 to £85,000 | 9.9% |
| £85,001 to £100,000 | 10.5% |
| £100,001 to £150,000 | 11.4% |
| More than £150,000 | 12.5% |
| Estimated overall LGPS average | 6.5% |

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at the year end at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 26 of these accounts.

These accounts have been prepared on a going concern basis.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- ii) Dividend income
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iv) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

Fund account – expense items

- d) Benefits payable
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.
- e) Taxation
The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2014 is reported as a current liability.
- f) Administration expenses
Pensions administrative expenses reflect the costs incurred in the payment of pensions and other benefits, actuarial advice, dealing with transfer values and the maintenance of member records. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pensions administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.
- g) Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Investment management expenses also include fees for investment advice and performance measurement services together with the county council costs incurred on administration and monitoring of investment related issues.

Net assets statement

h) Financial assets

All financial assets are included in the net asset statement on a fair value basis as at the reporting date, with the exception of loans and receivables, and financial liabilities which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is as follows:
 - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
 - Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
 - Directly held investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
 - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

n) **Additional voluntary contributions**

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2014 was £102 million (£90 million at 31 March 2013).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement as at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy. |
| Private equity | Private equity investments are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the financial statement are £102 million. There is a risk that this investment may be over or under stated in the accounts. |

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2014. The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

| 2012/2013 | | 2013/2014 |
|----------------|---|----------------|
| £000 | | £000 |
| 109,514 | Employers | 115,441 |
| 31,880 | Members | 34,174 |
| 18,150 | Magistrates Court Services deficit funding | - |
| 159,544 | | 149,615 |

| 2012/2013 | | 2013/2014 |
|----------------|---|----------------|
| £000 | | £000 |
| 78,045 | Administering authority | 77,812 |
| 50,889 | Scheduled bodies | 59,663 |
| 12,460 | Admitted bodies | 12,140 |
| 18,150 | Magistrates Court Services deficit funding | - |
| 159,544 | | 149,615 |

Magistrates Court Services deficit funding for 2012/13 reflects the merger of the Magistrates Court Services. A detailed explanation is shown in note 12 long term debtors.

Note 8: Transfers in from other pension funds

| 2012/2013 | | 2013/2014 |
|---------------|--|---------------|
| £000 | | £000 |
| - | Group transfers from other schemes | - |
| 13,833 | Individual transfers in from other schemes | 14,751 |
| 13,833 | | 14,751 |

Note 9: Benefits payable

By category

| 2012/13 | | 2013/14 |
|----------------|--|----------------|
| £000 | | £000 |
| 94,191 | Pensions | 99,529 |
| 16,818 | Commutation and lump sum retirement benefits | 17,092 |
| 2,840 | Lump sum death benefits | 2,519 |
| 44 | Interest on late payment of benefits | 83 |
| 113,893 | | 119,223 |

By employer

| 2012/2013 | | 2013/2014 |
|------------------|-------------------------|------------------|
| £000 | | £000 |
| 54,388 | Administering Authority | 55,943 |
| 50,875 | Scheduled Bodies | 53,503 |
| 8,586 | Admitted Bodies | 9,694 |
| 113,849 | | 119,140 |

The total does not include interest on late payment of benefits £83,427 (£43,874 2012/13)

Note 10: Payments to and on account of leavers

| 2012/2013 | | 2013/2014 |
|------------------|--|------------------|
| £000 | | £000 |
| 96 | Group transfers to other schemes | 0 |
| 7,814 | Individual transfers to other schemes | 6,222 |
| 30 | Refunds of contributions | 31 |
| 5 | Payments for members joining state schemes | 2 |
| 7,945 | | 6,255 |

Note 11: Current assets

| 2012/2013 | | 2013/2014 |
|---------------|---------------------------|---------------|
| £000 | | £000 |
| 2,445 | Contributions - employees | 3,364 |
| 9,239 | Contributions - employer | 13,314 |
| 1,898 | Sundry debtors | 4,083 |
| 13,582 | | 20,761 |

Analysis of current assets

| 2012/2013 | | 2013/2014 |
|---------------|--------------------------------|---------------|
| £000 | | £000 |
| 713 | Central government bodies | 1,984 |
| 10,907 | Other local authorities | 16,980 |
| 1,962 | Other entities and individuals | 1,797 |
| 13,582 | | 20,761 |

Note 12: Long term debtors

| 2012/2013 | | 2013/2014 |
|---------------|---------------------------|---------------|
| £000 | | £000 |
| 16,335 | Central government bodies | 14,520 |
| 16,335 | | 14,520 |

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and a that balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2014 remains £16.335m but £1.815m is due in 2014/15, leaving a long term debtor of £14.520m.

Note 13: Current liabilities

| 2012/2013 | | 2013/2014 |
|------------------|------------------|------------------|
| £000 | | £000 |
| 4,257 | Sundry creditors | 4,731 |
| 48 | Benefits payable | 62 |
| 4,305 | | 4,793 |

Analysis of current liabilities

| 2012/2013 | | 2013/2014 |
|------------------|--------------------------------|------------------|
| £000 | | £000 |
| 1,157 | Central government bodies | 1,225 |
| 1,592 | Other local authorities | 1,550 |
| 1,556 | Other entities and individuals | 2,018 |
| 4,305 | | 4,793 |

Note 14: Administrative expenses

| 2012/2013 | | 2013/2014 |
|------------------|-----------------------------------|------------------|
| £000 | | £000 |
| 901 | Employee related | 941 |
| 826 | Support services | 626 |
| 20 | External audit fee | 27 |
| 6 | Legal and other professional fees | 1 |
| 114 | Actuarial fees | 333 |
| 1,867 | | 1,928 |

Note 15: Investment expenses

| 2012/2013 | | 2013/2014 |
|------------------|----------------------------------|------------------|
| £000 | | £000 |
| 6,446 | Management fees | 9,929 |
| 252 | Custody fees | 218 |
| 7 | Performance measurement services | 7 |
| 151 | Investment consultancy fees | 87 |
| - | Interest paid | 34 |
| 6,856 | | 10,275 |

Note 16: Taxes on Income

| 2012/2013 | | 2013/2014 |
|--------------|----------------------------|--------------|
| £000 | | £000 |
| 697 | Withholding tax - equities | 790 |
| 345 | Withholding tax - property | 291 |
| 1,042 | | 1,081 |

Note 17: Investment income

| 2012/2013 | | 2013/2014 |
|---------------|-----------------------------|---------------|
| £000 | | £000 |
| | Fixed interest | |
| 8,143 | UK | 5,859 |
| 3,051 | Overseas | 5,554 |
| | Index linked | |
| 55 | UK | 2 |
| | Equities | |
| 15,648 | UK | 18,017 |
| 8,317 | Overseas | 10,244 |
| 5,116 | Property unit trusts | 6,069 |
| 1,118 | Diversified growth | 1,788 |
| 239 | Cash | 152 |
| - | Other | 73 |
| 41,687 | | 47,758 |

Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 18a: Reconciliation of movements in investments and derivatives

| | Market value at 31 Mar 2013 | Purchases during the year and derivate payments | Sales during the year and derivative payments | Market movements | Market value at 31 Mar 2014 |
|------------------------------|--------------------------------------|---|---|---------------------|--------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed interest securities | 347,863 | 65,341 | -52,108 | -8,962 | 352,134 |
| Index linked securities | 99,100 | 3,190 | -4,096 | -3,519 | 94,675 |
| Equities | 1,574,687 | 397,612 | -362,932 | 137,764 | 1,747,131 |
| Property unit trusts | 120,748 | 49,281 | -13,330 | 9,125 | 165,824 |
| Diversified growth | 238,986 | 25,135 | 0 | 6,816 | 270,937 |
| Private equity | 90,336 | 48,404 | -37,804 | 878 | 101,814 |
| Derivatives | | | | | |
| - Futures | -310 | 347 | -345 | 273 | -35 |
| - Forex contracts | -5,347 | 5,727 | -25,720 | 33,202 | 7,862 |
| | 2,466,063 | 595,037 | -496,335 | 175,577 | 2,740,342 |
| Cash | 59,723 | | | -155 | 39,212 |
| Other investment balances | 7,318 | | | | 1,958 |
| Borrowing | - | | | | -4,500 |
| | 2,533,104 | | | 175,422 | 2,777,012 |

| | Market value at 1 April 2012 | Purchases during the year and derivate payments | Sales during the year and derivative payments | Market movements | Market value at 31 Mar 2013 |
|---------------------------|---------------------------------------|---|---|---------------------|--------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed interest securities | 309,600 | 209,052 | -190,222 | 19,433 | 347,863 |
| Index linked securities | 79,752 | 74,945 | -64,442 | 8,845 | 99,100 |
| Equities | 1,510,160 | 878,231 | -1,051,499 | 237,795 | 1,574,687 |
| Property unit trusts | 120,306 | 12,745 | -8,685 | -3,618 | 120,748 |
| Diversified growth | - | 224,025 | | 14,961 | 238,986 |
| Private equity | 84,776 | 13,283 | -17,890 | 10,167 | 90,336 |
| Derivatives | | | | | |
| - Futures | 126 | 192 | -763 | 135 | -310 |
| - Forex conts | 6,525 | 13,027 | -16,271 | -8,628 | -5,347 |
| | 2,111,245 | 1,425,500 | -1,349,772 | 279,090 | 2,466,063 |
| Cash | 70,564 | | | -105 | 59,723 |
| Other investment balances | 9,984 | | | | 7,318 |
| Borrowing | | | | | |
| | 2,191,793 | | | 278,985 | 2,533,104 |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as commissions, stamp duty and other fees.

Derivative receipts and payments represent the realised gains and losses on forward foreign exchange contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio.

Note 18b: Analysis of investments

| | 31 Mar 2013 | 31 Mar 2014 |
|---|------------------|------------------|
| | £000s | £000s |
| Fixed interest securities | | |
| UK public sector & quoted | 137,890 | 136,448 |
| UK pooled funds | 87,769 | 86,739 |
| Overseas public sector & quoted | 52,316 | 60,175 |
| Overseas pooled fund | 69,888 | 68,772 |
| | 347,863 | 352,134 |
| Index linked securities | | |
| UK public sector & quoted | 2,945 | 2,199 |
| UK pooled funds | 96,155 | 92,476 |
| | 99,100 | 94,675 |
| Equities | | |
| UK quoted | 452,587 | 513,497 |
| UK pooled funds | 209,571 | 237,645 |
| Overseas quoted | 423,779 | 460,880 |
| Overseas pooled funds | 488,750 | 535,109 |
| | 1,574,687 | 1,747,131 |
| Property unit trusts | 120,748 | 165,824 |
| Diversified growth | 238,986 | 270,937 |
| Private equity | | |
| Limited partnerships | 38,683 | 49,201 |
| Fund of funds | 51,653 | 52,613 |
| | 90,336 | 101,814 |
| Derivatives | | |
| Futures | -310 | -35 |
| FX forward contracts | -5,347 | 7,862 |
| | -5,657 | 7,827 |
| Cash deposits | 59,723 | 39,212 |
| Borrowings | | -4,500 |
| Other investment balances | | |
| Outstanding sales | 5,008 | 3,291 |
| Outstanding purchases | -3,810 | -7,693 |
| Tax due on accrued income | | -25 |
| Accrued income - dividends and interest | 6,120 | 6,385 |
| | 7,318 | 1,958 |
| Total investments | 2,533,104 | 2,777,012 |

Note 18c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2014 the fund had two futures contracts in place with a net unrealised loss of £35,740 (net unrealised loss of £310,410 at 31 March 2013).

2013/14

| Contract | Expiration date | Expiration date within | Type of underlying investment | Economic exposure £'000 | Asset £'000 | Liability £'000 |
|----------|-----------------|------------------------|-------------------------------|----------------------------|----------------|--------------------|
| Futures | 20/06/2013 | 3 Months | UK Equity | 3,992 | 31 | |
| Futures | 26/06/2013 | 3 Months | UK Government Bonds | 10,077 | | -66 |

2012/13

| Contract | Expiration date | Expiration date within | Type of underlying investment | Economic exposure £'000 | Asset £'000 | Liability £'000 |
|----------|-----------------|------------------------|-------------------------------------|----------------------------|----------------|--------------------|
| Futures | 28/06/2013 | 3 Months | Exchange traded UK government bonds | 16,867 | 0 | -310 |

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2014 the Fund had forward currency contracts in place with a net unrealised gain of £7,862,075 (net unrealised loss of £5,346,696 at 31 March 2013).

2013/14

| No of contracts | Contract settlement date within | Currency | | Notional amount (local currency) | | Asset £'000 | Liability £'000 |
|-----------------|---------------------------------|----------|------|----------------------------------|------------|--------------|-----------------|
| | | Bought | Sold | Bought (000) | Sold (000) | | |
| 1 | One month | AUD | HKD | 8 | -56 | | |
| 1 | One month | EUR | DKK | 31 | -234 | | |
| 11 | One month | EUR | GBP | 260 | -215 | | |
| 6 | Two months | GBP | EUR | 105,885 | -127,629 | 351 | |
| 1 | One month | GBP | HKD | 34 | -443 | | |
| 3 | Two months | GBP | JPY | 55,062 | -9,092,353 | 2,079 | |
| 5 | One month | GBP | USD | 1,918 | -3,191 | 4 | |
| 10 | Two months | GBP | USD | 242,455 | -395,044 | 5,431 | |
| 1 | One month | HKD | SGD | 495 | -80 | | |
| 3 | One month | JPY | GBP | 80,204 | -470 | | -3 |
| 1 | One month | USD | AUD | 9 | -9 | | |
| | | | | | | 7,865 | -3 |

2012/13

| No of contracts | Contract settlement date within | Currency | | Notional amount (local currency) | | Asset £'000 | Liability £'000 |
|-----------------|---------------------------------|----------|------|----------------------------------|------------|--------------|-----------------|
| | | Bought | Sold | Bought (000) | Sold (000) | | |
| 2 | One month | CHF | GBP | 106 | -74 | | |
| 1 | One month | DKK | GBP | 545 | -62 | | |
| 1 | One month | EUR | GBP | 117 | -99 | | |
| 2 | One month | GBP | DKK | 10 | -88 | | |
| 2 | One month | GBP | EUR | 11 | -12 | | |
| 6 | Two months | GBP | EUR | 70,636 | -81,796 | 1,433 | |
| 3 | One month | GBP | JPY | 234 | -33,380 | | |
| 4 | Two months | GBP | JPY | 33,187 | -4,854,833 | | -834 |
| 1 | One month | GBP | MYR | 125 | -588 | | |
| 1 | One month | GBP | SEK | 110 | 1,083 | | |
| 3 | One month | GBP | USD | 472 | -715 | | |
| 9 | Two months | GBP | USD | 210,711 | -329,676 | | -6,558 |
| 1 | One month | JPY | GBP | 500 | -4 | | |
| 1 | One month | JPY | USD | 329,446 | -3,522 | 26 | -38 |
| 1 | Four months | USD | EUR | 3,207 | -2,439 | 118 | -70 |
| 1 | One month | USD | GBP | 221 | -146 | | |
| 1 | Two months | USD | GBP | 2,623 | -1,661 | 67 | |
| 1 | Four months | USD | GBP | 5,963 | -3,704 | 225 | |
| 1 | One months | USD | JPY | 3,936 | -329,446 | 284 | |
| | | | | | | 2,153 | -7,500 |

Stock Lending

During the financial year 2013/14 the fund instigated a stock lending programme in partnership with the fund custodian. As at 31 March 14 the value of quoted securities on loan was £83.2m in exchange for collateral held by the fund custodian at fair value of £89.0m

Note 18d: Investments analysed by fund manager

| Market value 31 March 2013 | | Manager | Market value 31 March 2014 | |
|---------------------------------------|----------|---------------------------------------|---------------------------------------|----------|
| £000 | % | | £000 | % |
| 792,326 | 32.8 | Legal & General Investment Management | 865,106 | 32.6 |
| 158,471 | 6.6 | Majedie Asset Management | 190,067 | 7.2 |
| 98,382 | 4.1 | Mirabaud Asset Management | 106,845 | 4.0 |
| 198,809 | 8.2 | UBS Asset Management | 236,582 | 8.9 |
| 341,002 | 14.1 | Marathon Asset Management | 365,046 | 13.8 |
| 190,680 | 7.9 | Newton Investment Management | 200,853 | 7.6 |
| 202,813 | 8.4 | Western Asset Management | 205,702 | 7.8 |
| 67,681 | 2.8 | Franklin Templeton Investments | 68,772 | 2.6 |
| 143,613 | 5.9 | Standard Life Investments | 148,437 | 5.6 |
| 95,372 | 3.9 | Baillie Gifford Life Limited | 122,500 | 4.6 |
| 128,307 | 5.3 | CBRE Global Multi-Manager | 143,060 | 5.4 |
| 2,417,456 | | | 2,652,970 | |

The table above excludes the private equity portfolio, internal cash and residual cash held by the custodian.

The following investments represent more than 5% of the net investment assets of the fund

| Market value 31 March 2013 £000 | % of total fund | Security | Market value 31 March 2014 £000 | % of total fund |
|--|--------------------------------|---|--|--------------------------------|
| 366,009 | 14.4 | Legal & General World Developed Equity Index | 410,273 | 14.8 |
| 197,336 | 7.8 | Legal & General UK Equity Index | 221,203 | 8.0 |
| 143,613 | 5.7 | Standard Life Global Absolute Return Strategies | 148,437 | 5.3 |

Note 19a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2013**As at 31 March 2014**

| Designated as fair value though profit and loss £000 | Loans and receivables £000 | Financial liabilities at amortised costs £000 | Designated as fair value though profit and loss £000 | Loans and receivables £000 | Financial liabilities at amortised costs £000 |
|--|----------------------------------|--|--|----------------------------------|---|
| Financial assets | | | | | |
| 347,863 | | | 352,134 | | |
| 99,100 | | | 94,675 | | |
| 1,574,687 | | | 1,747,131 | | |
| 120,748 | | | 165,824 | | |
| 238,986 | | | 270,937 | | |
| 90,336 | | | 101,814 | | |
| 2,154 | | | 7,896 | | |
| | 59,723 | | | 39,212 | |
| 11,128 | | | 9,676 | | |
| | 29,916 | | | 35,281 | |
| 2,485,002 | 89,639 | | 2,750,087 | 74,493 | |
| Financial liabilities | | | | | |
| -7,810 | | | -69 | | |
| -3,810 | | | -7,718 | | |
| | | -4,305 | | | -4,793 |
| | | | -4,500 | | |
| -11,620 | | -4,305 | -12,287 | | -4,793 |
| 2,473,382 | 89,639 | -4,305 | 2,737,800 | 74,493 | -4,793 |

Note 19b: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The fund's private equity investments are valued using techniques that require significant judgement in determining appropriate assumptions. The value of the investments in private equity are based on valuations provided by the managers of the private equity funds in which the Surrey Pension Fund is invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

| 31 March 2014 | Quoted market price Level 1 £000 | Using observable inputs Level 2 £000 | With significant unobservable inputs Level 3 £000 | Total £000 |
|---|--|--|--|------------------|
| Financial assets | | | | |
| Financial assets through profit & loss | 2,537,799 | 70,289 | 141,999 | 2,750,087 |
| Total financial assets | 2,537,799 | 70,289 | 141,999 | 2,750,087 |
| Financial liabilities | | | | |
| Financial liabilities through profit & loss | -12,287 | | | -12,287 |
| Total financial liabilities | -12,287 | | | -12,287 |
| Net financial assets | 2,525,512 | 70,289 | 141,999 | 2,737,800 |

| 31 March 2013 | Quoted market price Level 1 £000 | Using observable inputs Level 2 £000 | With significant unobservable inputs Level 3 £000 | Total £000 |
|---|--|--|--|------------------|
| Financial assets | | | | |
| Financial assets through profit & loss | 2,322,578 | 62,068 | 100,356 | 2,485,002 |
| Total financial assets | 2,322,578 | 62,068 | 100,356 | 2,485,002 |
| Financial liabilities | | | | |
| Financial liabilities through profit & loss | -11,620 | | | -11,620 |
| Total financial liabilities | -11,620 | | | -11,620 |
| Net financial assets | 2,310,958 | 62,068 | 100,356 | 2,473,382 |

Note 19c: Book cost

The book cost of all investments at 31 March 2014 is £2,284,926,883 (£2,107,273,868 at 31 March 2013).

Note 20: Outstanding commitments

At 31 March 2014 the Fund held part paid investments on which the liability for future calls amounted to £107,414,081 (£101,599,103 as at 31 March 2013).

Note 21: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

Other price risk – Sensitivity Analysis

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2013/14 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. The percentage change for

| Asset type | Value at 31 March 2014 £000 | Change | Value on increase £000 | Value on decrease £000 |
|----------------------------|-----------------------------------|-----------------|------------------------------|------------------------------|
| UK equities | 751,142 | 11.94% | 840,828 | 661,456 |
| Overseas equities | 995,989 | 12.11% | 1,116,603 | 875,375 |
| Total bonds | 352,134 | 5.55% | 371,677 | 332,591 |
| ILG | 94,675 | 8.32% | 102,552 | 86,798 |
| Cash | 39,212 | 0.02% | 39,220 | 39,204 |
| Property | 165,824 | 2.40% | 169,804 | 161,844 |
| Diversified Growth Fund | 270,937 | 4.43% | 282,940 | 258,934 |
| Total Investment | | | | |
| Assets (1) | 2,669,913 | 8.49%(2) | 2,896,589 | 2,443,237 |

(1) The above table excludes private equity, derivatives and other investment balances.

(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

| Asset type | Value at 31 March 2013 £000 | Change | Value on increase £000 | Value on decrease £000 |
|--|--|-----------------|---------------------------------------|---------------------------------------|
| UK equities | 662,158 | 13.10% | 748,901 | 575,415 |
| Overseas equities | 912,529 | 12.70% | 1,028,420 | 796,638 |
| Total bonds | 347,863 | 5.30% | 366,300 | 329,426 |
| ILG | 99,100 | 8.00% | 107,028 | 91,172 |
| Cash | 59,723 | 0.00% | 59,723 | 59,723 |
| Property | 120,748 | 2.40% | 123,646 | 117,850 |
| Total Investment Assets (1) | 2,202,121 | 8.31%(2) | 2,385,117 | 2,019,125 |

(1) The above table excludes diversified growth funds, private equity, derivatives and other investment balances.

(2) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton. In February 2013 50% of UK gilts managed by Western were redeemed and the proceeds were invested in Franklin Templeton's Global Total Return Fund. This has a more diverse range of fixed income investment opportunities reducing the overall interest rate risk, as there is less exposure to individual interest rate movements.

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| As at 31 March 2013 £000 | | As at 31 March 2014 £000 |
|---|---------------------------|---|
| 59,723 | Cash & cash equivalents | 39,212 |
| 347,863 | Fixed interest securities | 352,134 |
| 407,586 | Total | 391,346 |

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

| Asset type | Carrying amount as at 31 March 2014 | Change in net assets | |
|---------------------------|---|----------------------|---------------|
| | £000 | +100 bps | - 100 bps |
| Cash & cash equivalents | 39,212 | 392 | -392 |
| Fixed interest securities | 352,134 | 3,521 | -3,521 |
| Total | 391,346 | 3,913 | -3,913 |

| Asset type | Carrying amount as at 31 March 2013 | Change in net assets | |
|---------------------------|---|----------------------|---------------|
| | £000 | +100 bps | - 100 bps |
| Cash & cash equivalents | 59,726 | 597 | -597 |
| Fixed interest securities | 347,863 | 3,479 | -3,479 |
| Total | 407,589 | 4,076 | -4,076 |

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

Currency risk – sensitivity analysis

The WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2013/14 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

| Asset type | Value at 31 March 2014 £000 | % Change | Value on increase £000 | Value on decrease £000 |
|--------------------------------|--|---------------------|---------------------------------------|---------------------------------------|
| Overseas equities | 526,139 | 5.30% | 554,024 | 498,254 |
| Fixed interest | 12,268 | 5.30% | 12,918 | 11,618 |
| Property and Private Equity | 83,469 | 5.30% | 87,893 | 79,045 |
| Cash and Other Assets | -388,294 | 5.30% | -408,874 | -367,714 |
| Total | 233,582 | 5.30% | 245,961 | 221,203 |

For comparison last year figures are included below.

| Asset type | Value at 31 March 2013 £000 | % Change | Value on increase £000 | Value on decrease £000 |
|---------------------|--|---------------------|---------------------------------------|---------------------------------------|
| Overseas equities | 488,369 | 6.10% | 518,160 | 458,578 |
| Fixed interest | 2,207 | 6.10% | 2,342 | 2,072 |
| Property unit trust | 11,432 | 6.10% | 12,129 | 10,735 |
| Cash | 2,701 | 6.10% | 2,866 | 2,536 |
| Total | 504,709 | 6.10% | 535,497 | 473,921 |

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a

counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy.. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has a call account with NatWest Bank. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million. The NatWest call account has a rating of A (or equivalent) with all three credit rating agencies

| Balance at 31 March 2013 £000 | | Balance at 31 March 2014 £000 |
|--|--------------------------|--|
| | Call account | |
| 15,000 | NatWest | |
| | Money market fund | |
| 3,910 | Royal Bank of Scotland | |
| | Current account | |
| 343 | HSBC | -402 |
| 19,253 | Internally Managed Cash | -402 |
| 40,470 | Externally Managed Cash | 39,614 |
| 59,723 | Total Cash | 39,212 |

The fund's cash holding under its treasury management arrangements as at 31 March 2014 was £-0.4 million (£19.3 million at 31 March 2013).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings at NatWest. Whilst fixed term deposits are allowed under the pension fund treasury strategy, no investment of this type has been made since the implementation of the pension fund bank account in April 2011.

The fund is able to borrow cash to meet short-term cash requirements, The fund exercised this ability on a number of occasions during 2013/14 with one loan outstanding as at the 31 March 2014 for the value of £4.5m.

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

Note 22: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2013/14 amounted to £59,321,037.33 (£55,659,746 in 2012/13).

| 2012/2013 £000 | | 2013/2014 £000 |
|-------------------|---|-------------------|
| 37,035 | Employers' current service contributions | 42,483 |
| 17,354 | Lump sum payments to recover the deficit in respect of past service | 16,379 |
| 1,271 | Payments into the fund to recover the additional cost of early retirement liabilities | 459 |
| 55,660 | | 59,321 |

ii) Surrey Pension Fund paid Surrey County Council £1,502,911 for services provided in 2013/14 (£1,537,236 in 2012/13).

| 2012/2013 £000 | | 2013/2014 £000 |
|-------------------|---|-------------------|
| 198 | Treasury management, accounting and managerial services | 188 |
| 1,339 | Pension administration services | 1,315 |
| 1,537 | | 1,503 |

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2014 were £9,819,633 (£5,866,326 at 31 March 2013).

Note 23: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions, that can be attributed to the fund.

| 2012/13 £ | Position | 2013/14 £ | |
|----------------|---------------------------------|----------------|---|
| 19,991 | Chief Finance Officer | 20,057 | 1 |
| 58,456 | Pension Fund & Treasury Manager | 74,780 | 2 |
| 51,994 | Senior Accountant | 48,054 | 3 |
| 130,441 | | 142,891 | |

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund
3. 100% of time allocated to pension fund

Note 24: Custody

Custody arrangements for securities and cash balances are provided by the fund's global custodian, The Northern Trust Company. Custodian arrangements for the managers responsible for private equity are as follows:

| Private Equity Manager | Custody Provider |
|------------------------|---|
| BlackRock | PNC Bank |
| Goldman Sachs | State Street Global Advisors |
| HG Capital | Bank of New York |
| ISIS Capital | Lloyds Banking Group |
| Standard Life | State Street Global Advisors, Deutsche Bank & JP Morgan |
| Capital Dynamics | Bank of America |

Note 25 : Actuarial statement for 2013/14 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of funding policy

The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to achieve and then maintain a funding target that requires assets equal to 100% on an ongoing basis of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 65% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,559 million, were sufficient to meet 72.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £980 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2014

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

| Financial assumptions | 31 March 2013 | |
|-----------------------------------|----------------|-------------|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 4.6% | 2.1% |
| Pay increases * | 3.8% | 1.3% |
| Price inflation/Pension increases | 2.5% | - |

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|--------------------|--------------|----------------|
| Current pensioners | 22.5 years | 24.6 years |
| Future pensioners* | 24.5 years | 26.9 years |

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Surrey County Council, the Administering Authority to the Fund.

Experience over the year since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time. The next actuarial valuation will be carried out as at 31 March 2016. The FSS will also be reviewed at that time.

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

3 June 2014

Note 26: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund account:

- Showing the figure in the net asset statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund, which is the remainder of this note.

Balance sheet

| Year ended | 31 March 2014 £m | 31 March 2013 £m |
|---|---------------------|---------------------|
| Present value of promised retirement benefits | 4,151 | 3,982 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2013 comprises £1,768m in respect of employee members, £818m in respect of deferred pensioners and £1,565m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis)

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £68m.

Financial assumptions

My recommended financial assumptions are summarised below:

| Year ended | 31 March 2014 | 31 March 2013 |
|---------------------------------|---------------|---------------|
| Inflation/pension increase rate | 2.8% | 2.8% |
| Salary increase rate | 4.1% | 5.1%* |
| Discount rate | 4.3% | 4.5% |

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to long term rate thereafter

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|--------------------|--------------|----------------|
| Current pensioners | 22.5 years | 24.6 years |
| Future pensioners* | 24.5 years | 26.9 years |

*Future pensioners are assumed to be currently aged 45.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 14 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay FFA

3 June 2014

For and on behalf of Hymans Robertson LLP

Note 27: Additional Voluntary Contributions

| Market Value 2012/13 £000 | Position | Market Value 2013/14 £000 |
|--|-----------------|--|
| 7,602 | Prudential | 8,242 |
| 7,602 | | 8,242 |

Additional Voluntary Contributions, net of returned payments, of £1,428,220 were paid directly to prudential during the year (£1,134,656 during 2012/13).

Note 28: Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 29: Annual report

The Surrey Pension Fund Annual Report 2013/2014 provides further details on the management, investment performance and governance of the Fund.

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