

# SURREY PENSION FUND

## ACCOUNTS 2014/2015

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2014/2015 and of the disposition of its assets at 31 March 2015.

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 2014 and 31 March 2015 are:

<b>31 Mar 2014</b>		<b>31 Mar 2015</b>	
32,530	Employees in the fund	32,851	
21,598	Pensioners	22,481	
30,639	Deferred pensioners	33,833	
<b>84,767</b>	<b>Total</b>	<b>89,165</b>	

## Surrey pension fund account

2013/2014 £000		Note	2014/2015 £000
<b>Contributions and benefits</b>			
149,615	Contributions receivable	7	173,448
14,751	Transfers in	8	7,656
<b>164,366</b>			<b>181,104</b>
-119,223	Benefits payable	9	-126,113
-6,255	Payments to and on account of leavers	10	-6,195
-13,665	Investment and governance expenses	14	-15,857
-1,340	Administration expenses		-1,550
<b>-140,483</b>			<b>-149,715</b>
	<b>Net additions from dealings with members</b>		
<b>23,883</b>			<b>31,389</b>
	<b>Return on investments</b>		
49,654	Investment income	16	56,444
-1,081	Taxes on income	15	-1,023
176,328	Change in market value of investments	17	299,210
<b>224,901</b>	<b>Net return on investments</b>		<b>354,631</b>
	<b>Net increase in the fund during the year</b>		
<b>248,784</b>			<b>386,020</b>
	<b>Net assets of the fund</b>		
2,558,716	At 1 April		2,807,500
<b>2,807,500</b>	<b>At 31 March</b>		<b>3,193,520</b>

## Net asset statement

31 Mar 2014		Note	31 Mar 2015
£000			£000
	<b>Investment assets</b>	17	
352,134	Fixed interest securities		350,859
94,675	Index linked securities		161,260
1,747,131	Equities		1,908,092
165,824	Property unit trusts		199,410
270,937	Diversified growth		360,061
101,814	Private equity		112,642
	Derivatives	17c	
31	- Futures		0
7,865	- Foreign exchange contracts		3,082
39,212	Cash		77,218
9,676	Other investment balances	17b	9,033
	<b>Investment liabilities</b>		
	Derivatives	17c	
-66	- Futures		-288
-3	- Foreign exchange contracts		-11,501
-7,718	Other investment balances	17b	-2,441
-4,500	Borrowings		0
<b>2,777,012</b>	<b>Net investment assets</b>		<b>3,167,427</b>
<b>14,520</b>	<b>Long-term debtors</b>	12	<b>12,705</b>
<b>20,761</b>	<b>Current assets</b>	11	<b>18,949</b>
<b>-4,793</b>	<b>Current liabilities</b>	13	<b>-5,561</b>
<b>2,807,500</b>	<b>Net assets of the fund at 31 March</b>		<b>3,193,520</b>

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 25 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 2014/15 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 Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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 2014/15 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 2015. 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

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	<b>Service pre 1 April 2008</b>	<b>Service 1 April 2008 until 31 March 2014</b>
Basis of pension	1/80 <sup>th</sup> of final salary	1/60 <sup>th</sup> 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

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>).

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.

	<b>Service 1 April 2008 until 31 March 2014</b>	<b>LGPS 2014 scheme</b>
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 <sup>th</sup> of salary	1/49 <sup>th</sup> 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

<b>Pre 2014 employee contribution rates</b>	
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%

<b>LGPS 2014 employee contribution rates</b>	
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 2014/15 financial year and its position at the year end at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

## **Note 3: Summary of significant accounting policies**

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance

### **Fund account – revenue recognition**

#### **a) Contribution income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis 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 or 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 within 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.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

### **Fund account – expense items**

e) 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.

f) 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 2015 is reported as a current liability.

g) Administration expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. 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 pension administration team are recharged to the fund.



Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

h) Investment and governance 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.

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

## Net assets statement

i) 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 by 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.

- iv) 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.
  - v) Limited partnerships  
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
  - vi) 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.
- j) 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.
- k) 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.
- l) 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.

m) 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.

n) 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.

o) 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 2015 was £113 million (£102 million at 31 March 2014).

##### **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 25. 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 2015 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, both limited partnership and fund of funds, 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. Where	The total private equity investments in the financial statement are £113 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £74 million. There is a risk that asset or investment transaction misclassification may occur.

### Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2015. 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

2013/2014		2014/2015
£000		£000
82,504	Employers	93,269
32,937	Employers deficit	43,580
34,174	Members	36,599
<b>149,615</b>		<b>173,448</b>

By authority

2013/2014		2014/2015
£000		£000
77,812	Administering authority	83,223
59,663	Scheduled bodies	75,565
12,140	Admitted bodies	14,660
<b>149,615</b>		<b>173,448</b>

The latest actuarial valuation carried out as at 31 March 2013, set contribution rates for fund employers with effect from April 2014. The financial year 2014/2015 is the first year of the revised employer contribution rates.

### Note 8: Transfers in from other pension funds

2013/2014		2014/2015
£000		£000
0	Group transfers from other schemes	0
14,751	Individual transfers in from other schemes	7,656
<b>14,751</b>		<b>7,656</b>

**Note 9: Benefits payable**

By category

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
99,529	Pensions	106,175
17,092	Commutation and lump sum retirement benefits	17,734
2,519	Lump sum death benefits	2,170
83	Interest on late payment of benefits	34
<b>119,223</b>		<b>126,113</b>

By employer

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
55,943	Administering Authority	60,937
53,503	Scheduled Bodies	55,571
9,694	Admitted Bodies	9,571
<b>119,140</b>		<b>126,079</b>

**Note 10: Payments to and on account of leavers**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
0	Group transfers to other schemes	0
6,222	Individual transfers to other schemes	5,896
31	Refunds of contributions	227
2	Payments for members joining state schemes	72
<b>6,255</b>		<b>6,195</b>

**Note 11: Current assets**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
3,364	Contributions - employees	2,816
13,314	Contributions - employer	10,196
4,083	Sundry debtors	5,937
<b>20,761</b>		<b>18,949</b>

## Analysis of current assets

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
1,984	Central government bodies	3,112
16,980	Other local authorities	13,713
1,797	Other entities and individuals	2,123
<b>20,761</b>		<b>18,948</b>

**Note 12: Long term debtors**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
14,520	Central government bodies	12,705
<b>14,520</b>		<b>12,705</b>

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 2015 is £14.520m but £1.815m is due in 2014/15, leaving a long term debtor of £12.705m.

**Note 13: Current liabilities**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
4,731	Sundry creditors	5,541
62	Benefits payable	20
<b>4,793</b>		<b>5,561</b>

## Analysis of current liabilities

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
1,225	Central government bodies	1,408
1,550	Other local authorities	1,664
2,018	Other entities and individuals	2,489
<b>4,793</b>		<b>5,561</b>

**Note 14: Investment and governance expenses**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
12,731	Investment management fees	14,908
218	Investment custody fees	226
716	Oversight and governance costs	723
<b>13,665</b>		<b>15,857</b>

The investment management fees above includes £3.9million (2013/14:£3.5million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.6million in respect of transaction costs (2013/14: £1.6million).



**Note 15: Taxes on Income**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
790	Withholding tax - equities	603
291	Withholding tax - property	420
<b>1,081</b>		<b>1,023</b>

**Note 16: Investment income**

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
	<b>Fixed interest</b>	
5,859	UK	5,905
5,581	Overseas	5,873
2	<b>Index linked</b>	54
	<b>Equities</b>	
18,017	UK	18,781
10,244	Overseas	10,605
6,069	<b>Property unit trusts</b>	7,936
2,103	<b>Diversified growth</b>	2,601
1,554	<b>Private equity</b>	3,793
152	<b>Interest on cash deposits</b>	523
73	<b>Other</b>	373
<b>49,654</b>		<b>56,444</b>

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 17a: Reconciliation of movements in investments and derivatives**

	<b>Market value at 31 Mar 2014</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Market movements</b>	<b>Market value at 31 Mar 2015</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed interest securities	<b>352,134</b>	50,397	-78,009	26,337	<b>350,859</b>
Index linked securities	<b>94,675</b>	143,817	-102,781	25,549	<b>161,260</b>
Equities	<b>1,747,131</b>	643,615	-679,281	196,627	<b>1,908,092</b>
Property unit trusts	<b>165,824</b>	33,218	-17,909	18,277	<b>199,410</b>
Diversified growth	<b>270,937</b>	60,253	0	28,871	<b>360,061</b>
Private equity	<b>101,814</b>	32,424	-40,239	18,643	<b>112,642</b>
Derivatives					
- Futures	<b>-35</b>	1,447	-159	-1,541	<b>-288</b>
- Forex contracts	<b>7,862</b>	11,823	-14,551	-13,553	<b>-8,419</b>
	<b>2,740,342</b>	<b>976,994</b>	<b>-932,929</b>	<b>299,210</b>	<b>3,083,617</b>
Cash	<b>39,212</b>				<b>77,218</b>
Other investment balances	<b>1,958</b>				<b>6,592</b>
Borrowing	<b>-4,500</b>				<b>0</b>
	<b>2,777,012</b>			<b>299,210</b>	<b>3,167,427</b>

	Market value at 31 Mar 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2014
	£000	£000	£000	£000	£000
Fixed interest securities	<b>347,863</b>	65,341	-52,108	-8,962	<b>352,134</b>
Index linked securities	<b>99,100</b>	3,190	-4,096	-3,519	<b>94,675</b>
Equities	<b>1,574,687</b>	396,377	-363,306	139,373	<b>1,747,131</b>
Property unit trusts	<b>120,748</b>	49,281	-13,330	9,125	<b>165,824</b>
Diversified growth	<b>238,986</b>	25,135	0	6,816	<b>270,937</b>
Private equity	<b>90,336</b>	47,550	-36,250	178	<b>101,814</b>
Derivatives					
- Futures	<b>-310</b>	347	-345	273	<b>-35</b>
- Forex contracts	<b>-5,347</b>	5,727	-25,720	33,202	<b>7,862</b>
	<b>2,466,063</b>	<b>592,948</b>	<b>-495,155</b>	<b>176,486</b>	<b>2,740,342</b>
Cash	<b>59,723</b>			-158	<b>39,212</b>
Other investment balances	<b>7,318</b>				<b>1,958</b>
Borrowing	<b>-</b>				<b>-4,500</b>
	<b>2,533,104</b>			<b>176,328</b>	<b>2,777,012</b>

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 17b: Analysis of investments

	31 Mar 2014	31 Mar 2015
	£000s	£000s
<b>Fixed interest securities</b>		
UK public sector & quoted	136,448	148,648
UK pooled funds	86,739	51,905
Overseas public sector & quoted	60,175	76,104
Overseas pooled fund	68,772	74,202
	<b>352,134</b>	<b>350,859</b>
<b>Index linked securities</b>	94,675	161,260
<b>Equities</b>		
UK quoted	513,497	540,276
UK pooled funds	237,645	276,454
Overseas quoted	460,880	554,463
Overseas pooled funds	535,109	536,899
	<b>1,747,131</b>	<b>1,908,092</b>
<b>Property unit trusts</b>		
UK property funds	157,900	194,992
Overseas property funds	7,924	4,418
	<b>165,824</b>	<b>199,410</b>
<b>Diversified growth</b>		
UK diversified growth funds	0	0
Overseas diversified growth funds	270,937	360,061
	<b>270,937</b>	<b>360,061</b>
<b>Private equity</b>		
UK limited partnerships	23,431	24,905
Overseas limited partnerships	25,770	13,852
UK fund of funds	0	0
Overseas fund of funds	52,613	73,885
	<b>101,814</b>	<b>112,642</b>
<b>Derivatives</b>		
Futures	-35	-288
FX forward contracts	7,862	-8,419
	<b>7,827</b>	<b>-8,707</b>
<b>Cash deposits</b>	<b>39,212</b>	<b>77,218</b>
<b>Borrowings</b>	<b>-4,500</b>	<b>0</b>
<b>Other investment balances</b>		
Outstanding sales	3,291	2,239
Outstanding purchases	-7,693	-2,408
Tax due on accrued income	-25	-33
Accrued income - dividends and interest	6,385	6,794
	<b>1,958</b>	<b>6,592</b>
<b>Total investments</b>	<b>2,777,012</b>	<b>3,167,427</b>

## Note 17c: 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 2015 the fund had two futures contracts in place with a net unrealised loss of £288k (net unrealised loss of £36k at 31 March 2014).

#### 2014/15

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	19/06/2015	3 Months	US Treasury Bonds	3,312	0	-64
Futures	26/06/2015	3 Months	UK Government Bonds	11,471	0	-224
				<b>14,783</b>	<b>0</b>	<b>-288</b>

#### 2013/14

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2014	3 Months	UK Equity	3,992	31	0
Futures	26/06/2014	3 Months	UK Government Bonds	10,077	0	-66
				<b>14,069</b>	<b>31</b>	<b>-66</b>

### 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 2015 the Fund had forward currency contracts in place with a net unrealised loss of £8,419k (net unrealised gain of £7,862k at 31 March 2014).

#### 2014/15

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	63	-380	0	-1
1	One Month	CHF	GBP	69	-48	0	0
1	One Month	EUR	GBP	98	-71	0	0
2	Two Months	EUR	GBP	5,183	-3,831	0	-78
1	One Month	GBP	DKK	176	-1,817	0	0
1	One Month	GBP	EUR	142	-196	0	0
1	Two Months	GBP	EUR	11,511	-15,348	399	0
5	Three Months	GBP	EUR	101,285	-136,236	2,603	0
4	Three Months	GBP	JPY	60,634	-11,040,774	0	-1,458
1	One Month	GBP	MXN	24	-535	0	0
1	Two Months	GBP	MXN	1,095	-24,670	7	0
1	One Month	GBP	NOK	78	-931	0	0
1	One Month	GBP	SEK	133	-1,708	0	0
5	Two Months	GBP	USD	16,218	-24,789	0	-486
7	Three Months	GBP	USD	262,793	-403,768	0	-9,308
1	One Month	GBP	ZAR	13	-228	0	0
1	One Month	HKD	SGD	463	-82	0	0
1	One Month	JPY	USD	1,117,909	-9,437	0	-76
1	One Month	USD	BRL	1,265	-4,002	14	0
1	One Month	USD	GBP	777	-525	0	-2
1	One Month	USD	JPY	9,412	-1,117,909	59	0
1	Three Months	USD	JPY	10,576	-1,283,435	0	-92
						<b>3,082</b>	<b>-11,501</b>

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	0	0
1	One month	EUR	DKK	31	-234	0	0
11	One month	EUR	GBP	260	-215	0	0
6	Two months	GBP	EUR	105,885	-127,629	351	0
1	One month	GBP	HKD	34	-443	0	0
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	0
5	One month	GBP	USD	1,918	-3,191	4	0
10	Two months	GBP	USD	242,455	-395,044	5,431	0
1	One month	HKD	SGD	495	-80	0	0
3	One month	JPY	GBP	80,204	-470	0	-3
1	One month	USD	AUD	9	-9	0	0
						<b>7,865</b>	<b>-3</b>

### Stock Lending

During the financial year 2014/15 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 15 the value of quoted securities on loan was £137.5million in exchange for collateral held by the fund custodian at fair value of £148.7million

**Note 17d: Investments analysed by fund manager**

<b>Market value 31 March 2014</b>		<b>Manager</b>	<b>Market value 31 March 2015</b>	
<b>£000</b>	<b>%</b>		<b>£000</b>	<b>%</b>
865,106	32.3	Legal & General Investment Management	918,551	30.6
190,067	7.1	Majedie Asset Management	308,575	10.3
106,845	4.0	Mirabaud Asset Management	0	0.0
236,582	8.9	UBS Asset Management	242,069	8.0
365,046	13.6	Marathon Asset Management	424,497	14.1
200,853	7.5	Newton Investment Management	242,915	8.1
205,702	7.7	Western Asset Management	232,799	7.8
68,772	2.6	Franklin Templeton Investments	69,454	2.3
148,437	5.6	Standard Life Investments	227,691	7.6
122,500	4.6	Baillie Gifford Life Limited	132,370	4.4
143,060	5.4	CBRE Global Multi-Manager	179,326	6.0
20,000	0.7	Darwin Property Investment Management	23,354	0.8
<b>2,672,970</b>			<b>3,001,601</b>	

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

<b>Market value 31 March 2014 £000</b>	<b>% of total fund</b>	<b>Security</b>	<b>Market value 31 March 2015 £000</b>	<b>% of total fund</b>
410,273	14.8	Legal & General World Developed Equity Index	393,877	12.4
221,203	8.0	Legal & General UK Equity Index	276,450	8.7
148,437	5.3	Standard Life Global Absolute Return Strategies	163,459	5.2



**Note 18a: 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 2014****As at 31 March 2015**

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
<b>Financial assets</b>						
352,134	0	0	Fixed interest securities	350,859	0	0
94,675	0	0	Index linked securities	161,260	0	0
1,747,131	0	0	Equities	1,908,092	0	0
165,824	0	0	Property unit trusts	199,410	0	0
270,937	0	0	Diversified growth	360,061	0	0
101,814	0	0	Private equity	112,642	0	0
7,896	0	0	Derivatives	3,082	0	0
0	39,212	0	Cash	0	77,218	0
9,676	0	0	Other investment balances	9,033	0	0
0	35,281	0	Debtors	0	31,654	0
<b>2,750,087</b>	<b>74,493</b>	<b>0</b>	<b>Total financial assets</b>	<b>3,104,439</b>	<b>108,872</b>	<b>0</b>
<b>Financial liabilities</b>						
-69	0	0	Derivatives	-11,789	0	0
-7,718	0	0	Other investment balances	-2,441	0	0
0	0	-4,793	Creditors	0	0	-5,561
-4,500	0	0	Borrowings	0	0	0
<b>-12,287</b>	<b>0</b>	<b>-4,793</b>	<b>Total financial liabilities</b>	<b>-14,230</b>	<b>0</b>	<b>-5,561</b>
<b>2,737,800</b>	<b>74,493</b>	<b>-4,793</b>		<b>3,090,209</b>	<b>108,872</b>	<b>-5,561</b>

### **Note 18b: 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 2015	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Financial assets</b>				
Financial assets through profit & loss	2,877,727	93,600	133,112	3,104,439
<b>Total financial assets</b>	<b>2,877,727</b>	<b>93,600</b>	<b>133,112</b>	<b>3,104,439</b>
<b>Financial liabilities</b>				
Financial liabilities through profit & loss	14,230	0	0	14,230
<b>Total financial liabilities</b>	<b>14,230</b>	<b>0</b>	<b>0</b>	<b>14,230</b>
<b>Net financial assets</b>	<b>2,863,497</b>	<b>93,600</b>	<b>133,112</b>	<b>3,090,209</b>

31 March 2014	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
<b>Financial assets</b>				
Financial assets through profit & loss	2,537,799	70,289	141,999	2,750,087
<b>Total financial assets</b>	<b>2,537,799</b>	<b>70,289</b>	<b>141,999</b>	<b>2,750,087</b>
<b>Financial liabilities</b>				
Financial liabilities through profit & loss	12,287	0	0	12,287
<b>Total financial liabilities</b>	<b>12,287</b>	<b>0</b>	<b>0</b>	<b>12,287</b>
<b>Net financial assets</b>	<b>2,525,512</b>	<b>70,289</b>	<b>141,999</b>	<b>2,737,800</b>

#### Note 18c: Book cost

The book cost of all investments at 31 March 2015 is £2,489million (£2,285million at 31 March 2014).

#### Note 19: Outstanding commitments

At 31 March 2015 the Fund held part paid investments on which the liability for future calls amounted to £98million (£107million as at 31 March 2014).

## **Note 20: 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 2014/15 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.

<b>Asset type</b>	<b>Value at 31 March 2015 £000</b>	<b>Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
UK equities	816,730	9.76%	896,443	737,017
Overseas equities	1,091,362	9.09%	1,190,567	992,157
Fixed interest bonds	350,859	5.52%	370,226	331,492
Index linked	161,260	9.33%	176,306	146,214
Cash	77,218	0.01%	77,226	77,210
Property	199,410	2.43%	204,256	194,564
Alternatives	112,642	5.60%	118,950	106,334
Diversified growth fund	360,061	3.27%	371,835	348,287
Other assets	-2,115	0.00%	-2,115	-2,115
<b>Total Investment Assets</b>	<b>3,167,427</b>	<b>6.12%(2)</b>	<b>3,361,274</b>	<b>2,973,580</b>

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
Fixed interest bonds	352,134	5.55%	371,677	332,591
Index linked	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
<b>Total Investment</b>				
<b>Assets (1)</b>	<b>2,669,913</b>	<b>8.49%<sup>(2)</sup></b>	<b>2,896,589</b>	<b>2,443,237</b>

(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.

### 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.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2014 £000		As at 31 March 2015 £000
39,212	Cash & cash equivalents	77,218
352,134	Fixed interest securities	350,859
<b>391,346</b>	<b>Total</b>	<b>428,077</b>

### 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 2015 £000	Change in net assets	
		+100 bps	- 100 bps
		£000	£000
Cash & cash equivalents	77,218	772	-772
Fixed interest securities	350,859	3,509	-3,509
<b>Total</b>	<b>428,077</b>	<b>4,281</b>	<b>-4,281</b>

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

### 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 2014/15 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

<b>Asset type</b>	<b>Value at 31 March 2015 £000</b>	<b>% Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Equities	1,074,070	5.94%	1,137,820	1,010,320
Fixed interest	117,553	5.94%	124,530	110,576
Property and Private Equity	94,249	5.94%	99,843	88,655
Diversified Growth	360,061	5.94%	381,432	338,690
Cash and Other Assets	-3,644	5.94%	-3,860	-3,428
<b>Total</b>	<b>1,642,289</b>	<b>5.94%</b>	<b>1,739,765</b>	<b>1,544,813</b>

For comparison last year figures are included below.

<b>Asset type</b>	<b>Value at 31 March 2014 £000</b>	<b>% Change</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Equities	1,346,686	5.30%	1,418,101	1,275,270
Fixed interest	81,040	5.30%	85,337	76,742
Property and Private Equity	83,469	5.30%	87,895	79,043
Diversified Growth	270,937	5.30%	285,305	256,569
Cash and Other Assets	-388,294	5.30%	-408,885	-367,703
<b>Total</b>	<b>1,393,837</b>	<b>5.30%</b>	<b>1,467,753</b>	<b>1,319,921</b>

### 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 and an account with a money market fund, managed by Goldman Sachs Asset management. 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

<b>Balance at 31 March 2014 £000</b>		<b>Balance at 31 March 2015 £000</b>	
	<b>Call account</b>		
0	NatWest	7,400	
	<b>Money market fund</b>		
0	Goldman Sachs	15,000	
	<b>Current account</b>		
-402	HSBC	-193	
-402	Internally Managed Cash	22,207	
39,614	Externally Managed Cash	55,011	
<b>39,212</b>	<b>Total Cash</b>	<b>77,218</b>	

The fund's cash holding under its treasury management arrangements as at 31 March 2015 was £22.2million (£0.4million at 31 March 2014).

### 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 21: Related party transactions**

i) Employer pension contributions paid by Surrey County Council in 2014/15 amounted to £64,074k (£59,321k in 2013/14).

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
42,483	Employers' current service contributions	42,996
16,379	Lump sum payments to recover the deficit in respect of past service	18,834
459	Payments into the fund to recover the additional cost of early retirement liabilities	2,244
<b>59,321</b>		<b>64,074</b>

ii) Surrey Pension Fund paid Surrey County Council £1,662k for services provided in 2014/15 (£1,503k in 2013/14).

<b>2013/2014</b>		<b>2014/2015</b>
<b>£000</b>		<b>£000</b>
188	Treasury management, accounting and managerial services	252
1,315	Pension administration services	1,410
<b>1,503</b>		<b>1,662</b>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2015 were £6,594k (£9,820k at 31 March 2014).

**Note 22: 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.

<b>2013/14</b>	<b>Position</b>	<b>2014/15</b>	
<b>£</b>		<b>£</b>	
20,057	Chief Finance Officer	22,313	1
74,780	Pension Fund & Treasury Manager	67,659	2
48,054	Senior Accountant	52,653	3
<b>142,891</b>		<b>142,625</b>	

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 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

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 24 : Actuarial statement for 2014/15 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

#### 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:

	<b>Males</b>	<b>Females</b>
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 2014

Real bond yields have fallen dramatically (leading to a higher liability). The effect of this has been only partially offset by the strong asset returns. Overall funding levels are likely to have remained approximately the same as at the 2013 valuation, but the monetary amount of the deficit will have increased over this period as both asset and liability values have increased in size.

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

Barry McKay FFA

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

June 2015

## Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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	31 March 2015
	£m	£m
Present value of promised retirement benefits	4,151	4,984

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 2015 comprises £2,384m in respect of employee members, £989m in respect of deferred pensioners and £1,611m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member 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 2015 is to increase the actuarial present value by £662m.

### Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2015
Inflation/pension increase rate	2.8%	2.4%
Salary increase rate	4.1%	3.8%
Discount rate	4.3%	3.2%

### 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 2015 for IAS19 purposes' dated 15 April 2015. 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.

Anne Cranston AFA

21 May 2015



For and on behalf of Hymans Robertson LLP

#### **Note 26: Additional Voluntary Contributions**

<b>Market Value 2013/14 £000</b>	<b>Position</b>	<b>Market Value 2014/15 £000</b>
8,243	Prudential	9,613
<b>8,242</b>		<b>9,613</b>

Additional Voluntary Contributions, net of returned payments, of £2.1million were paid directly to Prudential during the year (£1.4million during 2013/14).

#### **Note 27: 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 28: Annual report**

The Surrey Pension Fund Annual Report 2014/2015 provides further details on the management, investment performance and governance of the Fund.

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