Annex 1

SURREY PENSION FUND ACCOUNTS 2012/2013

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2012/2013 and of the disposition of its assets at 31 March 2013.

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 around 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 2012 and 31 March 2013 are:

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2011/2012		2012/2013
29,120	Employees in the fund	30,608
19,664	Pensioners	20,553
26,583	Deferred pensioners	27,648
75,367	**Total**	**78,809**

Surrey pension fund account

2011/2012 £000		Note	2012/2013 £000
	Contributions and benefits		
138,582	Contributions receivable	7	**159,544**
13,968	Transfers in	8	**13,833**
152,550			**173,377**
-109,800	Benefits payable	9	**-113,893**
-35,835	Payments to and on account of leavers	10	**-7,945**
-1,717	Administrative expenses	14	**-1,867**
-147,352			**-123,705**
5,198	**Net additions from dealings with members**		**49,672**
	Return on investments		
42,887	Investment income	16	**40,645**
1,441	Change in market value of investments	17	**278,985**
-6,150	Investment management expenses	15	**-6,856**
38,178	**Net return on investments**		**312,774**
43,376	**Net increase in the fund during the year**		**362,446**
	Net assets of the fund		
2,152,894	**At 1 April**		**2,196,270**
2,196,270	**At 31 March**		**2,558,716**

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Net asset statement

31 Mar 2012 £000		Note	31 Mar 2013 £000
	Investment assets	17	
309,600	Fixed interest securities		**347,863**
79,752	Index linked securities		**99,100**
1,510,160	Equities		**1,574,687**
120,306	Property unit trusts		**120,748**
-	Diversified growth		**238,986**
84,776	Private equity		**90,336**
	Derivatives	17c	
126	- Futures		**-**
7,939	- Foreign exchange contracts		**2,153**
70,564	Cash		**59,723**
18,281	Other investment balances		**11,128**
	Investment liabilities		
	Derivatives	17c	
-	- Futures		**-310**
-1,414	- Foreign exchange contracts		**-7,500**
-8,297	Other investment balances		**-3,810**
2,191,793	**Net investment assets**		**2,533,104**
-	**Long-term debtors**	12	**16,335**
9,071	**Current assets**	11	**13,582**
-4,594	**Current liabilities**	13	**-4,305**
2,196,270	**Net assets of the fund at 31 March**		**2,558,716**

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.

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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 2012/13 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 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
11 are not included as they come within other national pension schemes.

During 2012/13 the investments of the fund were overseen by the Investment Advisors Group (IAG) and scrutinised by the Audit & Governance Committee at Surrey County Council. Pension administration issues were overseen by the People, Performance and Development Committee. From May 2013 the governance arrangements of the fund have been adjusted in line with best practice, with the combined IAG and Audit & Governance Committee responsibilities replaced by a single Pension Fund Board.

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 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 range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Pension benefits under the LGPS 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 April 2008	**Service post 31 March 2008**
Basis of pension	1/80th 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

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e) New LGPS Scheme 2014

The current 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 will commence on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up at March 2013 will be treated according to the current scheme rules.

	Current LGPS scheme	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60th of salary	1/49th 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

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Existing 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 into the LGPS 2014 please refer to the Surrey Pension Fund website (http://www.surreypensionfund.org) or to 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 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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 on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 25 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. 11

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.

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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 suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for against the investment income from which it is incurred. Investment income is shown net of irrecoverable tax.

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 council 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 single 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.

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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 contacts 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, however a small number of members remain with 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 polices

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 2013 was £90 million (£85 million at 31 March 2012).

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 24. 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 2013 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 of 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 valued at fair values provided by the administrators of the funds. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £90 million. There is a risk that this investment may be over or under stated in the accounts.

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Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in September 2013. 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

2011/2012 £000		2012/2013 £000
106,671	Employers	109,514
31,911	Members	31,880
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

By employer

2011/2012 £000		2012/2013 £000
75,435	Administering authority	78,045
52,266	Scheduled bodies	50,889
10,881	Admitted bodies	12,460
-	Magistrates Court Services deficit funding	18,150
138,582		**159,544**

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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

2011/2012 £000		2012/2013 £000
13,968	Individual transfers in from other schemes	13,833
13,968		**13,833**

Note 9: Benefits payable

By category

2011/12 £000		2012/13 £000
86,143	Pensions	94,191
20,667	Commutation and lump sum retirement benefits	16,818
2,946	Lump sum death benefits	2,840
44	Interest on late payment of benefits	44
109,800		**113,893**

By employer

2011/2012 £000		2012/2013 £000
51,916	Administering Authority	54,388
49,746	Scheduled Bodies	50,875
8,094	Admitted Bodies	8,586
109,756		**113,849**

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The total does not include interest on late payment of benefits £43,874 (£43,793 2011/12)

Note 10: Payments to and on account of leavers

2011/2012 £000		2012/2013 £000
26,376	Group transfers to other schemes	96
9,448	Individual transfers to other schemes	7,814
15	Refunds of contributions	30
-4	Payments for members joining state schemes	5
35,835		**7,945**

Note 11: Current assets

2011/2012 £000		2012/2013 £000
1,055	Contributions – employees	2,445
5,650	Contributions - employer	9,239
2,366	Sundry debtors	1,898
9,071		**13,582**

Analysis of current assets

2011/2012 £000		2012/2013 £000
187	Central government bodies	713
6,727	Other local authorities	10,907
8	Public corporations and trading funds	-
2,149	Other entities and individuals	1,962
9,071		**13,582**

Note 12: Long term debtors

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2011/2012 £000		2012/2013 £000
-	Central government bodies	16,335
-		**16,335**

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

On 11 March 2013 the total value of the shortfall was agreed as £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount has been recognised as contributions during 2012/13. A corresponding debtor has been created. The first instalment of £1.815m was actually received on 26 March 2013, meaning that as the remaining nine instalments are due in excess of one year from the 31 March 2013, the whole of the remaining balance has been included as a long term debtor in the accounts.

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Note 13: Current liabilities

2011/2012 £000		2012/2013 £000
4,527	Sundry creditors	4,257
67	Benefits payable	48
4,594		**4,305**

Analysis of current liabilities

2011/2012 £000		2012/2013 £000
1,065	Central government bodies	1,157
1,548	Other local authorities	1,592
13	Public corporations and trading funds	-
1,968	Other entities and individuals	1,556
4,594		**4,305**

Note 14: Administrative expenses

2011/2012 £000		2012/2013 £000
962	Employee related	901
644	Support services	826
40	External audit fee	20
10	Legal and other professional fees	6
61	Actuarial fees	114
1,717		**1,867**

Note 15: Investment expenses

2011/2012 £000		2012/2013 £000
5,776	Management fees	6,446
254	Custody fees	252
4	Performance measurement services	7
112	Investment consultancy fees	151
4	Interest paid	-
6,150		**6,856**

Note 16: Investment income

2011/2012 £000		2012/2013 £000
	Fixed interest	
7,757	UK	8,143
2,759	Overseas	3,051
	Index linked	
600	UK	55
	Equities	
18,083	UK	15,636
7,764	Overseas	7,633
5,645	**Property unit trusts**	4,771
0	**Diversified growth**	1,118
279	**Cash**	238
42,887		**40,645**

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Note 17a: Reconciliation of movements in investments and derivatives

	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**
	2,191,793			**278,985**	**2,533,104**

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.

	Market value at 1 April 2011	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2012
	£000	£000	£000	£000	£000
Fixed interest securities	**311,766**	222,692	-250,837	25,979	**309,600**
Index linked securities	**59,512**	40,563	-33,022	12,699	**79,752**
Equities	**1,520,898**	395,688	-369,926	-36,500	**1,510,160**
Property unit trusts	**121,614**	31,970	-31,794	-1,484	**120,306**
Private equity	**74,215**	23,229	-20,658	7,990	**84,776**
Derivatives					
- Futures	**-205**	12,840	-500	-12,009	**126**
- Forex conts	**-5,344**	8,426	-1,326	4,769	**6,525**
	2,082,456	**735,408**	**-708,063**	1,444	**2,111,245**
Cash	**55,949**			-3	**70,564**
Other investment alances	**2,411**				**9,984**
	2,140,816			**1,441**	**2,191,793**

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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. Transaction costs incurred during the year amounted to £1.37m (£1.34m in 2011/12).

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 2012	31 Mar 2013
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	173,516	137,890
UK pooled funds	79,064	87,769
Overseas public sector & quoted	48,830	52,316
Overseas pooled fund	8,190	69,888
	309,600	**347,863**
Index linked securities		
UK public sector & quoted	58,332	2,945
UK pooled funds	21,420	96,155
	79,752	**99,100**
Equities		
UK quoted	461,924	452,587
UK pooled funds	264,458	209,571
Overseas quoted	395,616	423,779
Overseas pooled funds	388,162	488,750
	1,510,160	**1,574,687**
Property unit trusts	**120,306**	**120,748**
Diversified growth	**-**	**238,986**
Private equity		
Limited partnerships	33,336	38,683
Fund of funds	51,440	51,653
	84,776	**90,336**
Derivatives		
Futures	126	-310
FX forward contracts	6,525	-5,347
	6,651	**-5,657**
Cash deposits	**70,564**	**59,723**
Other investment balances		
Outstanding sales	11,115	5,008
Outstanding purchases	-8,297	-3,810
Accrued income - dividends and interest	7,166	6,120
	9,984	**7,318**
Total investments	**2,191,793**	**2,533,104**

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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 2013 the fund had one futures contract in place with a net unrealised loss of £310,000 (net unrealised gain of £125,630 at 31 March 2012).

2012/13

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

2011/12

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Futures	27/06/2012	3 Months	Exchange traded UK Government Bonds	33,666	126	0

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 2013 the Fund had forward currency contracts in place with a net unrealised loss of £5,347,000 (net unrealised gain of £6,525,121 at 31 March 2012).

2012/13

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'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**

2011/12

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	EUR	GBP	40	-33		
8	Two months	EUR	GBP	27,988	-23,362	58	-81
1	One month	GBP	DKK	4	-35		
2	One month	GBP	EUR	939	-1,123	3	
12	Two months	GBP	EUR	117,135	-141,045	103	-577
2	One month	GBP	JPY	43	-5,722		
5	Two months	GBP	JPY	60,774	-7,328,383	5,007	
2	One month	GBP	USD	17	-27		
18	Two months	GBP	USD	203,332	-323,510	2,643	
2	One month	IDR	GBP	628,250	-43		
1	One month	PHP	GBP	26,535	-388		-1
1	Five months	USD	AUD	3,472	-3,285	101	-27
1	Three months	USD	BRL	2,162	-4,018	23	-28
1	Four months	USD	EUR	3,139	-2,439		-70
1	One month	USD	GBP	583	-364		
15	Two months	USD	GBP	85,733	-54,236		-562
1	Four months	USD	GBP	3,637	-2,347		-69
						7,939	**-1,414**

Stock Lending

The fund has not engaged in stock lending.

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Note 17d: Investments analysed by fund manager

Market value 31 March 2012 £000	%	Manager	Market value 31 March 2013 £000	%
627,132	30.3	Legal & General Investment Management	792,326	32.8
132,786	6.4	Majedie Asset Management	158,471	6.6
84,999	4.1	Mirabaud Asset Management	98,382	4.1
247,300	11.9	UBS Asset Management	198,809	8.2
274,372	13.2	Marathon Asset Management	341,002	14.1
153,498	7.4	Newton Investment Management	190,680	7.9
61,083	3.0	JP Morgan Asset Management	-	-
58,789	2.8	TCW Group	-	-
304,641	14.7	Western Asset Management	202,813	8.4
-	-	Franklin Templeton Investments	67,681	2.8
-	-	Standard Life Investments	143,613	5.9
-	-	Baillie Gifford Life Limited	95,372	3.9
127,229	6.1	CBRE Global Multi-Manager	128,307	5.3
2,071,829			**2,417,457**	

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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 assets of the fund

Market value 31 March 2012 £000	% of total fund	Security	Market value 31 March 2013 £000	% of total fund
-	-	Legal & General World Developed Equity Index	366,009	14.3
252,959	11.5	Legal & General UK Equity Index	197,336	7.7
-	-	Standard Life Global Absolute Return Strategies	143,613	5.6

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 2012				As at 31 March 2013		
Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs		Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial assets			
309,600			Fixed interest securities	347,863		
79,752			Index linked securities	99,100		
1,510,160			Equities	1,574,687		
120,306			Property unit trusts	120,748		
			Diversified growth	238,986		
84,776			Private equity	90,336		
8,065			Derivatives	2,154		
	70,564		Cash		59,723	
18,281			Other investment balances	11,128		
	9,071		Debtors		29,916	
2,130,940	**79,635**			**2,485,002**	**89,639**	
			Financial liabilities			
-1,414			Derivatives	-7,810		
-8,297			Other investment balances	-3,810		
		-4,594	Creditors			-4,305
-9,711		**-4,594**		**-11,620**		**-4,305**
2,121,229	**79,635**	**-4,594**		**2,473,382**	**89,639**	**-4,305**

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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
11 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. Some funds provide valuations quarterly whist others only half yearly. The accounts include £58 million worth of private equity investments which were valued as at 31 December 2012. Cash flow adjustments have been made to roll forward these valuations to the 31 March 2013.

31 March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,376,688	17,978	90,336	2,485,002
Total financial assets	**2,376,688**	**17,978**	**90,336**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,365,068**	**17,978**	**90,336**	**2,473,382**

11

31 March 2012	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Total financial assets	**2,017,344**	**28,820**	**84,776**	**2,130,940**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Total financial liabilities	**-9,711**			**-9,711**
Net financial assets	**2,007,633**	**28,820**	**84,776**	**2,121,229**

Note 18c: Book cost

The book cost of all investments at 31 March 2013 is £2,107,273,868 (£1,887,182,964 at 31 March 2012).

Note 19: Outstanding commitments

At 31 March 2013 the Fund held part paid investments on which the liability for future calls amounted to £101,599,103 (£74,906,438 as at 31 March 2012).

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 now rests with the newly formed Pension Fund Board having previously been the responsibility of the Investment Advisors Group (IAG). 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**

11 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.

In 2012/13 a decision was made to alter the fund's asset allocation to seek to mitigate the volatility associated with equity holdings. This led to the removal of the dedicated regional equity portfolios, with the assets assigned to two diversified growth funds (DGF), managed by Standard Life and Baillie Gifford. DGFs can invest in a broad range of asset classes, including traditional assets such as bonds and equities, alternative asset classes as well as futures, options and other derivatives in order to restrict volatility.

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 2012/13 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.

11

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	662,158	13.1%	748,901	575,415
Overseas equities	912,529	12.7%	1,028,420	796,638
Total bonds	347,863	5.3%	366,300	329,426
ILG	99,100	8.0%	107,028	91,172
Cash	59,723	0.0%	59,723	59,723
Property	120,748	2.4%	123,646	117,850
Total Assets	**2,202,121**		**2,434,018**	**1,970,224**

The above table excludes private equity, diversified growth, derivatives and other investment balances.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
UK equities	726,382	15.6%	839,698	613,066
Overseas equities	783,777	15.4%	904,479	663,075
Total bonds	309,600	5.7%	327,247	291,953
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,284	113,328
Total Assets	**2,090,381**		**2,354,926**	**1,825,836**

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.

11

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 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2012 £000		As at 31 March 2013 £000
70,404	Cash & cash equivalents	59,380
160	Cash balances	343
309,600	Fixed interest securities	347,863
380,164	**Total**	**407,586**

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 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,380	594	-594
Cash balances	343	3	-3
Fixed interest securities	347,863	3,479	-3,479
Total	**407,586**	**4,076**	**-4,076**

11

Asset type	Carrying amount as at 31 March 2012	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	70,404	704	-704
Cash balances	160	2	-2
Fixed interest securities	309,600	3,096	-3,096
Total	**380,164**	**3,802**	**-3,802**

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 manage 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 2012/13 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 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.1%	518,160	458,578
Fixed interest	2,207	6.1%	2,342	2,072
Property unit trust	11,432	6.1%	12,129	10,735
Cash	2,701	6.1%	2,866	2,536
Total	**504,709**	**6.1%**	**535,497**	**473,922**

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For comparison last year figures are included below.

Asset type	Value at 31 March 2012 £000	% Change	Value on increase £000	Value on decrease £000
Overseas Equities	445,173	9.8%	488,800	401,546
Fixed Interest	8,320	9.8%	9,135	7,505
Property Unit Trust	16,441	9.8%	18,052	14,830
Cash	3,963	9.8%	4,351	3,575
Total	**473,897**	**9.8%**	**520,338**	**427,456**

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.

Prior to the 1 April 2011 the fund's internally held cash was comingled with that of Surrey County Council. A separate bank account has been in operation since 1 April 2011. Both the council's and the fund's bank accounts are 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, as agreed by the fund's Investment Advisors Group. 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 (LCD) approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

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The fund has a call account with NatWest Bank and a money market fund with the Royal Bank of Scotland. In line with the treasury strategy, the maximum deposit level allowed in each account is £20 million. The RBS money market fund has a long term credit rating of AAA (or equivalent) with all three ratings agencies and the NatWest call account has a rating of A (or equivalent) with all three.

Balance at 31 March 2012 £000		**Balance at 31 March 2013 £000**
	Call account	
15,000	NatWest	15,000
	Money market fund	
13,800	Royal Bank of Scotland	3,910
	Current account	
160	HSBC	343
28,960	Internally Managed Cash	19,253
41,604	Externally Managed Cash	40,470
70,564	**Total Cash**	**59,723**

The fund's cash holding under its treasury management arrangements as at 31 March 2013 was £19.3 million (£29.0 million at 31 March 2012).

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 and Royal Bank of Scotland. 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. No such borrowing was undertaken during the 2012/13 financial year.

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
11 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. Usage 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 2012/13 amounted to £55,659,746 (£55,716,313 in 2011/12).

2011/2012 £000		2012/2013 £000
38,055	Employers' current service contributions	37,035
16,058	Lump sum payments to recover the deficit in respect of past service	17,354
1,603	Payments into the fund to recover the additional cost of early retirement liabilities	1,271
55,716		**55,660**

ii) Surrey Pension Fund paid Surrey County Council £1,537,236 for services provided in 2012/13 (£1,544,808 in 2011/12).

2011/2012 £000		2012/2013 £000
203	Treasury management, accounting and managerial services	198
1,342	Pension administration services	1,339
1,545		**1,537**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2013 were £5,866,326 (£740,047 at 31 March 2012).

iv) During the year none of the Investment Advisors Group (IAG) undertook any material transactions with the Surrey Pension Fund.

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.

2011/12 £	Position	2012/13 £	
17,553	Chief Finance Officer	19,991	1
68,110	Pension Fund & Treasury Manager	58,456	2
51,769	Senior Accountant	51,994	
137,432		**130,441**	

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

11

Note 23: 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 24 : Actuarial statement for 2012/13 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1) 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 2012/13.

11

Description of funding policy

The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 25 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- 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 50% chance that the Fund will return to full funding over 24 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 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,944 million, were sufficient to meet 72.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £755 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 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 2011

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.

11

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 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

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	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

Copies of the 2010 valuation report and FSS are available on request from Surrey County Council, administering authority to the Fund.

Experience over the year since April 2012

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) increased over 2012/13. The reason for this was the strong investment performance of the Fund's assets over the year, slightly offset by the fall in Government bond yields.

The next actuarial valuation will be carried out as at 31 March 2013. 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

23 May 2013

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Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2012/13 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 2013 £m	31 March 2012 £m
Present value of promised retirement benefits	3,982	3,346

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £2,034m in respect of employee members, £770m in respect of deferred pensioners and £1,178m 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.

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)

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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 2013 is to increase the actuarial present value by £452m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2013	31 March 2012
Inflation/pension increase rate	2.8%	2.5%
Salary increase rate*	5.1%	4.8%
Discount rate	4.5%	4.8%

*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 funds VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners*	23.9 years	25.9 years

*Future pensioners are assumed to be aged 45 at the last valuation date

This assumption is the same as at 31 March 2012.

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 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of figures in this paper, together with further details regarding the professional requirements and assumptions.

Julie Morrison FFA

11 17 May 2013

For and on behalf of Hymans Robertson LLP

Note 26: 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 27: Annual report

The Surrey Pension Fund Annual Report 2012/2013 provides further details on the management, investment performance and governance of the Fund.