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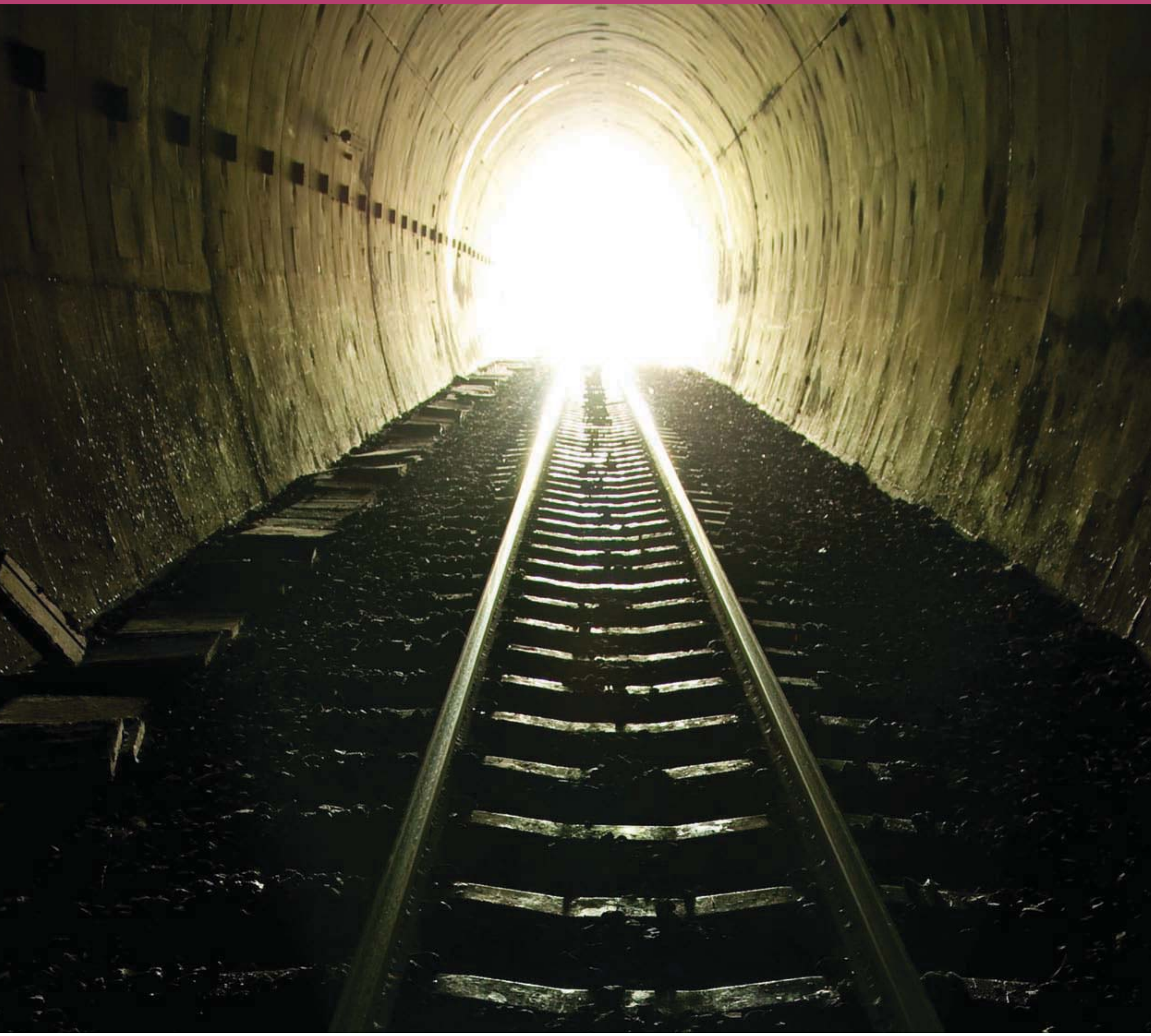
SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2010



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Introduction

This annual report sets out key information about how the Fund is managed for the benefit of all employing bodies, contributors and beneficiaries.

Last year I opened this introduction by saying: "To say that 2008-2009 was a difficult year would be a massive understatement." 2009-2010 was far less difficult, with the dust settling following the collapse of Lehman brothers and the associated fall-out in the banking sector and subsequent 'credit crunch'. However, the year did present challenges. Paul Meredith, in his annual review on pages 20 to 22, describes some of the key market events of 2009-2010.

The statistical summary on page 6 shows how far world markets recovered in 2009-2010 given that the market value of the Fund's assets increased by £524m, which outweighs the £456m fall in 2008-2009. At the time of writing the market value of the Fund has peaked above £2 billion. We would have been a lot happier had this been the case as at the 31 March given that this is the effective date of the 2010 actuarial valuation. However, it is still a significant milestone to pass.

The average local authority fund returned 35.2% in 2009/2010, further evidence of the pick-up during the year. The Surrey Fund return of 42.9% was ahead of the local authority average by some margin, placing the Fund in the top decile of the local authority league table for the year.
This above average performance equates to an additional return of around £100m. A ranking of six is the best that we can recall the Fund achieving since the rankings were first produced. The outperformance came from a number of sources including asset allocation and the stock selection of individual fund managers. We hedge against currency movements since a significant proportion of the Fund is invested in overseas assets while the liabilities are denominated in sterling. The hedge added value during 2009-2010 and continues to do the job that we expect of it – protecting long-term returns against currency movements. Performance figures for the Fund's managers are shown on page 27.

As in 2008-2009 we made no changes to either the Fund's asset allocation strategy or to the managers mandated to run the Fund. However, there has been a big change in the governance of the Fund, given that a new Investment Advisers Group was put in place following the local elections in June 2009. The members of the group have gone through a comprehensive induction and training process – given the number of fund managers that we have it has taken a full year of meetings to ensure that the group is fully up to speed on the way that the Fund is managed. That is not to say that they have been inactive in their scrutiny of fund managers and the pressure that they have put on managers to perform. In fact, it is quite the opposite. Once we have received the results of the actuarial valuation of the Fund a full strategy review will take place.

The actuarial valuation is, of course, the main challenge that we have faced since year-end. That challenge began during 2009-2010 when we opened discussions with the actuary about how we would respond to the valuation results. We also tried to manage the expectations of employers by communicating the position of the Fund at the AGM in November 2009. At the time of writing we have not yet received the valuation results but we know that the funding level will be better than we thought at 31 March.
The main reason for this is the impact of the change in indexation of public sector pensions from RPI to CPI. We also know that pay freezes will have a positive effect on the Fund.

At the time of writing Lord Hutton of Furness had just published his long awaited interim report on the future of public sector pensions. The public sector pensions community has warmly received Hutton's report not least because it recognises that most public sector pensions are modest and cannot be considered to be gold-plated. He has, however, clearly signalled the need for structural reform of public sector pensions. The first outcome that he recommended, which was confirmed as part of the Comprehensive Spending Review, will be an increase in employee contributions of an average of 3% to be phased in from 2012/2013.
We assume that government expects this increase to be passed on in the form of reduced employer contributions. There are a number of structural solutions that Hutton will be looking at during the second stage of his review including (as has been widely forecast) a move to average salary schemes or hybrid schemes of defined benefit/defined contribution. In addition, he makes it very clear that there is a need to reflect improvements in longevity in the retirement age. We know that the options that he is to consider will be assessed against a number of principles including affordability, sustainability and fairness and we look forward to receiving his report ahead of the 2011 Budget.

Philip Walker
Head of Finance
October 2010

Members and Advisers

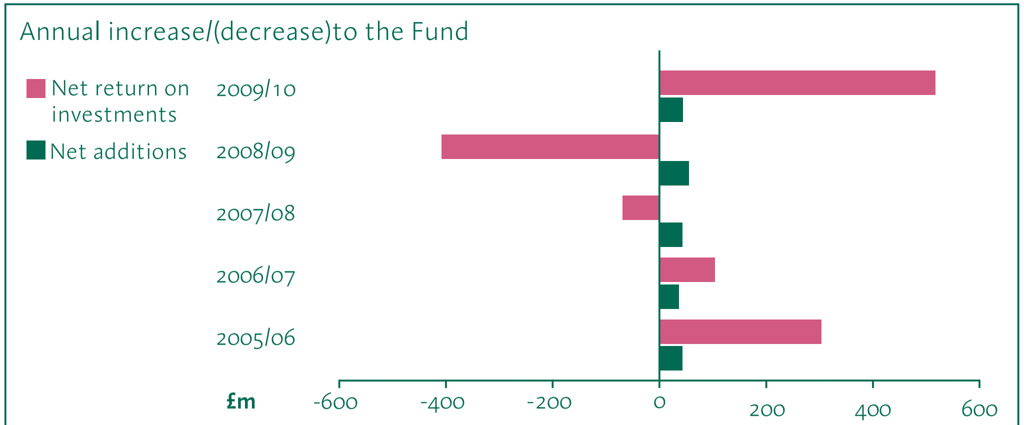
Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Administrator	Head of Finance
Investment Advisers	
County Council Members	Denise Le Gal, Chair Tony Elias (from October 2010) Michael Gosling (to October 2010) John Orrick David Wood
Representatives of Employing Bodies	Cllr Paul Tuley, Runnymede BC Cllr Stuart Selleck, Elmbridge BC
Employee Representative	Don Josey
Professional Investment Advisers	Martyn James, Mercer Ltd Paul Meredith, Independent
Head of Finance	Philip Walker
Pension Fund & Treasury Manager	Tracey Milner
Pensions Manager	Paul Baker
Fund Managers	Esemplia Emerging Markets ING Real Estate JP Morgan Asset Management Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Newton Investment Management TCW Investment Management Company UBS Global Asset Management Western Asset Management
Global Custodian	Northern Trust
Private Equity Advisers	Blackrock Goldman Sachs Asset Management HG Capital ISIS Equity Partners Standard Life Capital Partners
Fund Actuary	Bryan Chalmers, Hymans Robertson LLP
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Audit Commission

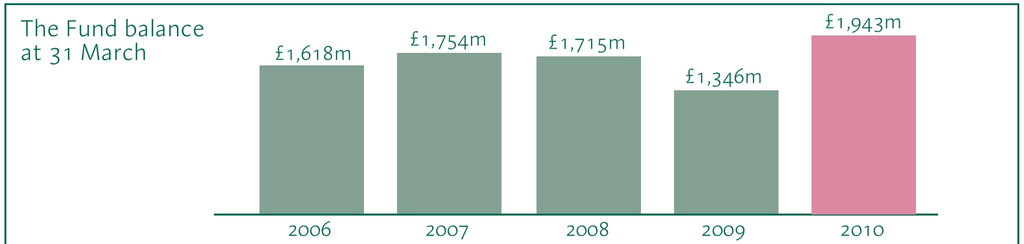
Five Year Profile

Financial Summary

	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Contributions	122,046	120,932	133,749	145,998	157,423
Less benefits and expenses paid	-81,393	-92,422	-94,664	-94,484	-113,960
Net additions	**40,653**	**28,510**	**39,085**	**51,514**	**43,463**
Net investment income **	27,900	30,600	32,278	36,220	28,869
Change in market value	281,492	76,772	-110,227	-456,126	524,163
Net return on investments	**309,392**	**107,372**	**-77,949**	**-419,906**	**553,032**
Net increase in Fund	**350,045**	**135,882**	**-38,864**	**-368,392**	**596,495**
Fund balance at 31 March (Market Value)	**1,617,747**	**1,753,629**	**1,714,765**	**1,346,373**	**1,942,868**

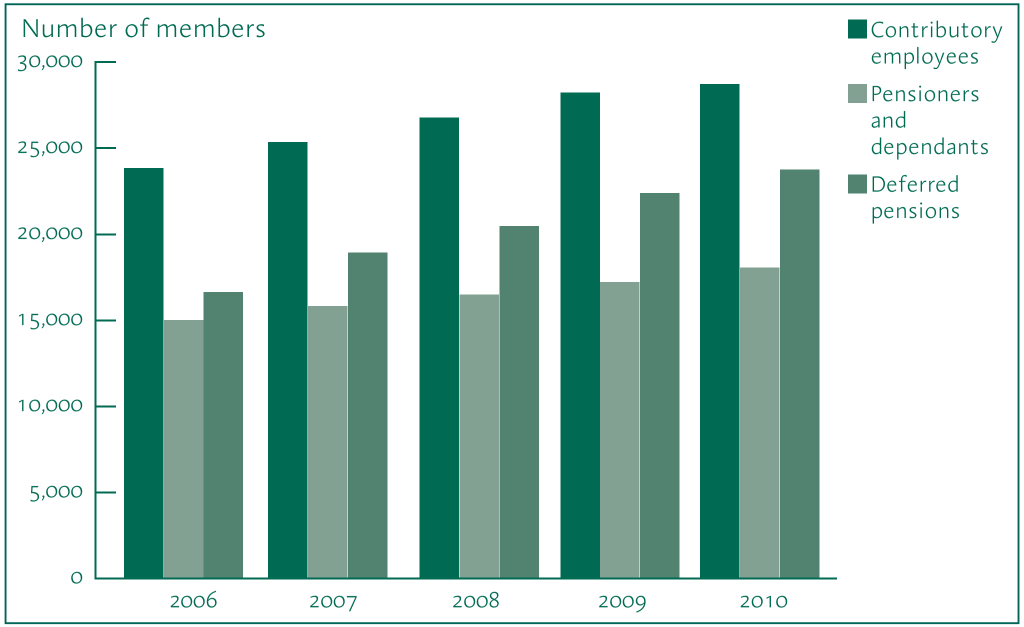
Note: **Net of expenses





Membership Summary

	2005/06	2006/07	2007/08	2008/09	2009/10
Contributory employees					
Scheduled bodies	21,043	23,771	25,489	26,791	27,383
Admitted bodies	1,719	1,574	1,509	1,438	1,339
	22,762	**25,345**	**26,998**	**28,229**	**28,722**
Pensioners and dependants					
Scheduled bodies	14,109	14,815	15,389	16,027	16,786
Admitted bodies	906	997	1,109	1,190	1,283
	15,015	**15,812**	**16,498**	**17,217**	**18,069**
Deferred pensions					
Scheduled bodies	15,431	17,615	19,053	20,854	22,168
Admitted bodies	1,189	1,321	1,441	1,520	1,582
	16,620	**18,936**	**20,494**	**22,374**	**23,750**
	54,397	**60,093**	**63,990**	**67,820**	**70,541**



Regulatory Background

Pensions Regulations

The Local Government Pension Scheme Regulations are made under the 1972 Superannuation Act and require the County Council to maintain a pension fund for its own employees together with the majority of employees of the District Councils within the County area and eligible employees within the Surrey Police Authority and former County educational establishments. The same regulations empower the County Council to admit certain other bodies to the Fund and a list of such bodies within the Fund is shown on pages 11-13. The regulations also allow for the admission of private sector contractors providing outsourced services. The Fund does not cover teachers and fire fighters for whom separate statutory regulations exist.

The Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits currently being paid is invested.

The core benefits payable under the regulations are mandatory. In addition the regulations have become more flexible to give members and employers the maximum freedom of choice in determining their benefits package.

Prior to 1 April 2008 employees' contributions were standardised at the rate of 6% of pensionable pay although there was a protected rate of 5% for certain existing employees who were previously classed as manual workers.

On 1 April 2008 a new scheme came into force, which meant that employees now pay pension contributions at a rate determined by their full time equivalent level of pay as follows:

FTE Pay			Contribution Rate
£0	-	£12,600	5.5%
£12,600.01	-	£14,700	5.8%
£14,700.01	-	£18,900	5.9%
£18,900.01	-	£31,500	6.5%
£31,500.01	-	£42,000	6.8%
£42,000.01	-	£78,700	7.2%
£78,800.01 or more			7.5%

The pay bands above will increase each April in line with increases in the Retail Price Index (RPI). The pay bands shown above are those applicable during 2009-2010.

Employers' contribution rates are set following each actuarial valuation. A valuation of the Fund's financial position must be made every three years when the actuary certifies the employers' rates payable until the results of the next valuation are known.

Under the regulations employer contributions are determined in two parts.

- A common rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all the participating employers and to the desirability of maintaining as nearly constant a rate as possible, and
- Individual adjustments arising from circumstances peculiar to an individual employer.

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation-proofing benefits is funded through the employers' contribution rate.

Employers' Contributions in 2009/2010

The results of the actuarial valuation undertaken at 31 March 2007 apply for the three years commencing 1 April 2008 as detailed below.

- The common contribution rate payable by each participating body in order to maintain funding for future service at 100% of liabilities is 14.7% of pensionable payroll, and
- An individual adjustment to the common rate which is an average of 6.2% of pensionable payroll, expressed as a cash amount for most Scheduled Bodies.

The basis and assumptions used by the actuary can be found in the actuary's disclosure statement on pages 50-51.

The contribution rates payable by scheme employers in 2009/2010 are shown on pages 11-13.

Future Contribution Rates

The Fund actuary, on completion of his triennial review of the Fund as at 31 March 2007, determined contribution rates applying in the three-year period commencing 1 April 2008. He assessed the Fund's current and future liabilities and determined that it was necessary to increase the rate of employers' common contribution from 11.6% to 14.7% of pensionable payroll. He estimated that, following the introduction of tiered employee contribution rates, the average employee contribution rate was expected to be 6.6% of payroll. He determined the additional annual sums to be paid by most employers to ensure a return to 100% solvency over the average future working lifetime of the members (20 years).

The contribution rates applying from 1 April 2008 for all employers can be found on pages 11-13. The Fund's 2008-2011 Funding Strategy Statement can be accessed on the Council's website at www.surreycc.gov.uk. The Funding Strategy Statement is currently under review as part of the 2010 actuarial valuation of the Pension Fund, which will determine employer contribution rates effective from 1 April 2011.

Statement of minimum contributions to be paid by participating employers

		Percentage of Payroll Due	Additional Monetary Amount		
Large Scheduled Bodies	**Deficit Recovery Period Yrs**	**1 April 2008 to 31 March 2011**	**1 April 2008 to 31 March 2009 £000**	**1 April 2009 to 31 March 2010 £000**	**1 April 2010 to 31 March 2011 £000**
Surrey County Council	20	14.8%	15,323	16,043	16,797
Surrey Police Authority	20	12.0%	936	980	1,026
Surrey Probation Committee	20	13.6%	190	199	208
Elmbridge Borough Council****	17	14.5%	690	722	756
Epsom & Ewell Borough Council	20	15.5%	381	399	418
Guildford Borough Council	20	14.6%	1,353	1,417	1,483
Mole Valley District Council	20	15.5%	527	552	578
Reigate & Banstead Borough Council	20	15.2%	1,065	1,115	1,167
Runnymede**** Borough Council	17	16.3%	380	398	417
Spelthorne Borough Council	20	15.8%	436	456	478
Surrey Heath Borough Council	20	15.7%	348	364	381
Tandridge District Council	20	16.5%	849	889	931
Waverley Borough Council****	17	16.5%	920	963	1,009
Woking Borough Council	20	15.0%	1,241	1,299	1,360

* Advised to pay full future service rate
** Advised (& agreed) to pay future service rate as minimum
*** New admitted body or Parish Council not covered in the valuation
**** Requested reduced deficit recovery period

Small Scheduled Bodies	Deficit Recovery Period Yrs	Percentage of Payroll Due 1 April 2008 to 31 March 2011	Additional Monetary Amount 1 April 2008 to 31 March 2009 £000	1 April 2009 to 31 March 2010 £000	1 April 2010 to 31 March 2011 £000
Ash PC	12	18.8%	4,745	4,968	5,202
Bramley PC	12	18.8%	134	140	147
Claygate PC	13	15.7%	109	114	119
Compton PC	n/a	24.0%	n/a	n/a	n/a
Cranleigh PC	12	18.8%	3,221	3,372	3,531
East Horsley PC	13	15.7%	97	102	106
Effingham PC***	n/a	15.7%	n/a	n/a	n/a
Epsom & Walton Downs Conservators	12	18.8%	5,953	6,233	6,526
Farnham TC	12	18.8%	4,031	4,220	4,419
Frensham PC	13	15.7%	143	150	157
Godalming TC	12	18.8%	4,895	5,125	5,366
Godstone PC	13	15.7%	57	60	62
Haslemere TC	13	15.7%	396	415	434
Horley TC	12	18.8%	2,742	2,871	3,006
Lingfield PC***	n/a	15.7%	n/a	n/a	n/a
Merton & Sutton JCB	12	18.8%	4,963	5,196	5,440
Nonsuch Park JMC	12	18.8%	5,604	5,867	6,143
Shere PC	12	18.8%	1,140	1,194	1,250
Tongham PC	12	18.8%	156	163	171
Valuation Tribunal Service	20	11.7%	3,000	3,141	3,289
Warlingham PC	13	15.7%	36	38	39
West End PC	13	15.7%	77	81	84
Windlesham PC	12	18.8%	1,564	1,638	1,714
Witley PC	12	18.8%	813	851	891
Worplesdon PC	13	15.7%	302	316	331

PC = Parish Council
TC = Town Council Council
JCB = Joint Cemetery Board
JMC = Joint Management Committee

* Advised to pay full future service rate
** Advised (and agreed) to pay future service rate as minimum
*** New admitted body or Parish Council not covered in the valuation
**** Requested reduced deficit recovery period

	Deficit Recovery Period	Percentage of Payroll Due 1 April 2008 to 31 March 2011
Colleges		
Brooklands College	20	18.9%
East Surrey College	20	15.9%
Esher College	20	15.9%
Godalming College	20	15.9%
Guildford College of Technology	20	19.7%
NESCOT	20	18.6%
Reigate College	20	15.9%
Strodes College	20	15.9%
University College of Creative Arts	20	15.8%
Woking College	20	15.9%
Admitted Bodies		
A2 Housing Group Ltd	9	43.4%
Ability Housing Association***	n/a	17.9%
Accent Peerless Housing Group	12	27.6%
Carillion	11	21.9%
Childhood First	7	114.4%
Commission for Social Care and Inspection	10	19.9%
East Surrey Rural Partnership	n/a	16.9%
Elmbridge Housing Trust**	13	17.5%
George Burley & Sons*	2	17.0%
Hanover Housing Association	13	22.9%
Mole Valley Housing Association***	n/a	19.4%
Moor House School	19	15.4%
Princess Alice Hospice Trust	13	22.6%
Raven Housing	11	16.6%
Reigate Grammar School	13	22.6%
Ringway *	4	17.5%
Rosebery Housing Association	13	22.6%
Royal Grammar School, Guildford	13	22.6%
SERCO	20	15.0%
Skanska***	n/a	21.3%
Sir William Perkins's School	13	22.6%
Surrey Alcohol and Drug Advisory Service	20	13.8%
Surrey Association for Visual Impairment	13	22.6%
Surrey Sports Park***	n/a	20.0%
SWT Countryside Services Ltd	14	16.9%
University of Surrey	20	19.3%
VT 4S Ltd	15	16.4%
Waverley Hoppa Transport	6	15.4%
Woking Community Transport	13	22.6%

Pension Contributions

The pay ranges determining the rates of contribution that scheme members pay are normally increased each April in line with movements in the Retail Prices Index (RPI). However, as there was no increase in the RPI during the 12 month review period from October 2008 to September 2009, the Government announced that there is no change to the pay ranges in the table below until the next review in April 2011.

FTE Pay	Contribution Rate
£0 - £12,600	5.5%
£12,600.01 - £14,700	5.8%
£14,700.01 - £18,900	5.9%
£18,900.01 - £31,500	6.5%
£31,500.01 - £42,000	6.8%
£42,000.01 - £78,700	7.2%
£78,800.01 or more	7.5%

Minimum Retirement Age

From 1 April 2010 the earliest age that pension benefits can be paid (other than because of permanent ill health where there is no minimum age) has increased from age 50 to age 55. This change not only affects the LGPS but also applies to almost all other pension schemes.

Civil Partnerships

The regulations have been changed to enable a dependant's pension for a civil partner to be based on all of the deceased member's pensionable service. Prior to this change the pension would not have been based on any pensionable service the deceased member had accrued before 6 April 1988.

Nominated Cohabiting Partners

As with the dependant's pensions for civil partners above, a dependant's pension for a nominated cohabiting partner would not be based on any pensionable service the deceased member had accrued before 6 April 1988. The regulations have been changed to enable a scheme member who has made a nomination to pay additional pension contributions to include any period of membership before 6 April 1988 in the calculation of their dependant's pension.

New Scheme Employers

Effingham Parish Council
- Joined 1 April 2009

Lingfield Parish Council
- Joined 31 March 2009

Skanska Construction UK Ltd
- Joined 1 March 2010

Surrey Sports Park
- Joined 1 March 2010

The Surrey Pension Fund is a member of the CIPFA Pensions Administration Benchmarking Club, which publishes a report each year comparing administration costs of local authorities that administer the LGPS. The Surrey Pension Fund appears in the lower cost quartile for administration, with administration costs being 29% lower than the average.

Membership Activity Summary

Active Members		
Active Members at 1 April 2009		**28,229**
New Joiners		4,714
Retirements	-645	
Deferred Pensions	-2,462	
Deaths	-32	
Transfers, Refunds, etc	-1,003	
Refunds Pending	-79	
Total Leavers		**-4,221**
Active Members at 31 March 2010		**28,722**
Pensioner Members (including Dependants)		
Pensions in Payment at 1 April 2009		**17,217**
New Pensioner Members		1,337
Deaths	-462	
Ceased Children's Pensions	-23	
Total Leavers		-485
Pensions in Payment at 31 March 2010		**18,069**
Deferred Pensioners		
Deferred Pensioners at 1 April 2009		22,374
New Deferred Pensions (ex-employees)		2,462
New Deferred Pensions (divorce credit members)		2
Transfers	-585	
Pensions coming into payment	-482	
Deaths	-21	
Total Leavers		-1,088
Deferred Pensioners at 31 March 2010		**23,750**
Total Membership at 31 March 2010		**70,541**

Communication Policy Statement

This policy statement provides an overview of how we communicate with members, representatives of members, prospective members and scheme employers.

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group (Active, Deferred, Pensioner, Employer or All)
Scheme overview and joiner form	Paper based and on website	On commencing employment and by request	Via employer	Active
Scheme booklet and joiner pack	Paper based and on website	On joining the scheme and by request	Home address or via employer	Active
Factsheets	Paper based and on website	On request	Post to home address or email	Active and deferred
Newsletters	Paper based and on website	After material scheme changes	Via employer	Active and pensioner
Annual benefit statements	Paper based	Annually	Post to employer or home address	Active and deferred
Pension clinics, roadshows and drop in events	Face to face	As requested by employer and employee	Via employer	Active
Pre-retirement courses	Face to face	As requested by employer	Via employer	Active
Briefing reports	Paper based and electronic	As and when required	Email or hard copy	Employers
Formal dispute resolution procedure	Paper based or electronic	As and when a dispute arises	Email or hard copy	All
Investment updates	Website	Quarterly	On request	Employer
Annual report and accounts	Paper based or electronic or website	Annually	Email or hard copy	All
Annual general meeting	Face to face	Annually	Email invitation	Employers
Actuarial valuation report	Electronic or website	Every three years	Email	All

Investment Powers

The principal powers governing investment activity and management are defined in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), which permit a wide range of investments subject to the following restrictions:

- No more than 15% of the Fund may be invested in securities that are not quoted on a recognised stock exchange.
- No more than 10% of the Fund may be invested in a single holding, and no more than 35% of the Fund may be invested in unit trust schemes managed by any one body and open-ended investment companies managed by any one body.
- No more than 10% of the Fund may be deposited with any one bank.
- Loans from the Fund, including money used by the administering authority or lent to other local authorities, but not including loans to the Government, may not in total exceed 10% of the value of the Fund.

Investment Management

The main regulatory stipulations applying during the year were:

- An administering authority may appoint one or more investment managers to manage and invest fund monies on its behalf.
- When appointing fund managers the administering authority:
  - must be aware that the investment manager is suitably qualified.
  - must be satisfied that there is an adequate number of managers and that the sums to be managed by any one will not be excessive.
  - must take proper advice.
- The investment manager must provide, at least once every three months, a report setting out his/her actions.
- The investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments that he/she proposes to make.
- The regulations also impose requirements concerning the terms of appointment and the reviews of the performance of fund managers.

In November 2003 an amendment to the Local Government Pension Scheme Regulations was introduced. This amendment provided local authorities with the opportunity to increase their exposure to certain types of investment, but only where:

- proper advice has been obtained
- the decision has been made with due regard to the general provisions of the regulations
- the Statement of Investment Principles has been revised and published.

The headrooms are not mandatory and individual authorities can, if they prefer, maintain existing investment policy.

Surrey has decided to maintain its existing investment policy at this moment in time. However, a temporary increase in the amount that could be invested in unit trust schemes managed by any one body – from 25% to the 35% permitted by regulations – was applied to enable Legal and General to passively manage assets that were transferred from managers whose mandates were terminated during the 2006 and 2007 calendar years. This agreement persists pending implementation of changes in the Fund's strategic benchmark or the appointment of new manager(s) or an increase in allocation to incumbent managers.

The LGPS (Management and Investment of Funds) Regulations 2009 introduced a requirement that administering authorities must, on or after 1 April 2011, operate a separate bank account for the pension fund which will be distinct from that of the administering authority's own bank account. The Surrey Fund's account will be operational in line with this deadline.

At Surrey the responsibility for the overall direction of the Fund's investment is delegated to the Head of Finance who acts in consultation with the Chair of the Investment Advisers Group. The Investment Advisers Group comprises

- 4 County Council members
- 2 Borough Council members
- 1 representative of the scheme members
- 2 professional investment advisers.

The Fund is managed on both an active and passive basis.

There are a number of external investment managers who have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual stocks within approved classes. They are required to take a long-term view, balancing risk against return, and are remunerated on scales related to the value of funds under management. Twice yearly meetings are held with the external managers who explain the reasons for their actions, and propose a strategy for the coming period.

In addition the Fund has investments in private equity funds managed by ISIS Equity Partners, HG Capital, Blackrock, Goldman Sachs and Standard Life Capital Partners with some residue funds in Bridgepoint Capital (formerly funds managed by Gartmore Asset Management). At 31 March 2010 the market value of assets under management (excluding assets held by Surrey County Council) was £1,902.1 million; the proportion with each of the managers being:

Investment Manager	Mandate	Funds Under Management £m	Proportion of Funds Under Managements
Passive Core			
Legal & General Investment Management	Multi Asset	462.2	24.3%
Active Core			
Western Asset Management	Fixed Interest	255.4	13.4%
ING Real Estate	Property	111.7	5.9%
Majedie Asset Management	UK Equities	118.1	6.2%
Mirabaud Investment Management	UK Equities	76.2	4.0%
UBS Global Asset Management	UK Equities	230.6	12.1%
Marathon Asset Management	Global Equities	245.5	12.9%
Newton Investment Management	Global Equities	139.1	7.3%
Active Regional Specialist Equity			
Esemplia Emerging Markets	Emerging Markets	85.0	4.5%
TCW	US Equities	55.1	2.9%
JP Morgan	Pacific Basin inc. Japan Equities	62.5	3.3%
Other	Private Equity	59.1	3.1%
	Residual Cash	1.6	0.1%
TOTAL		1,902.1	100.0%

*Cash balances related to the mandates of terminated managers

Economic and Market Background

In early 2009 financial markets were still reeling from the collapse of Lehman Brothers in September 2008 and the shocking fragility of the banking system that it revealed. A sharp credit contraction was expected to cause a significant global recession and there were fears of widespread bank failures and potentially even a re-run of the Great Depression of the 1930s. However by March state support for banks was ensuring that credit was again flowing to finance global trade and the dreaded "domino" effect of further major bank failures was receding. Shares rallied as investors identified fundamental value and were encouraged short-term by evidence that de-stocking by companies was finally abating. Some re-leveraging by hedge funds replaced former violent de-leveraging and forced selling and contributed to the sharp recovery in equity prices.

As the year unfolded the economic downturn proved a little less severe than previously expected as leaders of western consumer centric democracies did everything possible to stimulate activity and refused to be shackled by resulting burgeoning budget deficits. Despite the virtual demise of securitisation, the credit squeeze though severe was less acute than feared. Also China's industrialising command economy delivered and any protectionism was restrained. The UK economy benefited from the boost to competitiveness from the significant fall in the pound sterling in 2008/2009.

Most "risk" assets rebounded dramatically over the year. Global equities were again touted as an alternative to low yielding government bonds and recovered much of the loss suffered in the six months immediately post Lehman, returning 48% with cyclical companies to the fore. Emerging markets and Pacific Basin [ex Japan] led the way with returns of respectively 74% and 67%. UK returned 52%, Europe [ex UK] 49%, US 42% and Japan 30%. UK gilts returned just 1% but index linked returned 10% as concerns over inflation rose but the ML sterling non-gilt index returned 22% as corporate debt and particularly banking debt recovered from former virtual paralysis caused by forced selling by leveraged funds. UK property and hedge funds both returned about 12% as confidence and liquidity recovered, whilst the performance of other alternatives was generally poor.

Economic Outlook

A widespread recovery is now generally expected led by emerging economies as free capital markets and free trade once again facilitate a quick return to normal levels of economic growth. However this time it might be somewhat different, as the fundamental causes of recent financial instability have still to be adequately addressed.

There is still an intractable trade imbalance between the big exporters and the importing economies, which are dependent largely on consumer spending, funded mainly by housing debt. The manufacturing behemoths, Germany and China, still seem to view the US, UK and fringe Euro area trade deficits as a problem of past profligacy. However if the exporters do not stimulate domestic consumption then overall demand will be restrained and imbalances will continue to haunt international coordination of trade and regulation and threaten further currency instability. In the Euro, where devaluation at least relative to Germany is not an option, trying to regain lost competitiveness is proving particularly painful.

The banking system is still very thinly capitalised even after a few heavy rights issues, including government stakes, and a renewed flow of retained profits. Very low interest rates were required to kick-start economic recovery but they are now once again giving a windfall margin or "carry" to banks from the difference between the generally short-term return offered to depositors relative to the generally longer term rate charged to corporate or individual borrowers. However profits, even if windfall, seem inexorably to beget bonuses and with implicit government support this almost incites further speculation by traders employed or financed by the very banks baled out by taxpayers. Specialist "boutiques" could supply all the services required by bank clients but, until the major banks can be weaned off state support, any new entities will struggle - low cost airlines took many years to challenge the monopolistic and previously protected national carriers. There is much uncertainty as moral suasion by national authorities lacks traction in a global market and international coordination seems to have been sidelined by domestic politics of being seen to make the bankers pay. The US has announced some restraining measures but everywhere the authorities remain paranoid about a renewed banking crisis with the attendant probability of a "double dip" recession. The UK's heavy dependence on the financial services sector leaves it particularly conflicted and exposed.

The extent of economic stimulus provided by governments has been unprecedented. But now the hard part starts with public spending cuts to reflect the lower tax base, to an extent that maintains confidence in funding deficits in skittish global markets. The relatively disciplined Irish and the chaotic, even anarchic, Greek experience reveal a wide range of possible outturns. The UK budget deficit is amongst the highest and the recent Emergency Budget was intended to convince international investors that it would be tackled progressively. However, the extent of proposed cumulative cuts in some departmental budgets is so great as to almost defy belief and there is a risk that implementation will prove so difficult that the pace will need to be slowed and taxes will need to take more of the strain. Timing is also a tricky judgement as it is vital that the incipient recovery in activity is not stunted. However, in this dawning age of austerity it is inevitable that public spending will be heavily restrained for many years and, however undesirable, this will inevitably include capital spending on infrastructure. So the strength and durability of recovery remains worryingly dependent on a pick-up in private sector capital investment and job creation, both on an unprecedented scale, and all this whilst maintaining consumer confidence

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Strategic Asset Allocation

The core strategic decision is the extent of the Fund's exposure to equities. The best generally accepted fundamental valuation guides are the cyclically adjusted price earnings ratio and market value compared to net worth. These measures gave a buy signal in the turmoil of early 2009 and tended towards sell in early 2010. They now suggest that after the recent relapse equities globally are approximately correctly priced by very long-term historical standards - albeit a bit under-priced compared to the "great moderation" to 2007. So broadly valuations seem to reflect a reasonable balance between the risks to sustained economic recovery in the developed world and the enormous momentum generated by industrialisation of China, India, Indonesia and Brazil. Therefore the bulk of the Fund continues to be held in equities to produce the higher long-term returns that should help to minimise employer contributions. Government and corporate debt and property provide diversification, though, except for government debt, to a much lesser extent than generally supposed before the crowding and correlation of all "risk" assets in recent years. The overall structure and all the managers remain under regular review to help ensure the best possible prospect of adding long-term value.

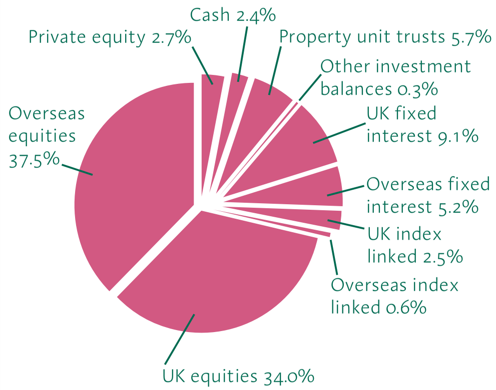
Paul Meredith
Independent investment adviser
12 August 2010

Portfolio Distribution

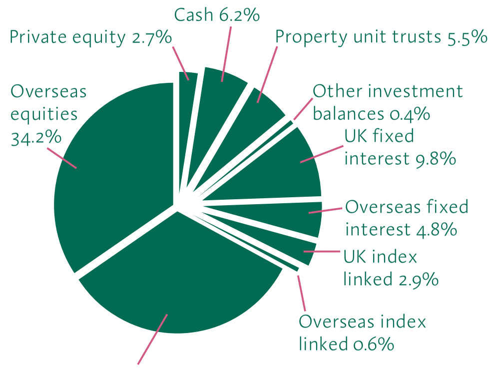
The distribution of the portfolio at 31 March 2010 is shown below. The upper charts show distribution over the entire structure of the portfolio, whereas the lower charts provide more detailed analysis of the overseas equity sectors.

Portfolio distribution at 31 March

31 March 2010

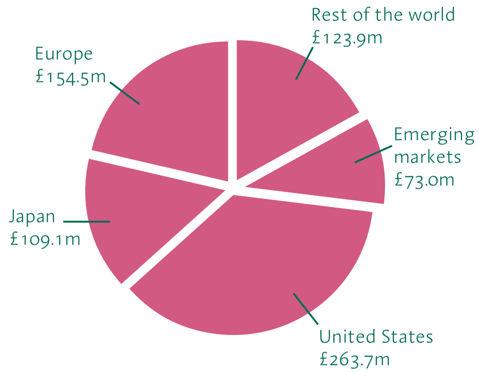


31 March 2009

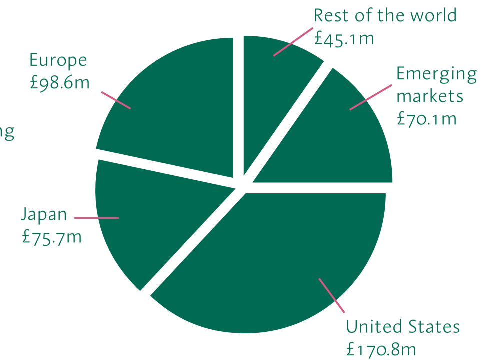


Overseas equities distribution at 31 March

31 March 2010

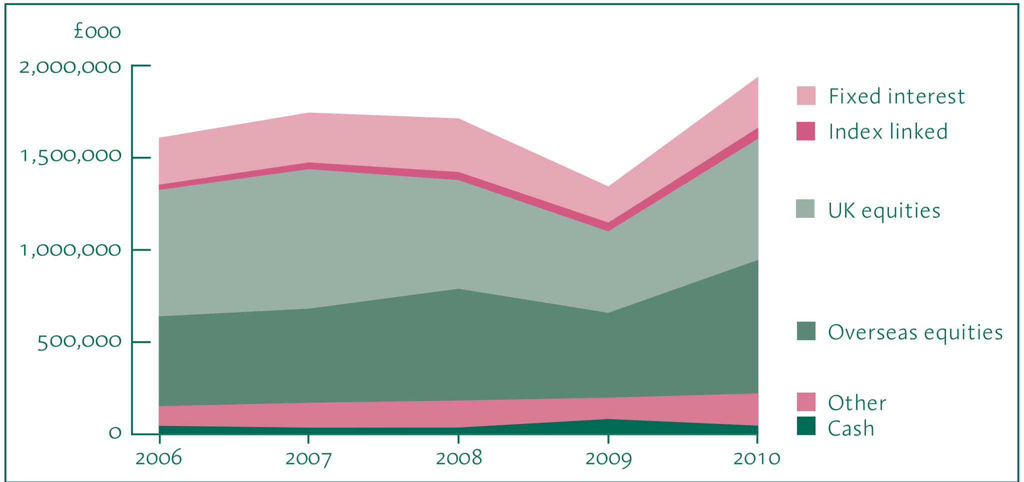


31 March 2009



Investment Distribution

The chart below shows how the Fund has been invested over the last five years.



Investment Activity

Eleven fund managers undertook the management of investments during 2009/2010 in a specialist structure of passive core, active core and regional specialist managers. No new manager mandates were put in place during 2009/2010 and no mandates were terminated. The asset allocation of the Fund was unchanged during 2009/2010.

During the year additional cash allocations were made to ING (£30m), UBS (£25m) and TCW (£10m), following a re-balancing exercise. The exercise involved comparing the actual allocation to each of the Fund's managers with the target allocation as defined in the Fund's strategic asset/manager allocation. The cash allocations were funded from balances held internally by Surrey County Council. The transfers to UBS and TCW took place on 28 August 2009. ING draws down funds as investment opportunities arise. As at 31 March 2010 £26.3m of the additional allocation to ING had been drawn down.

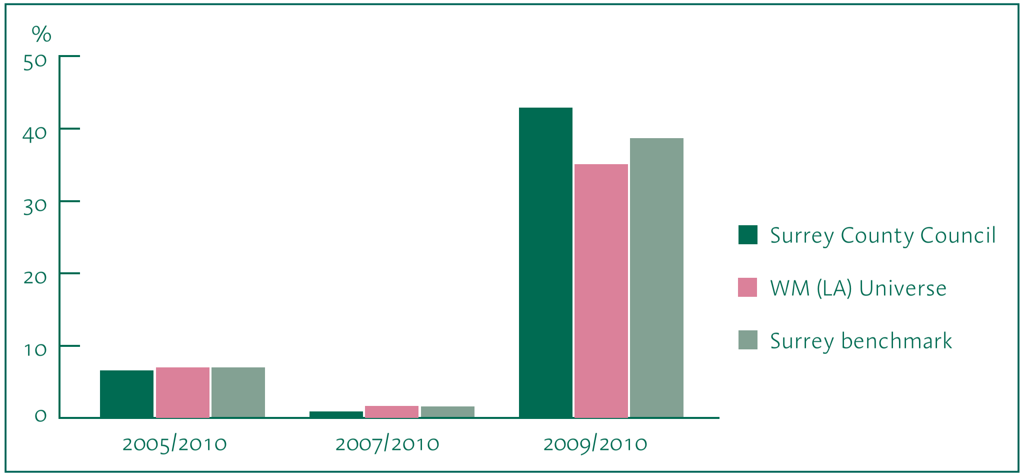
A commitment to one new private equity fund was made in 2009/2010, managed by HG Capital.

Investment Performance

The Fund participates in two investment performance measurement services that assess the rate of return achieved by the Fund and provide comparisons with the performance achieved by other pension funds. The Society of County Treasurers and the Chartered Institute of Public Finance and Accountancy, through the WM Company, provide one of these services, covering local authority pension funds. Surrey's global custodian Northern Trust provides the other service, measuring the Fund's performance against the customised benchmark performance.

Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund's Statement of Investment Principles.

The graph below shows how the Fund is performing over the short and longer-term periods in comparison to the WM Universe and the Surrey Benchmark.



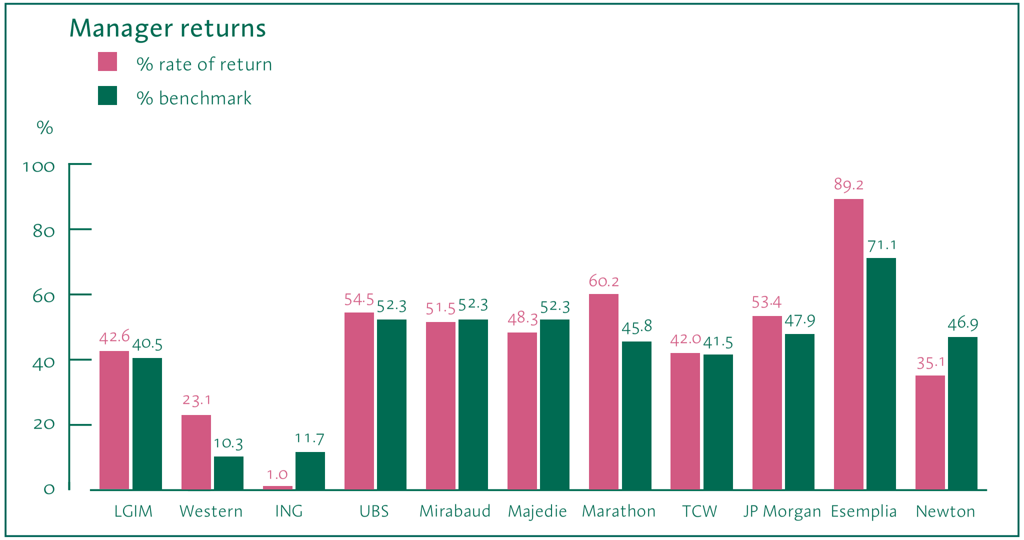
Annual returns over each of the last five years, and for three, five and ten years were as follows:

Financial Years	SCC %	WM Local Authority Universe %	WM Ranking	Surrey Benchmark %
2009-2010	42.9	35.2	6	38.7
2008-2009	-24.7	-19.9	88	-20.0
2007-2008	-4.4	-2.8	68	-3.3
2006-2007	7.0	7.0	50	7.0
2005-2006	25.2	24.9	40	26.3
2007-2010 (3 year average)	0.9	1.7	62	1.6
2005-2010 (5 year average)	6.6	7.1	57	7.0
2000-2010 (10 year average)	3.9	3.8	36	n/a

All the rates of return quoted take into account investment income as well as realised and unrealised capital profits or losses in the period. The Surrey benchmark figure for the 10 year period is not available since the inception date for the specialist structure was 2004.

Annual Returns for Fund Managers

The annual investment returns as at 31 March 2010 for each fund manager are shown below.



Performance Commentary

The average local authority fund returned 35.2% in 2009/2010, thus wiping out the losses made in 2008/2009, which saw the worst outcome recorded in the 30 years since the WM universe began. The Surrey Fund returned 42.9% with the outperformance relative to the local authority average coming from both asset allocation (which includes the Fund's currency hedge) and stock selection of the Fund's managers. The bespoke customised benchmark, which reflects the unique asset allocation strategy of the Fund, showed a return of 38.7% in the year, which was ahead of the local authority average. Again the Fund achieved outperformance against the customised benchmark, since the majority of the Fund's managers outperformed their individual benchmarks in the year. An excess return of 4.2% compared to the customised benchmark means that the Fund met its target of +1.0% in the year.

Statement of Investment Principles

1 Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund on behalf of the constituent scheduled and admitted bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments. The content of this statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment.

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement. A copy of the Surrey Pension Fund's current governance policy statement can be found on Surrey County Council's website.

Investment policy and associated monitoring and review are delegated to the Head of Finance who exercises the power to invest the Fund's monies in consultation with the Investment Advisers Group, which is made up of:

- four nominated members of the County Council
- two representatives from the Borough Councils nominated by the Surrey Local Government Association
- a representative of the members of the Fund
- a representative of the Fund's professional investment adviser
- an independent adviser
- the Head of Finance

The advisers meet quarterly and make a report to the County's Audit & Governance Committee. The advisers are not trustees (technically the Department for Communities and Local Government is the trustee) but act in a quasi-trustee role.

2 Investment Objectives

The investment objectives are to maximise investment returns over the long term within specified risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income).

3 Investment Style and Management

The investment style is to appoint expert fund managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the fund manager.

Historically, three active multi-asset managers managed the Fund. This approach had proved effective for the Fund over the longer term and where results had been less good reviews took place and fund managers replaced if appropriate, as happened in 1998.

In 2003 Watson Wyatt, the then specialist investment adviser to the Pension Fund, advised that the prevailing fund management arrangements were sub-optimal and that a specialist structure should be considered. This structure sub-divided investments into three types, each with a different level of risk and target return profile:

Type of Funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Active core	Medium	0.75% – 2.5%
Active regional specialists	High	3%
TOTAL	Medium	

The **passive** element consists of a range of asset classes where the investment objective is to track a relevant index (e.g. FTSE All-Share for UK equities) and produce a return that is as close as possible to the index return.

The **active core** consists of a range of asset classes where the investment objective is to beat the index by some 0.75% - 2.5% per annum. Due to the difficulty in finding fund managers that are "best in class" in all types of asset, the active core consists of specialist managers in the key asset classes of UK equities, global equities, bonds and property. **Specialist managers** are known for their investment expertise and returns in any one particular asset type, rather than for a bundle of asset types, as is the case with multi-asset or balanced managers.

The **regional specialist** element contains a number of fund mangers that specialise in specific equity regions with a higher investment target and, by implication, are taking a higher level of risk.

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

Following an extensive procurement exercise the Fund moved to the specialist manager structure in 2004. At that time substantial changes to the fund management arrangements were made and subsequently two investment mandates were terminated.

The following table shows the current target Fund structure at the time of writing:

	Manager	% of Fund
Passive*	Legal and General	26.0
Active Core		
Bonds	Western Asset Management	14.0
Property fund of funds	ING Real Estate	8.0
UK equity 1	Majedie	6.0
UK equity 2	Mirabaud	4.0
UK equity 3	UBS Global Asset Management	13.0
Global equity 1	Marathon Asset Management	12.0
Global equity 2	Newton Investment Management	8.0
Active Regional Specialists		
Emerging Markets equity	Esemplia Emerging Markets	3.0
Pacific Basin inc Japan equity	JP Morgan	3.0
US equity	TCW	3.0

*Reflects indefinite passive management of fund flows following active mandate terminations.

The proportion of the Fund allocated to each specialist manager was determined with reference to the overall asset allocation specified in the Fund's customised benchmark.

This benchmark was initially established in 2000 and reviewed in 2006. The consequence of the 2006 review was an increase in the Fund's targeted allocation to global equity (from 30% to 36% of the total Fund) and a reduction in the allocation to UK equity. The target allocation to property has also increased (from 5% to 8%). The introduction of a passive currency mandate was a result of this review, as a means of managing the impact of currency movements on a portfolio with an increasing allocation to global equity.

The number of managers appointed under the structure reflects the need to diversify by manager and the need to spread risk.

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Investment Advisers Group reviews the private equity strategy on an annual basis.

4 Policy on Kinds of Investment

The Investment Advisers Group, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The last asset-liability modelling (ALM) study took place in 2006, which resulted in updates to the customised benchmark that was initially established following the 2000 ALM study. The following table shows the current strategic asset allocation benchmark for the managed Fund (i.e. excluding private equity):

	Target Allocation %
Bonds/Property	
Gilts	8
Corporate bonds	8
Index linked gilts	4
Property	8
Total bonds/property	28
Equity	
UK equity	36
Overseas Equity	
North America	14
Europe ex UK	9
Japan	6
Pacific ex Japan	3
Emerging markets	4
Total equity	72

The Investment Advisers Group will keep a watching brief on the suitability of the Fund benchmark until it is formally reviewed in 2010-2011.

Acceptable asset classes are

- UK equities
- UK fixed interest
- UK index linked gilts
- UK property through pooled funds
- Overseas equities, major classes being
  - North America
  - Europe
  - Pacific Rim including Japan
  - Emerging markets
- Global bonds
- Overseas index linked stocks
- Unquoted securities via pooled funds
- Emerging market equities via pooled funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds
- Use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging
- Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria
- Stock lending is only permitted subject to specific approval. No stock lending took place in 2009-2010.

There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds Regulations) 2009 (as amended from time to time).

5 Investment Performance Targets and Benchmarks

The over-riding aim is to run the Pension Fund in accordance with relevant legislation and the following performance target:

"to outperform the Surrey benchmark performance by 1% per annum over a rolling 3 year period, with a maximum underperformance of -2% in any one year."

The Surrey benchmark, against which the Fund's overall performance is measured, is shown below in detail. The Investment Advisers Group considers the Fund's overall actual performance compared to with what it would have been had the assets been invested in the proportions identified in the following table. The table reflects the benchmark determined as a result of the 2006 ALM study.

Asset Class	Benchmark Allocation %	Permitted Tolerance Range %	Index
UK Equities	36	30 – 40	FTSE All Share
Overseas Equities			
US/North America	14	10 – 20	FTSE World Index – North America
Europe	9	5 – 13	FTSE World Index – Europe
Japan	6	3 – 9	FTSE World Index – Japan
Pacific Rim	3	0 – 5	FTSE World Index – Asia Pacific
Emerging markets	4	0 – 6	MSCI Index (Emerging Markets)
UK Fixed Interest Gilts	8	5 – 10	FTSE Actuaries Govt. All-Stock
Sterling non government bonds	8	5 – 10	Merril Lynch All Non-Gilt Index
Index linked gilts	4	0 – 6	FTSE Actuaries Govt. I-L All-stock
Property	8	0 – 12	IPD UK All Balanced Funds
Cash	0	0 – 5	LIBID 7 Day Rate

Individual fund managers have different outperformance targets that reflect the level of risk to be taken by each manager, as shown in the table on page 29. Individual manager performance is measured with reference to the relevant portion of the benchmark, e.g. the UK equity managers are measured with reference to the FTSE All-Share index, and the relevant individual outperformance target.

The performance target for the private equity funds is to outperform returns on quoted UK equities, as measured by the FTSE-All Share Index, by 2% p.a.

6 Policy on Risk

Fund managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. Active monitoring of individual managers and overall portfolio risk is maintained through the use of an independent risk monitoring service.

A risk register for the Pension Fund is reveiwed on an annual basis, or more frequently as required, by the Investment Advisers Group and the Council's Audit and Governance Committee. The risk register covers all potential risks to the Fund in the following areas: demographics, financial, governance, people, regulation and reputation.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the fund actuary as the average expected future working lifetime of the scheme membership (currently 20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The Statement of Investment Principles (SIP) will also be reviewed annually.

A review of investment management arrangements is carried out at least every three years.

Investment management performance is reviewed annually upon receipt of the third-party performance information.

The individual manager's current activity and transactions are presented quarterly in discussion with the Investment Advisers Group.

An annual general meeting is held and is open to all Fund employers and members.

10 Ethical and Environmental Investment

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with fund managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council expects the fund managers to take note of the possibility that substantial ethical or environmental considerations may be among those bringing a particular investment decision into the "potentially contentious" category referred to in paragraph 11 below.

11 Corporate Governance

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In practice, managers are delegated authority to exercise the Fund's voting rights in this respect subject to the Council's specific approval regarding potentially contentious issues (those which receive significant press or media coverage) and reporting quarterly on action taken.

During 2008/2009 the Fund joined the Local Authority Pension Fund Forum, thus demonstrating a commitment to socially responsible investment and the promotion of high standards of governance and corporate social responsibility.

12 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund's independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. From 1 April 2011 a separate bank account will be in place to hold any excess funds held by the administering authority for the purpose of day to day cash management of the pension fund.

13 Administration

On behalf of the County Council, the Head of Finance is required to exercise continual monitoring of the managers' investment related actions and administration. This includes:

- maintaining the investment ledger and suitable accounting procedures for fund assets
- preparing and submitting statistics quarterly for performance measurement independent of the managers
- preparing a quarterly report to the Investment Advisers Group and the Audit and Governance Committee
- preparing the audited annual report and accounts for employing bodies – in line with statutory deadlines
- publishing a report on the County Council's website that is available to stakeholders
- maintaining an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly or that resources are available to meet the benefit outflow as it arises.

14 Myners Investment Principles – Compliance Statement

Statutory Instrument 2002 No. 1852 required that Surrey County Council, administering authority of the Surrey Pension Fund, publish details of the extent to which the Fund complied with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment which was published in 2001.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles. The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned the Pensions Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

In response to the HM Treasury report 'Updating the Myners Principles: A Response to Consultation', LGPS administering authorities are now required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the original ten Myners principles. The requirement to report on compliance is embedded in Regulation 12 (3) of The LGPS (Management and Investment of Funds) Regulations 2009.

Principle 1
Effective Decision-Making

Administering authorities should ensure that:

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

✓ Full compliance:

The Investment Advisers Group, in consultation with the Head of Finance, has delegated responsibility for determining the Fund's investment strategy, appointment of fund managers and advisers and any other issues pertaining to the Fund's management.

Scrutiny of the activities of the Investment Advisers Group is carried out on a quarterly basis by the Audit & Governance Committee.

The Investment Advisers Group is supported in its decision-making role by the Head of Finance, the Pension Fund and Treasury Manager, two investment advisers and an actuary.

A substantially new Investment Advisers Group was put in place in June 2009 and all new members participated in an induction session with the Pension Fund and Treasury Manager.

Following the publication of CIPFA's Knowledge and Skills Framework members of the Investment Advisers Group were asked to complete a training needs analysis. The results of this have been used to identify skills gaps and to develop a training programme.

Each quarterly meeting of the Investment Advisers Group has an element of training on the agenda. Formal topic specific training sessions on investment and actuarial issues took place during summer 2010 and members of both the Investment Advisers Group and the Audit & Governance Committee were invited to attend these sessions. Further training is planned for January 2010.

Members of the Investment Advisers Group are notified of any relevant conferences or manager seminars and are encouraged to attend to enable them to keep up to date with developments in pension fund management.

Principle 2
Clear Objectives

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

✓ Full compliance

The Fund's overall objectives are defined in a Funding Strategy Statement and are directly linked to the findings of the triennial actuarial valuation.

During the 2010 actuarial valuation full consideration is being given to the strength of the covenant of the individual employers and this will inform the recommendations that the administering authority will make about employer contribution rates.

A risk register for the Pension Fund is reviewed on an annual basis, or more frequently as required, by the Investment Advisers Group and the Council's Audit and Governance Committee. The risk register covers all potential risks to the Fund in the following areas: demographics, financial, governance, people, regulation and reputation.

The investment objectives are clearly stated in the Statement of Investment Principles and are reviewed on an annual basis or as required following regulatory changes.

The investment guidelines for each investment manager clearly identify expectations regarding the management of risk and the agreements reference the need for managers to comply with the Fund's Statement of Investment Principles.

Principle 3
Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ Full compliance:

A customised benchmark has been in place since 2000 and was reviewed as part of the 2006 Asset Liability Modelling Study. This study informed the 2007 review of the Fund's managers and resulted in a change in the make-up of the Fund's equity allocation and the introduction of a currency hedge. Two further informal studies took place in 2010 and these confirmed that the over-riding asset allocation benchmark of the Fund was broadly correct.

A formal review of the Fund's asset allocation will take place during 2011 following receipt of the actuarial valuation results. These results will provide updated information on the liability structure of the Fund and individual employers.

The Fund is a member of Club Vita, a longevity risk monitoring service. Participation in Club Vita means that longevity assumptions specific to the Surrey Fund can be used during actuarial valuations and will provide information on how longevity risks are changing during the inter-valuation period.

Principle 4
Performance Assessment

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

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

✓ Full compliance:

The Fund has a bespoke customised benchmark and individual managers have performance targets specific to their own mandates. In line with investment regulations, which inform the content of the investment management agreements of each fund manager, the managers are required to provide performance information on a quarterly basis which is reviewed by officers and the Investment Advisers Group. The investment guidelines for managers clearly state the expectations in relation to performance targets and risk controls and the circumstances under which formal review of a fund manager mandate may be required.

Managers are seen by the Investment Advisers Group on an annual basis and a further meeting takes place with the Pension Fund and Treasury Manager and the Fund's independent adviser. More frequent meetings take place should they be required. Managers are encouraged to request changes in investment guidelines if it is felt that the guidelines are a barrier to achieving the performance targets. Such requests are reviewed in the context of the prevailing investment regulations.

Independent validation of the manager's returns is received via Northern Trust, the Fund's custodian.

Performance fee structures are in place for a number of the Fund's managers.

Annual 'guardian' meetings take place with representatives of Hymans Robertson and Mercers, where the performance against officer expectation and recommendations for improvements, should they be needed, are discussed.

The Investment Advisers Group will be assessed against CIPFA's Knowledge and Skills Framework on an annual basis.

Principle 5
Responsible Owner

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents
- Include a statement of their policy on responsible ownership in the statement of investment principles
- Report periodically to scheme members on the discharge of such responsibilities.

✓ Compliance:

The Fund's position on corporate governance and socially responsible investment is contained within the Statement of Investment Principles. Fund managers have delegated responsibility for engaging with investee companies on such issues and they reference social, ethical, environmental and governance issues as part of the investment decision-making process.

All managers are asked to provide officers with copies of their own policies on these issues. Similarly, the responsibility for voting at company AGMs is delegated to fund managers, who then report on voting activity via quarterly reports.

A number of the Fund's managers are signed up to the UN Principles of Responsible Investment. Officers request an annual update on the managers' stance on the UNPRI, which is reported to the Investment Advisers Group, and managers are asked to give reasons why they have not become signatories if that is the case. Similarly managers have been asked to confirm the stance on the UK Stewardship Code, which was published in July 2010. On receipt of all responses consideration will be given to whether the Fund can become a signatory to the Code.

The Surrey Fund joined the Local Authority Pension Fund Forum during 2008/2009. The Forum exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate responsibility and high standards of corporate governance among the companies in which they invest.

Principle 6
Transparency and Reporting

Administering authorities should:

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

✓ Full compliance:

The Fund's annual report includes the Fund's main policies including the Statement of Investment Principles and governance compliance statement. The annual report is available on the Council's website and is distributed to all employing bodies and is available on request.

The Fund's communication policy statement, which addresses communications with key stakeholders, is included within the annual report.

Scheme members are represented on the Investment Advisers Group.

An AGM has been held for over 10 years and all employing bodies are invited to attend. While the AGM is intended to be an employer forum, employees are welcome to attend. Pensioner members are represented by the Staff Retirement Association.

Governance Compliance Statement 2009-2010

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provided the statutory framework within which LGPS administering authorities were required to publish a governance policy statement by 1 April 2006. The policy intention was that the statement also described and explained the administering authority's arrangements for the representation and participation of Scheme stakeholders.

A copy of the Surrey Pension Fund's current governance policy statement can be found on Surrey County Council's website.

The Local Government Pension Scheme (Amendment)/(No 3) Regulations 2007 (SI 2007 No 1561) provided further statutory framework, including the provision that administering authorities produce a statement disclosing the degree to which it complies with best practice in its governance procedures. This statement is reproduced in full below:

Principle A – Structure	Not Compliant	Partially Compliant	Fully Compliant
a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council			✓
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee		✓	
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels			✓
d) That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel		✓	

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations a) n/a
b) We do not have anyone formally representing ex-members (pensioners/deferred members) or admitted bodies – although the first group is technically covered by the trade union representative
c) n/a
d) n/a
Comments on ratings given above a) Both Audit & Governance and People, Performance and Development Committees consider the management of administration of benefits at SCC. Employer discretions are considered by under arrangements established by individual employers Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group.
b)
c) Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group.
d) The Chair of the Audit & Governance Committee is invited to observe the meetings of the Investment Advisors Group. In October 2010 it was agreed that a member of the Audit and Governanace Committee would replace an IAG member who had decided to step down from the IAG.

Principle B – Representation			
	Not Compliant	Partially Compliant	Fully Compliant
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis)		✓	
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations a) We do not have anyone formally representing ex-members (pensioners/deferred members) or admitted bodies – although the first group is technically covered by the trade union representative. The activities of the administering authority and the investment panel are reviewed on an annual basis by the Fund's auditors – the appointment (and cost) of an independent professional observer is considered superfluous.			
b)			
Comments on ratings given above a)			
b)			

Principle C – Selection and Role of Lay Members	Not Compliant	Partially Compliant	Fully Compliant
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee			✓
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations			
a) n/a			
Comments on ratings given above			
a) Terms of reference are given to members when joining the Investment Advisers Group. The terms of reference are publicly available since they are published within the Governance Policy Statement			

Principle D – Voting	Not Compliant	Partially Compliant	Fully Compliant
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees		✓	
Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations			
a) The fact that non elected members do not have voting rights is clearly stated with the governance policy statement – however, the justification is not clear			
Comments on ratings given above			
a) All elected members of the administering authority have voting rights as a matter of course under the Local Government (Committee and Political Groups) Regulations 1990 SI No 1553 5(1)(d) The provisions of Section 13 (3) and (4) of the Local Government and Housing Act 1989 allow an administering authority discretion as to whether or not a member of the Investment Panel who is not a member of that authority is treated as a voting or non-voting member. To this end, all elected members have voting rights. Other members do not have formal voting rights. However, it is extremely rare for formal votes to take place and non-elected members are encouraged to participate in debate.			

Principle E – Training/Facility Time/Expenses			
	Not Compliant	Partially Compliant	Fully Compliant
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process			✓
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or other form of secondary forum			✓

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations

a) n/a

b) n/a

Comments on ratings given above

a) The terms of reference for members of the Investment Advisers Group include a statement of training requirements. Having bedded in the current IAG, formal investment and actuarial training has taken place during 2010. It is intended that each future meeting of the IAG will include some training and invitations to attend conferences and other training are included in IAG meeting papers. Specialist training sessions will be set up as required, ahead of making decisions about strategic issues.

Elected members receive member allowances, although there is no special allowance for the Chair of the IAG as is the case for council committees

b) The terms of reference for members of the Investment Advisers Group apply to all members. Non-elected members are able to claim expenses related to their membership of the Investment Advisers Group.

Principle F – Meetings (frequency/quorum)			
	Not Compliant	Partially Compliant	Fully Compliant
a) That an administering authority's main committee or committees meet at least quarterly			✓
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits			✓
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside those arrangements by which the interests of key stakeholders can be represented			✓

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations

a) n/a

b) n/a

c) n/a

Comments on ratings given above

a)

b) Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group, which meets quarterly

c) A Pension Fund AGM, to which key stakeholders are invited, has been held for over 10 years.

Principle G – Access			
	Not Compliant	Partially Compliant	Fully Compliant
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committees			✓

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations

a) n/a

Comments on ratings given above

a) Members of Audit & Governance Committee who are not members of the Investment Advisers Group may request to see papers that are presented to the Investment Advisers Group. These papers may be required to be considered as Part 2 items (confidential and not for publication)

Principle H – Scope			
	Not Compliant	Partially Compliant	Fully Compliant
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.			✓

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations

a) n/a

Comments on ratings given above

a) Wider scheme issues are considered either by the Investment Advisers Group, Audit & Governance Committee or the People, Performance and Development Committee – with referral between groups as appropriate

Principle I – Publicity			
	Not Compliant	Partially Compliant	Fully Compliant
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements			✓

Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations

a) n/a

Comments on ratings given above

a) The Fund's governance arrangements, which include terms of reference for members of the Investment Advisers Group, are published on Surrey County Council's website. The annual report includes a governance compliance statement and is also available on the Council's website and is sent to all major stakeholders

Report of the Actuary
for the Year Ended 31 March 2010

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of Surrey Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 22 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 27 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 27 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from Surrey County Council, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	March 2007	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases	4.7%	1.5%
Price inflation/pension increases	3.2%	-

The 2007 valuation revealed that the Fund's assets had a market value at 31 March 2007 of £1,759 million. These assets were sufficient to meet approximately 79% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

Experience since April 2007

Market conditions since the previous formal valuation have been unfavourable. In particular, assets have significantly underperformed relative to the assumptions set at the valuation and the outlook for price inflation has worsened causing the funding level to deteriorate.

This is likely to cause upward pressure on the level of employer contributions following the next formal valuation of the Fund as at 31 March 2010. The employer contribution rates and Funding Strategy Statement will be reviewed as part of the valuation, which will be reported in March 2011.

Bryan T Chalmers

Bryan T Chalmers FFA
7 June 2010
For and on behalf of Hymans Robertson LLP

Statement of Responsibilities and Certification of Accounts

The Responsibilities of the County Council

The County Council is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets
- to approve the statement of accounts.

The Responsibilities of the Head of Finance

The Head of Finance, is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice").

In preparing this statement of accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice
- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Surrey County Council

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective Responsibilities of the Responsible Financial Officer and Auditor

The Responsible Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently
- making judgments and estimates that were reasonable and prudent
- keeping proper accounting records which were up to date
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information, which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls.

Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary, in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Paul Grady

District Auditor

Officer of the Audit Commission
1st Floor, MLS Business Centre
Crossweys
28-30 High Street
Guildford
Surrey
GU1 3HY

Date: 28 September 2010

Accounting Standards

The accounts have been prepared to meet the requirements of the Local Government Pension Scheme Regulations 1997 and in accordance with the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised 2007).

Actuarial Position

The accounts summarise the transactions of the Scheme and deal with the net assets. They do not take account of liabilities to pay pensions and other benefits in the future. They should therefore be read in conjunction with the actuarial position on page 50, which takes such liabilities into account.

Contributions, Benefits and Transfer Values

- Contributions and benefits are included on an accruals basis
- Transfer values are accounted for on a cash basis apart from bulk transfers, which are accrued at year end. No allowance is made for further outstanding transfer values because of uncertainty arising from the options available to transferred staff.

Investments

Investments are included in the accounts at market value. The basis of determining market values is described below:

- All securities listed on order driven exchanges are valued at closing prices at the year-end. Other securities listed on recognised stock exchanges are valued at bid prices at close of business on the last trading day of the financial year
- Unlisted securities are included at fair value having due regard to latest dealings, professional valuation and other appropriate financial information
- Holdings in pooled investment vehicles are included at the closing bid price if both bid and offer prices are published or if single priced, at the closing single price
- The sterling values of overseas securities have been assessed on the currency exchange rates ruling on the last trading day of the financial year
- Options are valued at their mark to market value
- Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date.

Investment Income

Interest and dividends due but not received on holdings quoted ex-dividend at 31 March 2010 have been accrued and included as investment income.

Taxation

Investments

- The Fund 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 a withholding tax in the country of origin, unless exemption is permitted as in the United States and Australia. Tax deducted in some European countries is recovered.

VAT

- All VAT paid is recoverable, and is accounted for through the County Fund.

Administrative 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. Employer related costs are excluded.
- Investment management expenses include fees to the investment managers, the custodian, the actuary for investment related services and the performance measurement services together with the County Council costs incurred on administration and monitoring of investment related issues.

Fund Account for the Year ended 31 March 2010

	Note	2009 £000	2010 £000
Contributions and Benefits			
Contributions receivable	1	134,312	139,823
Transfers in	3	11,686	17,600
		145,998	157,423
Benefits payable	2	-88,400	-95,814
Leavers	4	-4,427	-16,497
Administrative expenses	5	-1,657	-1,649
		-94,484	-113,960
Net additions from dealings with members		51,514	43,463
Returns on Investments			
Investment income	7	40,943	34,523
Change in market value of investments	16	-456,126	524,163
Investment management expenses	6	-4,723	-5,654
Net returns on investments		-419,906	553,032
Net increase (decrease) in the Fund during the year		-368,392	596,495
Net Assets of the Fund			
At 1 April		1,714,765	1,346,373
At 31 March		1,346,373	1,942,868

Statement of Net Assets as at 31 March 2010

	Note	2009 £000	2010 £000
Investment Assets	16		
Fixed interest securities		195,983	276,314
Index linked securities		47,729	59,424
Equities		901,981	1,382,254
Property unit trusts		73,321	109,721
Private equity		36,621	59,071
Derivatives	17		
- Options			14
- Futures			24
- Foreign exchange forward contracts		8,168	1,224
Cash		86,804	56,003
Other investment balances		11,345	7,865
Investment Liabilities			
Derivatives	17		
- Futures			-703
- Foreign exchange forward contracts		-12,016	-9,748
Other investment balances		-5,407	-1,548
Net Investment Assets		1,344,529	1,939,915
Current Assets	8	4,467	5,804
Current Liabilities	9	-2,623	-2,851
Net Assets of the Fund at 31 March		1,346,373	1,942,868

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2010 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after that date.

Philip Walker
Head of Finance
6 September 2010

Notes to the Statement of Accounts

1 Contributions Receivable	2008/09 £000	2009/10 £000
Employees' basic		
Administering Authority	15,668	16,949
Scheduled Bodies	13,068	13,303
Admitted Bodies	2,172	2,076
Employees' additional		
Administering Authority	512	515
Scheduled Bodies	215	342
Admitted Bodies	76	75
Employers' basic		
Administering Authority	36,041	39,066
Scheduled Bodies	29,020	29,627
Admitted Bodies	6,710	6,326
Employers' deficit funding		
Administering Authority	15,340	15,813
Scheduled Bodies	9,236	10,047
Admitted Bodies	0	0
Employers' augmentation		
Administering Authority	0	0
Scheduled Bodies	996	747
Admitted Bodies	0	0
Employers' other		
Administering Authority	2,623	1,448
Scheduled Bodies	2,000	2,734
Admitted Bodies	635	755
	134,312	139,823

2 Benefits Payable	2008/09 £000	2009/10 £000
Retired employees pensions		
Administering Authority	30,989	33,491
Other Scheduled and Admitted Bodies	33,001	36,191
Lump sums		
Administering Authority	6,362	7,261
Other Scheduled and Admitted Bodies	9,517	9,782
Death grants		
Administering Authority	1,010	1,039
Other Scheduled and Admitted Bodies	775	1,112
Widows' pensions		
Administering Authority	2,715	2,890
Other Scheduled and Admitted Bodies	3,783	3,829
Children's pensions		
Administering Authority	82	96
Other Scheduled and Admitted Bodies	64	66
Total*	88,298	95,757

*Note the total does not include interest on late payment of benefits £56,715 (£102,418)

3 Transfers In	2008/09 £000	2009/10 £000
Group transfers in from other schemes	275	0
Individual transfers in from other schemes	11,411	17,600
	11,686	17,600

4 Leavers	2008/09 £000	2009/10 £000
Group transfers to other schemes	255	0
Individual transfers to other schemes	4,144	16,471
Refund of contributions	27	26
State scheme premiums	1	0
	4,427	16,497

5 Administrative Expenses	2008/09 £000	2009/10 £000
Administration and processing	1,493	1,536
Actuarial fees	79	34
Audit fee	70	78*
Legal and other professional fees	15	1
	1,657	1,649

*The Audit Commission agreed a revised 2009/10 audit fee of £42,750 in June 2010 and subsequently issued a credit note for £30,250. The figure shown above includes the unadjusted fee of £73,000. The credit note will be applied in 2010/2011.

6 Investment Management Expenses	2008/09 £000	2009/10 £000
Administration, management and custody	4,650	5,577
Performance measurement services	5	6
Other advisory fees	68	71
	4,723	5,654

7 Investment Income	2008/09 £000	2009/10 £000
Fixed Interest		
UK	6,881	5,833
Overseas	4,664	5,004
Index Linked		
UK	534	622
Overseas	67	184
Equities		
UK	14,288	14,281
Overseas	7,363	6,175
Property Unit Trusts	4,276	2,067
Private Equity	0	0
Cash	2,862	357
Underwriting Commission	8	0
	40,943	34,523

8 Current Assets	2008/09 £000	2009/10 £000
Income due from employers in respect of		
- Members contributions	860	870
- Employers contributions	2,939	2,686
- Added years payments	0	1,323
- Actuarial recharges	0	3
Benefits (including transfer values)	668	922
	4,467	5,804

9 Current Liabilities	2008/09 £000	2009/10 £000
Outstanding invoices	1,045	1,674
Benefits (including transfer values)	416	45
HM Revenue and Customs	1,162	844
Surrey County Council	0	288
	2,623	2,851

10 Unlisted Securities

The value of unlisted securities in the Fund at 31 March 2010 is £59,071,246 (31 March 2009 is £36,620,691).

11 Outstanding Commitments

At 31 March 2010 the Fund held part paid investments on which the liability for future calls amounted to £78,471,685 (£53,878,252 at 31 March 2009). The Fund had no sub-underwriting commitments as at 31 March 2010.

12 Additional Voluntary Contribution (AVC's)

AVC's are paid to Prudential Life Assurance with a small number still being paid to Equitable Life. AVC's are not included in the accounts of the Pension Fund.

13 Book Cost

The book cost of all investments at 31 March 2010 is £1,678,473,759 (£1,580,108,548 at 31 March 2009).

14 Custody

The Northern Trust Company, the Fund's global custodian, provides custody arrangements for securities and cash balances. Custodian arrangements for the managers responsible for private equity are as follows:

- Blackrock - PNC Bank
- Goldman Sachs - Lloyds Banking Group
- HG Capital - Bank of New York
- ISIS Equity Partners - State Street Global Advisors
- Standard Life Capital Partners - Deutsche Bank - JP Morgan

15 Related Party Transactions

i) Employer pension contributions paid by Surrey County Council in 2009/2010 amounted to £56,326,731 (£54,004,205 in 2008/2009):

	2008/09 £	2009/10 £
Employers' future service contributions	36,041,159	39,066,469
Annual monetary amount	15,340,468	15,812,562
Early retirement liabilities	2,622,578	1,447,700
Total	**54,004,205**	**56,326,731**

ii) Net amounts owed by Surrey County Council to the Fund as at 31 March 2010 were £31,513,835 (£61,596,030 at 31 March 2009).

iii) Interest in the sum of £181,069 was allocated to Pension Fund balances in 2009/2010 (£952,602 in 2008/2009).

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

16 Investments	Value at 1 April 2009 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Market Movements £000	Value at 31 March 2010 £000
Fixed Interest Securities	195,983	192,074	-147,180	35,437	276,314
Index Linked Securities	47,729	39,303	-34,913	7,305	59,424
Equities	901,981	317,817	-299,354	461,810	1,382,254
Property Unit Trusts	73,321	53,240	-15,259	-1,581	109,721
Private Equity	36,621	8,981	-2,074	15,543	59,071
Derivatives					
– Options	0	694	-496	-184	14
– Futures	0	3,750	-3,312	-1,117	-679
– FX Contracts	-3,848	986	-12,591	6,929	-8,524
	1,251,787	616,845	-515,179	524,142	1,877,595
Cash Deposits	86,804			21	56,003
Other Investment Balances	5,938			0	6,317
	1,344,529			524,163	1,939,915

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 fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.64m (£1.54m in 2008-09).
In addition to the transaction costs disclosed above, indirect costs are incurred through bid-offer spreads on investment within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

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 without disturbing the underlying assets.

	31 March 2009 £000	31 March 2010 £000
16.1 Fixed Interest Securities		
UK public sector & quoted	103,070	110,763
UK unit trusts	28,651	65,098
Overseas public sector & quoted	64,262	100,453
Overseas unit trusts	0	0
	195,983	276,314
16.2 Index Linked Securities		
UK public sector & quoted	28,331	28,958
UK unit trusts	11,488	18,710
Overseas public sector	7,910	11,756
	47,729	59,424
16.3 Equities		
UK quoted	268,231	426,830
UK unit trusts	173,450	231,176
Overseas quoted	253,120	354,164
Overseas unit trusts	207,180	370,084
	901,981	1,382,254
16.4 UK Property Unit Trusts	73,321	109,721
16.5 Private Equity		
UK unquoted	5,622	14,612
UK unit trusts	30,999	44,459
	36,621	59,071
16.6 Derivatives		
Options	0	14
Futures	0	-679
Foreign exchange forward contracts	-3,848	-8,524
	-3,848	-9,189
16.7 Cash		
Sterling deposits	86,804	56,003
16.8 Other Investment Balances		
Outstanding sales	4,595	489
Outstanding purchases	-5,407	-1,548
Accrued investment income	6,750	7,376
	5,938	6,317
Total Investments	1,344,529	1,939,915

17 Derivatives

The Fund has a policy to hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. This currency hedge is managed by LGIM.

Individual Fund Managers may also use derivatives if permitted by their Investment Management Agreements.

Options

Options are contracts that give the purchaser the right, but not the obligation, to buy (call option) or sell (put option), from/to the seller of the option, a specified quantity of a particular product at a specified price. They can be exchange traded or over the counter contracts.

At 31 March 2010 the Fund had option contracts in place with a net unrealised gain of £13,879 (£0 at 31 March 2009).

Type of Option	Expiration Date Within	Type of underlying investment	Notional Amount of Outstanding Contracts	Asset £'000	Liability £000
Call option	1 Month	US exchange traded indices	37	13	
Put option	3 Months	US exchange traded indices	1	1	
				14	0

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 2010 the Fund had futures contracts in place with a net unrealised loss of £678,940 (£0 at 31 March 2009).

Contract	Expiration Date Within	Type of Underlying Investment	Economic Exposure £'000	Asset £'000	Liability £000
Future	3 Months	US exchange traded treasury notes	23,298		144
Future	3 Months	US exchange traded treasury notes	3,139	24	
Future	3 Months	Exchange traded German government bonds	32,239		173
Future	3 Months	UK exchange traded GILTS	24,442		72
Future	3 Months	US exchange traded Treasury Notes	22,455		8
Future	9 Months	UK exchange traded currency	64,155		306
				24	703

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 2010 the Fund had forward currency contracts in place with a net unrealised loss of £8,523,771 (£3,848,195 at 31 March 2009).

No of Contracts	Contract Settlement Date Within	Currency Bought	Currency Sold	2009/10 Local Currency Bought	Local Currency Sold	Asset £'000	Liability £'000
2	1 Month	GBP	HKD	20	237	0	
1	1 Month	JPY	GBP	191	1		0
2	1 Month	ZAR	GBP	1,629	147		1
4	2 Months	EUR	GBP	2,871	2,513	49	
1	2 Months	GBP	AUD	4,821	8,744		444
13	2 Months	GBP	EUR	96,338	110,069	46	1,918
8	2 Months	GBP	JPY	53,507	7,639,770		417
1	3 Months	USD	JPY	3,099	276,311	136	43
16	4 Months	GBP	USD	162,769	256,967	10	6,685
6	4 Months	USD	GBP	26,135	16,632	623	20
3	5 Months	GBP	NOK	15,333	138,769	174	220
2	5 Months	NOK	GBP	58,985	6,349	186	
						1,224	9,748

Currency: AUD - Australian Dollars, CHF - Swiss Francs, EUR – Euro, GBP – Sterling, HKD - Hong Kong Dollar, JPY - Japanese Yen, NOK - Norwegian Kroner, SEK - Swedish Kroner, SGD - Singapore Dollars, USD - US Dollars, ZAR - South African Rand.

18 Post Balance Sheet Events

There have been no material post balance sheet events.

19 Additional Information relating to 2008/09

19.1 Private Equity Valuation

In 2009/10 the valuation of the Fund's private equity holdings have been calculated as:

(a)The fair market value as at 31 March 2010, as reported by the private equity manager, or

(b)The fair market value as at the latest available reporting date, adjusted for cash drawdowns and/or distributions made between the reporting date and 31 March 2010.

In 2008/09 private equity valuations were calculated on a net drawn cash basis. The change that would have arisen from valuing private equity in 2008/09 on the same basis as 2009/10 is an increase in the market value of £16.4m. This has been reported within the 2009/10 'change in market value of investments' figure within the Fund Account.

No prior year adjustment has been made in the final accounts on the grounds that, in accordance with FRS3, the change is neither a fundamental error nor a change in accounting policy but a change in estimation technique.

19.2 Pension Benefits – Added Years

In 2008/09 the added years pension benefits paid and the amounts due from employers were excluded from the accounts following discussions with the Pensions Administration Team over whether this would be considered an interest free loan from the Fund, prohibited by pensions regulations. Manual adjustments were made to the benefit figures in the Fund Account and cash figure in the Net Assets Statement to reflect this.

Making added years benefit payments from the Fund and recharging employers have subsequently been clarified as acceptable within the pensions regulations and the 2009/10 figures reflect the amounts paid and sums due from employers at 31 March 2010. In accordance with FRS3 this is not a fundamental error so no prior year adjustment has been made.

The Fund's largest shareholdings

	Market Value at 31/03/2010 £m
Top 10 United Kingdom Equities	
Vodafone Group	36.3
Royal Dutch Shell	36.2
GlaxoSmithKline	35.1
BP PLC	34.8
HSBC	21.1
Unilever	16.2
Anglo American	15.7
Rio Tinto	14.4
Barclays	13.0
Centrica	9.2
	232.0
Top 10 Overseas Equities	
Bank of America	4.9
Roche Holdings	4.6
Jardine Matheson	4.5
Cablevision Group	3.6
Novartis	3.3
Hewlett Packard	3.1
JP Morgan Chase	3.0
Spirit Nextel Group	3.0
Wells Fargo	2.8
Costco	2.7
	35.5
Top 5 Unit Trusts	
Legal & General UK Equity	214.7
Legg Mason Emerging Markets	85.0
Legal & General North America Equity	73.2
Legal & General Europe (Ex-UK) Equity	69.0
Marathon New Global Fund	42.3
	484.2
	751.7

These holdings make up 39% of the total value of the portfolio

Contacts

Benefits and Contributions

Enquiries should be directed in writing to Pension Services at the following address:

Pensions Unit

Room G59
Kingston upon Thames
Surrey KT1 2EB

Tel: 0208 541 9289 or 9292
Email: pensions@surreycc.gov.uk
Fax: 020 8541 9287

Accounts and Investments

Information regarding the accounts and investments can be obtained from The Pension Fund and Treasury Manager on 020 8541 9894. Information is also published on Surrey County Council's website: www.surreycc.gov.uk

Pension Scheme Regulations

1997 Regulations S.I. 1997/1612

Copies may be obtained from:
The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612.htm
Tel: 01603 622 211

Useful Addresses

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Tel: 0870 241 1144
Email:
customersupport@thepensionsregulator.gov.uk

The Pensions Advisory Service (TPAS)

11 Belgrave Road
London
SW1V 1RB

Tel: 0845 601 2923
Email: enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman

11 Belgrave Road
London
SW1V 1RB

Tel: 0207 630 2200
Email: enquiries@pensions-ombudson.org.uk

Employee and Employer Guides

The Department for Community and Local Government has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

National Website
www.lgps.org.uk

Glossary of Terms

Accruals Based Accounting

The most commonly used accounting method, which reports income when earned and expenses when incurred, as opposed to cash basis accounting, which reports income when received and expenses when paid.

Active Management

A style of management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination of these). Compare with passive management.

Actuary

An independent consultant who advises the County Council on the financial position of the Fund. See actuarial valuation.

Actuarial Valuation

This is an assessment done by an actuary, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)

An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

Admitted Bodies

Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Annualised Return

The rate of return for any given period expressed as the equivalent average return per annum.

Asset Allocation

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Attribution

Used to explain the differences between a portfolio's return and a benchmark return. Two main factors contribute to this difference: asset allocation strategy and stock selection.

Balanced Management

The fund manager invests in a range of asset classes, as defined by a fund's benchmark.

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Fund's benchmark is customised, meaning that it is tailored to the Fund's liability profile.

Bond

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost

The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from market value.

Broker

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

Commission

A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond

A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance

The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Creditors

Amounts owed by the pension fund.

Custody

Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

Debtors

Amounts owed to the pension fund.

Derivative

Used to describe a specialist financial instrument such as options or futures contracts. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification

A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield

An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets

There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity

Stock or any other security representing an ownership interest.

Ex-dividend

Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Ex-post

A term that refers to past events or actual returns. Often used in relation to tracking error.

Final Salary Scheme

An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest

A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share

An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level

A comparison of a scheme's assets and liabilities.

Futures Contract

A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

Gilts

The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

Index Linked

A bond which pays a coupon that varies according to some underlying index, usually the Consumer Price Index.

LGPS

Local Government Pension Scheme.

LSE

London Stock Exchange

Mandate

The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option

The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management

A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with active management.

Pension Fund

A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as development capital.

Property Unit Trusts

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Resolution Bodies

Scheme employers with the power to decide if an employee or group of employees can join the scheme.

Return

Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk

The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers

Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

Security

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.
Socially Responsible Investment (SRI)
Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager

A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with stock selection within the specialist asset class. Asset allocation decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or equity.

Stock Selection

The process of deciding which stocks to buy within an asset class.

Tracking Error

An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value

The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition

To move from one set of investment managers to another.

Underwriting

The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

Unit Trust

A pooled fund in which investors can buy and sell units on an ongoing basis.

Unlisted Security

A security which is not traded on an exchange.

Unquoted Security

A share which is dealt in the market but which is not subject to any listing requirements and is given no official status.

Unrealised Gains/(losses)

The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield

The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

Surrey County Council
County Hall
Kingston upon Thames
Surrey KT1 2DN

SURREY
COUNTY COUNCIL

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