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SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2008

Contents

Introduction

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

Review of fund performance

2007/2008 saw poor aggregate returns for pension funds, evidenced by negative returns for the Surrey benchmark, the Surrey Fund and Local Authority universe. These negative returns were driven by the poor performance of equities in the UK, US, Japan and property. As we are all too aware, the 'credit crunch' had a significant impact on world financial markets – although as Paul Meredith explains in his annual review on pages 14-16 it took a while for equity markets to become 'spooked' by the turmoil in the credit and banking sectors. This did happen in January and consequently March 2008 was a particularly difficult quarter with the Fund Market Value dropping by £130 million, the biggest quarterly reduction that I can recall. Thankfully the actuarial valuation took place as at 31 March 2007 rather than 2008! Against this backdrop the Fund returned –4.4% in 2007-2008, a disappointing return relative to both the local authority average of –2.8% and the Fund's customised benchmark return of –3.3%. This placed the Fund in the 68th percentile in the league table of local authority returns. The longer-term performance was more pleasing and in the WM survey of 88 local authority funds the Fund was placed in the 44th percentile. Performance figures for the Fund's managers are shown on page 20.

Fund management structure

2007-2008 was the busiest year for the Fund structure since 2004. Some managers disappointed over 2007-2008 and struggled to meet benchmark performance. The Investment Advisers Group acted decisively and terminated the global equity mandate of UBS and the European equity mandate of Schroders. In both cases this was a consequence of concerns about the manager's ability to generate long-term outperformance. A number of other changes were made. Increasing the allocation to Marathon and appointing Newton were a consequence of a move out of UK equity and into global equity. As I wrote last year, the decision to increase the global equity weighting was made following an asset allocation review, which took place in 2006-2007. Another result of this review was an increase in the weighting to property, which is almost complete and achieved by increasing the proportion of the Fund invested with ING. Finally, the IAG took the decision to hedge part of the Fund's global equity exposure – a means of reducing the risk associated with currency fluctuations in an increasingly globally focussed portfolio.

Actuarial Valuation

The final results of the 2007 actuarial valuation were received in March, although many employers attended meetings with officers and the actuary when the provisional results were known in late 2007. The key point about the valuation is that the average Funding level increased significantly between 2004 and 2007 from 68% to 79% – this was good news for those employers that are contributing to Fund deficits. However a number of factors, including the ongoing improvement in longevity and the impact of the new benefit structure, have conspired to offset the reduction in contributions needed to cover the Fund deficit and therefore the overall contribution rates have had to increase. Further details on the actuarial valuation process can be found in the Funding Strategy Statement on pages 36-49.

The year ahead

The key activity that is taking place at the time of writing is the appointment process for a new investment consultant. There are those that may argue that this is a more important decision than appointing a fund manager!

Philip Walker
Head of Finance
June 2008

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	Michael Gosling (from September 2008) David Harmer Peter Langham Val Tinney (to September 2008) Chris Slyfield
Representatives of Employing Bodies	Cllr Nick Harrison, Reigate & Banstead BC Cllr Paul Tuley, Runnymede BC
Employee Representative	Don Josey
Professional Investment Advisers	Sanjay Mistry, Mercer Ltd (from September 2008) Paul Meredith, Independent
Head of Finance	Philip Walker
Pension Fund & Treasury Manager	Tracey Milner
Pensions Manager	Paul Baker
Fund Managers	ING Real Estate JP Morgan Asset Management Legal and General Investment Management Legg Mason International Equities Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Newton Investment Management (from 20th November 2007) Schroder Investment Management Ltd (to 26th November 2007) TCW Investment Management Company UBS Global Asset Management (to 2 April 2008 for global equity) Western Asset Management

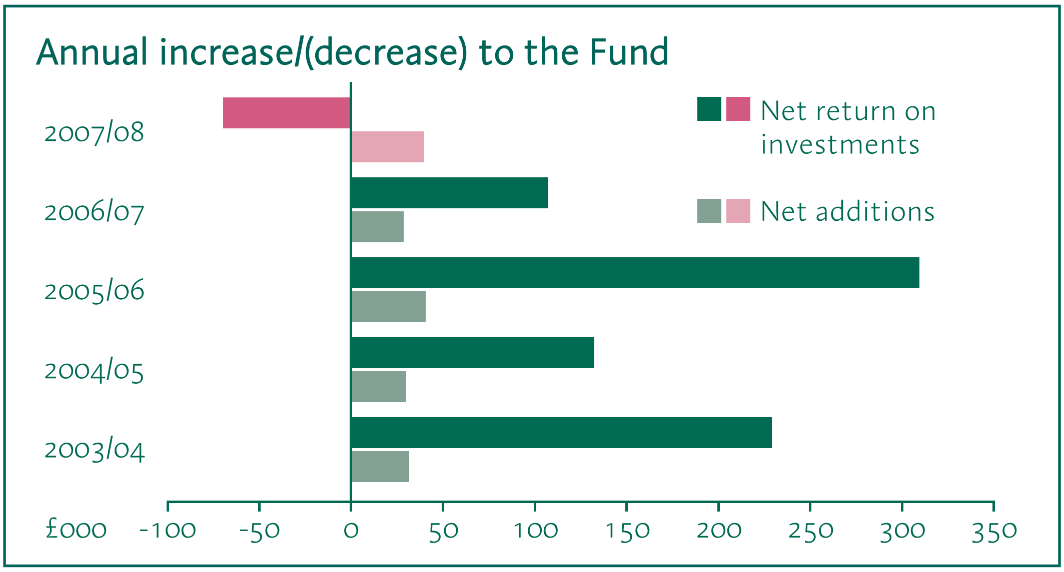
Global Custodian	Northern Trust
Private Equity Advisers	Goldman Sachs Asset Management HG Capital ISIS Equity Partners Blackrock (formerly Merrill Lynch) Standard Life
Fund Actuary	Bryan Chalmers, Hymans Robertson
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Audit Commission

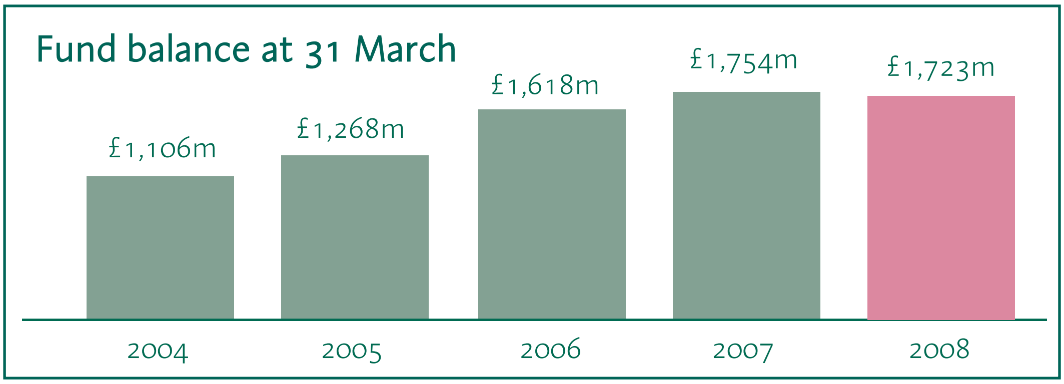
Five Year Profile

Financial Summary

	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000
Contributions	102,357	107,106	122,046	120,932	133,749
Less benefits and expenses paid	70,701	77,272	81,393	92,422	94,172
Net additions	**31,656**	**29,834**	**40,653**	**28,510**	**39,577**
Net investment income **	39,682	24,516	27,900	30,600	31,957
Change in Market Value	189,320	107,797	281,492	76,770	(101,674)
Net return on investments	**229,002**	**132,313**	**309,392**	**107,370**	**(69,717)**
Net increase in fund	**260,658**	**162,147**	**350,045**	**135,882**	**(30,140)**
Fund balance at 31 March (Market value)	**1,105,555**	**1,267,702**	**1,617,747**	**1,753,629**	**1,723,489**

**Net of expenses





Membership Summary

	2003/04	2004/05	2005/06	2006/07	2007/08
Contributory employees					
Scheduled bodies	20,743	21,184	22,122	23,781	25,245
Admitted bodies	1,612	1,796	1,719	1,574	1,516
	22,355	**22,980**	**23,841**	**25,355**	**26,761**
Pensioners and dependants					
Scheduled bodies	13,426	13,736	14,109	14,816	15,392
Admitted bodies	770	839	906	997	1,107
	14,196	**14,575**	**15,015**	**15,813**	**16,499**
Deferred pensions					
Scheduled bodies	12,209	13,674	15,431	17,606	19,030
Admitted bodies	945	1,037	1,189	1,321	1,440
	13,154	**14,711**	**16,620**	**18,927**	**20,470**
Total membership	49,705	52,266	55,476	60,095	63,730

Pensions Report

Regulatory background

Pensions regulations

The Local Government Pension Scheme Regulations 1997 are made under the 1972 Superannuation Act and require the County Council to maintain a Pension Fund for certain of its own employees together with the majority of employees of Probation Committees, 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 33-35. 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 1997 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.

During 2007-2008 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.

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 2007/2008

The results of the actuarial valuation undertaken at 31 March 2004 applied for the three years commencing 1 April 2005 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 193% of pensionable employees' contributions and
- An individual adjustment to the common rate which is expressed as a percentage of pensionable employees' contributions together with a cash amount for most Scheduled Bodies.

The basis and assumptions used by the actuary were as follows:

Valuation of assets

A "market related" valuation method was used.

However, in the 2001 valuation, a “smoothed” approach was taken for deriving the financial assumptions and assessing the value of assets. At the 2004 valuation, such a smoothing methodology was not used to devise the financial assumptions – spot yields were used instead. Nor was any smoothing used in assessing the asset values.

Valuation assumptions

The key financial assumptions adopted at the 2004 valuation are set out in the table below:

Financial assumptions	March 2004 unsmoothed	
	% p.a. Nominal	%p.a. Real
Discount rate	6.3%	3.4%
Pay increases	4.4%	1,5%
Price inflation/ Pension increases	2.9%	–

The 2004 valuation revealed that the Fund’s assets, which at 31 March 2004 were valued at £1,107 million, were sufficient to meet approximately 68% of the liabilities accrued up to that date.

Individual employer’s contributions were set in accordance with the Fund’s Funding Strategy Statement. The deficit for each individual employer was being spread over a period up to a maximum of 20 years. Any increases in contribution rates from 31 March 2005 were phased in over a period of up to 3 years.

The contributions payable by scheme employers in 2007/2008 are shown on pages 33-35

Future contribution rates

On completion of his triennial review of the Fund as at 31 March 2007 the Fund Actuary determined the 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 also estimated that, following the introduction of tiered employee contribution rates, the average employee contribution rate is expected to be 6.6% of payroll. He also 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 basis and assumptions used are found in the Actuary’s disclosure statement on page 21.

The Contribution rates applying from 1 April 2008 for all employers can be found in the 2008-2011 Funding Strategy Statement (pages 36-49).

Annual Review

Amendments to the Local Government Pension Scheme Regulations 1997

Last years’ annual review advised that The Department of Communities and Local Government (CLG) intended to introduce a new look Local Government Pension Scheme from 1 April 2008.

The new scheme regulations have now been published (albeit 12 months behind schedule) and the new scheme came into force on 1 April 2008. The following is a summary of the main provisions of the new scheme:

Membership
Employees will only be able to join the scheme if they have a contract of employment of three or more months' duration.

Contributions
Currently the majority of employees pay 6% of their pay in pension contributions, with some ex-manual workers paying a lower rate of 5%. Under the new scheme employees will pay pension contributions at a rate determined by their full time equivalent level of pay as follows:

FTE Pay			Contribution rate
£0	-	£12,000	5.5%
£12,000.01	-	£14,000	5.8%
£14,000.01	-	£18,000	5.9%
£18,000.01	-	£30,000	6.5%
£30,000.01	-	£40,000	6.8%
£40,000.01	-	£75,000	7.2%
£75,000.01	or more		7.5%

The pay bands above will increase each April in line with increases in the Retail Price Index (RPI). The increase in contribution rate for ex-manual worker employees paying 5% will be phased in, so that by April 2011, they will be paying the appropriate rate under the above table. Currently the average employee contribution rate for the scheme as a whole is 5.8%. It is envisaged that under the new scheme the average employee rate for the scheme as a whole will increase to 6.6%.

Benefit structure
The pension accrual rate in respect of pensionable service from 1 April 2008 will increase from 1/80th of final pay to 1/60th, but there will be no automatic lump sum. A lump sum can be provided for by commuting or giving up part of the pension at the rate of £12 of lump sum for every pound of pension commuted. Pension benefits accrued to 31 March 2008 will remain unchanged and will be calculated at the rate of 1/80th pension and 3/80th lump sum.

The normal retirement age will remain the same under the new scheme at age 65. In cases of normal voluntary retirement before age 65, pension benefits will be subject to an actuarial reduction if taken between age 60 and 65. However, if under the current scheme the scheme member would have had the right to receive an unreduced pension between age 60 and 65 under the 85-year rule, they will continue to be able to do so in respect of pension benefits that accrue in respect of service to 31 March 2008. (The 85-year rule is where the member's age plus pensionable service in whole years equals or exceeds 85).

Additional protection applies to scheme members who reach age 60 and satisfy the 85-year rule before 1 April 2016. In these cases a reduction would not be applied to benefits accrued in respect of service from 1 April 2008 to 31 March 2016. The CLG has carried out a consultation on extending this date from 31 March 2016 to 31 March 2020, but at the time of writing this review no decision has been made to extend the date.

Dependant's pensions
Members can nominate a cohabiting partner to receive a survivor's pension in the event of the members' death. To qualify the couple must have lived together for a minimum of two years, be financially interdependent and not married or in a civil partnership with another person.

Ill health retirement
A three-tier ill health retirement arrangement

has replaced the single tier arrangement of the old scheme. The old scheme provided the same scale of benefits to all who are retired on permanent ill health grounds, irrespective of the level of their incapacity or potential re-employment capability. The intention of the three-tier system is to provide a greater level of benefits to those who are most in need.

Death benefits

The lump sum death in service payment will be increased from two years pensionable pay to three years.

The minimum pension payment guarantee will be increased from five years pension to ten years. This means that if a pensioner dies within 10 years of retirement, a lump sum death grant will be paid of 10 years pension less the amount of pension paid from retirement to the date of death.

Purchasing additional pension

Scheme members will not be able to purchase additional periods of service (added years contracts) under the new scheme. Instead of buying added years there will be a facility to purchase specific amounts of pension from £250 to £5,000 per year. Members with existing added years contracts will be permitted to continue with their contracts.

New Scheme Employers

Ability Housing Association joined the scheme on 31 March 2008

Mole Valley Housing Association joined the scheme on 29 October 2007

Investment Report

Investment management

Investment powers

The principal powers governing investment activity and management are defined in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) which permit a wide range of investments subject to the following restriction:

- 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 are 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 actions.
- the investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments which he 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 provides 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 persisted pending implementation of the Fund's strategic benchmark following the 2006 asset liability modelling study, appointment of a new manager and increase in allocation to incumbent managers.

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 Chairman of the Investment Advisers Group. The Investment Advisers Group comprises:

- 4 County Council members
- 2 District 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, H G Capital, Blackrock, Goldman Sachs and Standard Life with some residue funds in Bridgepoint Capital (formerly funds managed by Gartmore Asset Management).
At 31 March 2008 the market value of assets under management (excluding assets held by Surrey County Council) was £1,701.5 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 Managers	Multi Asset	480.7	28.3%
Active Core			
Western Asset Management	Fixed Interest	238.7	14.0%
ING Real Estate	Property	118.1	6.9%
UBS Global Asset Management	UK Equities	178.5	10.5%
Majedie Asset Management	UK Equities	98.9	5.8%
Mirabaud Investment Management	UK Equities	68.1	4.0%
Marathon Asset Management	Global Equities	194.5	11.4%
Newton Investment Management	Global Equities	132.6	7.8%
Active Regional Specialist Equity			
TCW	US Equities	40.6	2.4%
JP Morgan	Pacific Basin inc. Japan Equities	45.7	2.7%
Legg Mason International Equities	Emerging Markets	70.9	4.2%
Other	Private Equity	32.7	1.9%
	Residual cash*	1.5	0.1%
TOTAL		**1,701.5**	**100.0%**

*Cash balances related to the mandates of terminated managers

Market Background

(Courtesy of Paul Meredith, independent investment adviser)

Economic and market background

The world economy continued to grow steadily through 2007. The difficulties which emerged initially in "sub-prime" US mortgages and then in pricing "structured products" containing those mortgages and eventually in effective closure of the inter-bank money market were seen as arcane banking issues. It was generally accepted that tighter credit conditions might curtail corporate acquisitions and private equity but central bankers, led by the US Federal Reserve Board, were clearly prepared to lower interest rates aggressively to ameliorate significant impact on the wider economy. Growth in emerging economies, particularly in the "BRICs" [Brazil, Russia, India and China], was seen as strong enough to substantially offset slowdown elsewhere. Outside banking, company profits seemed reasonably robust and headline equity valuations were not high.

However, by the first quarter of 2008 there were clear signs that the impact of credit contraction would be more widespread. Bankers predicating their complex products and balance sheets on a permanent rise in house prices confused their management, much as those peddling complex mortgage deals confused low quality borrowers. The US Federal Reserve Board cut interest rates sharply to 2¼% and then took risk assets as security, initially from Bear Stearns to facilitate its rescue by JP Morgan Chase. These were seen as desperate measures and by year-end the Fed chairman had to accept the possibility of a US recession. The dollar weakened throughout the year - by 16% against a strong euro. Oil and most other commodity prices remained volatile and remarkably firm, despite signs of weaker economic activity.

Equity markets were finally spooked and although by late March they were taking some encouragement from the Bear Stearns rescue and banking rights issues, prices at year end had hardly recovered. UK equities returned –8% for the year but there were large divergences with banks weak and mining companies very strong. Overseas equity markets in aggregate returned –1% with emerging markets at +20% and Pacific ex Japan at +9% notably strong and Japan at –15% the weakest. UK gilts returned +8% and index-linked +13% but all credit suffered severely, particularly banking debt, and the ML sterling non-gilt index returned –1%. UK property returned –1% as activity seized up with credit tight while retail investors withdrew funds

Outlook

The rebalancing of the US, UK and several other economies following the "Anglo-Saxon" [housing/consumer centric] model seems well overdue. A "nice decade" of cheap and plentiful credit has led to house prices well above long term trend and unprecedented levels of unsecured personal debt. Imported consumer goods have caused trade deficits, which can not be financed indefinitely by capital inflows, particularly if those oil producers and Asian manufacturers recycling their surpluses lose confidence in this economic model. Nevertheless, the unwinding of the credit "binge" has many potentially desirable effects. Housing becomes more affordable and after a hiatus this should improve job mobility. Savings should pick up. At a lower exchange rate tourism should revive and manufacturing should regain competitiveness. The US trade deficit already seems much less forbidding than a year ago – indeed the US is now a net exporter of cars, albeit mainly with Japanese badges.

However, prolonged binges can take time to work off as the pain percolates through the economy and there is still a significant risk that defaulting mortgages and foreclosures on US homes with negative equity [9 million and rising] will become self-reinforcing over the next few years. This could easily turn the present credit "crunch" into a US recession.

Significant issues remain too on the wider stage. Soaring commodity prices and volatile currencies inhibit progress on long-term capital projects. Growing OPEC surpluses do not easily trickle down to the hungry poor in the Third World. Recent action by some governments in the face of food riots to restrict exports and to subsidise basic foods goes against the theme of deregulation and free trade that has underpinned strong economic growth, particularly in Asia. The Beijing Olympics will doubtless throw unwelcome light on the lack of economic and political rights for most Chinese. Official corruption and dubious property rights suggest that the momentous transition to a developed modern state may yet stumble. Oil will remain a critical component of economic activity for several decades. Demand, stimulated by BRIC growth, seems to have become remarkably insensitive to price. Investment in energy efficiency, whilst continuous and impressive, is many years in gestation as is investment in new more complex mostly offshore oilfields, in nuclear and in other alternatives. There may be a speculative element in oil prices over $130 per barrel but it is hard to see any demand or supply factors bringing much relief for many years. The resulting global inflation with negative real interest rates in much of the emerging world could yet present a greater long-term threat to economic growth and stability than purely domestic US issues.

Here in the UK the sharp fall in mortgage approvals seems to confirm that house prices will fall significantly, despite the underlying shortage of homes. The authorities' attempts to rejuvenate this market by accepting risk assets from banks as security may not do much to offset the constraints on supply resulting from the virtual demise of securitisation. Unemployment has started to rise as a result of cutbacks in financial services house building and there isn't much scope for increased Government spending. A really nasty housing market could still trigger recession here as in the US. Domestic profits will suffer from weaker demand and higher input costs, particularly fuel. For our remaining exporters this is an acceptable price to pay for renewed competitiveness, particularly if selling into euro markets where the terms of trade have improved by over 15% since mid 2007. Also major multinationals still dominate equity markets and are relatively untroubled by domestic demand. Rights issues and tighter credit for private equity will restrain overall equity prices but "sovereign wealth funds" are growing rapidly and are prepared to diversify into equities, sometimes aggressively. The UK equity market is on an aggregate earnings yield of 9% and, even if those earnings don't grow much for several years, for a long-term investor this seems reasonable value.

Overseas equity markets, developed and emerging, are valued on broadly similarly terms to the UK. They too offer reasonable value to the investor who is not too troubled by short-term swings in prices. On the other hand, the UK long government bond markets have limited attraction. A yield of 0.7% on inflation-linked reflects pressure from private pensions and annuity funds needing to provide guarantees almost regardless of cost. A fixed yield of 4.7% also reflects significant doubts over the Monetary Policy Committee's ability to meet its inflation target. However, within credit there is still phenomenal dispersion and pockets of value will undoubtedly emerge, as losses are taken and confidence returns. UK commercial property transactions have dried up under adverse credit conditions and headline valuations probably have further to fall before willing buyers and sellers can deal in confidence. Nevertheless, a yield of 6% with upward only rent reviews, a high degree of investor protection and land shortage remains a sound diversification from equities.

The pain of credit withdrawal has seen markets off to an erratic start in 2008/09 but they are a discounting mechanism and quite a bit of gloom seems to be "in the price".

Strategic asset allocation

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. A balance is struck with bonds, property and other alternatives providing diversification. This should help moderate potential short-term upward fluctuations in contributions if equity markets again suffer a major and prolonged downturn, as in 2000-3 or 1973-4.

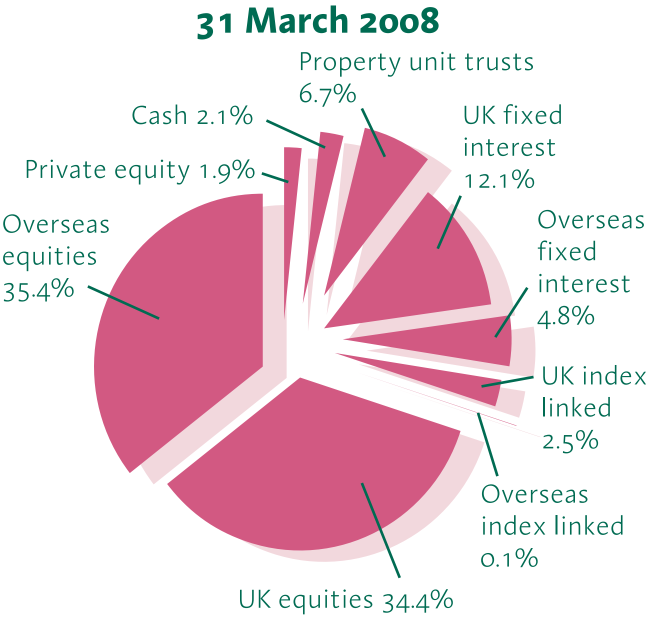
Fund management

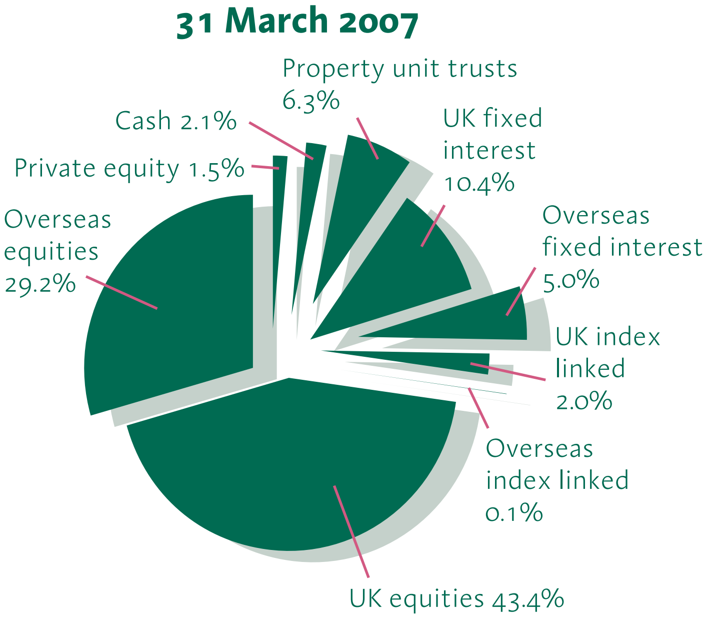
All the fund managers are kept under regular review to help ensure that active management has the best possible prospect of adding value over a full market cycle. The dislocation in many financial markets has not only signalled the end to the credit binge but also to some mechanical investment strategies, typically using fashionable trend and risk chasing masquerading as manager skill. It may take some time to sort the wheat from the chaff.

Portfolio distribution

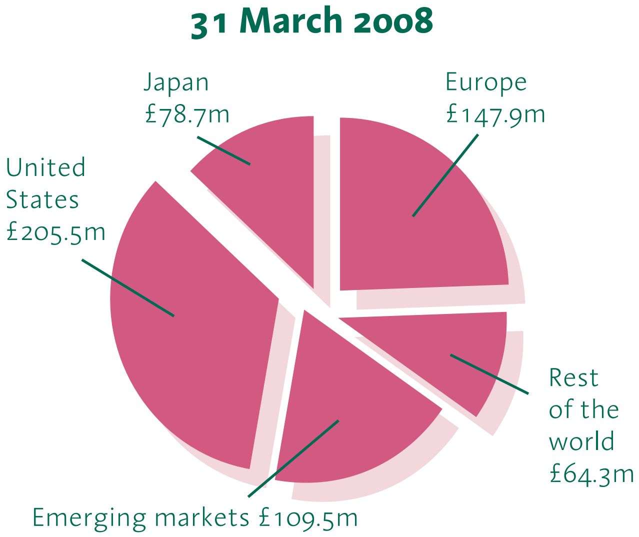
The distribution of the portfolio at 31 March 2008 is shown below. The top charts show distribution over the entire structure of the portfolio, whereas the bottom charts provide more detailed analysis of the overseas equity sectors.

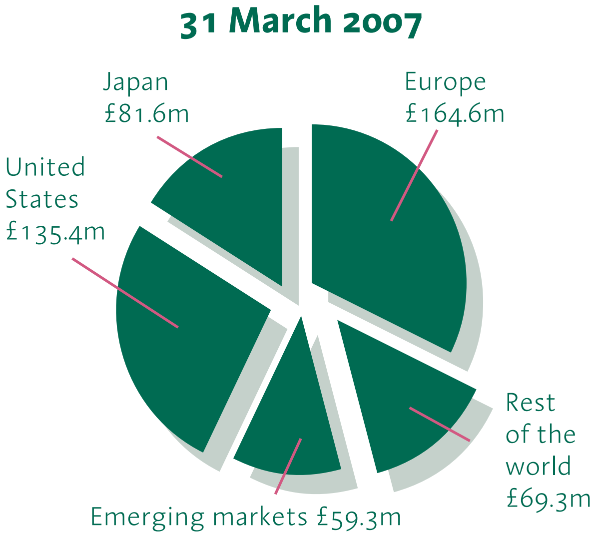
Portfolio distribution at 31 March





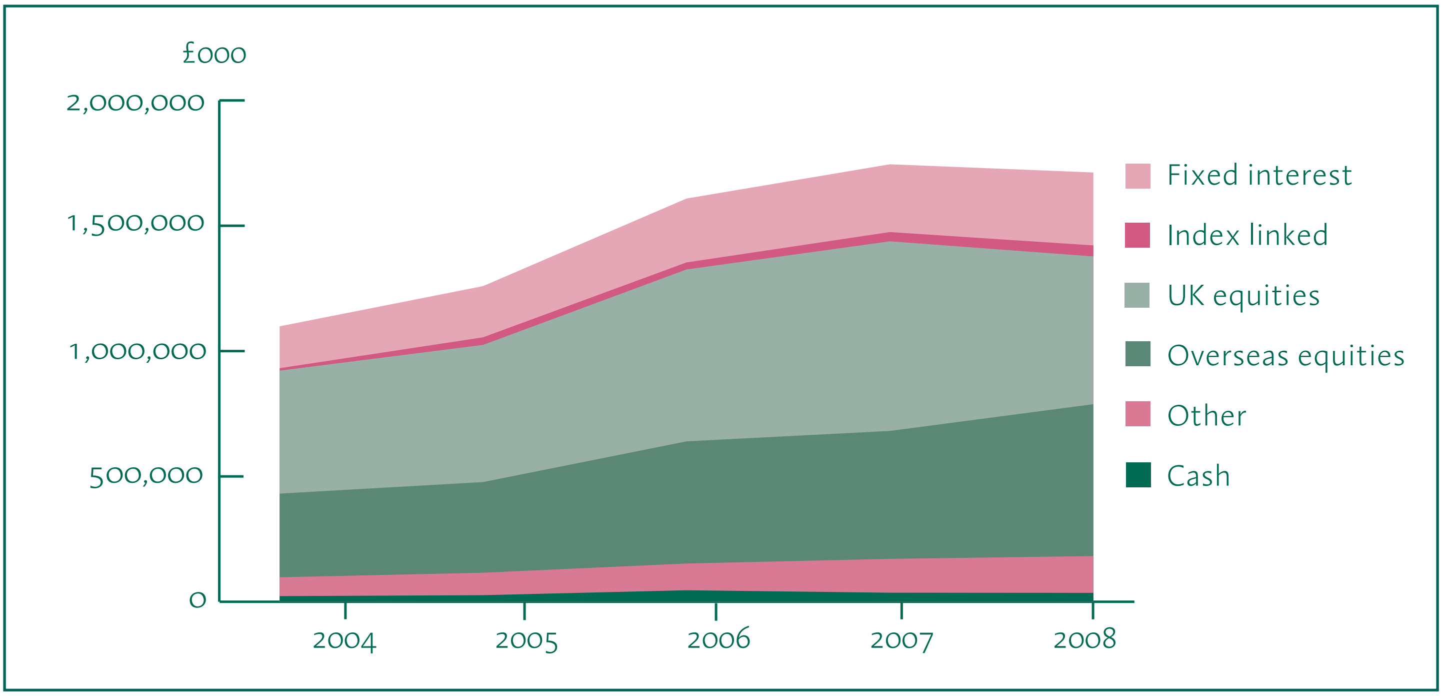
Overseas equities distribution at 31 March





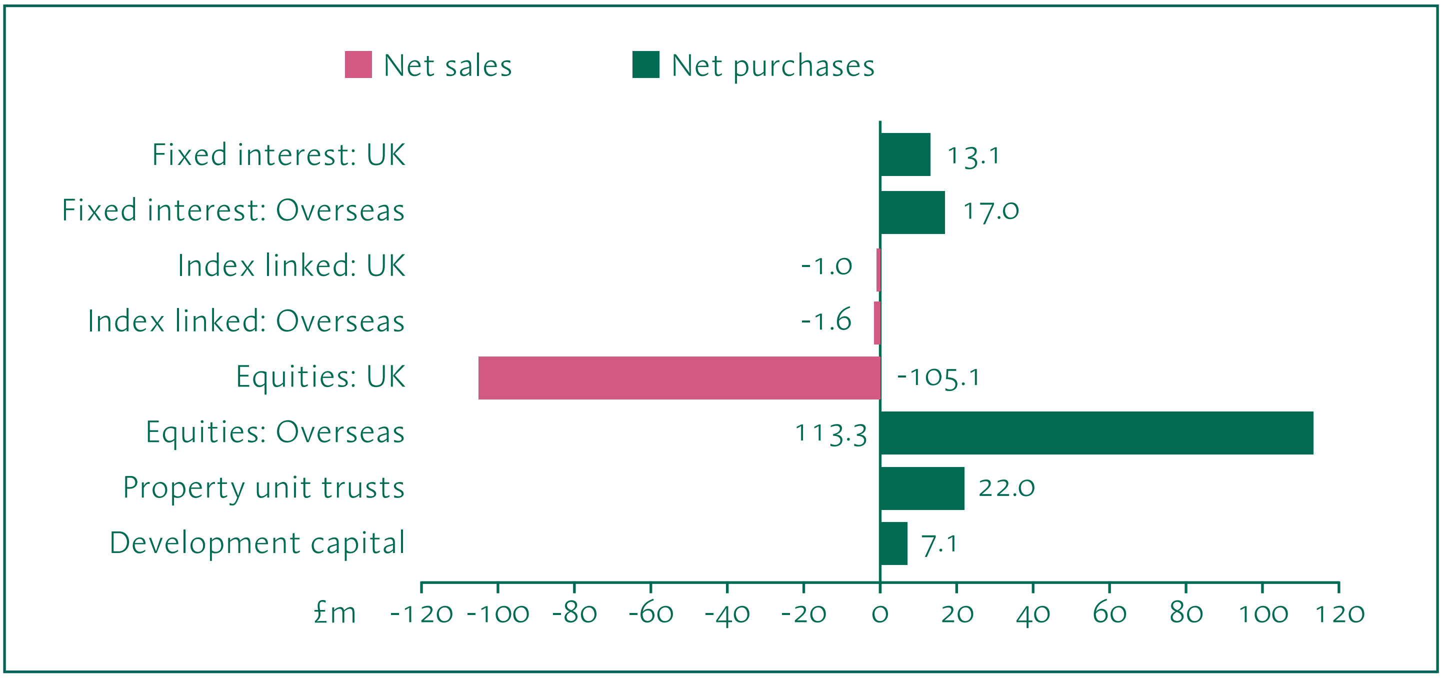
Investment distribution

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



Investment activity

The net investment activity during the year ended 31 March 2008 is reflected in the chart below.

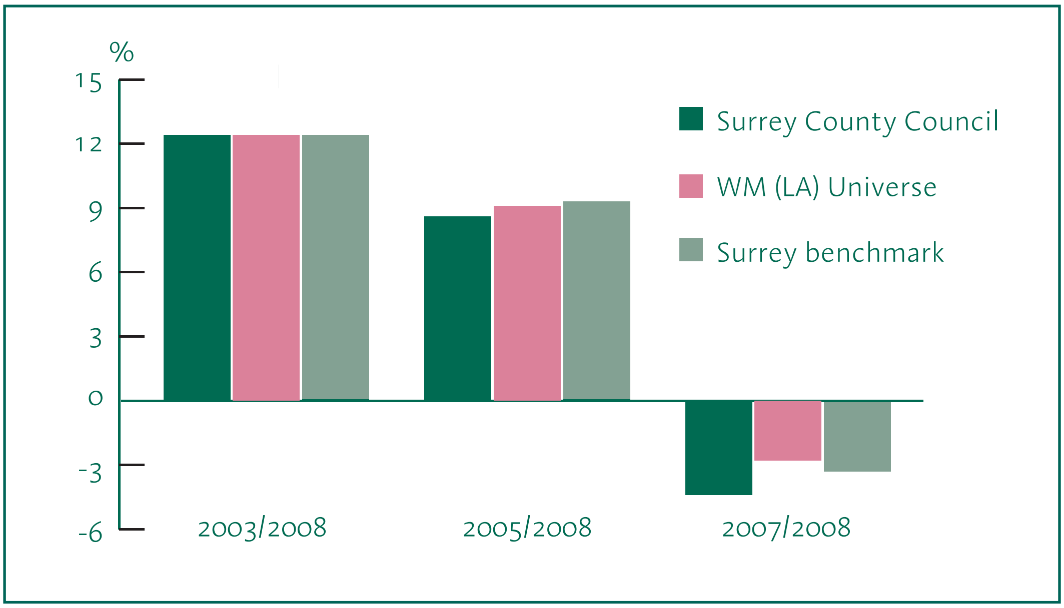


Investment performance

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.



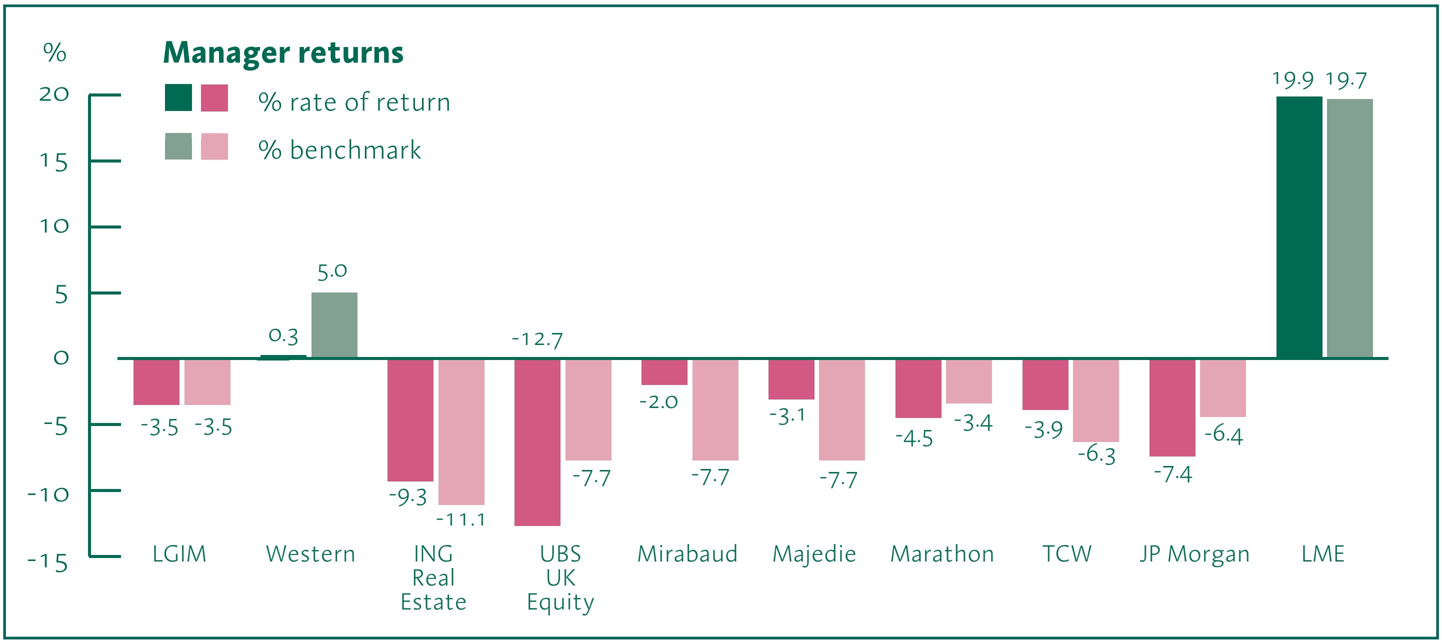
Annual returns over each of the last five years, and for three and five years were as follows:

Financial years	SCC (measured by Northern Trust) %	WM local authority universe %	WM Ranking	Surrey benchmark %
2007-2008	-4.4	-2.8	68	-3.3
2006-2007	7.0	7.0	50	7.0
2005-2006	24.9	24.8	40	26.3
2004-2005	11.6	11.7	40	11.5
2003-2004	25.5	23.9	18	23.3
2005-2008 (3 year average)	8.6	9.1	54	9.3
2003-2008 (5 year average)	12.4	12.4	44	n/a
1998-2008 (10 year average)	4.9	5.1	46	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 figures for the 5 and 10 year periods are 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 2008 for each fund manager, and by the major asset classes, are shown below.



Pension fund performance measured by asset class for the year ended 31 March 2008		
	Portfolio %	Index %
UK Equities	-8.4	-7.7
Overseas Equities		
North America	-4.8	-4.8
Europe	1.0	2.8
Japan	-15.3	-15.4
Pacific Basin	12.7	9.0
Emerging Markets	19.9	19.6
UK Bonds	1.2	7.6
Overseas Bonds	-4.8	19.1
Index Linked	12.1	13.1
Property	-9.7	-10.7
Total Fund	-4.4	-3.3

Report of the Actuary

Report of the Actuary for the Year Ended 31 March 2008

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of the 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; and
- 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 31 March 2008.

Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 31 March 2008 and the assumptions contained therein.

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 assessed 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 2004 unsmoothed	
	% 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, which at 31 March 2007 were valued at £1,759 million, 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.

The next valuation of the Fund will be carried out as at 31 March 2010.

My opinion on the security of prospective rights is dependent upon any increased contribution requirements being met by the employers. This statement should be read in the context of the statutory nature of the scheme.

Bryan T Chalmers

Bryan T Chalmers FFA
29 April 2008
For and on behalf of Hymans Robertson LLP

Statement of Accounts

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; and
- 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;

The Head of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Accounting policies

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 (SORP), "Financial Reports of Pension Schemes".

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

- All UK securities traded within SETS (Stock Exchange Electronic Trading Service) are valued using last SETS traded price. All other UK securities are valued on the basis of middle market prices at close of business on the last trading day of the financial year.
- Unlisted securities are valued having due regard to latest dealings, professional valuation, asset values and other appropriate financial information.

- Overseas securities are valued on overseas stock exchange quotations at close of business on the last day of the financial year.
- Property and other unit trusts are valued at the unit trust managers' valuations.
- The sterling values of overseas securities have been assessed on the currency exchange rates ruling on the last trading day of the financial year.

Investment income

Interest and dividends due but not received on holdings quoted ex-dividend at 31 March 2008 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 2008

	Note	2008 £000	2007 £000
Contributions and Benefits			
Contributions receivable	1	120,018	108,805
Transfers in		13,731	12,127
		133,749	120,932
Benefits payable	2	82,082	79,731
Leavers	3	10,686	11,515
Administrative expenses		1,404	1,176
		94,172	92,422
Net additions from dealings with members		39,577	28,510
Returns on Investments			
Investment income	5	36,763	35,141
Change in market value of investments		(101,674)	76,770
Investment management expenses	4	(4,807)	(4,541)
Net returns on investments		-69,717	107,370
Net increase (decrease) in the Fund during the year		-30,140	135,882
Net Assets of the Fund			
At 1 April		1,753,629	1,617,747
At 31 March		1,723,489	1,753,629

Statement of net assets as at 31 March 2008

	Note	2008 £000	2007 £000
Investment Assets	14		
Fixed Interest Securities		290,928	270,331
Index Linked Securities		43,873	36,852
Equities		1,195,443	1,266,712
Property Unit Trusts		114,012	109,474
Private Equity		32,729	25,598
Cash		35,527	36,180
		1,712,512	1,745,147
Net Current Assets	6	10,977	8,482
Net Assets of the Fund at 31 March		1,723,489	1,753,629

I certify that the Statement of Accounts presents fairly the financial position of the Pension Fund at 31 March 2008 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
June 2008

Notes to the statement of accounts

		2007/2008 £000	2006/2007 £000
1	**Contributions receivable**		
	Employees' basic		
	Administering authority	13,265	12,360
	Scheduled bodies	11,433	10,657
	Admitted bodies	2,002	2,092
	Employees' additional		
	Administering authority	504	33
	Scheduled bodies	186	150
	Admitted bodies	56	37
	Employers' basic		
	Administering authority	44,947	41,080
	Scheduled bodies	35,292	31,985
	Admitted bodies	6,146	5,895
	Employers' additional		
	Administering authority	2,786	2,256
	Scheduled bodies	2,800	1,731
	Admitted bodies	602	528
		120,018	108,804
2	**Benefits payable**		
	Retired employees pensions		
	Administering authority	28,974	27,100
	Other scheduled and admitted bodies	30,100	27,849
	Lump sums		
	Administering authority	6,661	9,745
	Other scheduled and admitted bodies	8,332	7,298
	Death grants		
	Administering authority	716	665
	Other scheduled and admitted bodies	909	845
	Widows' pensions		
	Administering authority	2,604	2,601
	Other scheduled and admitted bodies	3,531	3,387
	Children's pensions		
	Administering authority	84	83
	Other Scheduled and admitted bodies	62	73
	Total*	81,974	79,646

*Note the total does not include interest on late payment of benefits £108,806 (£84,024)

	2007/2008 £000	2006/2007 £000
3 Leavers		
Transfers	10,659	11,476
Refunds of contributions	29	47
State scheme premiums	-2	-8
	10,686	11,515
4 Investment management		
Investment management and custodial fees	4,338	4,186
Actuarial, performance measurement and legal fees	239	151
Internal administration and accounting	230	204
	4,807	4,541
5 Investment income		
Fixed interest		
UK	6,879	7,206
Overseas	3,550	2,618
Index linked		
UK	489	327
Overseas	52	93
Equities		
UK	14,635	16,258
Overseas	4,262	3,385
Property unit trusts	4,567	3,239
Private equity	0	402
Cash	2,330	1,613
Underwriting commission	0	0
	36,763	35,141
6 Current assets and liabilities		
Debtors		
Investment income	8,221	6,397
Contributions	3,190	3,266
Benefits (including transfer values)	1,322	508
	12,733	10,171
Creditors		
Benefits (including transfer values)	0	279
Inland revenue	440	435
Investment expenses	1,316	975
	1,756	1,689

7 Unlisted securities

The value of unlisted securities in the Fund at 31 March 2008 is £32,728,939 (31 March 2007 is £25,857,874).

8 Outstanding commitments

At 31 March 2008 the Fund held part paid investments on which the liability for future calls amounted to £44,491,480 (£63,548,751 at 31 March 2007). The Fund had no sub-underwriting commitments as at 31 March 2008.

9 Forward currency contracts

At 31 March 2008 the Fund had forward currency contracts in place with a net unrealised loss of £6,768,671 (£249,842 at 31 March 2007).

10 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.

11 Book cost

The book cost of all investments at 31 March 2008 is £1,608,250,281 (£1,382,366,283 at 31 March 2007).

12 Custody

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

ISIS Equity Partners	RBS Trust Bank
Goldman Sachs	Investors Bank & Trust Company
HG Capital	Bank of New York
Blackrock	Mellon Bank
Standard Life	Banques Paribus

13 Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2007/2008 amounted to £47,732,447 (£43,336,797 in 2006/2007):

Employers future service contributions	£25,589,559
Annual monetary amount	£19,357,311
Early retirement liabilities	£2,785,577

ii) Net amounts owed by Surrey County Council to the Fund as at 31 March 2008 were £10,912,425 (£22,509,323 at 31 March 2007).

iii) Interest in the sum of £1,040,760 was allocated to Pension Fund balances in 2007/08 (£682,460 in 2006/07).

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

14 Investments

	Value at 1 April 06 £000	Purchases at cost £000	Sale proceeds £000	Market movements £000	Value at 31 March 08 £000
Fixed Interest Securities	270,331	273,596	(243,441)	(9,558)	**290,928**
Index Linked Securities	36,852	6,119	(8,698)	9,600	**43,873**
Equities	1,266,712	721,128	(712,967)	(79,430)	**1,195,443**
Property Unit Trusts	109,474	27,620	(5,578)	(17,504)	**114,012**
Private Equity	25,598	13,509	(6,378)	0	**32,729**
Cash	36,180	4,130		(4,782)	**35,527**
	1,745,147	1,046,102	(977,062)	(101,674)	1,712,512

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.

Equity proceeds include an amount related to the transfer of assets between UBS and Legal and General following the termination of the UBS Global Equity mandate. The equivalent incoming transfer into LGIM's pooled funds was treated as a purchase for accounting purposes.

	2007/2008 £000	2006/2007 £000
14.1 Fixed interest securities		
UK public sector & quoted	121,488	137,416
UK unit trusts	86,454	44,864
Overseas public sector & quoted	82,986	62,700
Overseas unit trusts	0	25,351
	290,928	270,331
14.2 Index linked securities		
UK public sector & quoted	23,136	22,094
UK unit trusts	19,496	12,259
Overseas public sector	1,241	2,499
	43,873	36,852
14.3 Equities		
UK quoted	358,246	344,589
UK unit trusts	231,283	411,898
Overseas quoted	310,647	220,140
Overseas unit trusts	295,267	290,085
	1,195,443	1,266,712
14.4 UK Property unit trusts	114,012	109,474
14.5 Private equity		
UK unquoted	7,349	5,823
UK unit trusts	25,380	19,775
	32,729	25,598
14.6 Cash		
Sterling deposits	52,448	36,918
Amounts owed to brokers	-10,152	-489
Foreign currency	-	-
Forward contracts	-6,769	-249
	35,527	36,180
Total investments	1,712,512	1,745,147

15 Post balance sheet events

There have been no material post balance sheet events.

Appendix 1 – the Fund's largest shareholdings

	Market value at 31/03/2008 £m
Top 10 United Kingdom equities	
BP PLC	30.8
Vodafone Group	28.8
GlaxoSmithKline	23.2
Royal Dutch Shell	19.3
HSBC	13.2
Tesco	11.2
Unilever	10.1
Astrazeneca	8.5
HBOS	8.3
Diageo	8.2
	161.6
Top 10 overseas equities	
Jardine Matheson	5.2
E.ON	4.0
Statoilhydro	3.0
Roche Holdings	2.9
Nestle	2.9
Millicom International	2.7
Unilever	2.6
Telefonica	2.5
Costco Wholesale Corp	2.5
Cablevision NY Group	2.2
	30.5
Top 5 unit trusts	
Legal & General UK Equity	212.2
Legal & General North America Equity	74.2
Legg Mason Emerging Markets	70.9
Legal & General Europe (Ex-UK) Equity	65.1
Legal & General All Stocks Gilt Index	44.8
	467.2
	659.3

These holdings make up 38% of the total value of the portfolio.

Appendix 2 – Scheduled bodies and contribution rates payable in 2007/2008

Scheduled bodies	% of payroll	% of members' contributions	Annual monetary amount £
Administering authority			
Surrey County Council inc. schools	11.6	193	18,223,730
Borough and District Councils			
Elmbridge Borough Council	11.7	195	938,435
Epsom & Ewell Borough Council	12.5	208	636,523
Guildford Borough Council	11.3	188	1,778,776
Mole Valley District Council	12.1	201	708,458
Reigate & Banstead Borough Council	12.0	200	1,380,949
Runnymede Borough Council	12.5	208	480,662
Spelthorne Borough Council	12.3	205	656,141
Surrey Heath Borough Council	12.8	213	539,518
Tandridge District Council	12.6	210	1,048,518
Waverley Borough Council	13.0	216	1,050,698
Woking Borough Council	11.6	193	1,602,206
Parish and Town Councils			
Ash Parish Council	14.6	243	22,587
Bramley Parish Council	14.6	243	519
Bisley Parish Council	14.6	243	0
Claygate Parish Council	12.0	200	45
Cranleigh Parish Council	14.6	243	11,201
East Horsley Parish Council	13.9	231	
Farnham Town Council	14.6	243	10,530
Frensham Parish Council	12.0	200	158
Godalming Town Council	14.6	243	9,668
Godstone Parish Council	12.9	215	
Haslemere Town Council	12.0	200	41
Horley Town Council	14.6	243	8,486
Ripley Parish Council	14.6	243	893
Send Parish Council	14.6	243	788
Shere Parish Council	14.6	243	1,906
Tongham Parish Council	14.6	243	175
Warlingham Parish Council	10.2	170	
West End Parish Council	12.0	200	39
Windlesham Parish Council	14.6	243	3,373
Witley Parish Council	14.6	243	2,128
Worplesdon Parish Council	12.0	200	269

Scheduled bodies	% of payroll	% of members' contributions	Annual monetary amount £
Other authorities			
The Surrey Police Authority	10.1	168	1,014,730
Statutory committees			
Surrey Probation Committee	11.1	185	209,844
Surrey Valuation Tribunal	7.9	132	4,360
Further education establishments			
Brooklands College	17.0	283	-
East Surrey College	17.1	285	-
Esher College	14.1	235	-
Farnham College	14.1	235	-
Godalming College	14.1	235	-
Guildford College	16.5	275	-
NESCOT	17.0	283	-
Reigate College	14.1	235	-
Spelthorne College	14.1	235	-
Strode's College	14.1	235	-
The University College for Creative Arts	14.8	247	-
Woking College	14.1	235	-
Former grant maintained schools	21.4	356	-
Joint boards or joint committees			
Epsom & Walton Downs Conservators	14.6	243	18,361
Merton & Sutton Joint Cemetery Board	14.6	243	16,913
Nonsuch Park Joint Management Committee	14.6	243	19,591

Appendix 3 – Admitted bodies and contribution rates payable in 2007/2008

Admitted bodies	% of payroll	% of members' contributions
With contributing employees		
A2 Housing Group	35.6	593
Carillion	15.5	258
Elmbridge Housing Trust	14.3	238
G Burley & Sons	11.8	197
Hanover Housing Association	16.4	273
John Stanley Jeffries Swimming Pool Trust	23.0	383
Moor House School	15.8	263
Commission for Social Care Inspection	17.3	288
Peerless Housing Group	23.4	390
Peper Harow Foundation (Thornby Hall)	53.4	890
Princess Alice Hospice	23.0	383
Reigate Grammar School	23.0	383
Raven Housing Trust	15.6	260
Ringway Highway Services Ltd	16.6	277
Rosebery Housing Association	23.0	383
Royal Grammar School, Guildford	23.0	383
SERCO	9.9	165
Sir William Perkins's School	23.0	383
Surrey Alcohol and Drug Advisory Service	11.6	193
Surrey Community Development Trust	12.2	203
Surrey Voluntary Association for Visual Impairment	23.0	383
Surrey Wildlife Trust	13.7	228
University of Surrey	17.9	298
VT Four S	11.6	193
Waverley Community Transport	11.4	190
Woking Community Transport	23.0	383

Without contributing employees

East Surrey Water Company
Godalming Joint Burial Committee
Haslemere SC/Shottermill
Lingfield HPL School
Meath Homes
Mid Southern Water
North Surrey Water Company
Nut Prob HM (Rainer)
Peper Harow School
Royal Philanthropic SC
South East Regional Arts
Shalford Parish Council
Southlands College
Spelthorne Housing Assn
Surrey Police committee
The Royal School, Hindhead
WESCAD
West Surrey Waterboard
Woking Meals Service

Appendix 4 – Funding Strategy Statement 2008– 2011

Introduction

1 This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund, which is administered by Surrey County Council. This statement updates the FSS that was first published in March 2005 following receipt of the 2004 actuarial valuation results and consultation with scheme employers and the Fund Actuary (Hymans Robertson LLP).

2. This statement reflects the discussions between the administering authority, scheme employers and Hymans Robertson LLP during the 2007 actuarial valuation process, which was concluded on 31 March 2008.

3. The FSS is reviewed in detail at least every three years in line with triennial actuarial valuations being carried out. The next full review is due to be completed by 31 March 2011.

4. The FSS forms part of a framework which includes:

    a. the LGPS Regulations (Regulation 76A of the 1997 Regulations and Regulations 35-37 of the LGPS (Administration) Regulations 2008 are particularly relevant);

    b. the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's latest triennial actuarial valuation report;

    c. the Statement of Investment Principles (SIP)

    d. the Fund's governance statement and governance compliance statement

5. All of the above mentioned documents are publicly available with the latter three documents published on the Surrey County Council website at www.surreycc.gov.uk.

6. This is the framework within which the Fund's actuary carries out triennial valuations to set contribution rates for individual scheme employer contribution rates.

Purpose of the Funding Strategy Statement:

7. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. The Regulations provided the statutory framework within which LGPS administering authorities were required to prepare a first Funding Strategy Statement (FSS) by 31 March 2005.

8. The purpose of the funding strategy is:

    - to establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best met going forward;
    - to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
    - to take a prudent longer-term view of funding those liabilities

9. The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that these will be individually desirable but conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the FSS, it must remain a single strategy for the administering authority to implement and maintain.

10. This statement aims therefore to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employer contributions and prudence in the funding basis.

Background of the Surrey Pension Fund

11. The total value of the Pension Fund, as at 31 March 2007, was £1.75bn and in 2006/2007 employer contributions into the pension fund amounted to £83.5m. Employee contributions amounted to £25.3m.

12. There are over 70 employers involved in the Surrey Pension Fund. The largest employers, in terms of the number of active members and monetary contributions to the Pension Fund, are Surrey County Council, the Borough and District Councils, Surrey Police Authority and the University of Surrey.

13. The level of contributions into the fund to be paid by each employer is determined by the triennial actuarial valuation. The 2007 actuarial valuation has determined the level of contributions to be paid by employers during the period 1 April 2008 to 31 March 2011.

14. Officers of Surrey CC received the preliminary results of the valuation in November 2007 and all employing bodies were invited to attend a meeting with the Fund actuary at the end of November. Results were circulated to all employers by the end of December 2007. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2008/2009.

15. This activity was key to ensuring that the requirement of consulting with relevant interested parties on the Funding Strategy and actuarial valuation process could take place.

The aims and purpose of the Pension Fund

16 The **aims** of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters.

17. The **purpose** of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (As Amended).

Responsibilities of key parties

18. Surrey County Council, as administering authority, will:

- collect employee and employer contributions
- invest surplus monies in accordance with the relevant regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the actuarial valuation process in consultation with Hymans Robertson LLP, the Fund actuary

- prepare and maintain a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP), both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as appropriate.

19. Individual employers in the Fund will:
    - deduct contributions from employees' pay correctly
    - pay all contributions, including their own as determined by Hymans Robertson LLP, promptly by the due date
    - exercise discretions within the regulatory framework
    - make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain, and
    - notify Surrey County Council promptly of all changes to membership, or as may be proposed, which affect future funding.

20. Hymans Robertson LLP, the fund actuary, will:
    - prepare actuarial valuations, including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS, and
    - prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency issues and target funding levels

21. Surrey County Council, as administering authority, prudentially seeks to achieve full funding.

Contribution rates

22. The employer's contribution rate consists of two elements:
    i. The ongoing rate, which provides for the year-by-year accrual of benefits for current employees
    ii. A lump sum in respect of past service liabilities, which is determined by an employers share of the Fund deficit, liquidated over a specified number of years

Background and historical funding levels

23. For many years up to 1989, legislation required that the Fund was adequate to meet all liabilities, i.e. was 100% solvent. In 1989 the regulations in force specified that the target level of funding need only be 75% of future liabilities, thereby leading to a reduction in costs that was intended to offset the impact of the new community charge system.

24. A further complexity arose in 1990 following the 1989 review. Prior to that year the employers' contribution had been set in two parts.
    i. A rate was set to provide for the basic benefits of the Scheme through the Fund
    ii. A further rate was set to meet the cost of pensions increases and other non-statutory benefits on a "pay as you go" basis. Pensions increases are the annual uprating of pensions in payment for cost of living.

25. Following the implementation of new regulations from 1 April 1990, the cost of inflation proofing both pensions payments and deferred benefits was incorporated within the overall fund and met through a single employers' contribution rate. This change resulted in a reduction in the

solvency level and also to an overall reduction in employers' contributions.

26. Regulations issued by the department of the Environment in 1992 specified a return to the former target funding level of 100%. The consequence of the Regulation is that, since April 1993, those employers with an excess of liabilities over assets ("past service deficiency") have been paying additional contributions into the Fund in order to return to 100% solvency over the remaining working lifetime of the members of the Fund (an average of 13 years).

27. The actuarial valuation as at 31 March 1998 determined that the fund was 75% funded, i.e. that the assets of the fund were sufficient to cover 75% of its liabilities. The reasons behind the funding level include those issues mentioned above, together with a change in the tax treatment of pension funds in 1997, which removed the ability for funds to claim credits on tax paid on dividends. This government policy change reduced the funding level of the Surrey Fund by around 8%.

28. The overall funding level at 31 March 2001 remained broadly unchanged over the three year inter-valuation period (1998-2001), mainly because poor investment performance relative to the 1998 valuation assumptions offset the contributions being made toward liquidating the deficiency.

29. The next actuarial valuation, as at 31 March 2004, saw the funding level reduce further to 68%. This was a result of poor investment performance relative to the 2001 valuation assumptions, although this was offset to some degree due to the higher contributions being made towards the deficiency.

30. At the time of the 2004 valuation a number of ways of mitigating the impact of the increase in contribution rates resulting from the reduction in funding level were identified. Following consultation with fund employers and the Fund actuary it was agreed:

    Future Service Rate – reduced from an average of 22.1% of payroll to 11.6% of payroll by:

    - Allowing for the proposed abolition of the 'rule of 85'.
    - Allowing for the Fund's investment strategy and expected future returns on investments. The Fund's 2000 asset allocation strategy resulted in a decision to invest 75% of the Fund in equities and 25% in fixed interest stocks and property. This benchmark was implemented in November 2000.
    - Taking credit for the additional return that the Fund was expected to generate due to being more heavily invested in equities. To ensure prudence it was assumed that this return will be 1.6% p.a. more than that which would be achieved if the Fund was invested solely in government bonds.

    Lump Sum Rate - reduced the average contribution toward the fund deficit by 7.7% of payroll to 8.9% of payroll by:

    - Increasing the average length of time over which the Fund deficit would be recovered from 13 to 20 years, reflecting the increase in the remaining working life-time of active members.
    - In addition, some scheduled bodies chose to step the increase in lump sum contributions, having been advised by the administering authority that to do so

would mean that they would make smaller inroads into the overall deficit, which would impact on the 2007 actuarial valuation.

The 2007 Actuarial Valuation

31. During summer 2007 Surrey County Council had preliminary discussions with Hymans Robertson LLP, to establish ways of responding to the likely outcome of the 2007 actuarial valuation. Early indications were that the funding level of the whole fund would increase, leading to an reduction in lump sum payments into the Fund. However, ongoing contribution rates were expected to increase significantly, given the changes in the regulations governing the application of the LGPS, effective from 1 April 2008, the allowance for improvements in longevity and increase in expected future salary and price inflation.

New look LGPS

32. The main elements of the new scheme are as follows:
    - 1/60th accrual rate, with lump sums received via commutation at a rate of £12 received for every £1 of pension commuted, up to a maximum of 25% of the capital value of the benefits
    - 1/160th partners' pension
    - Two-tier ill-health (with ongoing consultation to bring in a third tier)
    - The lump sum death in service payment will be increased from 2-3 years' pensionable pay
    - The death grant applicable to death after retirement has increased from 5 times to 10 times the annual pension in payment less any pension payments already received in retirement. This applies to post 1988 service for current active members of the Fund
    - Cost sharing formula of future cost pressures – still under consultation but arrangements are expected to be in place by 31st March 2009
    - Banded contribution rates as follows:

FTE Pay Range	Contribution Rate
£0 - £12,000	5.5%
£12,000.01 - £14,000	5.8%
£14,000.01 - £18,000	5.9%
£18,000.01 - £30,000	6.5%
£30,000.01 - £40,000	6.8%
£40,000.01 - £75,000	7.2%
£75,000.01+	7.5%

The Fund Actuary has estimated that the average employee contribution rate across all employers in the Surrey Pension Fund will be 6.6%

Longevity

33. In addition to the financial assumptions discussed in paragraph 36 onwards the main assumption to which the valuation results are most sensitive is that relating to future longevity.

34. The mortality tables used for the 2007 valuation take account of recent mortality experience in the Fund and give some protection against future improvements in mortality in the period to 2033 – the life expectancy at age 65 of an individual who was aged 45 at the valuation date is assumed to have a longer life expectancy than a pensioner who had attained the age of 65 at the valuation date. The life expectancy is assumed to be longer than

that assumed in 2004. In 2004 it was assumed that life expectancy at age 65 was the same, irrespective of the age of the individual at the date of the valuation. Hymans Robertson LLP are expected to use updated mortality tables to inform the 2010 valuation process to ensure that further expected improvements in life expectancy are taken into account.

35. The following table shows the life expectancies assumed for the actuarial valuation process:

	Assumptions to assess funding position at 31 March 2004		Assumptions to assess funding position and 'gilt based' position at 31 March 2007	
Male/Female	M	F	M	F
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	20.2	23.2	21.5	24.4
Average future life expectancy (in years) at age 65 for a non-pensioner aged 45 at the valuation date	20.2	23.2	22.6	25.5
Average future life expectancy (in years) at age 45 for a non-pensioner aged 45 at the valuation date	39.2	42.2	42.1	45.0

Impact of applying different discount rates

36. Given that a number of mitigating factors were employed during the 2004 valuation process (Para. 30) and the ongoing concern about applying prudence to the decision-making process, it was agreed that there was little scope to introduce new measures to reduce the impact of the expected net increase in contribution rates. However, the impact of applying different valuation assumptions in relation to expected investment returns would be examined closely in relation to affordability, as would applying shorter deficit repayment periods. Employers were also encouraged to consider maintaining total contribution rates at the 2004 level if the 2007 results saw a reduction in their total contribution rate.

37. Ultimately, it remains Surrey CC's intention to have as stable a long-term employer contribution rate as is possible.

38. In 2004 it was assumed that the Fund's investments would achieve a nominal return of 6.3% per annum. This return comprised the return expected by investing solely in government gilts (4.7% p.a.) adjusted by the additional return of 1.6% p.a. expected due to the policy of investing 75% of the Fund in equities (Equity Premium).

39. In reality, the Fund's average annual return over the inter-valuation period was 13.9%, or 7.1% p.a. greater than the assumption made in 2004 and giving a cumulative difference of 23% over the 3-year inter-valuation period. This served to improve the

Fund's solvency level by just under 19% and was the factor with the biggest single positive impact on the solvency level.

40. For the 2007 valuation Hymans Robertson LLP generated a number of discount rates to calculate the value of the Fund's liabilities – the discount rates were determined by assuming different levels of asset outperformance relative to the minimum risk free return of 4.5% (1.3% real), which would be achieved if the Fund was invested solely in government gilts. The result of this analysis is shown in the following table:

	2004	Option 1	Option 2	**Option 3**	Option 4
Base discount rate nominal	4.7%	4.5%	4.5%	**4.5%**	4.5%
Asset outperformance assumption	1.6%	0.0%	1.25%	**1.6%**	1.85%
Nominal discount rate	6.3%	4.5%	5.75%	**6.1%**	6.35%
Real discount rate	3.4%	1.3%	2.55%	**2.9%**	3.15%
Liabilities	£1,623m	£2,950m	£2,392m	**£2,219m**	£2,124m
Assets	£1,107m	£1,759m	£1,759m	**£1,759m**	£1,759m
Deficit	£516m	£1,191m	£633m	**£460m**	£365m
Funding level	68%	60%	74%	**79%**	83%
Total contribution rate (% of payroll)	20.5%	38.8%	25.5%	**20.9%**	18.3%

41. Having analysed historic results and future projections of equity returns the Fund Actuary and the administering authority agreed that credit should be taken for the additional return that the Fund should generate due to being more heavily invested in equities. To ensure prudence it was assumed that this return would again be 1.6% p.a. more than that which may be achieved if the fund was invested solely in government bonds. Applying a higher equity premium than 1.6% would result in a higher funding level and lower contribution rates but it is felt that it would be imprudent to do so. Similarly, applying a lower equity risk premium (say 1.25%) would result in a lower funding level and higher contribution rates but it is the intention of the Funding Strategy Statement to ensure that employer contribution rates should be kept as nearly constant as possible and at reasonable cost to the taxpayers and employing bodies.

42. The other financial assumptions used during the 2007 valuation are as follows:

	2004 % p.a.		2007 % p.a.	
	Nominal	Real	Nominal	Real
Gilt yield (base discount rate*)	4.7%	1.8%	4.5%	1.3%
Asset outperformance assumption	1.6%		1.6%	
Discount rate	6.3%		6.1%	
Pay increases	4.4%	1.5%	4.7%	1.5%
Pension increase	2.9%	-	3.2%	-
Price inflation	2.9%	-	3.2%	-

43. Discussions were also held on changing the deficit recovery period. Again, a balance of prudence and affordability resulted in agreement to maintain the average repayment period at 20 years – based on the remaining working lifetime of members. However, some scheduled bodies have agreed to reduce the repayment period to 17 years, as shown on pages 48-49. The following table shows the maximum length of deficit recovery period for different groupings of employers:

	Maximum length of recovery period
Statutory bodies with tax raising powers	20 years
Admission bodies with funding guarantees	20 years
Private contractors admitted under best value regulations	The remaining contract period
All other types of employer	A period equivalent to the remaining working lifetime of active members

44. Unlike 2004, stepping of increases in contribution rates has not been applied – with all employers moving to the full contribution rate from 1 April 2008.

45. The valuation results for some employers has shown a funding level greater than 100%. Those employers have been advised to ‘bank’ the credits from having a surplus and will therefore pay the full future service rate from 1 April 2008.

The 2007 valuation results

46. The following table summarises the main results of the 2007 valuation together with comparative figures for the previous valuation:

	2004 Valuation	2007 Valuation
Active members:		
Number of active members	22,100	25,358
Total annual pensionable pay	£434.4m	£540.2m
Average pensionable pay	£19,656	£21,307
Deferred pensions:		
Number of deferred pensioners	14,656	20,737
Total annual value of deferred pensions payable in future	£20.9m	£25.2m
Pensioners and widow(er)s:		
Number of pensioners	14,293	15,896
Total annual pensions payable	£53.3m	£62.6m
Average pension in payment	£3,729	£3,937
Value of liabilities	£1,623.0m	£2,218.8m
Market value of the Fund	£1,107.4m	£1,759.3m
Deficit	£515.6m	£459.6m
Solvency level of the Fund*	68.2%	79.3%
Employer average contribution rate		
Future service	11.6%	14.7%
Past service deficit	8.9%	6.2%
Total employer rate	20.5%	20.9%

47. Following discussions with the Fund actuary, the following measures were therefore adopted during the 2007 actuarial valuation process to mitigate the impact of the net increase in contribution rates:

- Apply asset outperformance assumption of 1.6% p.a.
- Retain 20 year deficit recovery period
- No stepping of increases in contribution rates

48. The resultant employer contribution rates applicable from April 1 2008 are shown on pages 48-49, together with deficit recovery periods agreed for all employers in the Fund. This is a statement of the minimum contributions to be paid by each employer and employers can pay additional amounts toward the deficit.

49. Historically, tax raising bodies have preferred to express the deficit recovery contributions as a monetary amount rather than as a percentage of payroll. This is to ensure that any large reductions in payroll do not result in lower than expected contributions to the Fund deficit.

Links to the Fund's investment policy set out in the Statement of Investment Principles

50. 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.

51. The Fund's Statement of Investment Principles is a formal statement of how the County Council carries out these responsibilities. The latest effective SIP is published on Surrey CC's website.

52. The Investment Advisers Group, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The Fund has had a customised benchmark in place since the 2000 asset-liability modelling (ALM) study. The last ALM study took place in 2006 and the resultant changes in the Fund's customised benchmark were implemented in December 2007. The next ALM study will take place in 2009.

The identification of risks and counter-measures

53. The County Council recognises that there are certain risks that may impact on this FSS. These risks and measures to be taken to counter these risks include:

Financial risks	Counter Measures
Investment markets fail to perform in line with expectations	Do not over-estimate the equity risk premium adopted for the actuarial valuation
Market yields move at variance with assumptions	Apply sensitivity analysis to determine, in advance, the likely financial impact of a 1% deviance from expectations
Investment managers fail to achieve performance targets over the longer term	The Investment Management Agreement (between SCC and the fund manager) clearly states the Customer's expectations in terms of performance targets. Investment manager performance is reviewed on a quarterly basis. The Investment Advisers Group is positioned to move quickly if it is felt that targets will not be met.

Financial risks	Counter Measures
Asset reallocations in volatile markets may lock in past losses	The Fund's passive (index-tracking) manager rebalances the fund's asset allocation on a monthly basis.
Pay and price inflation is significantly more or less than anticipated	Apply sensitivity analysis to determine, in advance, the likely financial impact of a 0.5% deviance from expectations
The effect of a possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies	Apply different deficit recovery periods to reflect the financial standing and covenant of employers

Demographic risks	
The longevity horizon continues to expand	Hymans Robertson LLP is using long-term longevity projections (30 years) in the 2007 actuarial valuation
Deteriorating pattern of early retirements	The cost of early retirements is recovered from employers as and when they occur
The impact of government policy (e.g. The Gershon review) on the employer workforce	Hymans Robertson LLP will make prudent assumptions about the future local government workforce, under the guidance of the administering authority.

Regulatory risks	
Changes to LGPS regulations	During the actuarial valuation Hymans Robertson LLP will take into account the impact on benefits of the Local Government Pension Scheme Regulations 2007 (as amended)
Changes to national pensions requirements and/or Inland Revenue rules	Not applicable at present but to be kept under review.

Governance	
Administering authority unaware of structural changes in an employer's membership	Employers are required to inform Surrey CC of any significant changes in membership numbers on a timely basis. Surrey CC monitors employer contributions on a monthly basis and queries any obvious variations. Employers are required to produce a year-end report on membership numbers. The County Council carries out in depth movement analysis on an annual basis.
Administering authority not advised of an employer closing to new entrants	This is only relevant to employers with an admission agreement (scheduled and resolution bodies cannot close the scheme to new entrants). It is a requirement of the admission agreement that Surrey CC is informed if the employer closes to new members
An employer ceasing to exist with insufficient funding or adequacy of a bond	Admitted body contribution rates are set at a level that is intended to reflect 100% funding. The terms of a bond provide for regular review of the adequacy of a bond.

Consultation and publication

54. This is the second Funding Strategy Statement and updates the Funding Strategy Statement that was published following the 2004 actuarial valuation and reflects discussions between the administering authority, Hymans Robertson LLP and scheme employers during the 2007 actuarial valuation process.

55. The administering authority consulted the employers in the Fund on the funding strategy in the run up to the publication of the first strategy in 2005 and during the 2007 actuarial valuation process. A special meeting to discuss the valuation assumptions was held on 28th November 2007 and all employers were invited to this meeting. Officers of the administering authority also attended meetings of the larger employer stakeholder group in late 2007.

56. Results were circulated to all employers by the end of December 2007. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2008/2009.

57. The funding strategy is posted on Surrey CC's website, together with a copy of the Fund actuary's report on the actuarial valuation. All employers will be sent a link to the website so that they can access the reports.

Contribution payments

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 20010 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
Small Scheduled bodies					
Ash Parish Council	12	18.8%	4,745	4,968	5,202
Bramley Parish Council	12	18.8%	134	140	147
Claygate Parish Council	13	15.7%	109	114	119
Cranleigh Parish Council	12	18.8%	3,221	3,372	3,531
East Horsley Parish Council	13	15.7%	97	102	106
Epsom & Walton Downs Conservators	12	18.8%	5,953	6,233	6,526
Farnham Town Council	12	18.8%	4,031	4,220	4,419
Frensham Parish Council	13	15.7%	143	150	157
Godalming Town Council	12	18.8%	4,895	5,125	5,366
Godstone Parish Council	13	15.7%	57	60	62
Haslemere Town Council	13	15.7%	396	415	434
Horley Town Council	12	18.8%	2,742	2,871	3,006
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 Parish Council	12	18.8%	1,140	1,194	1,250
Tongham Parish Council	12	18.8%	156	163	171
Valuation Tribunal Service	20	11.7%	3,000	3,141	3,289
Warlingham Parish Council	13	15.7%	36	38	39
West End Parish Council	13	15.7%	77	81	84
Windlesham Parish Council	12	18.8%	1,564	1,638	1,714
Witley Parish Council	12	18.8%	813	851	891
Worplesdon Parish Council	13	15.7%	302	316	331

Statement of MINIMUM contributions to be paid by participating employers

Colleges	Deficit Recovery Period	Percentage of Payroll due 1 April 2008 to 31 March 2011
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%
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%
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%

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

Myners Investment Principles-Compliance Statement

Statutory Instrument 2002 No. 1852 requires that Surrey County Council, administering authority of the Surrey Pension Fund, publish details of the extent to which the Fund complies with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment. The following summarises these principles and explains how Surrey County Council has complied with the principles. Further information is available in the Statement of Investment Principless.

Principle 1

Effective decision-making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advise they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

✓ Full compliance – a rolling programme of training is in place for the Investment Advisers Group. The group is supported by the Head of Finance and Pension Fund and Treasury Manager.

Principle 2

Clear objectives

Trustees should set out an overall investment objective for the fund that:

- Represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- Takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

✓ 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. The investment objectives are clearly stated in the Statement of Investment Principles and were last reviewed as part of the 2006 Asset Liability Modelling study (ALM).

Principle 3

Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective.

Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

✓ **Full compliance – a customised benchmark has been in place since 2000 and was reviewed as part of the 2006 ALM Study. The fund continues to invest in private equity.**

Principle 4

Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition.

The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

✓ **Full compliance – the Fund has separate actuarial and professional investment advisers.**

Principle 5

Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- an objective, benchmark(s) and risk parameters that together with all other mandates are coherent with the Fund's aggregate objectives and risk tolerances
- the manager's approach in attempting to achieve the objective; and
- clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

✓ **Full compliance – the investment management agreements that were put in place in 2004 (following the appointment of new fund managers) and 2007 clearly state each manager's objectives and parameters within which they are able to work to meet their objectives. Transaction costs are disclosed by the fund managers in line with industry best practice, and are monitored on a quarterly basis.**

Principle 6

Activism

The mandate and trust deed should incorporate the principle of the US department of Labor Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

✓ Partially compliant – the Statement of Investment Principles sets out the Fund's approach to corporate governance. Fund managers are expected to engage with companies in which they invest on the Fund's behalf and have delegated authority to exercise the Fund's voting rights.

Principle 7

Appropriate benchmarks

Trustees should explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;

- if setting limits on divergence from the index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

✓ Full compliance – customised benchmark and tolerance ranges for divergence from indices are constantly under review and subject to discussion between the Council, investment advisers and fund managers. Specialist managers have been appointed to maximise returns in each active asset class and outperformance targets reflect the risk/return requirements of both the Fund as a whole and the individual managers.

Principle 8

Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

✓ Full compliance – each manager's performance is measured regularly against targets which are specified in the contract between SCC and the manager. Northern Trust, the fund's global custodian, produces performance data for each manager and for the fund as a whole. The target outperformance for the fund as a whole is specified within the Statement of Investment Principles. The fund performance is also assessed with reference to the local authority peer group.

Principle 9

Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

✓ Full compliance – the current SIP, read in conjunction with the Funding Strategy Statement, describes the arrangements that were put in place when new managers were appointed in 2004 and 2007. Further details are included in the Fund's annual report and at the Pension Fund AGM.

Principle 10

Regular reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.

They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

✓ Full compliance – pensions newsletters are sent to fund members and include summarised pension fund accounts. The SIP is published on Surrey County Council's website and in the annual report, which is sent to employers and available to other stakeholders on request. The County Council's Audit and Governance Committee receives reports on the activities of the Investment Advisers Group. These reports are also available on the County Council website.

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.

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 District 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 county 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 specialist investment adviser to the Pension Fund, advised that the prevailing fund management arrangements were sub-optimal and that a core-satellite structure should be considered. This structure sub-divides 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	UBS Global Asset Management	13.0
UK Equity 2	Mirabaud	4.0
UK Equity 3	Majedie	6.0
Global Equity 1	Marathon Asset Management	12.0
Global Equity 2	Newton Investment Management	8.0
Active Regional Specialists		
US Equity	TCW	3.0
Pacific Basin Inc Japan Equity	JP Morgan	3.0
Emerging Markets Equity	Legg Mason International Equities	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 introduced as 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.

During 2007-2008 the mandates of UBS (global equity) and Schroders (European equity) were terminated. Newton Investment Management was appointed as global equity manager, effective November 2007.

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		
	Gilts	8
	Corporate Bonds	8
	Index-Linked gilts	4
Property		8
Total Bonds/Property		28
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 or private equity 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.

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) 1998 (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 three 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 on the following page. The IAG 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 Asset Liability Modelling 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

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%
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TOTAL	Medium	

Individual Fund managers have different outperformance targets that reflect the level of risk to be taken by each manager and are summarised in the table below. 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 manager and overall portfolio risk is maintained through the use of an independent risk monitoring service.

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 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.

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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 seeking the Council's specific approval in respect of potentially contentious issues (those which receive significant press or media coverage) and reporting quarterly on action taken.

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 holds only a minimum working cash balance.

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 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 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.

Contacts

Benefits and contributions

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

Pensions Unit
Room G59
County Hall
Kingston Upon Thames
Surrey KT1 2EB
Telephone: 020 8541 9289 or 9292
E Mail: 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

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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/sp1997/19971612.htm

Useful addresses

Registrar of Pension Schemes
PO Box 1NN
Newcastle upon Tyne
NE99 1NN 019 1225 6316

The Pensions Advisory Service (TPAS)

11 Belgrave Road
London
SW1V 1RB 084 5601 2923

Pensions Ombudsman

11 Belgrave Road
London
SW1V 1RB 020 7834 9144

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 6% or 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.

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SURREY
COUNTY COUNCIL

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