SURREY COUNTY COUNCIL

Annual Report 2021

Surrey Pension Fund

Our Mission

To deliver **first-class service** to **Surrey Pension Fund stakeholders** through **strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community.**

The **highest standards of corporate governance** are **fundamental** to our approach underpinned by **informed decision making Environmental, social and Governance considerations, risk management** and use of **technology.**

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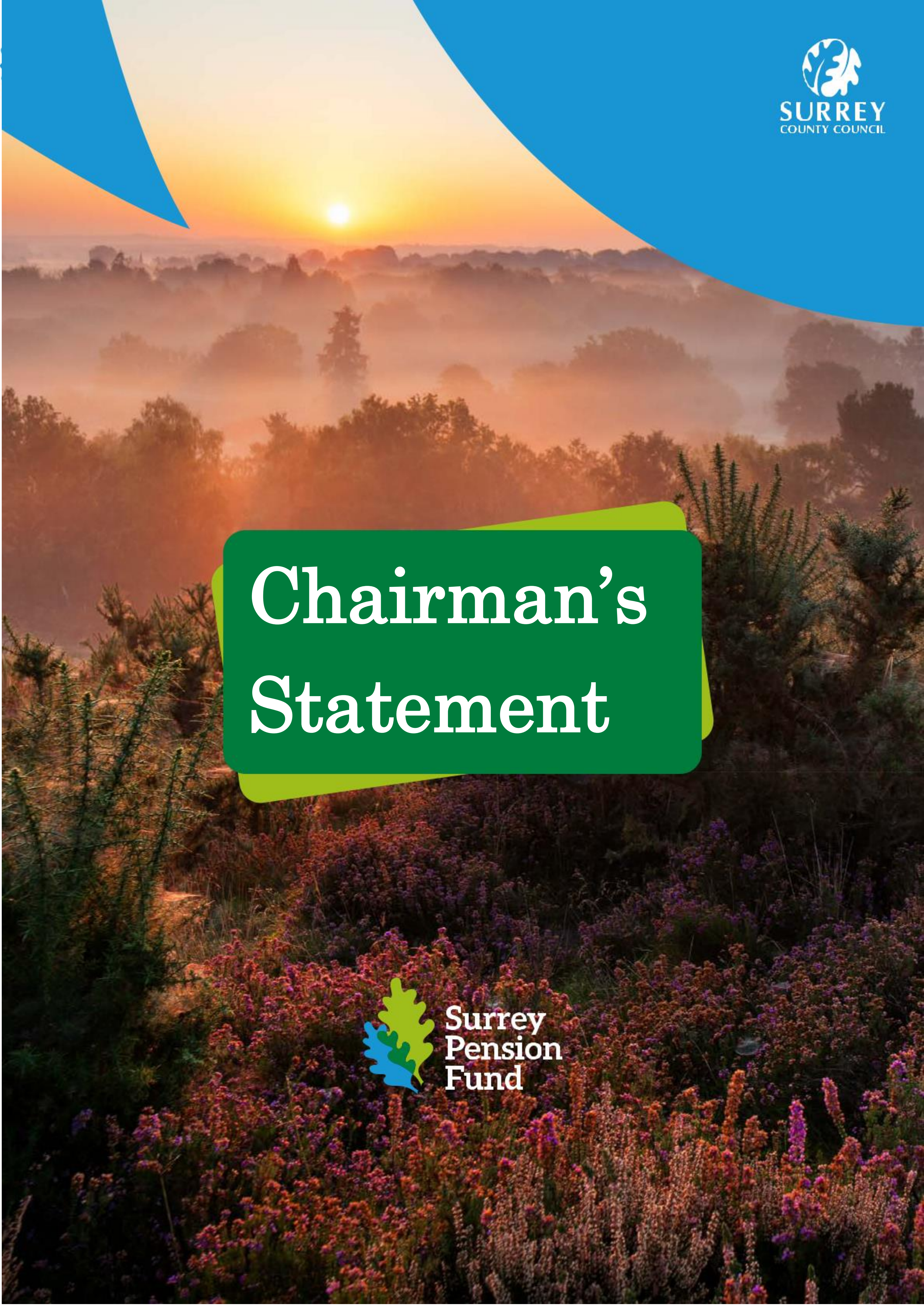


SURREY
COUNTY COUNCIL

Chairman's Statement

Surrey
Pension
Fund

Chairman's Introduction

2020/21 was another very busy year for Surrey Pension Fund. Investment performance bounced back from the low caused by the Covid-19 global pandemic. Despite the continuing pandemic the value of the Fund at 31 March 2021 was over £5bn and the funding level remains around 100%. Our successful funding strategy remains unchanged from last year.

The number of employers in the fund is now 302 and we service over 111,000 members

Investment Strategy

The Fund has continued with its total overhaul of its investment strategy to ensure a fully diversified portfolio, appropriate to the Fund's long term objectives having regard to the Fund's size, the opportunities presented by pooling with Border to Coast, and the minimisation of risk. This has involved further adjustments in asset allocation which we expect to improve performance.

Investment pooling within the LGPS

Surrey Pension Fund continues to make methodical and carefully considered progress towards pooling the Fund's assets with other LGPS funds in the Border to Coast Pensions Partnership Most of our Global Equity holdings were successfully transitioned in November 2019.

The Committee is prudent in ensuring that the Border to Coast sub funds provide the asset class and mix to suit the fund's investment strategy. Border to Coast operates investment funds for its Partner Funds to invest in based on their strategic asset allocations. The assets under management across the eleven Partner Funds total approximately £55 billion.

Investing Responsibly

The Fund continues to take an increasingly active role in ensuring it invests with due attention to our environmental, social and governance (ESG) responsibilities. Our focus remains on maintaining appropriate investments having every regard to Climate Change and other ESG implications and our responsibilities in helping maintain a sustainable world. We believe that our ESG objectives are best served by engagement so, in addition to the commitments in our own investment strategy statement, the Fund is a party to the Border to Coast Responsible Investment Policy and a member of the Border to Coast Climate Change Working Party. The Fund also offers its full support to the Local Authority Pension Fund Forum as well as Border to Coast's Engagement Lead, Robeco. More widely the Fund is signed up to the Taskforce for Climate Related Financial Disclosures (TCFD) and will begin to report against these disclosures..

The continuing investment strategy review following a leading edge in-depth study of the Fund's asset alignment with the relevant United Nation's Principles for Sustainable Growth continued through 2020/21 and will influence the review of the Investment Strategy in 2021/22

Management

Last year I said Covid-19 has had a major effect on all office working practices and that the pension Fund team had been outstanding in maintaining continuity and dealing with the increasingly heavy work load. With the continuing impact of the Pandemic that is still the case and I repeat my praise and thanks for their dedication commitment and support.

Farewell

Over the four years that I have been Chairman, the Fund has evolved extensively in the key Governance area of Investment Strategy having regard to ESG so much so that it has received several industry awards. As I stand down, I am proud of the Committee's achievements knowing full well that they were only made possible by the hard work and farsightedness of the entire Pension Fund team so ably led by Neil Mason.

I wish my successors the greatest of success in the future.

Tim Evans
Chairman of the Surrey Pension Fund Committee

SURREY
COUNTY COUNCIL

Members and advisors

Surrey
Pension
Fund

Membership of the Pension Fund Committee

The current membership of the Pension Fund Committee is as follows:

	**Tim Evans: Chairman** Party: Conservative Borough and District: Spelthorne E:tim.evans@surreycc.gov.uk T:01932 785138
	**Ben Carasco: Vice Chairman** Party: Conservative Borough and District: Woking E: ben.carasco@surreycc.gov.uk T: 07733 307525
	**John Beckett** Party: Residents Association Borough and District: Epsom and Ewell E: john.beckett@surreycc.gov.uk T: 020 8393 8208

	**David Mansfield** Party: Conservative Borough and District: Surrey Heath E:david.mansfield@surreycc.gov.uk T: 01483 799328
	**Hazel Watson** Party: Liberal Democrats Borough and District: Mole Valley E: h.watson@surreycc.gov.uk T: 01306 880120
	**Ruth Mitchell** Party: Conservative Borough and District: Elmbridge, Hersham Village E: rmitchell@elmbridge.gov.uk T: 01932 220557
	**Tony Elias** Party: Conservative Borough and District: Tandridge E:Cllr.tony.elias@tandridgedc.gov.uk T: 01883742685

	Philip Walker Employee & Pensioners Representative
	**Charlotte Morley** Party: Independent Borough and District: Surrey Heath E:charlotte.morley@surreycc.gov.uk T: 01276 469115
	**Kelvin Menon** Employer Representative

Membership of the Local Pension Board

	**Nick Harrison: Chairman** Party: Residents' Association and Independent Borough and District: Reigate and Banstead E: nicholas.harrison@surreycc.gov.uk T: 01737 215405
	**Paul Bundy** Head of Finance Surrey Police E: Paul.Bundy@surrey.pnn.police.uk
	David Stewart Surrey LGPS Members

	**Trevor Willington** Surrey LGPS Members
	Rohit Dara GMB branch secretary
	**Siobhan Kennedy** Homelessness, Advice & Allocations Lead for Guildford Borough Council.
	**Fiona Skene** Corporate Head of HR & OD – Runnymede Borough Council E: Fiona.Skene@runnymede.gov.uk

Officer Contact Details

	**Leigh Whitehouse** Executive Director of Resources (s151 Officer) E: leigh.whitehouse@surreycc.gov.uk T: 020 8541 7012
	**Anna D'Alessandro** Director, Corporate Finance E:anna.dalessandro@surreycc.gov.uk T: 07885 434034
	**Neil Mason** Head of Pensions E: neil.mason@surreycc.gov.uk T: 020 8213 2739
	**Steve Turner** Professional Advisor - Mercer E: steve.j.turner@mercer.com T: 01483 777035

	**Anthony Fletcher** Professional Advisor - Independent E: Anthony.Fletcher@MJHudson.com T: 020 7079 1000
	**Gemma Sefton** Fund Actuary T: 0141 566 7568 E: gemma.sefton@hymans.co.uk

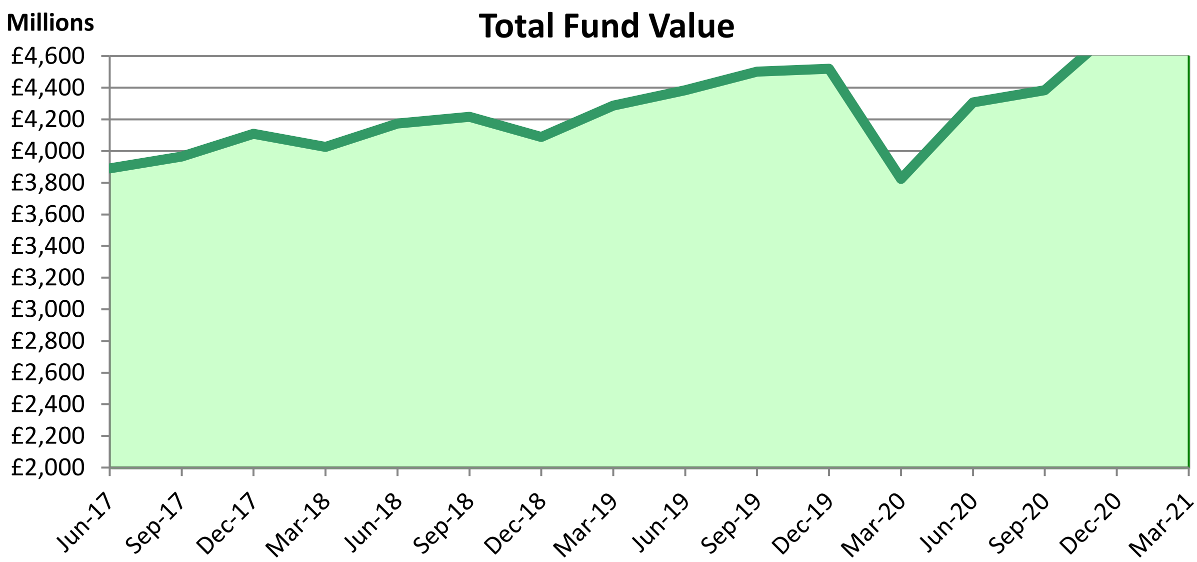
Fund Managers	- LGPS Pool: Border to Coast Pensions Partnership - Baillie Gifford - CBRE Global Investors - Franklin Templeton Investments - Legal and General Investment Management - Newton Investment Management - Western Asset Management - Aviva Investors - Ruffer
Global Custodian	- Northern Trust
Bankers	- HSBC
Legal Advisors	- Eversheds (Pensions Law), - Browne Jacobson (Legal Due Diligence)
Private Market Managers	- LGPS Pool: Border to Coast Pensions Partnership - BlackRock - Capital Dynamics - Goldman Sachs Asset Management - Hg Capital - Livingbridge Equity Partners - Standard Life Capital Partners - Pantheon Global Infrastructure - Glennmont Partners - Darwin Property Investment Management
AVC Provider	- Prudential Assurance Company - Equitable Life Assurance Society
Auditors	- Grant Thornton UK LLP

Overview

Overview

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Contributions and transfers in	191,164	191,730	197,707	219,408
Less benefits and expenses paid	(167,521)	(176,248)	(191,683)	(187,523)
Net additions	**23,643**	**15,482**	**6,024**	**31,885**
Net investment income*	64,719	58,270	50,769	24,705
Change in market value	98,662	185,943	-512,885	1,096,943
Net return on investments	**163,381**	**244,213**	**462,116**	**1,121,648**
Net increase in Fund	187,024	259,695	456,092	1,153,533
Fund value at 31 March	4,055,883	4,315,578	3,859,486	5,013,019

*Net of Investment and governance expenses and tax withheld expenses



The table below breaks down membership by type of the Fund as at 31 March.

	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021
Contributory Employees	34,298	35,802	34,292	35,458	39,366
Pensioners and Dependants	24,025	25,135	25,929	27,244	28,363
Deferred Pensions	41,573	45,079	49,874	48,612	44,062
Total	**99,896**	**106,016**	**110,195**	**111,314**	**111,791**

In 2020/21 there have been 1,410 new pensions paid, which are analysed below:

Retirement Type	Number of Retirements
Ill Health	25
Normal	841
Early	544
Total	**1,410**

SURREY
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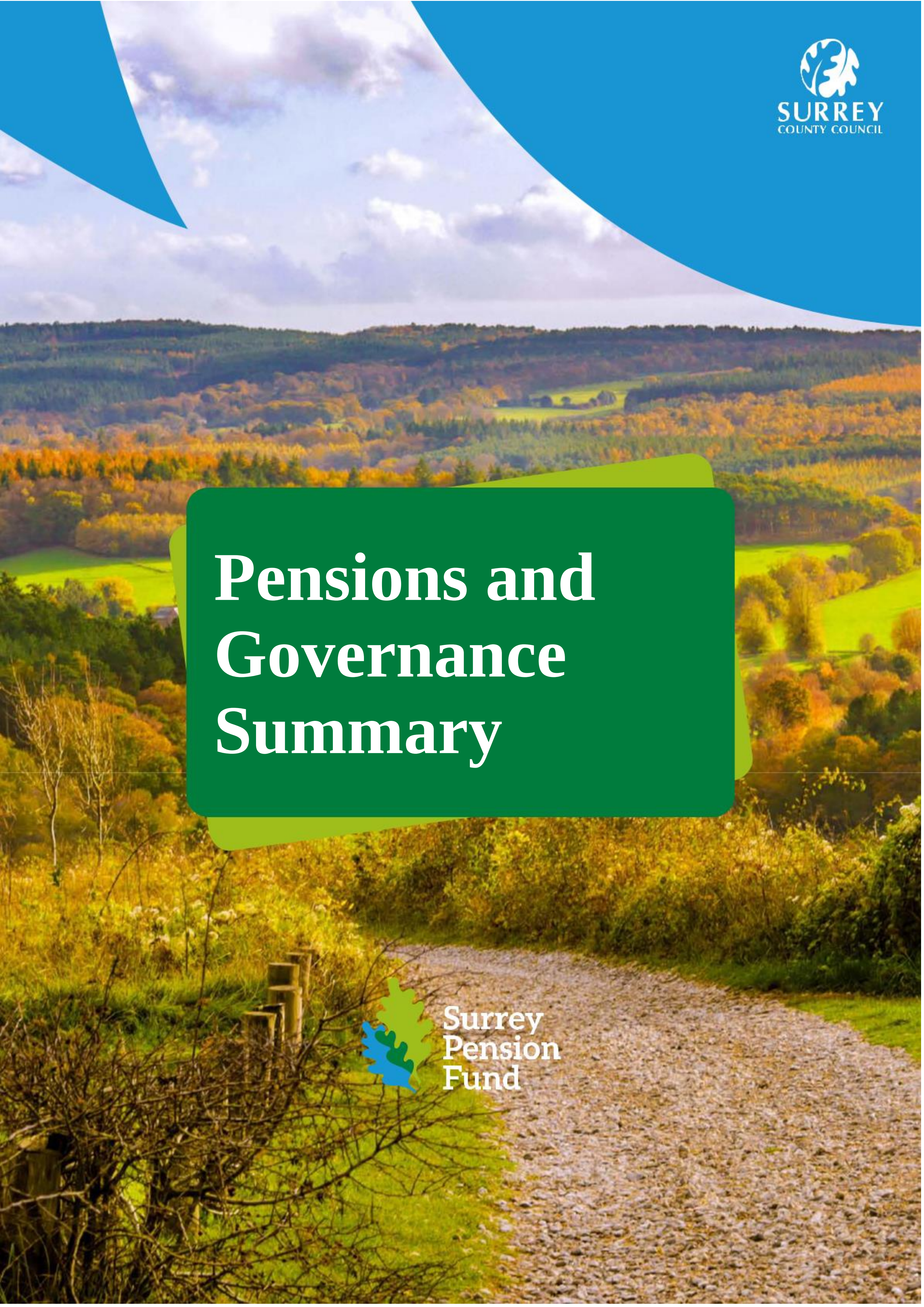
Pensions and Governance Summary



Surrey
Pension
Fund

LGPS Scheme Details

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index
- requires members to have at least 2 years' membership to qualify for pension benefits

Key LGPS Facts England and Wales

- Made up of 89 regional funds and 8 LGPS Pensions Pools
- Around 6.1 million members
- Total fund assets are over £276 billion
- Total expenditure on benefits is over £9.4 billion

Key LGPS Facts SCC

- Made up of 302 employers
- Around 111,000 members
- Total fund assets are over £5billion
- Total expenditure on benefits is over £174 million p.a.

The following pay ranges and employee contribution rates were applied for 2020/21:

Actual Pensionable Pay	Contribution Rate
Up to £14,600	5.5%
£14,601 to £22,800	5.8%
£22,801 to £37,100	6.5%
£37,101 to £46,900	6.8%
£46,901 to £65,600	8.5%
£65,601 to £93,000	9.9%
£93,001 to £109,500	10.5%
£109,501 to £164,200	11.4%
£164,201 or more	12.5%

The regulations for the pre-April 2014 and post-April 2014 scheme are shown below:

Pre-2014: www.lgpsregs.org/timelineregs/Default.html

Post-2014: http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php

More information on the LGPS can be found on pages 109 to 112.

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 pay bands above increase each April in line with increases in the Consumer Prices Index (CPI).

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
- 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.

Governance Summary

Pension Fund Committee:

Responsibility and governance for the Pension Fund, including investment strategy, fund administration, liability management corporate governance is delegated to the Surrey Pension Fund Committee, which is made up of:

- Six nominated members of the County Council;
- Two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
- One representative from the external employers;
- One representative of the members of the Fund.

The Pension Fund Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Head of Pensions. The Pension Fund Committee meets on a quarterly basis.

Local Pension Board:

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Surrey Pension Fund Committee had been assisted in its management of the Surrey Pension Fund by a Local Pension Board made up from representatives of members and employers of the scheme.

The role of the local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013 is to assist the County Council as Administering Authority:

(a) to secure compliance with:

I. the scheme regulations;
II. any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
III. any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.

(b) to ensure the effective and efficient governance and administration of the LGPS Scheme.

The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions but should always act within its terms of reference.
The Local Board is made up of representatives of the employers and members within the Surrey Fund and that the representation between employees and employers should be equal. The terms of reference of the board outlines the constitution of members as follows:

Employer representatives
- 2 x Surrey County Councillors
- 2 x Other employer representatives

Member representatives
- 1 x GMB nominated representative
- 1 x Unison nominated representative
- 2 x Other member representatives

The first meeting of the year for the Local Pensions Board was at 31 July 2020. The Board papers and minutes of meetings, as well as those for the Pension Fund Committee, are available on the Surrey County Council website.

The annual report of the Local Pension board is overleaf.

Local Pension Board Annual Report

Chairman's Introduction

Welcome to the Annual Report of the Surrey Local Pension Board. It has been a challenging year for Surrey Pension Fund and the wider Local Government Pension Scheme (LGPS). Covid-19 has posed significant issues. We have however used 2020/21 to continue to build on and develop further the good practices developed since the Board was established in 2015.

The Board is a requirement under the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013. Its primary function is to assist the Pension Fund Committee and Surrey County Council with:

- its compliance with the LGPS Regulations, other relevant legislation and requirements imposed by the Pensions Regulator; and
- the effective and efficient governance and administration of the scheme.

The Board has conducted oversight of the Pension Fund Committee in relation to actuarial valuations, changes in investment strategy and the continued implementation of the local government pension pools through the Surrey Fund's membership of the Border to Coast Pension Partnership (BCPP) pool. I participate in meetings with the other chairs of Local Pension Boards in the BCPP pool, to exchange experiences, ideas and assess the progress of the pooling arrangements.

The Board has closely tracked the administrative performance of the Fund and its impact on the member and employer experience through quarterly KPI's, reports on projects, systems changes and evolving pension legislation and best practice guidance. The Board also maintains oversight of the Fund's risk management protocols and risk registers.

I would like to commend the Pension Fund team and the Pensions Administration team for their quick adaptation to working remotely during the pandemic, ensuring that the Fund's basic functions of paying Fund members' benefits on time and the continuation of business-as-usual for pensions operations. The Chairman of the Pension Fund Committee and I received regular weekly updates from the Strategic Finance Manager on priority areas aligned with the Pensions Regulator's advice and the Fund's Covid-19 risk register.

The Board continues to meet ahead of the Committee to provide an effective oversight. It takes the lead in reviewing administrative performance, projects, the risk registers, and reporting issues of concern to the Committee. The Board also reviews the activities of the Committee at each subsequent meeting, providing its input as required.

I thank all members of the Board for their contributions and would highlight in particular Paul Bundy, David Stewart and Trevor Willington who have served since the Board's inception.

The meetings of the Surrey Local Pension Board are held in public. We welcome anyone with an interest in the Fund to attend and see for themselves how the Board operates. We are also open to suggestions from both employers and members about how we can best support them.

You can find out more by writing to the Board's supporting officer, Angela Guest at angela.guest@surreycc.gov.uk or phoning 07929 724773.

Nick Harrison
Chairman of the Surrey Local Pension Board

To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme.	How the Board does this:
a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.	The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together. The Board receives updates on the Border to Coast Pension Partnership (BCPP) pool.
b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.	The Board has oversight of Pension Fund policies and processes. The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis.
c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.	The Board reviewed employer pension discretions in July 2016 and have continued to monitor compliance over the past year. The Board received a report on Compliance with the Pensions Regulator's Code of Practice No. 14 at its meeting on 11 February 2021.
d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.	This was reviewed as part of the Fund Annual Report on 12 November 2020, with specific policies also reviewed periodically in 2020/21 meetings. The Board will review these on an annual basis as part of the Fund Annual Report and as part of its Forward Plan.
e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.	The Board was provided with an updated communication policy which outlined current communications channels for members and employers at its meeting on 11 February 2021.
f) Monitor complaints and performance on the administration and governance of the scheme.	The Board reviews complaints on a quarterly basis.
g) Assist with the application of the Internal Dispute Resolution Process.	The Board receives a quarterly update on the number of Internal Dispute Resolution Process cases and monitors any key themes emerging from these.
h) Review the complete and proper exercise of Pensions Ombudsman cases.	N/A – No current or outstanding Ombudsman cases to consider.

i) Review the implementation of revised policies and procedures following changes to the Scheme.	N/A – No changes. The Board is fully conversant on current proposed changes to the LGPS regulations through regular bulletins within the standing item Recent developments in the LGPS.
j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.	The Board will review its own training needs on an annual basis. A knowledge and understanding log is included in the Board's annual report. All Board members are required to complete the Pension Regulator Public Sector toolkit in order to comply with the Board's Attendance, Knowledge and Understanding policy.
k) Review the complete and proper exercise of employer and administering authority discretions.	The Board received a report on discretions on 31 July 2020 and due to receive a Discretions Update in November 2021.
l) Review the outcome of internal and external audit reports.	The Board complies with Surrey County Council's agreed process for internal audit reports being considered by scrutiny boards. This means all relevant audit reports are circulated to the Chairman, and any report with one or more high priority recommendation will be considered for discussion at the Board. The results of any external audit are shared with the Board.
m) Review draft accounts and scheme annual report.	The Board received both the Draft Statement of Accounts and Fund Annual Report 2019/20 on 12 November 2020.
n) Review the compliance of particular cases, projects or process on request of the Committee.	N/A
o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.	The Board receives a Breach of Law update as and when breaches occur, the last report was on 11 February 2021.

Schedule of Meetings and Agenda Items 2020/21

31 July 2020 (Informal due to inquoracy)

- Changes to the Management Arrangements for Pension Administration
- Summary of the Pension Fund Committee Meeting of 12 June 2020
- Administration Update (1 April 2020 to 30 June 2020)
- Administration Performance Report
- Risk Registers 2020/21
- Training Policy
- Compliance with TPR
- Surrey Local Pension Board Annual Report 2019/20
- Discretions Policies Update
  Recent Developments in the LGPS

12 November 2020

- Summary of the Pension Fund Committee Meeting of 11 September 2020
- Administration Update
- Administration Performance Report
- Risk Registers
- McCloud and Exit Cap
- Recent Developments in the LGPS
- Review of Internal Dispute Resolution Cases in 2020/21
- Annual Report
- Communications Update
- Turnaround Board Update

11 February 2021 (Informal due to inquoracy)

- Administration Update
- Administration Performance Report
- Risk Registers 2019/20 Quarter 3
- Communications Policy
- Compliance with The Pensions Regulator's Code of Practice No. 14
- National Knowledge Assessment (NKA) Results and Training Plan
- Recent Developments in the LGPS
- Review of Internal Dispute Resolution Cases (Quarter 3)
- Summary of the Pension Fund Committee Meeting of 11 December 2020
- Annual Benefit Statements - Breach of Law Report Quarter 3
- Accounting for Tax - Breach of Law Report Quarter 3
- Turnaround Board Update

27 May 2020 (Cancelled)

Surrey Local Pension Board Attendance and Training Log 2020/21

Members of the Local Pension Board

Name	Representing	Appointed	Appointment ended
(NH) Nick Harrison (Chairman)	Scheme employers	17 July 2015	N/A
(GE) Graham Ellwood (Vice-Chairman)	Scheme employers	14 June 2017	January 2021
(PB) Paul Bundy	Scheme employers	17 July 2015	N/A
(DS) David Stewart	Scheme members	17 July 2015	N/A
(TW) Trevor Willington	Scheme members	17 July 2015	N/A
(TM) Tina Matravers	Scheme members	29 January 2016	September 2020
(SK) Siobhan Kennedy	Scheme members	29 April 2020	N/A
(RD) Rohit Dara	Scheme employers	22 September 2020	N/A
(FS) Fiona Skene	Scheme members	10 December 2020	N/A

Meeting attendance

Meeting date	In attendance	Apologies
31 July 2020 (informal)	PB, NH, TW	DS, GE
12 November 2020	NH, SK, TW, FS	DS, GE
11 February 2021 (informal)	PB, NH, SK	TW, FS
27 May 2021	cancelled	

Compulsory training

Training	Attained
The Pensions Regulator Public Sector Toolkit	NH, PB, DS, TW, SK
Local Government Association Fundamentals 1	NH, PB, DS, TW
Local Government Association Fundamentals 2	NH, PB, DS
Local Government Association Fundamentals 3	NH, PB, DS, TW

Additional training

Date	Meeting	In attendance
21 April 2020	Hymans - Keeping the LGPS connected Webinar	NH
06 May 2020	LGPS Live	NH, TW, SK
24 May 2020	Members' Annual Event Webinar	NH
13 August 2020	Hymans - Keeping the LGPS connected Webinar	NH
09 September 2020	BCPP Property Development Webinar	PB
06 October 2020	Fundamental Training Day 1	PB
7 October 2020	Fundamental Training Day 2	PB, RD
7 October 2020	Fundamental Training Day 3	PB
11 February 2021	Minerva - ESG training	PB, NH, SK

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a "conflict of interest", which is defined in Section 5(5) as a "financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme."

A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Local Pension Board, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests.

A conflict of interest would prejudice an individual's ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.
An example of a potential conflict of interest could be:

A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility; e.g(s):

- a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;

- a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;

- an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

Name	LGPS Member/ Employer Representative	Date of Appointment/ Termination (if applicable)	Relevant employment or positions held	In receipt of a LGPS pension?	Stated Conflict with Employ ment?	Additional note	Other Conflicts of Interest
Nick Harrison	Employer	17/07/2015	Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd.	No	No	Deutsche Bank itself has no role in relation to the Surrey Pension Fund and no role more generally in providing banking, investment or other services to Surrey County Council.	N/A
Paul Bundy	Employer	17/07/2015	Service Director Finance, Surrey & Sussex Police	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.	N/A
David Stewart	Member	17/07/2015	Shared Performance and Reward Manager (LBHF and RBKC), Shared Human Resources London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea	Yes	No	Employer's pension services are administered by Orbis - this is actively managed by being recorded at every meeting, and any likelihood of conflict arising would be mitigated by the member removing himself from the discussion.	N/A
Trevor Willington	Member	17/07/2015		Yes	No	Employer not involved in financial business.	N/A
Siobhan Kennedy	Member	25/04/2020	Homelessness, Advice & Allocations Lead for Guildford Borough Council.	No	No	N/A	N/A

Rohit Dara	Member	22/09/2020	GMB branch secretary	No	No	N/A	N/A
Fiona Skene	Member	10/12/2020	Corporate Head of HR & OD – Runnymede Borough Council.	No	No	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.	N/A
Graham Ellwood	Employer	14/06/2017	Elected Member of Surrey County Council; Independent Financial Adviser with Station Financial	No	No	N/A	N/A
Tina Matravers	Member	29/01/2016 – 22/09/2020	GMB Branch Secretary Surrey County Branch County Hall	Yes	No	N/A	N/A

Knowledge and Skills Policy

The administrators of the Surrey Pension Fund are committed to the implementation of the Code of Practice on public sector pensions finance knowledge and skills. The Pension Fund Committee has agreed the following knowledge and skills policy statement.

1. The Pension Fund Committee recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the responsibilities allocated to them

2. It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills

Investment Report

SURREY
COUNTY COUNCIL

Surrey
Pension
Fund

Annual Investment Review

This report has been prepared by the Independent Investment Advisor to Surrey County Council Pension Fund (the Fund). At the request of the Pension and Investment Committee the purpose of the report is to fulfil the following aims: -

- Provide a review of the economic and market background over the 12 months to 31st March 2021.
- Provide an overview of market returns by asset class over the last 12 months.
- Provide an overview of the Fund's performance versus the Fund specific benchmark for the last 12 months.
- An overview of the outlook for markets and how this may impact the performance of the Fund.

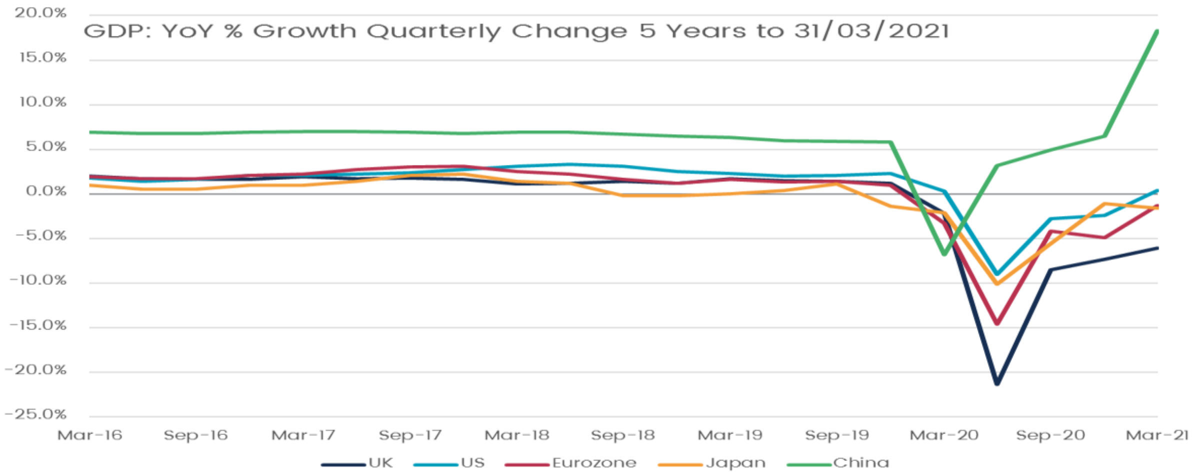
1. Economic Background

The past Financial year has been dominated by the coronavirus pandemic and its devastating effect on lives throughout the world. Once the pandemic was officially confirmed in March 2020, most Governments set about locking down their domestic populations and introduced international travel bans in a belated attempt to contain the rate of infection. Having switched off major parts of the economy, they introduced support packages aimed at stabilising domestic incomes. In a co-ordinated response Central Banks announced sharp cuts in interest rates, immediate support for the interbank system via the injection of almost unlimited liquidity and resumed their Quantitative Easing programmes on an unprecedented scale, with a much broader range of eligible assets including both investment and sub-investment grade bonds. The amount of support provided both in the form of Fiscal and Monetary Policy was far larger than provided during the Global Financial Crisis. Fifteen months later most these policies remain in place as developed and developing economies are still dealing with the impact of the virus and its new variants.

As can be seen in chart 1 below, after the collapse of economic activity between March and June 2020, GDP saw a sharp “V” shaped rebound as restrictions were eased over the Summer. However, as the year moved into Winter the lifting of restrictions proved premature with 2nd and 3rd waves of infection. Partly due the easing of restrictions but more because of the emergence of new more infectious variants. In November, the delivery in record time of effective vaccines supported optimism about a way out of the pandemic and return to more normal activity. The differing pace of the roll-out of vaccination programmes and the varied responses of regional governments has led to a slower and more varied rates of growth in the second half of the Financial year. UK growth may have also been dampened by the change in policy on the trade in goods with the European Union, which came into effect on the 1st January 2021.

In numbers at the end of the Financial year 2021, The UK economy was 6.1% smaller than in March 2020, the USA was 0.4% larger and the Eurozone and Japanese economies were respectively 1.8% and 1.4% smaller. In China, however, where the pandemic started, the economy was 18.3% larger. Mainly because China’s economy is driven more by production of goods, whereas the developed economies are driven by consumption of goods and services.

Chart 1: - GDP growth, quarterly % change. (Source: - Bloomberg.)

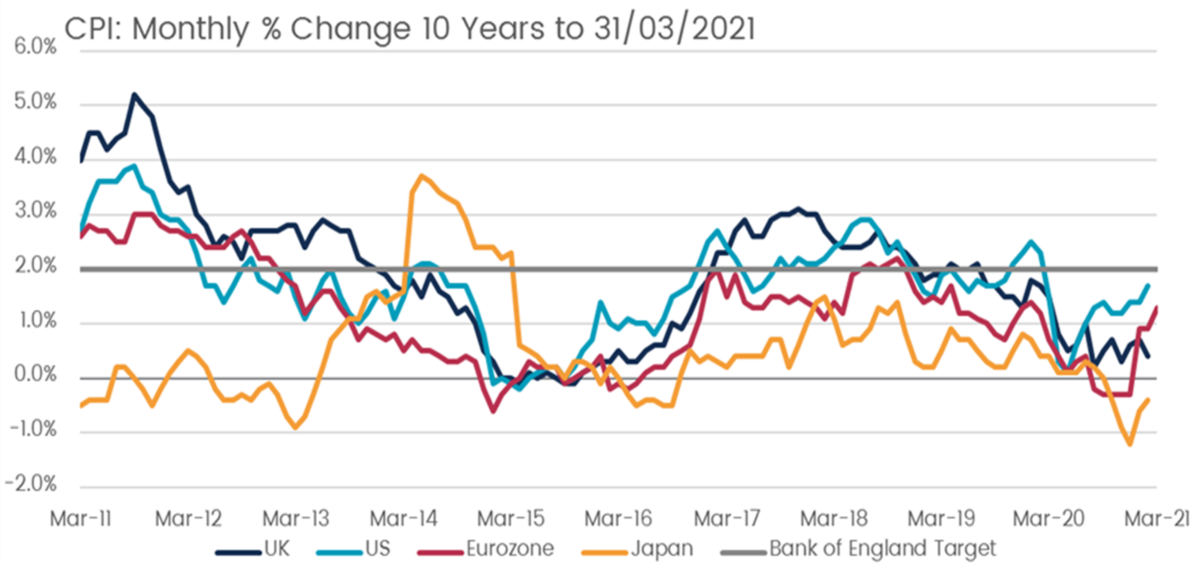


As can be seen in chart 2 below Inflation has begun to tick up as economies recover. This is largely a “base effect” from the sharply lower inflation rates of 12 months ago and the impact of negative oil prices in

March 2020. While there have been some increases in inflation, this is related to supply shortages and dis-locations caused by the various lockdown measures and travel restrictions.

Inflation is expected to be higher in 2021 and 2022, but this is expected to be transitory rather than permanent.

Chart 2: - Headline CPI inflation and the Central bank target rate. (Source: - Bloomberg.)



Central Banks

Since the announcement of unprecedented monetary support in March and April 2020, central banks have left policy unchanged. Twelve months on QE programmes are in "care and maintenance" mode. The US Fed has reiterated its policy on interest rates, confirming that it has no intention to increase rates until the economy is back to full employment, the inflation rate is sustainably above 2% and is showing signs of trending higher. The BoE, BoJ and the ECB have similar policies. Market expectations of higher rates have been revised, but at the time of writing no rate changes are expected before 2023, although speculation is high that QE purchases may be reduced as early as the end of the year.

Global politics

The only significant change in the political landscape in the financial year was the departure of Mr Trump as US President. He has been replaced by the Democrat Joe Biden and the Democrats have also "on paper" at least achieved for the first time in many years a majority in both houses of Congress. The international policy of the new administration is based on the US re-engaging in global co-operation with its key allies. Its domestic policy objectives are to use Fiscal policy to invest in infrastructure and secure a more equitable economic recovery. Sadly, the world will still be dealing with the legacy of the Trump presidency for some time. Hence the actions of authoritarian regime's like China, Russia, and most recently Belarus are likely to continue.

The UK's relationship with the EU remains febrile to say the least, while it would appear that trade between most of the UK and the EU has returned to normal levels, problems remain in Northern Ireland. Also, in Jersey a ridiculous escalation in tensions over the slow-paced issue of fishing licenses, led to a threat from the French Maritime Minister to cut off the island's electricity supply. The EU also continues to propose unreasonable and potentially unworkable conditions in its negotiations over the future of trade in services, which are far more important to the UK economy.

Market Returns

The actions of central banks and governments generated a sharp recovery in world equity markets, so that most markets had recouped their sharp losses incurred in March 2020, by the end of September. This rally was further boosted by the approval of anti-Covid vaccines in November, so that the MSCI All Country World Index recorded a total return of 39.1% for the year to March 2021, with North America, Asia Pacific (ex-Japan) and Emerging Markets regions each gaining more than 40%. UK and Japanese equities were more muted, but each returned over 26% for the year. The strongest sectors globally were Basic Materials, Technology and Industrials.

In the Financial year to November 2020, growth stocks characterised by the US FAANG stocks produced the strongest returns, but since the approval of the vaccines the performance of equity markets has broadened out into other sectors and value stocks characterised by Energy companies and Banks have outperformed.

Table 1, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2021.

% TOTAL RETURN DIVIDENDS REINVESTED

	MARKET RETURNS	
	Period end 31st March 2021	
	3 months	12 months
Global equity ACWI^	4.1	39.1
Regional indices		
UK All Share	5.2	26.7
North America	4.9	42.8
Europe ex UK	2.5	34.9
Japan	1.2	26.3
Pacific Basin	2.9	50.6
Emerging Equity Markets	1.9	40.8
UK Gilts - Conventional All Stocks	-7.2	-5.5
UK Gilts - Index Linked All Stocks	-6.3	2.3
UK Corporate bonds*	-4.4	10.1
Overseas Bonds**	-2.3	-1.1
UK Property quarterly^	2.3	2.7
Sterling 7 day LIBOR	0.01	0.05

^ MSCI indices * ICE £ Corporate Bond; **Citigroup WGBI ex UK hedged

Global Government Bonds were generally supported by the buying from central banks, but Government bond yields began to rise from new all-time lows in August as fears grew of incipient US inflation. These fears were provoked by the expectation of strong growth in the US economy together with the likely impact of substantial spending packages proposed by the new Biden Administration. The US 10-year Treasury yield rose from 0.7% to 1.7% in the six months to March 2021, accompanied by smaller, but significant, rises in UK and Eurozone bond yields. As can be seen in table 1 above corporate bonds outperformed government bonds driven in part by central bank buying but mainly due to falling relative yields driven by a recovery in corporate fundamentals.

After the Brexit agreement was signed, the pound stabilised, and in the year to March 2021 it gained 11% against the dollar, 4% against the Euro and 14% against the Yen.

UK Commercial Property languished under the effects of the continuing weakness of Retail, and the uncertain outlook for Offices after the pandemic, although Industrials were buoyant.

2. Fund Performance and Manager Structure

At the end March 2021, the Surrey Pension Fund was valued at £5,013 million, this represents an increase of £1,154 million, since 31st March 2020. The Fund achieved a total net investment return of +28.3% for the year, outperforming both the benchmark return of +23.6% and the target return of +24.6%. Over the last 3 years the Fund has achieved a total return of +6.4% p.a. which is above the benchmark return of +5.6% p.a. but slightly behind the target return of +6.6% p.a. Over the year the "funding level" of the Surrey Pension Fund improved from 93% to 96%.

The strong recovery of the Fund was driven by the performance of equity and credit markets which bounced back sharply following the announcements by central banks and governments that they would provide unprecedented levels of support for their respective economies and later in the financial year due to the earlier that expected development and rollout of vaccines. All investments except total return bonds and property made a positive contribution to returns over the year.

Towards the end of the financial year, Surrey reduced it exposure to active UK equities by closing its account with Majedie and increased the passive allocation to global regional and emerging market equities with LGIM. This is a temporary move aimed at removing assets from an underperforming manager, that is consistent with the Fund's desire to further diversify the sources of equity market return and while it waits for an active solution to be provided by BCPP.

After a difficult period towards the end of the last financial year the BCPP UK and Global Equity Alpha funds significantly outperformed their respective benchmarks and target outperformance objectives in the 2020/21 financial year. Despite Covid and "working from home" BCPP made significant progress in committing Surrey's private market allocation and cash is now being drawn down by the respective private credit and equity and infrastructure managers. Over the year BCPP and Surrey made significant progress with development of Multi-Asset Credit (MAC), Listed Alternatives and UK and Global Property investment solutions. It is expected that in the current financial year, management of the MAC portfolio will be switched from Western to BCPP and the current allocation to diversified growth funds will in part at least be transferred to BCPP's Listed Alternatives investment solution. Progress on the development of a property solution and an active global regional equity fund remains slow and is unlikely to be realised until fiscal 2022/23.

3. Economic and Market outlook

The beginning of the first quarter of 2021 was marked by economic uncertainty over of the future recovery from Covid19 as hospitalisation and death rates surpassed their second quarter 2020 highs. Outside of China, economic activity slumped again as Covid restrictions had to be re-introduced. At the same time economists were looking through the bad news and citing huge “excess” savings and pent up demand as key drivers of the economic recovery over the rest of the year.

As we moved into April and May expectations for spectacular economic growth turned from forecast to fact. While some of this improvement is due to the measured removal of restrictions on activity it should not be forgotten that there are some very powerful base effects, with recent activity data being compared to the almost total shut down of economic activity in March to June 2020. The improvement has raised fears of higher inflation and a worry that central banks are being at the same time too complacent and that they will increase rates sooner than currently expected. Hence the recent negative performance of government bond markets, while equity markets have steadily gone up.

Governments remain concerned about the recovery and have extended their support programmes to the 3rd and in some cases 4th quarter of 2021 in order to support the broader recovery. In the US, The Biden administration is going for broke with 2 further economic support packages which if passed total nearly US$ 4 Trillion, on top of the US$ 1.9 Trillion already being distributed to the working population. Central banks have also made it clear that they see the current “surge” in the inflation data as temporary and that they will remain supportive well into the recovery.

The success of the vaccination programme in the UK and the US, and after a slow start in Europe is also supporting markets. The bad news to set against all this good Covid news is the tragedy unfolding most notably in India and Brazil, which underlines the importance of a global vaccination response.

Just like last year, equity markets are well ahead of the economy and actual earnings therefore I am only cautiously optimistic, for the following reasons; while most of the growth and inflation can be explained by base effects if workers are not encouraged back to work because their unemployment benefits are more attractive, then this either slows the pace of recovery or leads to wage cost inflation, which will be more difficult for central banks to control. After the experience of the last year, savers may choose after the initial surge of spending due to “pent up” demand to have a higher savings rate than they did in the past. The Fiscal stimulus plans outlined by the Biden administration may be too big for the Senate in particular and may be not be delivered or significantly reduced. And finally, until we are all (globally) vaccinated, global re-opening remains someway off. We only have to look at the caution in our own government’s re-opening of overseas leisure travel to see how slow and expensive this could be.

In the long term, the global economy has turned a corner on climate change and sustainable development with the more constructive and engaging approach of the new Biden Presidency. The changes in the global economy that have been accelerated by Covid are also constructive for global sustainable equity, emerging markets and to a lesser extent credit markets, but remain negative for developed market government bonds. In terms of regions the more pro-cyclical and industrial sectors of Europe and the UK with their leadership in “green technology” could be beneficiaries over the US “information technology” and “social media” consumption led sectors.

Anthony Fletcher, Senior Adviser – MJ Hudson Allenbridge

Independent Investment Adviser to the Surrey Pension Fund.

August 2021

Investment Arrangements, Performance & Post Pool Reporting

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

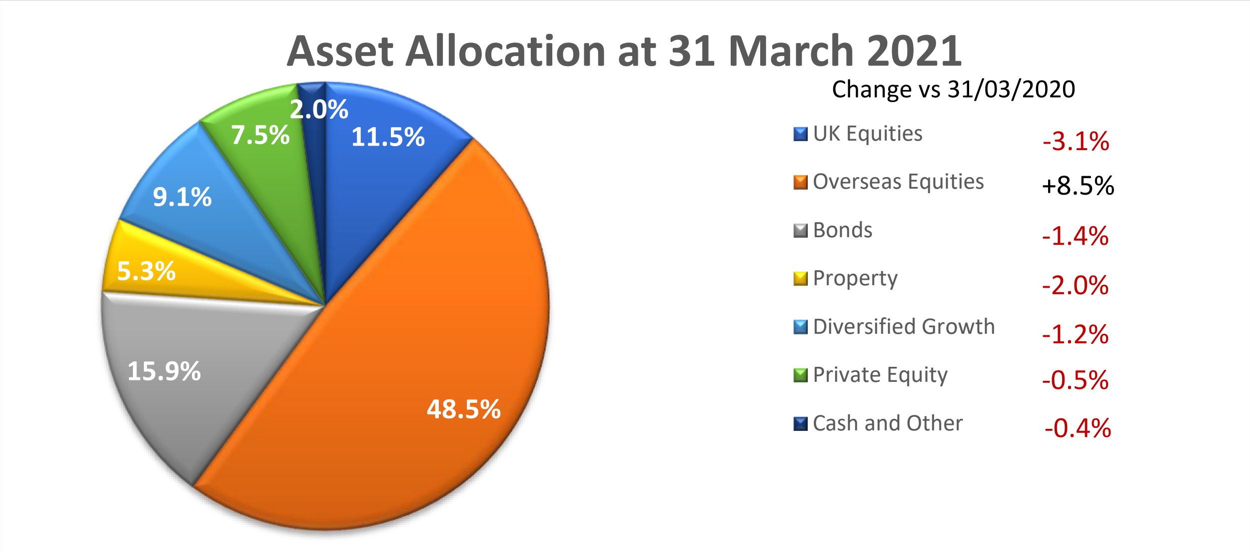
There are a number of external investment managers, who have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual stocks within approved classes. They are required to take a long-term view, balancing risk against return and are remunerated on scales related to the value of funds under management and in certain cases for performance over and above benchmark return. Regular meetings are held with external managers to assess performance.

In addition the Fund has investments in private market funds managed by Blackrock, Goldman Sachs, Hg Capital, Living Bridge Equity Partners, Capital Dynamics, Standard Life Capital Partners as well as Infrastructure funds, Pantheon Access, a new clean energy infrastructure fund, Glennmont Partners and its Asset Pool, Border to Coast Pensions Partnership.

At 31 March 2021 the market value of assets under management was £4.5bn, excluding the private equity portfolio, internally managed cash, and residual cash held by the custodian. The proportion with each of the investment managers is shown below.

Portfolio Distribution

The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2021 is shown in the below chart, with the prior year allocation shown in the table below.

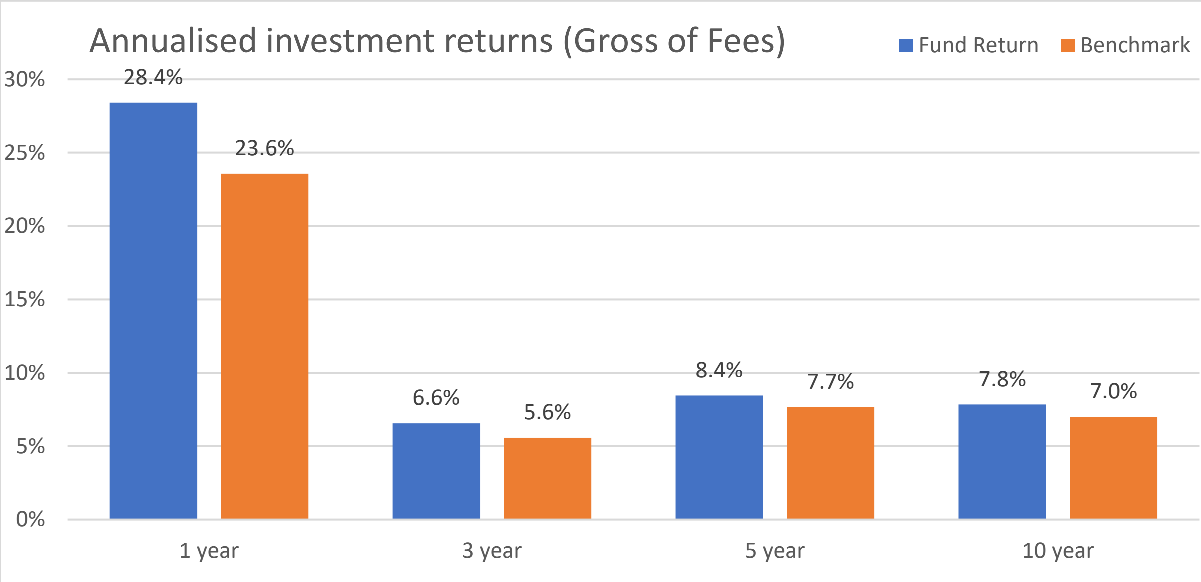


The chart below shows the investment breakdown by asset class over the last two years and the change in actual asset allocation over the year.

	Market Value as at 31 March 2020 £000	Actual Allocation 31 March 2020	Asset Allocation Target as at 31 March 2020	Market Value as at 31 March 2021 £000	Actual Allocation 31 March 2021	Movement in Year
Local Assets						
Fixed interest securities	445,047	11.64%	12.10%	598,762	12.01%	0.37%
Index linked securities	216,201	5.65%	5.50%	193,930	3.89%	-1.76%
Equities	1,284,810	33.60%	36.20%	1,805,863	36.23%	2.63%
Property unit trusts	275,396	7.20%	6.20%	266,256	5.34%	-1.86%
Diversified growth	394,217	10.31%	11.40%	455,222	9.13%	-1.18%
Private equity	305,912	8.00%	5.00%	375,945	7.54%	-0.46%
Cash and other	91,777	2.40%	0.00%	101,773	2.04%	-0.36%
Pooled Assets						
BCPP UK Equity Alpha	364,116	9.52%	12.00%	523,858	10.51%	0.99%
BCPP Global Equity Alpha	446,212	11.67%	11.40%	662,732	13.30%	1.63%
Total	**3,823,688**	**100.0%**		**4,983,942**	**100.0%**	

Ten fund managers undertook the management of investments during 2020/2021 in a mix of passive and active investment. The Fund assesses investment performance against a customized benchmark provided by the Fund's custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Fund's asset allocation. This allows the Fund to measure performance against a 100% passive allocation. Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund's Investment Strategy Statement.

The graph below shows how the Fund performed against the benchmark, on an annualized basis, for the previous 1, 3, 5 and 10 year periods.



The Fund recorded investment performance below that of the benchmark for the previous 12 months to 31 March 2021 as well as performance over the longer term 3 year period, shown in the above chart. The outperformance above the benchmark is partly a result of strong investment returns generated by actively managed portfolios. The allocation as at 31 March 2021 for each fund manager are shown in the below table.

Investment Manager	Mandate	Market value 31 March 2021	Percentage of Funds Under Management as at 31 March 2021
		£000	
Active Funds Managed within Border to Coast Pensions Partnership (BCPP)			
Border to Coast UK Equity Alpha	UK Equity	523,858	10.58%
Border to Coast Global Equity Alpha	Global Equity	662,732	13.38%
Border to Coast	Private Markets	51,646	1.04%
Passive Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Legal & General Investment Managers	Multi Asset	1,606,657	32.44%
Active Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Majedie Asset Management	UK Equities	1,017	0.02%
Newton Investment Management	Global Equities	445,257	8.99%
Western Asset Management	Multi Asset Credit	533,870	10.78%
Franklin Templeton Investments	Unconstrained Fixed Income	64,896	1.31%
CBRE Global Multi Manager	Property	283,219	5.72%
Baillie Gifford Life Limited	Diversified Growth	173,222	3.50%
Ruffer	Diversified Growth	152,142	3.07%
Aviva	Diversified Growth	129,858	2.62%

Various	Private Markets	324,298	6.55%
Total Funds Under Management		**4952,672**	

Transition of Assets onto Border to Coast Pensions Partnership (BCPP)

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds. Surrey Pension Fund, along with 10 other funds, is now a partner fund of Border to Coast Pensions Partnership. Each Partner Fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £833,333 respectively.

Some of the risks associated with LGPS Asset Pooling as a whole include:

- Less flexibility in terminating underperforming managers
- Conflicting strategic goals of different partner funds affecting funds on offer
- Lack of transparency in funds managed from pool, from Partner Funds

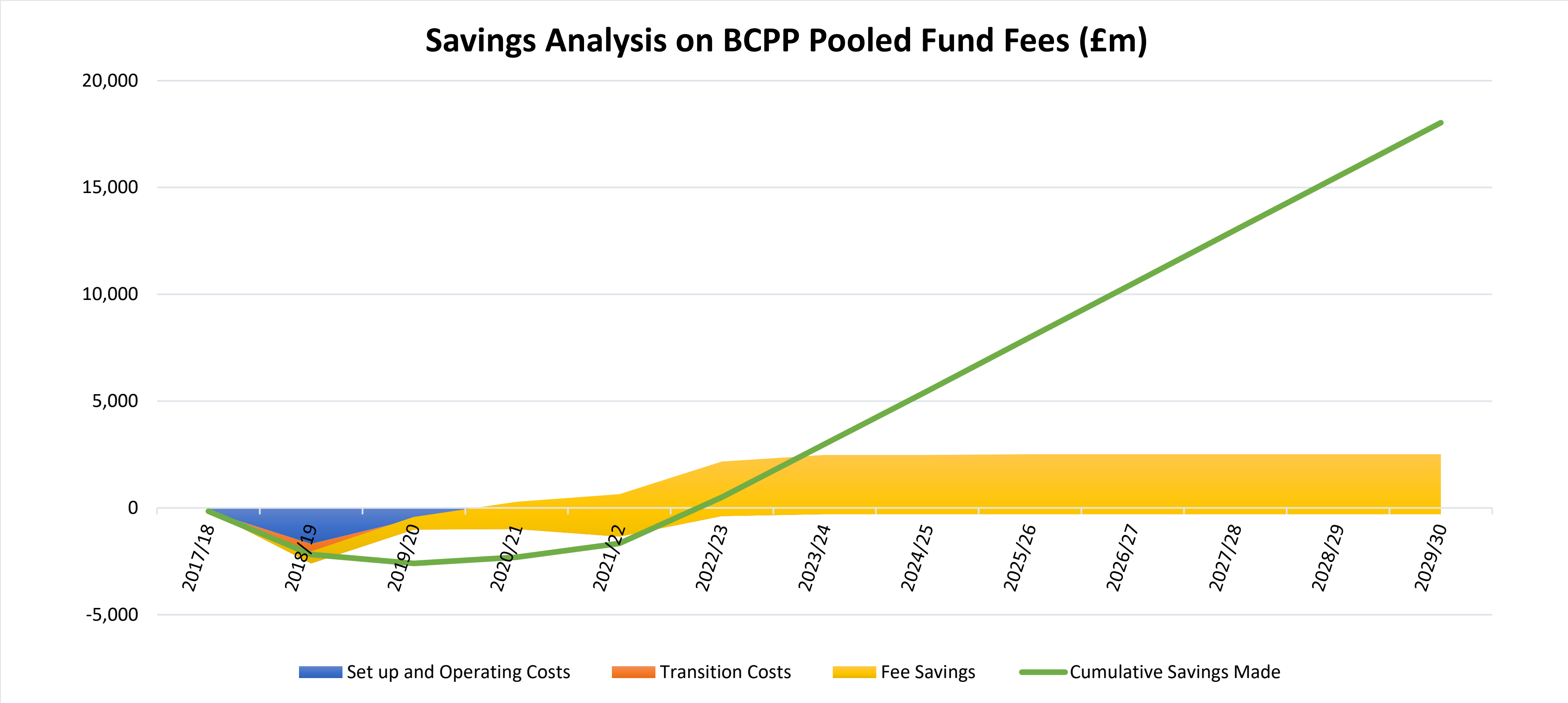
Transition Costs and Fee Savings

The initial transition costs are highlighted below with the expected savings from fee rates.

Pooling Costs 2020-21	**Direct £000s**	**Indirect £000s**	**Total £000s**	**Cumulative £000s**
Set up and Operating Costs	992		992	2,006
Other Costs				903
Transition Costs				
Transition Fees				559
Other Transition Costs Commissions				194
Other Transition Costs Taxes and Stamp Duty				1,142
Other Transition Costs Implicit		0	0	5,544
Total Transition Costs	992		992	10,003

Savings Analysis on BCPP Pooled Fund Fees (£000s)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Set up and Operating Costs	-152	-1,686	-528	-992	-558	-389	-298	-298	-298	-298	-298	-298	-298
Transition Costs		-915	-494		-782								
Fee Savings		576	601	1,282	1,984	2,558	2,780	2,780	2,811	2,811	2,811	2,811	2,811
Cumulative Savings Made	**-152**	**-2,177**	**-2,598**	**-2,308**	**-1,664**	**505**	**2,987**	**5,469**	**7,982**	**10,495**	**13,008**	**15,521**	**18,034**

Based on current projections of Manager Fee against their initial set up and transition costs, the Fund expects to realize savings by 2022/23. The Fee Savings analysis is shown in Annex 1



During 2020/21 Border to Coast has liaised with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting against key metric going forward. This supports one of the original objectives of pooling i.e.. to reduce costs and deliver value for money.

Savings from future launches are not included and the level of savings should grow as Border to Coast develop and include other funds, such as Real Estate, Listed Alts, Regional Alpha and Emerging Markets Alpha.

Cost Transparency

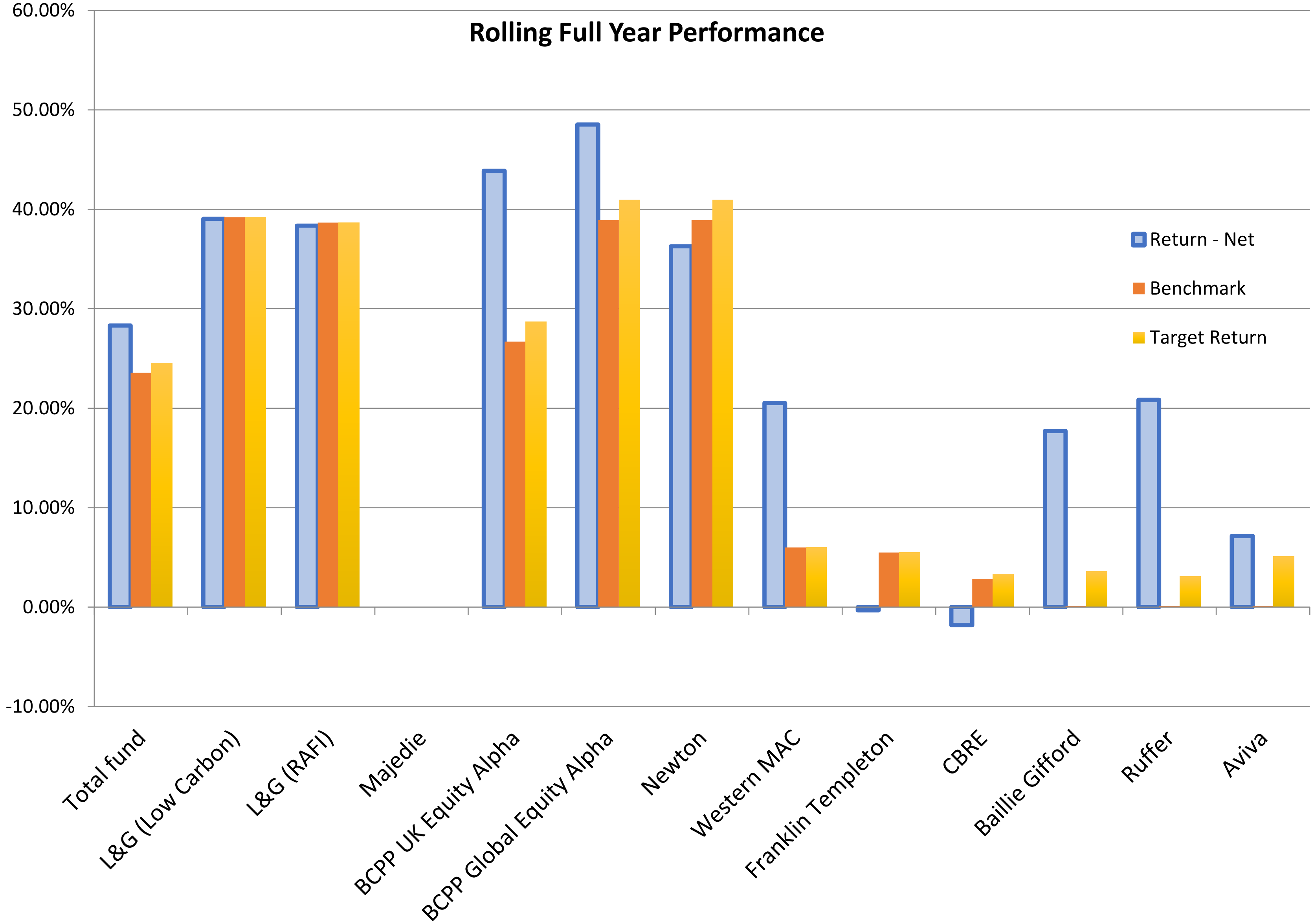
The Fund's direct investment management expenses are included in Note 14 of the Pension Fund Accounts. Given the level of scrutiny that had existed historically with the transparency of investment management expenses, a Voluntary Code of Transparency covering investment management fees and costs was developed and approved by the Local Government Scheme Advisory Board and launched in May 2017. (A copy of the Code can be found at http://lgpsboard.org/index.php/the-code#theCodetop). Fund managers to the LGPS are being encouraged to sign up to this Code and as at March 2021, there were over 130 signatory firms. The aim of this Code was to increase value added by asset owners and asset managers by moving more toward fee transparency and consistency.

All of Surrey Pension Fund's 10 Fund Managers are signatories to the LGPS Transparency Code and had provided Cost Transparency templates in time for the production of this year's annual report with this being the second reporting year against the Transparency Code. This was done either through the Scheme Advisory Board commissioned portal Byhiras, or provided them manually to officers. An additional 4 Private Market managers covering 15 Private Market funds had also provided cost transparency templates, which the Fund will continue to encourage from its other Private Market managers. The Direct Cost sections below reconcile back to Note 14 of the Pension Fund Accounts. While the Indirect Costs represent costs which, although they don't meet the format required for Pension Fund Accounts, they represent a significant proportion of the Fund's overall investment management costs to be reported in this Annual Report.

	Pooled Assets: Border to Coast Pensions Partnership			**Local Assets**		
2020-21 Investment Management Expenses	**Direct £000s**	**Indirect £000s**	**Total £000s**	**Direct £000s**	**Indirect £000s**	**Total £000s**
Total Fund Management & Administration Expenses		**7,541**	**7,541**	**7,006**	**8,972**	**15,978**
Management Fees		3,353	3,353	6,894	8,245	**15,139**
Administration		3,967	3,967		479	**479**
Governance & Compliance		221	221		247	**247**
Client Service/ Custody & Communication		0	0	112	0	112
Total Transaction Costs		**1,835**	**1,835**	**611**	**1,932**	**3,106**
Indirect transaction Costs		**0**	**0**	611	729	**1,340**
Commissions		0	0		0	**0**
Taxes and stamp duty		0	0		0	**0**
Implicit Costs		1,835	1,835		1,419	**1,419**
Dilution Levy Offset		0	0		-216	**-216**
Total Investment Management Expenses		**9,376**	**9,376**	**7,617**	**9,341**	**18,520**

Manager	Asset Category	Net of Fees Performance 1 Year (%)	Gross of Fees Performance 1 Year (%)	Benchmark Index	Benchmark Performance 1 Year (%)	Target Return 1 Year (%)
Total fund		28.31%	28.40%	Customised	23.56%	24.56%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	43.87%	43.87%	FTSE All Share	26.71%	28.71%
BCPP Global Equity Alpha	Active Listed Equity	48.52%	48.52%	MSCI ACWI	38.94%	40.94%
Non-asset pool managed investments						
L&G (Low Carbon)	Passive Listed Equity	39.03%	39.03%	MSCI World	39.21%	39.21%
L&G (RAFI)	Passive Listed Equity	38.35%	38.35%	MSCI World Low Carbon	38.67%	38.67%
Majedie	Active Listed Equity			FTSE All Share		
Newton	Active Listed Equity	36.29%	36.41%	MSCI AC World	38.94%	40.94%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	20.52%	20.81%	Total Return Fund (+6% target return)	6.00%	6.00%

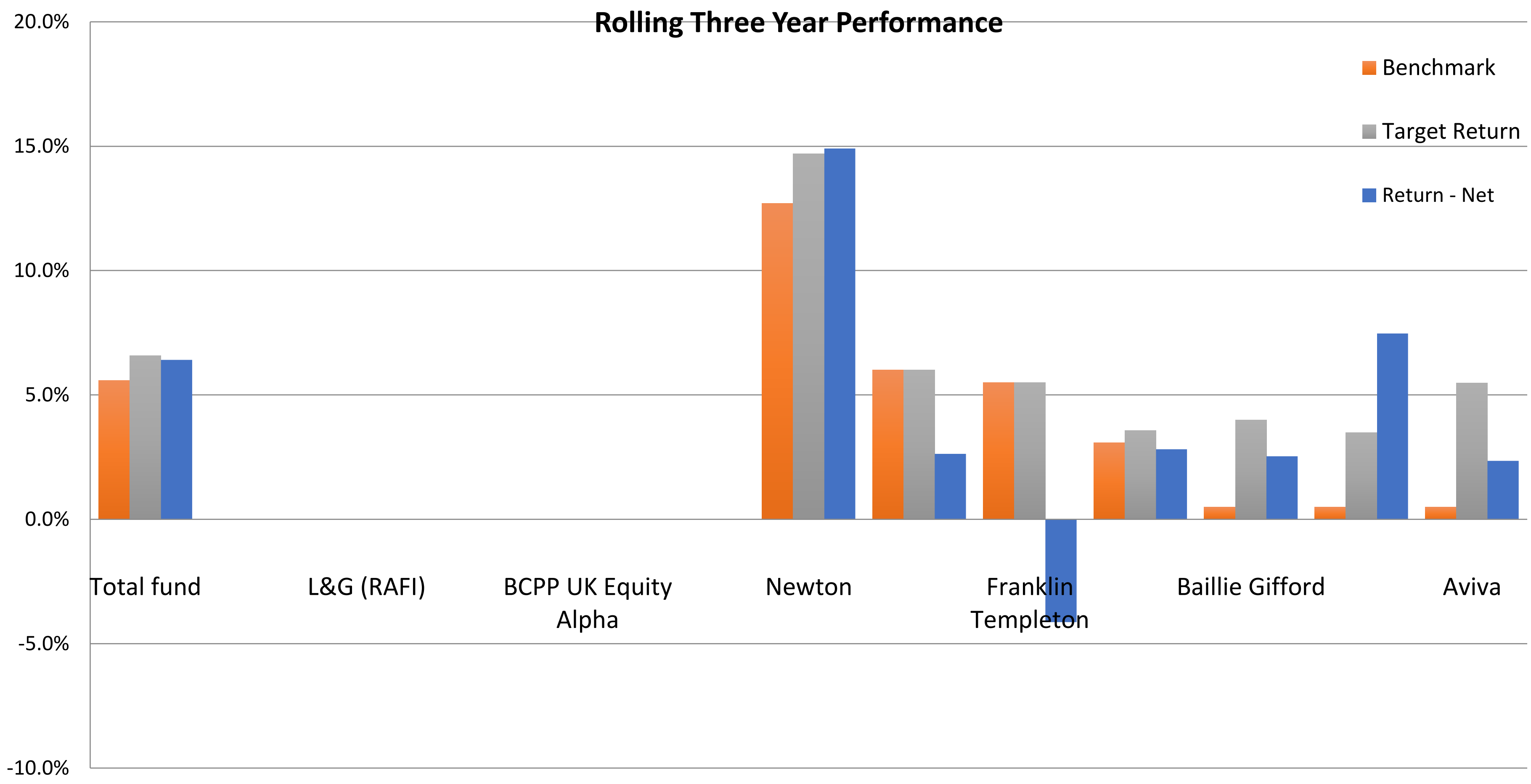
Franklin Templeton	Absolute Return Fund	-0.33%	-0.33%	Barclays Multiverse Index (+5.5% target return)	5.50%	5.50%
CBRE	Property Fund	-1.83%	-1.63%	IPD UK All Balanced Funds	2.83%	3.33%
Baillie Gifford	Diversified Growth Fund	17.73%	17.57%	UK Base Rate	0.10%	3.60%
Ruffer	Diversified Growth Fund	20.86%	20.86%	UK Base Rate	0.10%	3.10%
Aviva	Diversified Growth Fund	7.15%	6.96%	UK Base Rate	0.10%	5.10%
Alternatives	Private Equity/ Infrastructure	-1.63%	-1.51%	MSCI World Index	38.43%	-0.83%



Rolling Full Year Performance
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
Return - Net
Benchmark
Target Return
Total fund
L&G (Low Carbon)
L&G (RAFI)
Majedie
BCPP UK Equity Alpha
BCPP Global Equity Alpha
Newton
Western MAC
Franklin Templeton
CBRE
Baillie Gifford
Ruffer
Aviva

Manager	Asset Category	Net of Fees Performance 3 Year (%)	Gross of Fees Performance 3 Year (%)	Benchmark Index	Benchmark Performance 3 Year (%)	Target Return 3 Year (%)
Total fund		6.41%	6.56%	Customised	5.59%	6.59%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
BCPP Global Equity Alpha	Active Listed Equity	-	-	MSCI ACWI	-	-
Non-asset pool managed investments						
L&G (Low Carbon)	Passive Listed Equity	-	-	MSCI World	-	-
L&G (RAFI)	Passive Listed Equity	-	-	MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	-	-	FTSE All Share	-	-
Newton	Active Listed Equity	15.10%	14.91%	MSCI AC World	12.69%	14.69%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	2.93%	2.64%	Total Return Fund (+6% target return)	6.00%	6.00%

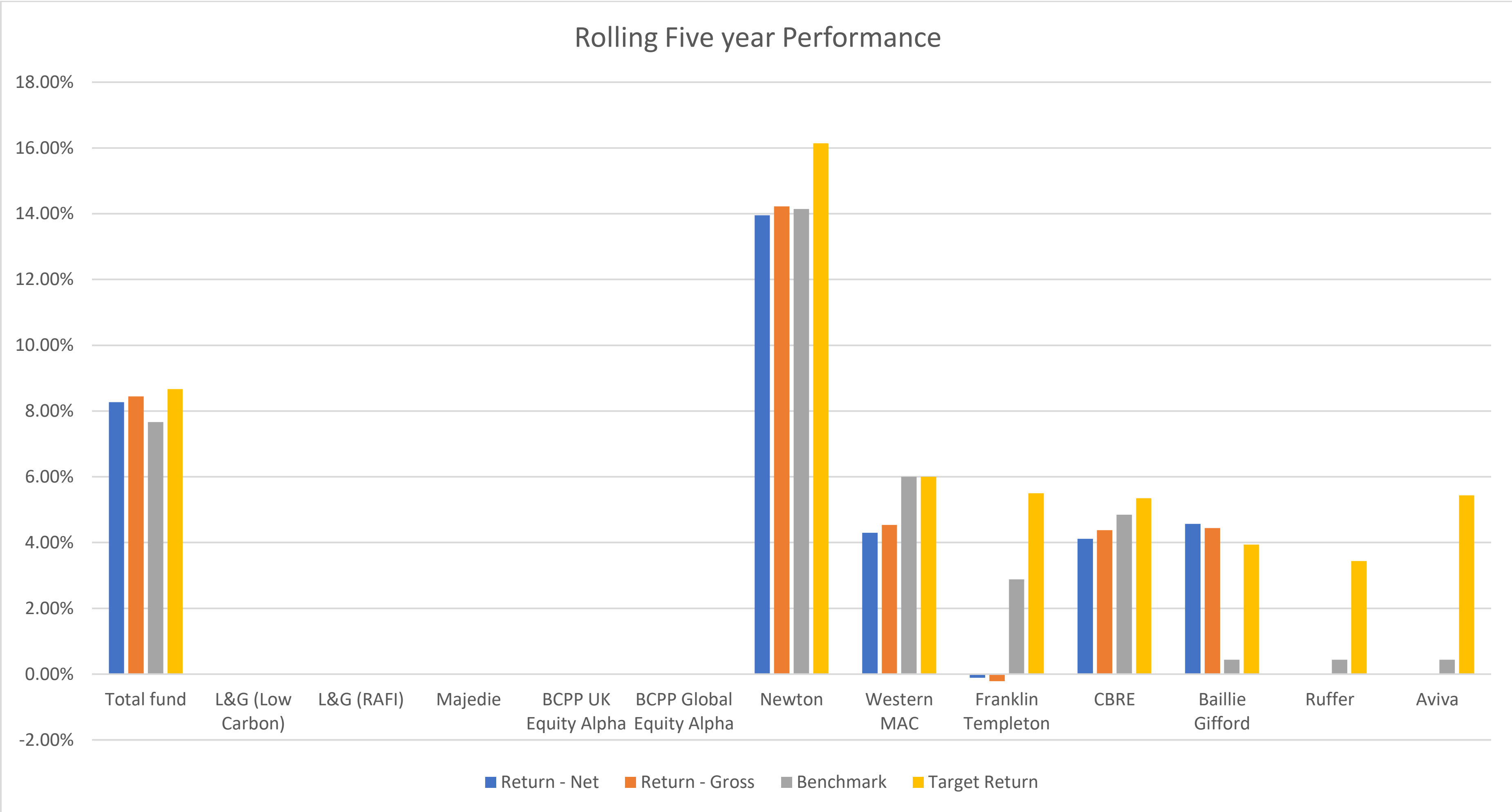
Franklin Templeton	Absolute Return Fund	-4.14%	-4.14%	Barclays Multiverse Index (+5.5% target return)	5.50%	5.50%
CBRE	Property Fund	3.08%	2.82%	IPD UK All Balanced Funds	3.07%	3.57%
Baillie Gifford	Diversified Growth Fund	2.41%	2.53%	UK Base Rate	0.49%	3.99%
Ruffer	Diversified Growth Fund	7.47%	7.47%	UK Base Rate	0.49%	3.49%
Aviva	Diversified Growth Fund	2.18%	2.35%	UK Base Rate	0.49%	5.49%
Alternatives	Private Equity/ Infrastructure	8.74%	8.68%	MSCI World Index	16.33%	13.53%



The Three Year Returns for L&G (RAFI & Low Carbon) Fund, BCPP UK Equity Alpha and BCPP Global Equity Alpha funds are not yet known due to their new inception.

Manager	Asset Category	Net of Fees Performance 5 Year (%)	Gross of Fees Performance 5 Year (%)	Benchmark Index	Benchmark Performance 5 Year (%)	Target Return 5 Year (%)
Total fund		8.27%	8.45%	Customised	7.67%	8.67%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
BCPP Global Equity Alpha	Active Listed Equity	-	-	MSCI ACWI	-	-
Non-asset pool managed investments						
L&G (Low Carbon)	Passive Listed Equity	-	-	MSCI World	-	-
L&G (RAFI)	Passive Listed Equity	-	-	MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	-	-	FTSE All Share	-	-
Newton	Active Listed Equity	13.95%	14.22%	MSCI AC World	14.14%	16.14%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	4.30%	4.54%	Total Return Fund (+6% target return)	6.00%	6.00%

Franklin Templeton	Absolute Return Fund	-0.11%	-0.21%	Barclays Multiverse Index (+5.5% target return)	2.88%	5.50%
CBRE	Property Fund	4.12%	4.38%	IPD UK All Balanced Funds	4.85%	5.35%
Baillie Gifford	Diversified Growth Fund	4.57%	4.44%	UK Base Rate	0.44%	3.94%
Ruffer	Diversified Growth Fund	-	-	UK Base Rate	0.44%	3.44%
Aviva	Diversified Growth Fund	-	-	UK Base Rate	0.44%	5.44%
Alternatives	Private Equity/ Infrastructure	10.49%	10.52%	MSCI World Index	16.33%	21.33%



The Five Year Returns for L&G (RAFI & Low Carbon) Fund, BCPP UK Equity Alpha, BCPP Global Equity Alpha, Western MAC, Ruffer and Aviva are not yet known due to their new inception

Responsible Investment

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Responsible Investment

Taskforce for Climate-related Financial Disclosures (TCFD)

The Taskforce for Climate-related Financial Disclosures is an industry-led initiative, created by the Financial Stability Board in December 2015. The aim of the TCFD is to develop voluntary, consistent, climate-related financial risk disclosures across a wide range of sectors, demonstrating the risk that climate change poses at a macro-economic level. This will then provide useful decision-making information for investors, lenders, insurers and other stakeholders. The disclosures enable organisations to identify and consider relevant information about material climate-related financial risks and opportunities that can have an impact on the decisions made by their stakeholders.

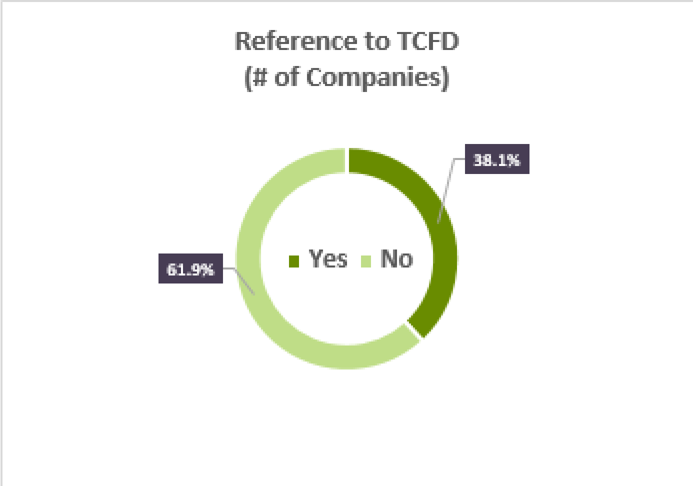
The recommendations are also applicable to asset owners and asset managers. As of October 2020, nearly 1,500 organisations globally had declared their support for the TCFD, representing a market capitalisation of over $12.6 trillion [Source: 2020 Status Report] Since its launch, TCFD has become the de-facto climate framework for global regulators, in November 2020, the Chancellor of the Exchequer announced that in order to accelerate progress on climate risk disclosures, the UK will move towards mandatory TCFD reporting across major segments of the UK economy by 2025, with a significant portion of requirements to be introduced by 2023.

Surrey Pension Fund became a supporter of TCFD in June 2019, because the Fund recognised the importance of understanding climate risks and opportunities relative to its role as an institutional investor. Over the past 15 months, the number of organizations expressing support for the TCFD has grown more than 85%, emphasising the significance of having a standardised set of disclosures for all organisations to follow at a global level. This will provide a familiar and useful reporting format for the benefit of all stakeholders.

Our first formal annual report on the Fund’s commitment to TCFD was approved by the Pensions Committee at its meeting on 11 September 2020, and is publicly available via the Council’s website.

Links to the SDG Mapping Exercise

Given the importance of tackling climate change, it is unsurprising that the United Nations have prioritised it as a specific Social Development Goal (SDG) in its own right – Goal 13 Climate Action.

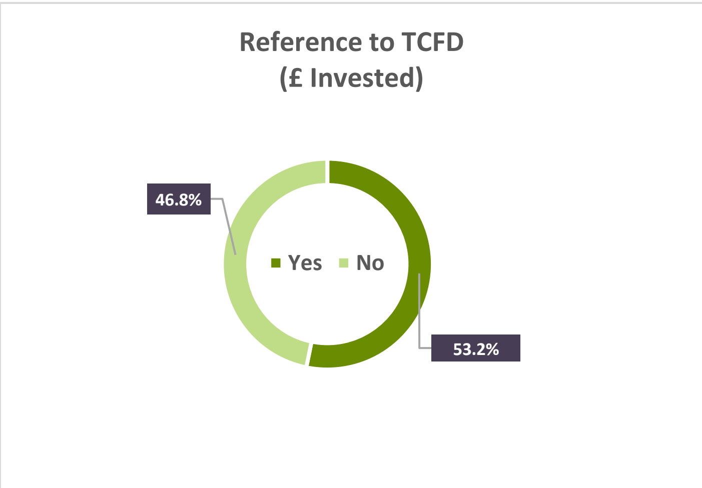


A specific component of the current SDG Mapping exercise project related to Minerva assessing the TCFD disclosures made by the Fund's underlying investee companies, across all of the Fund's external investment managers. Minerva were able to do this for the companies that they cover in their research universe, which represent over 90% of the world's listed equity markets by value.

As TCFD has become the de facto standard for disclosing climate related risks and opportunities, Minerva looked not only for instances where the Fund's investee companies had made generalised references to TCFD, but to protect against box-ticking or 'green-washing' disclosures by companies, they also reviewed the details of specific corporate disclosures looking for alignment with the TCFD's four core elements: Governance; Strategy, Risk Management and Metrics/Targets.

Minerva's analysts examined all of the Fund's equity holdings, and found that **just over 38%** of the Fund's listed equities under their research coverage **had made some material reference to TCFD** in their latest Annual Report and Accounts.

Fund TCFD Alignment by £ Invested



Whilst the number of companies held by the Fund making TCFD disclosures is of course of interest, the Fund's economic exposure to such companies is likely to be more telling, given that it actually represents the money effectively exposed to climate-related risks, and to how underlying investee companies treat these risks.

The analysis showed that of the £2.9bn analysed from in-scope managers and assets, £1.6bn – or **just over 53%** - of the total Fund value **was invested in companies** covered by Minerva **that make meaningful reference to TCFD**.

This presents a more helpful picture in terms of the Fund's economic exposure to the companies that do – and do not – seem to have identified climate change as a specific risk to their business model, and have begun making disclosure that are helpful to institutional investors, in terms of assessing which companies are taking the risk of climate change seriously. As the TFCD has been around for a relatively short period of time, for 53% of the Funds investments by value to use it as the charting process for climate strategy already is a promising result.

Looking to the Future

The Pensions Committee will continue to monitor the progress of the Fund's approach to Climate Risk and Reporting, in the context of all risks to sustainable development, and how it can impact investment decisions. The SDG Mapping exercise results had TCFD considerations included at their core, and as such climate risk were formally considered as part of this exercise, with one of the key outputs being the identification of Core Investment Beliefs to be used by the Fund in setting its overall investment strategy. Officers will also submit this annual TCFD reporting update report for consideration by the Pensions Committee every year. Furthermore, as the Fund recognises that climate change is a material investment consideration, it has adopted the Border to Coast policy in respect of climate considerations, and so will look to:

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with TCFD recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect
- our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

What Are the SDGs?

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Considering the SDGs

In April 2020, Surrey County Council, as the administering authority of the Surrey Pension Fund, formally appointed Minerva Analytics to carry out a Sustainable Development Goals (SDGs) Mapping exercise for the Fund. The objectives of the exercise are as follows:

“Surrey Pension Fund wishes to examine its existing investment arrangements in the wider context of the UN SDGs, to identify risks and opportunities. Specifically, the outcomes from the exercise are to focus on:

- *Informing & assisting the Fund in identifying its Core Investment Beliefs against specific SDGs and how they fit into its Investment Strategy;*
- *The starting position of the Fund against the UN SDGs;*
- *How the Fund can continue further as Impact Investors and integrate the SDGs into its Investment Strategy;*
- *Where there is an investment risk/opportunity to the Fund, within its assets, in relation to the transition to sustainability and a low carbon economy;*
- *The methods used to map sustainability to investment strategy and how robust they are; and*
- *The Fund’s own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.”*

Minerva’s Approach

Since their appointment in April 2020, Minerva have followed a systematic approach to reviewing the Fund’s underlying investments, investment managers, and Fund-level investment strategy and stewardship policies, to meet the key exercise objectives of exploring any existing – and possible future – alignment with the SDGs. To do this, Minerva have reviewed the Fund’s investments and mangers in the context of the World Benchmarking Alliance’s SDG 2000 benchmark. This list represents the 2,000 companies in the world that – should they be managed in a sustainable, risk-aware manner – are most likely to help deliver the 17 SDGs.

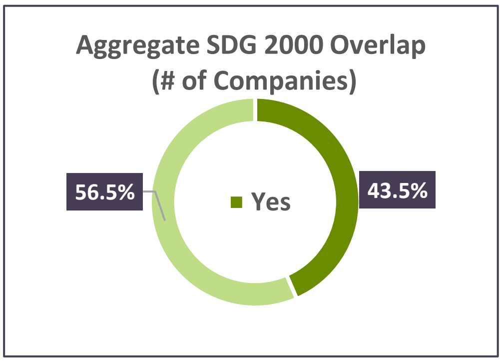
Findings

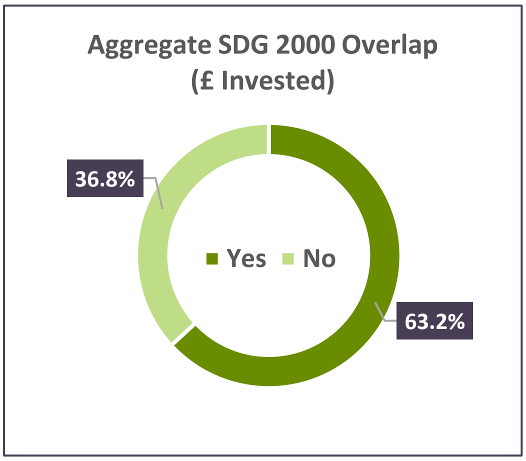
- Nine of the Fund's current investment managers, covering all of the Fund's listed equity and corporate bond investments, provided qualitative and quantitative information that was analysed by Minerva in this exercise;

- None of the existing investment managers' investment management agreements have any specific references to incorporating ESG, climate change, or SDG-alignment factors into their specific mandates mainly due to most of them being historic agreements with managers;

- Minerva's qualitative analysis of managers' policies and sophistication of ESG strategies identified practices that can be described as either Developing or Good, and the Fund's managers are themselves taking different approaches towards the SDGs, with many being at an early stage of development;

Using the World Benchmarking Alliance's SDG2000 benchmark to measure the Fund's current starting position with respect to the SDGs, we found that at the end of December 2019, the Fund's investment managers collectively held **870 (43.5%) of the 2,000 companies in the SDG2000** that are deemed most likely by the World Benchmarking Alliance to help deliver the SDGs by 2030; and





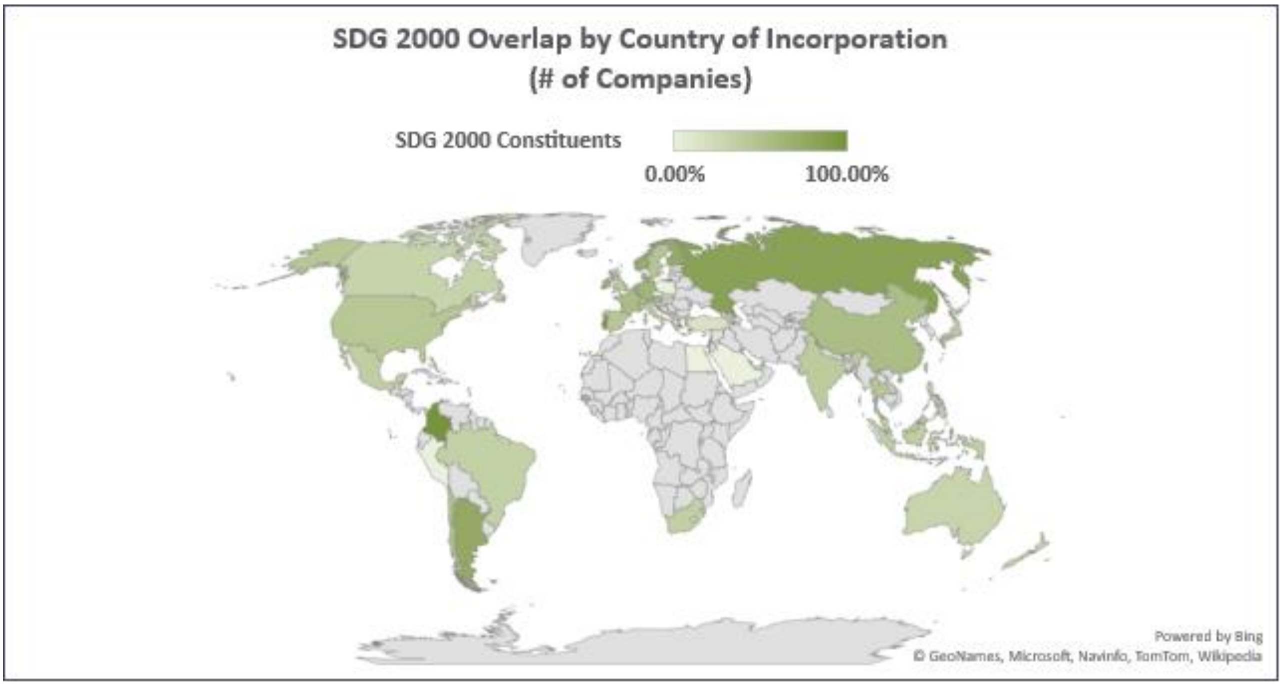
The Fund had a total of **£2.94bn invested** in these 870 companies' equities and corporate bonds, **representing almost 80% of the total value of the Surrey Pension Fund** as at end December 2019.

A number of investment risks and opportunities to the Fund were identified within its assets, in relation to the transition to sustainability and a low carbon economy;

Note: Despite the high overlap, **this was not by design**. None of the managers surveyed are employing an SDG selection strategy, either generally, or specifically for the portfolios they manage for the Fund. Further breakdown of this overlap can be found below;

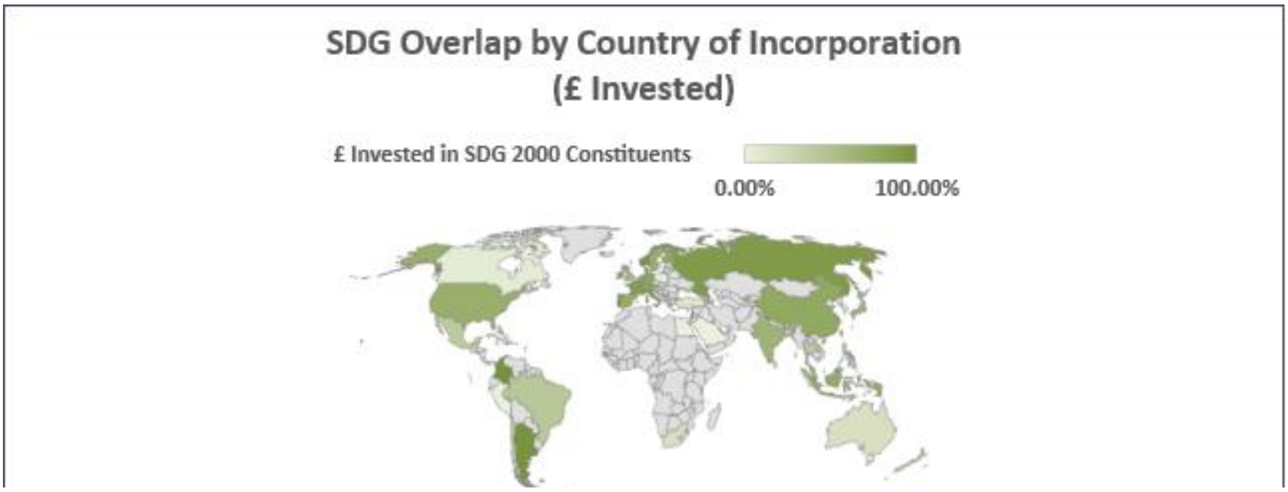
Fund Geographical Exposure by Individual SDG2000 Company

When looking at the geographical distribution of Fund's companies in the latest portfolio valuation data provided against the SDG2000; the data shows that the **US market** concentrates the biggest number of companies, followed by the **UK market,** with a proportion of **33% and 11.3% respectively**, of the companies contained within the fund. Looking at the proportion of SDG2000 constituents in the forementioned countries, **44.9% of the companies in the US market** are listed in the SDG200, whereas **36.4% of the companies in the UK market** are in this list, as at 31 Dec 2019.



SDG2000 Overlap by Country (# of companies)

Fund Geographical Exposure by £ Invested in SDG2000 Companies
Interestingly, when conducting an analysis of the geographical distribution of the value invested in SDG2000 companies, the **UK market is ahead, with 32.4% of the total value invested,** followed by the **US market, with 30.8%**. Therefore, these two markets concentrate 63.2% of the value invested.



SDG2000 Overlap by Country (£ of investment)

However, while **70.7% of the value invested in US is in SDG 2000 constituents, for the UK market,** this percentage only represents **53.8%** of the value invested.

SDGs - Looking to the Future

Surrey County Council, as the Administering Authority of the Fund, continues to further enhance its 'sustainable stewardship' approach towards the management of the Fund and its assets, to ensure that the long term interests of the scheme beneficiaries are best served, whilst at the same time working towards a sustainable future for everyone. Having considered all aspects of incorporating ESG considerations into the investment approach at the Pension Committee Meeting held in December 2020, it was agreed that the UN SDGs provides a strong framework with a forward thinking and comprehensive approach in referencing the transition to sustainability. Furthermore, to further strengthen the Fund's approach, the following actions were requested to Officers and advisor, where appropriate:

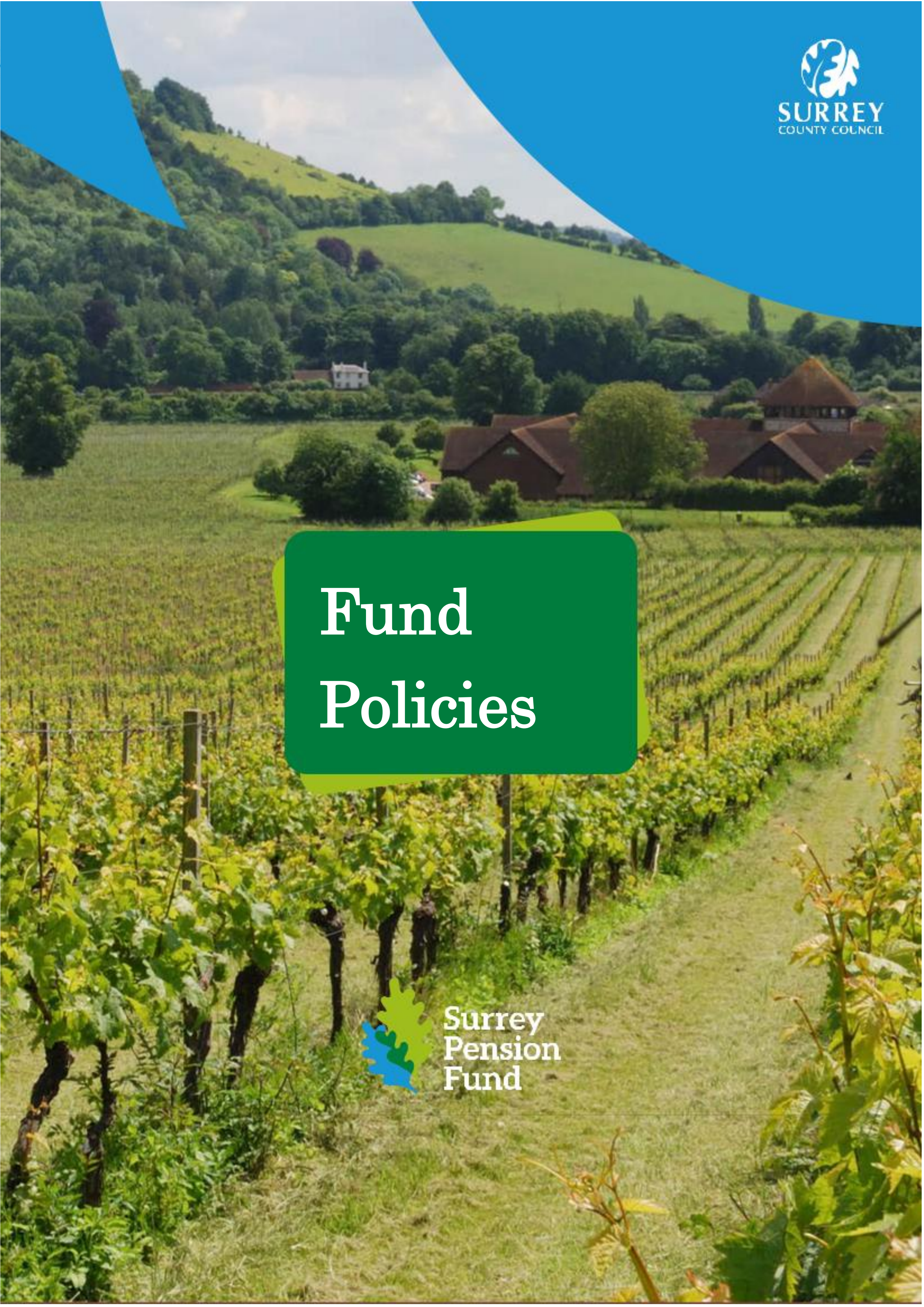
- Draft relevant changes to the Investment strategy
- Develop the SDGs into an engagement framework for companies as well as Investment Manager activity
- Work to incorporate SDG metrics in selecting, monitoring and evaluating investment managers
- Work with Border to Coast on developing SDG approach to Pooled assets

SDGs – Alignment by Value Contribution

Currency GBP as at 31/12/2019	SDG1	SDG2	SDG3	SDG4	SDG5	SDG6	SDG7	SDG8	SDG9
Auto & components			49,857,473				49,857,473		
Banks	625,100,983				625,100,983		625,100,983	625,100,983	625,100,983
Capital goods							178,785,052	178,785,052	178,785,052
Commercial & professional services								54,232,068	
Consumer durables/apparel					62,857,658	62,857,658		62,857,658	
Consumer services				3,049,843	3,049,843			3,049,843	
Diversified financials							30,563,558	30,563,558	30,563,558
Energy			5,518,040			5,518,040	5,518,040		
Food & beverages & tobacco	130,603,760	130,603,760	130,603,760		130,603,760	130,603,760		130,603,760	
Food & staples retailing		20,928,157	20,928,157						
Healthcare equipment & services			50,868,479		50,868,479				
Household & personal products			83,186,789						
Information & comms tech	219,901,685	219,901,685	219,901,685	219,901,685	219,901,685		219,901,685	219,901,685	219,901,685
Insurance	82,158,180	82,158,180	82,158,180					82,158,180	
Materials		261,649,056	261,649,056			261,649,056	261,649,056	261,649,056	
Media & entertainment				36,568,890	36,568,890				
Pharma, biotech & life science			164,265,614		164,265,614				
Real estate							51,784,409		
Retailing								52,350,607	
Telecomms services	126,639,221	126,639,221	126,639,221	126,639,221	126,639,221			126,639,221	126,639,221
Transportation			93,119,261				93,119,261	93,119,261	93,119,261
Utilities	242,495,486	242,495,486	242,606,013		242,606,013	242,606,013	242,606,013	242,606,013	242,606,013
Total (GBP)	**1,426,899,315**	**1,084,375,546**	**1,531,301,729**	**386,159,639**	**1,662,462,145**	**703,234,527**	**1,758,885,530**	**2,163,616,945**	**1,516,715,773**

SDGs – Alignment by Value Contribution (continued)

Currency GBP as at 31/12/2019	SDG10	SDG11	SDG12	SDG13	SDG14	SDG15	SDG16	SDG17
Auto & components		49,857,473	49,857,473	49,857,473				49,857,473
Banks	625,100,983		625,100,983	625,100,983			625,100,983	625,100,983
Capital goods			178,785,052	178,785,052				178,785,052
Commercial &								54,232,068
Consumer		62,857,658	62,857,658					62,857,658
Consumer			3,049,843		3,049,843			3,049,843
Diversified			30,563,558	30,563,558				30,563,558
Energy				5,518,040	5,518,040	5,518,040	5,518,040	5,518,040
Food &			130,603,760	130,603,760	130,603,760	130,603,760	130,603,760	130,603,760
Food & staples			20,928,157	20,928,157	20,928,157	20,928,157		20,928,157
Healthcare			50,868,479					50,868,479
Household &			83,186,789					83,186,789
Information &	219,901,685	219,901,685	219,901,685	219,901,685			219,901,685	219,901,685
Insurance	82,158,180			82,158,180				82,158,180
Materials		261,649,056	261,649,056	261,649,056	261,649,056	261,649,056	261,649,056	261,649,056
Media &	36,568,890						36,568,890	36,568,890
Pharma, biotech								164,265,614
Real estate		51,784,409	51,784,409	51,784,409				51,784,409
Retailing			52,350,607					52,350,607
Telecomms	126,639,221						126,639,221	126,639,221
Transportation		93,119,261		93,119,261				93,119,261
Utilities	242,606,013			241,648,711				241,648,711
Total (GBP)	**1,332,974,972**	**739,169,542**	**1,821,487,509**	**1,991,618,325**	**421,748,856**	**418,699,014**	**1,405,981,636**	**2,625,637,494**



SURREY
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Fund Policies

Surrey
Pension
Fund

Communication Policy

Introduction

This is the communication strategy for the Surrey Pension Fund administered by Surrey County Council (the Administering Authority). Communication is at the heart of everything the Fund does and has a dedicated communication team in place to help the Fund meet its current and future communication challenges. This Policy provides an overview of how the Surrey Pension Fund will communicate with its full range of stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service to the stakeholders.

The Fund has over 300 employers with contributing members and a total membership of over 105,000 scheme members, which are split into the categories below and with the approximate numbers of members in each category:

Type of membership	Surrey Pension Fund
Active scheme members	37,000
Deferred scheme members	40,000
Pensioner members	28,000

The policy outlines the Fund's strategic approach to communications and is effective from April 2021. This Policy should be read in conjunction with the Communication Plan which is detailed in Appendix A of this document.

Regulatory framework

The policy has been produced in accordance with regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. The regulation requires that:

1. An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:
   a) scheme members (active, deferred, retired and dependant)
   b) representatives of scheme members
   c) prospective scheme members
   d) scheme employers

2. In particular the statement must set out its policy on:
   a) the provision of information and publicity about the scheme
   b) the format, frequency and method of distributing such information or publicity
   c) the promotion of the scheme to prospective scheme members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

Stakeholders of the Fund

The Fund has a varied audience of stakeholders with whom it communicates, including:

- Scheme members (active, deferred, pensioner and dependant members)
- Prospective scheme members
- Scheme employers
- Pension Fund staff
- Pension Fund Committee
- Local Pension Board
- Border to Coast
- External bodies:
    - Her Majesty's Revenue & Customs (HMRC)
    - Ministry of Housing, Communities and Local Government (MHCLG)
    - Trades Unions
    - Pension Fund Investment Managers, Advisers and Actuaries
    - Pension Fund Custodian
    - The Pensions Regulator (tPR)
    - The Scheme Advisory Board (SAB)
    - The Local Government Association (LGA)
    - Department of Work and Pensions (DWP)
    - Pension Officers Groups
    - Pensions and Lifetime Savings Association (PLSA)
    - Chartered Institute of Public Finance and Accountancy (CIPFA)
    - The Local Authority Pension Fund Forum (LAPFF)

Key objectives

To ensure that Fund delivers clear, timely and accessible communication with a broad range of stakeholders. To achieve this, the Fund will:

- Communicate information about the Scheme's rules and regulations in an effective, friendly and timely manner to the different groups of stakeholders.
- Communicate information about the investment decision made by the Fund.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the Fund.
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders;
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.
- Seek continuous improvement in the way the Fund communicates.

Accessibility

- The Fund is committed to ensuring communications are accessible to all stakeholders and is committed to develop further use of electronic means of communicating through e-mail and internet site (including a Member Portal). Wherever possible, responses are sent to stakeholders by electronic means. However, more traditional methods of communications will continue to be offered as required.
- The Fund also make sure that communications are easy to understand through use of Plain English accreditation and readability scores.

Social Media

The Fund recognises the growing importance for organisations to have an online presence and has recently developed a corporate LinkedIn profile.

A LinkedIn account is used to raise Fund online profile in a business, promoting the Fund's innovations and achievements, and helping build relationships with other LGPS Funds and professional bodies within the pensions industry https://uk.linkedin.com/in/surrey-pension-fund-81801919a

Investment Communication

The Fund has seen an increase interest in its investments from Scheme Members, Scheme Employers and the wider public. The Fund maintains a large portfolio of assets, which it uses to pay out LGPS benefits when they become due. This is made up of pension contributions paid in by Scheme Members and Scheme Employers, and also any investment income and capital growth. To reduce risk, the Fund diversifies its investments across a wide range of assets both in the UK and Global market.

Responsible Investment

As a responsible investor the Fund Environmental, Social and Governance (ESG) issues are fundamental to the Fund's investment strategy. The Fund has focused communications to stakeholders about its investments. The Fund will regularly report to Scheme Employers and Scheme Members about its investments and the Fund's approach to ESG issues.

Freedom of Information

Anyone has a right under the Freedom of Information (FOI) Act to request any information held by the Fund which is not already made available. FOI requests will be dealt with as openly and swiftly. Requests should be made in writing to the Freedom of Information Officer at the address at the end of this document

A fee may be charged and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high.

Communication Channel

The table below shows the Fund main method of communication with different stakeholders.

Stakeholder	Communication	Key message/Objectives
Active members	Annual benefit statements Biannual Newsletters Member self service Website Telephone helpline Scheme Literature Calculation and costings (e.g. estimates) Presentations – face to face / online Promotion on internal systems, e.g. Snet Active Member surveys	Your pension is a valuable benefit. Your employer contributes to help you save for your retirement. You need to make sure you're saving enough for retirement To improve your understanding of how the LGPS works. You understand the impact of any changes in legislation. To advise scheme members of their rights and benefits. To make pensions information more readily available. To answer member's queries regarding their benefits To give you more ways that you can contact us or get information. To provide a method for members to give feedback.
Deferred members	Annual benefit statements Annual Newsletter Member self service Website Telephone helpline Scheme Literature Calculation and costings (e.g. estimates)	Your pension is a valuable benefit You are saving enough for retirement You keep in touch with the Fund e.g. provide us with address changes How the LGPS works now, and the impact of any changes in legislation Understand the implication of transferring out of the scheme To improve understanding of how the LGPS works We will update you of any changes
Pensioner members	Member self service Pensions Increase letters P60 Calculation and costings (e.g. estimates) Website Telephone helpline Annual newsletter Pensioner member Survey	You keep in touch with the Fund e.g. provide us with address changes We are here to help with any questions you might have. The LGPS is still a valuable part of your retirement package How your funds are invested. To improve understanding of how the LGPS works. The impact of any changes in legislation. The impact in the larger pension community (e.g. Brexit.)
Dependent members	Member self service Payslip P60 Calculation and costings (e.g. estimates) Website Telephone helpline	You keep in touch with the Fund e.g. provide us with address and bank changes. We are here to help with any questions you might have. The LGPS is still a valuable part of your retirement package. The impact of any changes in legislation.

Scheme employers	- Ad hoc email alerts - Quarterly newsletters - Website - Webinars - Telephone helpline - Scheme information and guides - Annual Employer survey	- You need to be aware of your responsibilities regarding the LGPS - Your employer contributes to help you save for your retirement. - You understand the impact of any changes in legislation - To improve relationships - Continue to improve the accuracy of data being provided to us
Potential Scheme Members including Opt Outs	- Website - Telephone helpline - Scheme information and guides	- You understand the impact of any changes in legislation - Your employer contributes to help you save for your retirement. - The LGPS is still one of the best pension arrangements available - Increase understanding of how the scheme works and what benefits are provided - To improve take up of the LGPS
Pension Fund Staff	- Team meeting - 1:1 / Appraisals - Training & development - Training Matrix - Ad hoc meetings - Monthly newsletter	- Ensure staff are kept up to date with important information regarding the service, the employing authority and the wider world of pensions as a whole - Management to feedback to staff regarding their individual progress - For staff to feel a fully integrated member of the team
Pension Fund Committee and Local Pension Board	- Committee/Board Papers - Trainings - Minutes - Presentations	- Ensure members are kept up to date with important information regarding the Fund. - Monitor success against the agreed measures
External bodies	- Response to enquiries and consultations	- Respond to enquiries/statutory requirements

Communicating with members

There are 3 categories of scheme member:

- Active members who are contributing to the Scheme.
- Deferred members who have left the Scheme, but have not yet accessed their pension benefits.
- Pensioner members who are in receipt of their LGPS benefits from the Fund.

The Fund recognises that communication with each category requires a different, specific approach and therefore uses a variety of methods to communicate with members.

To ensure members are able to access services easily, we employ a range of media to educate them about the LGPS and their pension benefits, delivered in a clear and easily understood way to ensure that members can make informed decisions about their benefits.

- Website - The Fund has a dedicated Pensions website www.surreypensionfund.org/, which has general information about Surrey Pension Fund and about being a member of the LGPS. There are also scheme forms and guides available to copy or print.

- Telephone Helpline - We provide a helpline service for all our members to use if they need to contact us by telephone or email. There is a dedicated helpline for members to call 0300 200 1031.

- General Correspondence – The Fund provide a generic email address which enables members to email their queries. The emails are picked up and passed to the relevant member of staff myhelpdeskpensions@surreycc.gov.uk

- Member Online - Members can access their pension account using the My Pension Portal. This is a secure area that allows members to see the personal details Fund holds about them. They can also update personal information. Contributing and deferred members can view their annual pension statements and pensioner members can view their pension payment information. There are also scheme forms and guides available to copy or print.

- LinkedIn – Fund has a LinkedIn account. We regularly update our account with information that we believe our members might be interested in https://uk.linkedin.com/in/surrey-pension-fund-81801919a

- Visits to our office - Members are welcome to visit our offices if they prefer to speak to us face to face. Ideally, members should make an appointment in advance so we can make sure that someone is available to see them. Due to Covid-19 we are unable to receive visitors at our office. However, the Fund remains in operation during this time and members can contact us at the address at the end of this document

- Annual Benefit Statements – The Fund issues an Annual Benefit Statement (ABS) to all active members, showing the pension they have built up to the previous 31st March. They are subject to the members Scheme Employer providing timely year end information to the Pensions Administration Team. The ABS are available for members to view on My Pension Portal.

- Presentations / Roadshows / Drop in Sessions available to active scheme members.

- Newsletters - The Fund issues periodic newsletters to Members to update them on topical Pensions matters and changes.

- Pay advices, Pension Increase letters and P60s - We issue pay advices to pensioner members every March, April and May.

Communicating with Pension Fund Staff

The Fund recognises that its staff are its greatest resource and that they are kept informed about the Fund's aims to deliver a quality and accurate service. This is achieved via use of email, internal meetings, as well as internal and external training events on specific topics.

The Fund communicates with staff in a number of ways.

- Performance conversations– the Fund managers ensure that Fund staff have Performance Conversations at least twice yearly, these establish clear objectives and any necessary support that staff members and the team need.

- Training - As part of the Fund's commitment to delivering a professional pensions service to stakeholders an annual training plan in prepared and approved by the Pension Fund Committee. Staff regularly attend LGA and CIPFA training as appropriate, and receive in-house training from actuary, fund managers and via a dedicated Training Officer. Professional courses, such as CIPP are also offered. These are recorded via a staff skills matrix. Ad hoc training courses are produced as the LGPS regulations change.

- Staff Feedback on Fund Communications - Staff are encouraged to report back on any feedback given to them by other stakeholders.

- Weekly update – senior managers send weekly emails to keep staff updated on current issues.

- Quarterly Newsletters - keep staff updated on current LGPS legislation changes, new staff and those leaving and upcoming training courses, etc.

Communicating with the Pension Fund Committee and Local Pension Board

The administering authority, Surrey County Council, has established a Pensions Committee including elected Councillors to discharge the functions of the Council in governing and administering The Surrey Pension Fund. The Pensions Committee is the decision-making body for the Fund, and this includes responsibility for setting the Fund's investment strategy, appointing investment managers, and approving Fund budget, business plan and policies.

The Council also established Local Pension Board in 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS.

The Pension Fund Committee and Local Pension Board communicate by:

- Committee and Board meetings - Members of the Pensions Committee and Local Board meet at least quarterly to discuss Pensions issues, following which the Local Board may make suggestions and recommendations, and the Pensions Committee may make decisions.

- Fund officer reports - Members of the Pensions Committee and Local Board receive monitoring reports from Fund staff. This includes the Fund's internal managers delivering reports and presentations to members at Committee and Board meetings.

- Investment Manager Reports – Members receive quarterly investment reports from the Fund officers on the performance of the Fund's investment.

- Training – An annual training plan is presented to Pensions Committee and Local Board to approve. Members receive regular training to ensure they have the knowledge and capacity to carry out their roles.

- Weekly Update - Members of the Pensions Committee and the Local Board receive weekly update from Strategic Finance Manager on Border to Coast and Pension Administration.

Communicating with external bodies

The Fund engages proactively communicates with a number of external bodies. These include:

- Border to Coast, Pension Fund Investment Managers, Advisers and Actuaries – The Fund has regular meeting with:
    - Border to Coast who facilitate the design and implementation of the Fund's investment strategy.
    - Independent Fund managers who make investments on behalf of the Fund.
    - Investment Advisers who provide help and advice on the investment strategy of the Fund.
    - Fund Actuary to discuss Funding levels, employers' contributions and valuation of the liabilities of the Fund.

- Pension Fund Custodian - The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions.

- Pensions and Lifetime Savings Association (PLSA) - The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- Local Authority Pension Fund Forum (LAPFF) - LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including Border to Coast Pensions Partnership (BCPP). Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

- Minerva Analytics - The Fund had also appointed Minerva Analytics to assist the Fund in exploring its Investment Core Beliefs as well as its approach in understanding the United Nations Sustainable Development Goals and how it can be integrated into Investment Decision Making.

Data Protection

The Pension Fund has a duty to protect personal information and will process personal data in accordance with the Data Protection Act 1998 and any amendments to the act. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund , for example the Fund's Actuary or AVC provider.

Review

The policy will be reviewed annually and updated sooner if the communications arrangements or other matters included within it merit reconsideration.

Further Information

If you have any queries about this Communications Policy please get in touch:

Pension Services
Surrey County Council
Room 218, County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN
0300 200 1031
myhelpdeskpensions@surreycc.gov.uk

If you have any Freedom of Information requests, please send them to:

Freedom of Information Officer
Legal Democratic & Cultural Services
County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN
020 8541 7969
foi@surreycc.gov.uk

Appendix A – Communication Plan

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
Send a notification of joining the LGPS to a Scheme Member – Contractual Enrolment	Electronic	Within 30 working days of receiving new starter information	2 months from date of joining the scheme	E-mail or Letter to Home Address where email not known.	New Members
Send a notification of joining the LGPS to a scheme member – Automatic Enrolment/Re-Enrolment	Various	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	Employer	New Members
Inform a member who left the Scheme of their leaver rights and options	Electronic	Within 40 working days from receipt of leaver information.	As soon as practicable and no more than 2 months from date of notification (from employer or from scheme member)	E-mail or Letter to Home Address where email not known.	Members leaving the scheme
Obtain transfer details for transfer in, and calculate and provide quotation to member	Paper Based or Electronic	Within 20 workings days from date of request	2 months from date of request	Letter to Home Address or Member Self Service	Active Member
Provide details of transfer value for transfer out, on request	Paper Based or Electronic	Within 20 workings days from date of request (CETV estimate or Divorce), unless there has already been a request in the last 12 months	3 months from date of request (CETV estimate)	Letter to Home Address, Member Self Service or IFA	Deferred Member
Provide a retirement quotation on request	Paper Based or Electronic	Within 15 working days from date of request	As soon as practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	Letter to Home Address or Member Self Service	Active and Deferred Member

Notify the amount of retirement benefits	Paper Based or Electronic	Within 15 working days from receipt of all information	1 month from date of retirement if on or after Normal Pension Age (NPA), or 2 months from date of retirement if before NPA	Letter to Home Address or Member Self Service	Active and Deferred Member
Calculate and notify dependant(s) of amount of death benefits	Paper Based	Initial letter sent no more than 5 days from date of becoming aware of death, and notification of benefit letter sent no more than 10 days from receiving correctly completed forms.	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. Personal representative)	Letter to Dependants Home Address	Dependant Member
Provide all Active and Deferred members with an Annual Benefit Statement (ABS)	Electronic or Paper Based	By 31 August each year	By 31 August each year	Member Self Service or Statement to Home Address	Active and Deferred Member
Provide Pension Saving Statement to eligible members	Paper Based or Electronic	By 6 October each year	By 6 October each year	Letter to Home Address or Member Self Service	Active Member
General Member Enquiries	Electronic or Paper Based	Within 15 working days		Email or Letter to Home Address	All Members
Pensions Increase Letters	Electronic or Paper Based on Request	By 30 April each year	By 30 April each year	Member Self Service or Letter to Home Address	Pensioner Member
Pensioner P60s (HMRC requirement)	Electronic or Paper Based on Request	By 31 May each year	By 31 May each year	Member Self Service or Letter to Home Address	Pensioner Member
Member Scheme Guide	Electronic or Paper	Always Available Online (Link also in New Starter Pack)	Within 2 months of request	Fund Website or Member Self Service	All Members

	Based by Request				
Active Member Newsletters	Electronic or Paper Based on Request	Spring newsletter by 1 April (in line with Annual Updates) and Autumn newsletter by 31 August (in line with ABS)		Member Self Service or Letter to Home Address	Active Member
Deferred Member Newsletters	Electronic or Paper Based on Request	By 31 August in line with ABS		Member Self Service or Letter to Home Address	Deferred Member
Pensioner Member Newsletters	Electronic or Paper Based on Request	By 30 April in line with Pension Increase Letter		Member Self Service or Letter to Home Address	Pensioner Member
Presentations/Roadshows	Face to Face	Twice per year per Fund as standard. Others by request through fund.		Via Fund	Active Member
Drop In Sessions	Face to Face	As Requested, up to a maximum of 2 per year per Fund		Via Fund	Active Member
Customer Satisfaction Survey – Member	Electronic	Annually (Sample groups, emphasis on new joiners, recently retired, etc)		E-mail	All Members
Changes in Legislation	Electronic	Within 10 working days of notification of change		E-mail to Fund	Pension Fund
Material Alterations to Basic Scheme Information	Electronic	As soon as possible and within 3 months after the change takes effect.	As soon as possible and within 3 months after the change takes effect.	E-mail or Letter to Home Address	All Members
Employer Training	Face to Face	As requested		Via Fund	Scheme Employer

Employer Guides	Electronic	Always Available Online		LGPS Regs Website	Scheme Employer
Employer Newsletters	Electronic or Paper Based on Request	Quarterly Newsletters		E-mail to Fund Contacts	Scheme Employer
Customer Satisfaction Survey – Employer	Electronic	Annually		E-mail	Scheme Employer
Member, employer or third-party enquiries	Incoming to Helpdesk via telephone	Enquiries to be resolved at first contact or referred via case link for further investigation		Telephone Email	All Groups
Member, employer or third-party enquiries	Incoming via post	Workflow cases created based on enquiry type and associated SLA		Various	All Groups
Member Self Service	Electronic, Paper Based or Face to Face	Promotional events and campaigns to be discussed and agreed to promote sign up to Member Self Service.		Various	All Groups
Annual General Meeting	Face to Face	Provide availability to promote MSS at the AGM.		Via Fund	All Groups
Pension Fund Report and Accounts	Electronic	Annually		E-mail	All Groups
Website					All Groups
Helpline					All Groups
Pensions Administration Strategy	Electronic	Always available (reviewed at least every 3 years)		E-mail	Scheme Employer
Pension Fund Valuation Report	Electronic	Triennially		E-mail	Scheme Employer

Administration Strategy

The Surrey Pension Fund Pensions Administration Strategy can be found below;

Introduction

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. The Surrey Pension Fund (SPF) is part of the LGPS and is the Administering Authority for almost 300 employers in the scheme.

The LGPS is a valuable element of the total remuneration package of employees working with employers in the scheme. Good quality administration and communication of the overall benefits of the LGPS aids in the confidence of membership towards the scheme and in their value of this employee benefit.

The LGPS Regulations 2013 enables the Administering Authority to prepare a written Pension Administration Strategy (the Strategy) of its policy in relation to communications between and levels of performance for both the SPF and employers within the scheme.

This Strategy replaces the current Pension Administration Strategy with effect from 1 April 2020 and applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 1 April 2020.

The Strategy sets out the expected levels of administration performance of both the SPF and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

The Strategy is broken in to nine sections:

1. Regulatory context of the Strategy
2. Aims of the Strategy
3. Service standards of the SPF
4. Requirements for scheme employers
5. Outline of additional administration charges
6. Additional fees that may be charged by the Orbis Pension Administration Team (Orbis)
7. Additional penalties for poor performance by employers
8. Penalties for poor performance by Orbis
9. Consultation and review

Surrey County Council has delegated responsibility for the management of the SPF to the SPF Committee (Committee), taking into consideration advice from the Surrey Local Pensions Board (Board). The Committee and Board will monitor the implementation of this Strategy. Any enquiries in relation to this Strategy should be addressed to:

John Smith (Pensions Governance and Employer Manager)
Surrey Pension Fund
Room G59
County Hall
Penrhyn Road
Kingston upon Thames
KT1 2DN
Tel: 020 8213 2700 Email: john.smith@surreycc.gov.uk

1. The Regulatory Context of the Strategy

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator (tPR). The SPF and scheme employers and employers are also required to comply with regulatory guidance or Code of Practice issued by tPR.

The Local Government Pension Scheme Regulations 2013 (**Regulation 59 (1)**) enables a LGPS Administering Authority to prepare a written statement of the Administering Authority's policies in relation to such matters mentioned in **Regulation 59 (2)** that it considers appropriate. This written statement shall be known as the "Pension Administration Strategy" and shall include the following:

- Procedures for liaison and communications between the Administering Authority and Scheme Employers ("its Scheme Employers);

- The establishment of levels of performance which the Administering Authority and its Scheme Employers are expected to achieve in carrying out their Scheme functions ("Service Level Agreements (SLA)"). These functions are:
  (i) the setting of performance targets,
  (ii) the making of agreements about levels of performance and associated matters, or
  (iii) such other means as the administering authority considers appropriate

- Procedures which aim to secure that the Administering Authority and its Scheme Employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

- Procedures for improving the communications by the Administering Authority and its Scheme Employers to each other of information relating to those functions;

- The circumstances in which the Administering Authority may consider giving written notice to any of its Scheme Employers under these regulations (additional costs arising from the Scheme Employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under the SLA;

- The publication by the Administering Authority of annual reports dealing with:
  (i) the extent to which the Administering Authority and its Scheme Employers have achieved the level of performance established under the SLA;
  (ii) such other matters arising from The Pension Administration Strategy as the Administering Authority considers appropriate.

- Such other matters as appear to the Administering Authority after consulting its Scheme Employers and such other persons as it considers appropriate, to be suitable for inclusion in The Pension Administration Strategy.

In addition **Regulations 59 (3 -7)** requires that:

- Where the Administering Authority produces a Pension Administration Strategy, it is kept under review and revised where appropriate;

- When reviewing or revising the Pension Administration Strategy the Administering Authority must consult with its Scheme Employers and such other persons it considers appropriate;
- Where the Administering Authority produces a Pension Administration Strategy or revises that strategy it must send a copy of it to each Scheme Employer and to the Secretary of State;
- The Administering Authority and Scheme employers must have regard to the Pension Administration Strategy when carrying out functions under the LGPS regulations.

- **Regulation 60** requires each employing authority to publish its discretion on;
- funding additional pension [16(2)(e) and 16(4)(d),
- flexible retirement [30(6)],
- waiving actuarial reductions [30(8)],
- the award of additional pension [31] and, in addition,
- **Regulation 14 of the Local Government (Discretionary Payments)(Injury Allowances) Regulations 2011** requires employers to publish and keep under review its policy on these regulations.
- There are also a number of discretionary discretions under the current regulations and some mandatory discretions under previous sets of regulations.
- The Pension Fund Team can provide template discretion policies upon request.

Regulation 70 of the Local Government Pension Scheme Regulations 2013 enables the Administering Authority to recover additional costs from a Scheme Employer when, in the opinion of the Administering Authority, it has incurred additional costs because of the poor performance of the Scheme Employer in relation to the Pension Administration Strategy SLA.

The Administering Authority may give written notice to the Scheme Employer stating:

- the Administering Authority's reasons for forming the opinion;
- the amount the Administering Authority has determined the Scheme Employer should pay under **Regulation 69(1)(d)** in respect of those costs and the basis on which the specified amount is calculated;
- the provisions of the Pension Administration Strategy which are relevant to the decision to issue the notice.

2. Aims of the strategy

The aims of the Strategy are to:

- set out the quality and performance standards expected of the Fund and scheme employers;
- to promote good working relationships and improve efficiency between the SPF and scheme employers;
- ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations;
- ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time;
- maintain accurate records and ensure data is protected and has authorised use only;
- ensure that the administration costs attributable to scheme employers are charged proportionately.

The efficient delivery of the benefits of the scheme is reliant upon effective administrative procedures being in place between the SPF and scheme employers.

This Strategy sets out the expected levels of performance of the SPF and scheme employers and the action(s) that might be taken where standards are not met by employers and/or when non-compliance occurs. It also provides scheme employers with an outline of administration charges they may occur in addition to the administration allowance contained in the employer contribution rate.

3. Service standards of the SPF

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, SPF has performance standards which cover all aspects of the administration of the SPF.

The SPF service standards are reviewed by the Pensions Fund Committee, Local Pensions Board and are available for consideration by tPR. Regular reporting is undertaken, and performance is also shown in the SPF annual report and accounts. The following sets out the SPF key performance indicators.

Activity	Description	Service standards	Limits
New starter	When Orbis receives electronic/paper notification of the new starter. They will verify the information, set up a new record and send confirmation to the new member.	30 working days	No
Inter-fund adjustment in (aggregation) estimate	Check previous service recorded on starter form and write to previous provider(s) if a transfer has been requested	20 working days	No
Inter-fund adjustment in (aggregation) actual	Check correct payment has been received, update database and issue statutory notice.	20 working days	No
Transfer-in estimate	Check previous service details and offer member the option to transfer and advise of timescales	20 working days	No
Transfer-in actual	Check correct payment has been received, update database and issue statutory notice	20 working days	No
Additional Pension Contributions Actual	Update database and inform payroll of the additional pension contribution deduction to be made	20 working days	No
Additional Voluntary Contributions	Provide information on the Fund's AVC schemes	10 working days	No
Nomination Forms	Update database and send acknowledgement	20 working days	No

Activity	Description	Service standards	Limits
Member correspondence	Reply to member query	20 working days	No
Employer correspondence	Reply to employer query	20 working days	No
Employee Estimates	Estimate of deferred benefits and/or voluntary retirement for age 60 and over	30 working days	No
Employer estimate	Provide employer with estimate as requested[1]	10 working days	More than five estimates at a time per employer will require additional resource, to be agreed with the SPF.
Refunds (Frozen Refunds)	Calculate refund due and issue payment	20 working days	No
Opt-outs	Provide a memo to payroll to cease contributions and inform the member accordingly	20 working days	No
Deferred	Calculate final pay for surrey members, deferred benefits and issue confirmation to all members	2 months	No
Inter-Fund Adjustment Out Estimate	Provide service and pay details to new employer	20 working days	No
Inter-Fund Adjustment Out Actual	Issue payment	20 working days	No
Provide estimate of transfer value	Provide transfer details	20 working days	No
Make payment of transfer value	Issue payment	20 working days	No
Death in service	Send condolence letter, request certificate and enclosed any claim forms	5 working days	No

[1] Scheme employers are encouraged to utilise the on-line self-service estimate portal. This will provide instant estimate results.

Activity	Description	Service standards	Limits
Death in service final letter	Provide details of deceased salary for Surrey members, monies due to/from the estate, calculation of any spouse's and dependants benefits, send letter and make payment of any death grant	10 working days	No
Death of deferred member initial	Send condolence letter, request certificates and enclosed any claim forms	5 working days	No
Death of deferred member final	Provide details of any benefits due and make payment of death grant	10 working days	No
Deferred in to payment	Send initial letter and forms to member	10 working days	No
Retirement	Calculate final pay for Surrey members, retirement benefits and send initial letter and forms to all members	15 working days	No
Payment of retirement grant and initiate pension.	Issue payment of retirement grant and initiate payroll record	15 working days	No
Revised Payments including Guaranteed Minimum Pensions/Modifications	Inform the member of any adjustments to the pension in payment and update payroll entry	20 working days	No
Death on pension	Terminate payment, send condolence letter, request certificate and enclosed any claim forms	5 working days	No
Death on pension final letter	Provide details of deceased's pension, monies due to/from the estate and spouse's/dependants benefits	10 working days	No
Complaints		All complaints to be dealt with in line with the additional criteria	No
Employer forums seminars	Employer forum hosted by the SPF	Annually	Yes – limited to one per year. Further seminars will be chargeable.

Activity	Description	Service standards	Limits
Requests for legislative or regulatory advice	Provision of technical advice and employer email bulletins	15 working days	No.
Follow-up to all member queries not answered within SLA	Email / letter to update member	10 working days	
Pension payments	Monthly payment of regular pensions.	Paid on the final Thursday of each month	
Annual benefit statements	Provision of an annual benefit statement for all active and deferred pension members	By 31 August following the end of year	
Pension Saving Statements	Provision of an pension saving statement for active and deferred pension members who exceed the Annual Allowance limit	By 6 October each year	

4. Requirements for scheme employers

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. In addition, regulatory guidance sets out a number of requirements for the SPF and scheme employers to provide information.

Under this Strategy scheme employers will be responsible for the following activities in the manner and timescale set out below and the potential consequence of failing to meet these service standards.

Activity	Timescale	Potential consequence of breach
Dedicated employer contact	The Scheme Employer should notify the SPF of a dedicated pension liaison contact within 1 month of the adoption of the Pension Administration Strategy.	The SPF will regularly check that contacts are up to date. The failure to appoint a dedicated employer contact will make failure of performance SLAs more likely.
Discretions policy	The Scheme Employer should provide the SPF with a copy of their Discretions Policy by 1st July 2014, or within 1 month of the date of the Scheme Employer's entry in the SPF.	The provision of a discretions policy is a legal requirement. The SPF will chase receipt of this policy and charge at the prevailing SPF officer rates.
Payment of monthly contributions	Correct payments should be made to the SPF by the 19th (21st for electronic payments) of the month following deductions of pension contributions by the scheme employer (monthly payroll run).	Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis.
Payment of capital sums*(* include footnote)*	Correct capital sums should be made to the SPF within 30 days of being invoiced. These may relate to pension strain costs or fees for work in relation to the charges due to the SPF.	Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis.
Monthly contribution schedule	A monthly contribution schedule should be sent to the SPF before or at the same time as the monthly contribution. The schedule should be sent electronically and in the format requested by the SPF.	The provision of a monthly contribution schedule is essential to the correct calculation of member benefits. The SPF will chase receipt of the monthly contribution schedule and charge at the prevailing SPF officer rates.

Activity	Timescale	Potential consequence of breach
End of year processing	An end of year data return should be sent to the SPF within 30 days of the end of the scheme year (31 March). The schedule should be in the format requested by the SPF and be 100% accurate.	The provision of an annual statement is essential to the correct calculation of member benefits. The SPF will chase receipt of the end of year returns. Any additional administration work incurred by the SPF as a result of late or inaccurate submissions will be charged at the prevailing SPF officer rates.
Correct admission of members in to the SPF	The Scheme Employer must ensure that members are correctly admitted to the SPF.	In cases where an employer has incorrectly admitted an employee into the SPF where they were not eligible to be in this Fund, the SPF will correct this error. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.
Notification of new starters	The Scheme Employer should notify the SPF of a new starter within 30 days of their joining the pension scheme.	The provision of new starter information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.
Notification of leavers	The scheme Employer should notify the SPF of a new leaver within 30 days of their leaving the pension scheme.	The provision of leaver information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.
Notification of retirements	The Scheme Employer should notify the SPF of a retirement initially in advance of the retirement date and provide final confirmation within 10 days of their last day of service.	The provision of retirement information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.
Notification of relevant changes	The Scheme Employer should notify SPF of any relevant changes within 30 days of the change.	The provision of employment change information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.
Appoint an Independent Registered Medical	The Scheme Employer should appoint an IRMP. The appointment must be approved with the SPF.	The nomination of an IRMP is a legal requirement.

Activity	Timescale	Potential consequence of breach
Practitioner (IRMP) in order to consider all ill-health retirement applications		
Appoint a "nominated adjudicator" as part of the stage 1 internal dispute resolution procedure (IDRP)(add footnote re AA offer)	The scheme Employer should appoint a "nominated adjudicator" as part of the stage 1 IDRP within 1 month of the date of the Scheme employer's entry in the SPF. Or within 1 month of the resignation of an existing "nominated adjudicator".	The nomination of a "nominated adjudicator" as part of the stage 1 IDRP is a legal requirement.
Comply with auto-enrolment legislation as required by the Pensions Regulator	From the Scheme Employer's auto-enrolment staging date.	Compliance with auto-enrolment legislation is a legal requirement, with non-compliance punishable by the Pensions Regulator

5. Outline of additional administration charges

The following scheme functions are outside of the work covered by the administration allowance as part of the employer contribution rate (this can often be because the charges relate to employers who are yet to be admitted to the SPF). These fees will be payable by scheme employers and are generally related to actuarial, legal or administration costs.

Activity	Description	Indicative charge	Comments
New employer processing	Assessment of contribution rate of the new scheme employer	According to the prevailing rates of the SPF actuary	Costs will increase if there are delays in providing data or date requires recalculation
	Assessment of the bond value of the new scheme employer (if applicable)	According to the prevailing rates of the SPF actuary	Costs will increase if there are delays in providing data or date requires recalculation
	Assessment of the cost attributable to pension risk (if applicable)	According to the prevailing rates of the SPF actuary	Costs will increase if multiple calculations are required
	Drafting and executing of admission agreements (if applicable)	According the prevailing rates of the SPF legal advisers	Costs will increase according to the complexity of the negotiated drafting of the admissions agreement
	Admission administration costs	Charged at the prevailing SPF officer rates (estimated £1,000).	Costs will increase according to the complexity of the negotiated admission to the SPF. Costs will incurred irrespective of whether or not the applying Scheme Employer abandons the application.
Re-assessment of the bond value of the new scheme employer	The SPF will re-assess bond values in line with the conditions laid out in the admissions agreement.	According to the prevailing rates of the SPF actuary	

Reports for scheme employer FRS102/IAS19 returns	The SPF will complete a pension data report required for scheme employer FRS102/IAS19 accounting returns.	Administration charge of between £200 and £400 plus VAT. Any further charge would be in accordance with the prevailing rates of the Fund actuary	
General actuarial queries	Additional actuarial queries in relation to the scheme employer	According to the prevailing rates of the SPF actuary	
General legal queries	Additional legal queries in relation to the scheme employer	According to the prevailing rates of the SPF legal advisers	
Pension strain costs	A pension strain cost may be incurred by the scheme employer where a member retires early on the grounds of redundancy or business efficiency or where an active member or deferred member chooses to retire early and the scheme employer elects to waive the actuarial reduction to their pension.	The SPF will calculate the strain cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.	Costs are based on age, gender, service and pay of the member.
Valuation of unfunded liabilities	Calculation and invoicing of unfunded liabilities relating to additional pension benefits awarded to employees which do not form part of their entitlement under the LGPS Regulations.	Annual administration charge of £250.	
Costs of awarding additional pension	The scheme employer may elect to award additional pension to a member. This will incur a charge.	The SPF will calculate the cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.	
Cessation costs *These costs are in addition to any cessation deficit payment required in accordance with the*	The Scheme Employer will incur a cost if they cease membership of the SPF.	Charged at the prevailing SPF actuary's rates (approximately £3,000 plus VAT) Further charge is according to the prevailing rates of the Fund actuary	

Funding Strategy Statement		The SPF approach to Scheme Employer cessation is laid out in the Funding Strategy Statement.	
Provision of stage 1 Internal Dispute Resolution Procedure (IDRP) adjudication	The Scheme Employer will incur an administration fee if they nominate the SPF as their stage 1 IDRP adjudicator.	Charged at the prevailing SPF officer rates (not exceeding £500.00 except in the most complicated cases).	Costs will increase according to the complexity of the case.
Establishment of security for the Fund	The Scheme Employer will incur a cost of establishing a form of security required by the Fund; e.g. a legal charge, Bond or Escrow account.	Administration charge of £500. Further charge in according to the prevailing rates of the SPF actuary and legal advisers.	
Covenant assessment	The Scheme Employer will incur a cost of the Fund carrying out a covenant assessment of the Scheme Employer to establish risk assurance.	Administration charge of £500. Further charge is according to the prevailing rates of the SPF covenant advisers (approximately £10,000, depending on circumstances).	

6. Additional fees that may be charged by the Orbis Pension Administration Team

Activity	Description	Indicative charge	Comments
Pension sharing on divorce pension in payment CEV (pensioners)	Charges may be levied for CEVs because they are not part of business as usual.	Charge of £117	
Pension sharing on divorce implementing a pension sharing order	Charges may be levied for CEVs because they are not part of business as usual.	Charge of £643	
Additional cash equivalent transfer values (CETVs)	Additional quotations may be provided	None	There is no statutory basis for charges.

Activity	Description	Indicative charge	Comments
Failure to provide end of year returns in good time	This prevents the Pension Section from producing annual benefit statements, delays the processing of pension benefits and hinders the smooth administration of the pension scheme and runs the risk of incurring substantial fines from the Pensions Regulator.	A charge of up to £5,000 will be payable if the end of year return is received later than 30th June as it may be too late to produce an annual benefit statement (they must be sent out by 31st August).	
Failure to provide monthly contribution returns in good time	This is dealt with in requirements for scheme employers (above).		
Failure to initiate an admission agreement or arrange alternative pension arrangements before a contract is let.	This leads to great uncertainty for the members being transferred and a considerable amount of additional work for the Pension Fund Team.	A charge of up to £2,000 depending upon the severity of the delay.	
Failure to pay pension strain costs in good time.	This is dealt with in requirements for scheme employers (above).		
Pension recharges that are late for any reason.	As the payments are made from the pension fund the pension fund suffers if it is not reimbursed promptly.	Interest at 1% above base rate from the date the payment fell due. This provides modest protection for the pension fund without being too onerous for employers.	

7. Penalties for poor performance by the Orbis Pensions Administration Team

Activity	Description	Indicative charge	Comments
Failure to self-calculate a contribution rate within 10 working days.	This can lead to uncertainty for the employees being transferred and additional work for the Pension Fund Team.	A penalty of up to £500.00 depending the severity of the delay.	
Failure to provide membership data for new academies within 15 working days.	This can lead to uncertainty for employers and additional actuarial fees for the Pension Fund Team.	A penalty of up to £500.00 depending the severity of the delay.	
Failure to provide membership data for exiting employers 15 working days.	Failure to provide this information in good time can lead to a breach of the law, reputational damage for the pension fund and generate considerable additional work for the Pension Fund Team.	A penalty of up to £1,000.	
Failure to produce papers for the Local Pension Board, Local Firefighters Board and Pension Fund Committee within the deadlines.	This makes the board roles harder, leads to additional work for the Pension Fund Team and undermines effective scrutiny.	A penalty of up to £500 per paper.	
Failure to provide the pension strain costs flowing from early retirements to the Pension Fund Team.	The consolidated schedule for the quarter must be provided within ten working days of the end of the quarter. Any delay can lead to a serious loss of investment returns.	A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.	
Failure to recharge the Compensation / Crombie / Injury award costs flowing from the payment of compensation benefits.	The consolidated schedule for the month must be produced within ten working days of the end of the month. Any delay can lead to a serious loss of investment returns.	A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.	

8. Consultation and review

In preparing this administration strategy statement the SPF consulted with Scheme Employers. The original consultation period intended to run from 16 December 2019 to 31 January 2020 but the deadline was extended in order to allow more time for employers to respond.

Following the consultation, employers' comments were reviewed and have been added to the final administration strategy.

The final administration strategy was approved on 13 March 2020 and it will be kept under review. The Strategy will be subject to basic annual reviews and thorough periodic reviews that are aligned with the (currently) triennial valuations.

All Scheme Employers will be consulted before any material changes are made to the Strategy.

Investment Strategy Statement

INVESTMENT STRATEGY STATEMENT

1. Introduction

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund (“the 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.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee (“the Committee), which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Leaders;
- one representative from the external employers;
- one representative of the members of the Fund.

The Committee is advised by a representative of the Fund’s professional investment consultant, an independent advisor, the Executive Director of Finance and the Head of Pensions. The Committee meets on at least a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the Local Pension Board, which is made up of:

- four employer representatives;
- four employee representatives;
- two independent representatives.

The Local Pension Board is advised by the Head of Pensions and the Senior Specialist Advisor.

The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund’s investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund’s compliance with the principles.

Key Investment Beliefs

The Fund's key investment beliefs are set out below:

(i) Investment Governance

The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as private equity and cash.

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), but it is difficult to identify and exploit such opportunities, and may require the Fund to be willing to take-on unconventional risk, thus requiring Committee members to have a full understanding of the risk.

(ii) Long Term Approach

The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers.

Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

(iii) Appropriate Investments

Allocations to asset classes other than equities and government bonds (e.g. Private Equity, Diversified Growth Funds and Property) offer the Fund other forms of returns with different risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification.

(iv) Management Strategies

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

Active managers can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value, over the long term.

The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.

Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

Objectives

The Committee seeks to ensure that the Fund has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members, i.e. over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.

ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the value of the Fund's liabilities.

iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.

iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.

v. To have sufficient liquid resources available to meet the Fund's ongoing obligations.

vi. To achieve an overall Fund return 1% per annum in excess of the combined portfolio benchmark over rolling three-year periods.

This statement will be reviewed by the Committee quarterly, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The Fund's benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

Asset class	Allocation %	Advisory ranges %	Role(s) within the strategy
Listed Equities	**59.8**	**56.8 – 62.8**	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	17.4		
Global Market Cap	19.0		
Emerging Markets	3.8		
Global Multi-Factor	9.8		
Low Carbon	9.8		
Private Equity	**5.0**	**2.0-8.0**	Generate returns in excess of inflation, through exposure to companies that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Property	**6.2**	**3.2 - 9.2**	Generate returns in excess of inflation through exposure to UK and overseas property markets through income and capital appreciation, whilst providing some diversification away from equities and bonds.
Diversified Growth	**11.4**	**8.4 – 14.4**	Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
Growth Fixed Income Assets	**12.1**	**9.1-15.1**	
Total Return	2.4		Offer diversified, unconstrained exposure to global fixed income markets.

Multi Asset Credit	9.7		Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Inflation Linked Gilts	**5.5**	**2.5-8.5**	
Index Linked Gilts	5.5		Low risk income stream with an explicit linkage to inflation.
Total	**100.0**		

Note: Full details of the asset allocation, including the investment managers and their respective performance benchmarks are included in Appendix B.

Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible (a pragmatic view will be taken with respect to illiquid assets such as private equity and property). The rebalancing process has been delegated to Officers, although the Committee have discretion to exclude certain mandates from the rebalancing at their discretion.

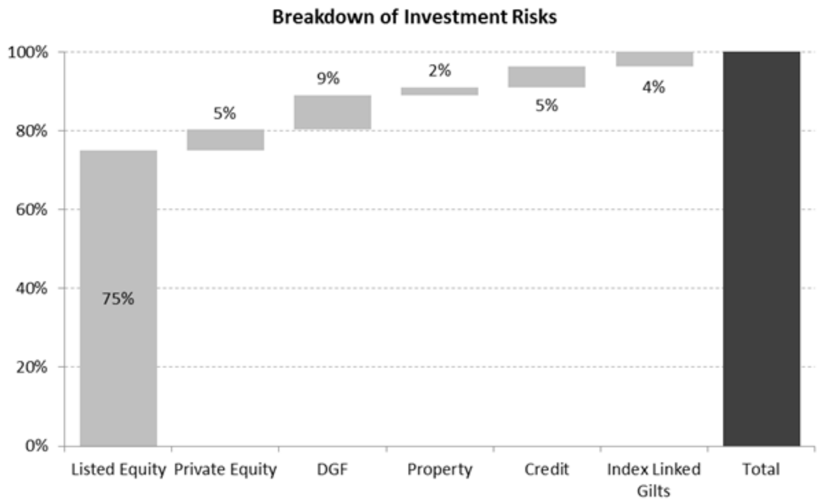
3. Risk measurement and management

There are a number of risks to which any investment is exposed. The Committee recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

In order to manage equity risk in particular, and given the improvement in the funding level over recent years, an Equity Protection Strategy (EPS) was implemented in December 2017 to help protect the improvement in the funding level from potential future falls in the equity markets. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to bridge a funding deficit due to equity market falls.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the Fund's volatility of returns.



Note: Credit risk encompasses the risks within Total Return Fixed Income and Multi Asset Credit. The chart excludes the risk associated with the change in value of the Fund's liabilities. The chart also does not allow for the impact of the EPS, which would be expected to materially reduce the equity-specific VaR (although it will remain the highest risk component at the total portfolio level).

The following risks are recognised and considered by the Committee:

Valuation risk: the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to unexpected increases in CPI, or if the assets do not deliver as expected.

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Diversification risk: the Committee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Committee takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

Cashflow risk: the Fund is cashflow positive, in that contributions are expected to exceed outgoings (outgoings are largely expected to be in the form of meeting benefit payments). As outlined in Section 2, excess cashflows are used to rebalance the investment policy closer into line with the target. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

Governance: members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

Environmental, Social and Governance: the Committee wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the 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 Committee requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

The full ESG policy of the Fund is outlined in Section 5.

4. Approach to asset pooling

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

Asset values total £35.9 billion, supporting 906,000 scheme members and 2,166 employers (data at 31 March 2015).

BCPP is a partnership of the following administering authorities:

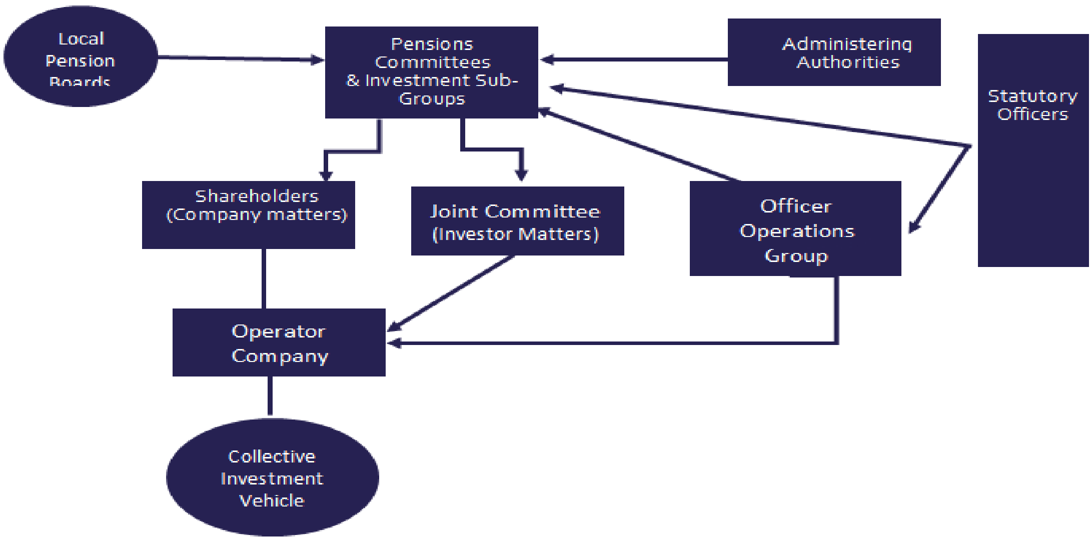
- Bedfordshire Pension Fund

- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The basis of the pooling will be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

a. Benefits of scale - a minimum asset size per pool of £25bn.
b. Strong governance and decision making
c. Reduced costs and value for money
d. Improved capacity to invest in infrastructure

The governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the BCPP Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited. Each Fund has an equal share in the company.
- A representative on the BCPP Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the representatives from the Officer Operations Group and the Statutory Officer Group.

The regulatory changes do not affect the sovereignty of the Surrey Pension Fund which will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited. The pooling of LGPS assets will have no impact on the pension entitlement of members of the fund (pensioners, current employees, and deferred members who are yet to draw their pension).

BCPP has been created by like-minded funds, established around key principals:

- one fund one vote, regardless of size, all Funds will be treated equally;
- equitable sharing of costs;
- to drive efficiencies and work effectively, partner funds must have a complementary investment ethos, risk appetite and investment strategy.

BCPP will have an internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool (e.g. existing private equity investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into BCPP.

5. Environmental, social and corporate governance (ESG) policy

The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues. However external fund managers are expected to take into account ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection.
The Fund also holds expectations of its fund managers to hold companies to account reference the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria.

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles.

For assets managed in the BCPP pool, the Fund supports the Responsible Investment Policy of BCPP (shown as Appendix C). BCPP undertake voting on these assets in accordance with the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues. Assets held within BCPP are managed in accordance with the engagement principles as outline in the BCPP Responsible Investment Policy. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

Responsibility for investment decisions is delegated by the Administering Authority to the Pension Fund Committee. The structure of the Committee, as set out in the opening section of this ISS, includes specific representative members for both employers within the Fund and the scheme membership.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund supports compliance of BCPP with the Corporate Governance Code as outlined in the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

The Fund complies with the seven statements of the **UK Stewardship Code** as follows**:**

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF. When this occurs, the Committee will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

The policy is reviewed at least annually in order to take account of regulatory developments. Controversial issues may be discussed at Committee meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Committee and employer member representatives at the Annual Meeting where members have an opportunity to ask specific questions.

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

Advice Taken

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment consultant (Mercer Limited), an independent advisor, the Executive Director of Finance and the Head of Pensions.

Appendix A: Myners Investment Principles Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

✓ **Full compliance**

The Committee and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance and the Pension Fund and Treasury Manager.

Members of the both Boards participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

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

✓ **Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ **Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

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

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

✓ **Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. 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.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

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 requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

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

✓ **Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Pension Fund Committee and Local Pension Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

Appendix B: Investment Manager Performance Targets and Benchmarks

Manager	Portfolio	Allocation (%)	Benchmark Index	Performance Target
BCPP	UK Equities	12.0	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	5.5	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Marathon	Global Equities	11.4	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Newton	Global Equities	7.6	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Various*	Private Equity	5.0	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
CBRE	Property	6.2	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	3.8	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Ruffer	Diversified Growth	3.8	UK Base Rate	First objective is not to lose money on a rolling 12 month basis. Second objective is to outperform cash and inflation on a consistent basis. *Fund target of +3.0% (gross of fees) over 3 year rolling periods
Aviva	Diversified Growth	3.8	UK Base Rate	+5.0% p.a. (gross of fees) over rolling 3-year periods
Western	Multi Asset Credit	9.7	Total return benchmark	+5% to 7% per annum over the market cycle
Franklin Templeton	Unconstrained Global Fixed Income	2.4	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds RAFI Multi-Factor Low Carbon Index CN - AAA- AA-A Bonds – All Stocks Index	28.8	MSCI World MSCI World Low Carbon Target Index Markit iBoxx GBP Non Gilts ex BBB All stock Portfolio of single stock funds structured by reference to Fund liabilities	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

	Index-Linked Gilts			
Internal	Cash		LIBID 7-day rate	LIBID 7 day rate

*See Appendix C

The below appendices can be found in the Responsible Investment Policy section of this annual report.

Appendix C: BCPP Responsible Investment Policy

Appendix D: BCPP Corporate Governance and Voting Guidelines

Appendix E: Private Equity

The table below outlines details on the Fund's private equity commitments. 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 Committee reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund. Fees paid to managers vary due to 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. Performance fees are in place for a number of the Fund's managers.

Name	Currency	Inception	Commitment
UK Funds			**£/€/$m**
HG Capital 5	£	2006	7.9
HG Capital 6	£	2009	9.4
HG Capital 7	£	2013	15.0
Livingbridge 4 LP	£	2007	13.0
Livingbridge Enterprise 1 LP	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Darwin Property Fund	£	2017	40.0
Capital Dynamics LGPS CPAV	£	2016	24.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	$	2013	20.0
Standard Life SOF II	$	2014	20.0
Standard Life SOF III	$	2016	25.0
Standard Life SOF III	$	2016	20.0
Glennmont Clean Energy Europe III	€	2018	45.0
US Fund of Funds			

Blackrock Div PEP I	$	2001	5.0
Blackrock Div PEP II	$	2001	5.0
Blackrock Div EP III	$	2005	17.5
GSAM PEP 2000	$	2000	9.5
GSAM PEP 2004	$	2004	10.0
GSAM PEP 2005	$	2006	17.0
GSAM PEP X	$	2008	18.0
GSAM PEP XI	$	2011	40.0
GSAM Vintage Fund VI	$	2013	20.0
GSAM Vintage Fund VII	$	2016	50.0
GSAM West Street Infrastructure	$	2017	20.0
Pantheon Global Infrastructure Fund III	$	2017	60.0
US Funds			
Capital Dynamics US Solar Fund	$	2011	24.9

Surrey Pension Fund's full Investment Strategy Statement, approved by the Pension Fund Committee on 8 February 2019 can be found on the Surrey Pension Fund Website using the link below.

https://www.surreypensionfund.org/media/4424/20190208-investment-strategy-statement.pdf

Responsible Investment Policy

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles.

For assets managed in the Border to Coast Pensions Partnership (BCPP) pool, the Fund supports the Responsible Investment Policy of BCPP (shown as Appendix C). BCPP undertake voting on these assets in accordance with the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues. Assets held within BCPP are managed in accordance with the engagement principles as outline in the BCPP Responsible Investment Policy. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

For access to BCPP's Responsible Investment Policy, Corporate Governance & Voting Policy, Annual Responsible Investment Report and its **Task Force on Climate-related Financial Disclosure Report please use the link below;**

https://www.bordertocoast.org.uk/sustainability/

Appendix C: BCPP Responsible Investment Policy

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Single use plastics Political lobbying

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.

- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[2] recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.
- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing its fund managers in relation to climate change approach and policies.
- Participating in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code[3] and the UN Principles of Responsible Investment[4].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

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[2] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
https://www.fsb-tcfd.org/publications/finalrecommendations-report/

[3] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.
https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

[4] The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility will be required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also reviews the services provided by Robeco on a regular basis.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed.

- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[5] breaches.

- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact principles or OECD guidelines for

[5]UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

multinational enterprises. Both sets of principles, cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1 Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3 Due Diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We will also be voluntarily reporting in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Appendix D: BCPP Corporate Governance and Voting Guidelines

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.

- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

In line with the government-backed Davies report and the Hampton-Alexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

• **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

Funding Strategy Statement

The FSS is reviewed in detail at least every three years as part of the triennial valuation. The 2019 Funding Strategy Statement can be accessed below

https://www.surreypensionfund.org/media/5328/funding-strategy-statement-v5.pdf

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

1 Introduction

1.1 What is this document

This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund ("the Fund"), which is administered by Surrey County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2020.

1.2 What is the Surrey Pension

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Surrey Pension Fund, in effect the LGPS for the Surrey area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:-

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;

- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

A. In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

B. In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

C. In the Appendices we cover various issues in more detail if you are interested:

D. the regulatory background, including how and when the FSS is reviewed,

E. who is responsible for what,

F. what issues the Fund needs to monitor, and how it manages its risks,

G. some more details about the actuarial calculations required,

H. the assumptions which the Fund actuary currently makes about the future,

I. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Ayaz Malik in the first instance at ayaz.malik@surreycc.gov.uk or on telephone number 020 8541 9705.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, e.g. the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an

employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates.

Uncertainty over the McCloud remedy impact makes it impossible to calculate an "exact" loading so the Fund's approach is to increase prudence via a higher likelihood of meeting the funding target.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserve the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;

- lower contributions in the short term will result in a lower asset share on which investment returns can be earned. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	**Local Authorities, Police and Town/Parish Councils**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts exit basis" – see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(See Appendix D – D.2)					
Stabilised contribution rate	Yes – see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	14 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount/% of payroll	Monetary amount/% of payroll	Monetary amount/% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	75% if form of security offered 80% otherwise	70%	75% if form of security offered 80% otherwise	75% if form of security offered 80% otherwise	75% if guaranteed by LA or academy 75% if other form of security offered or has

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
						other guarantor (not LA or academy) 80% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Note of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					To be reviewed in last 3 years of contact
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j)			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j)		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the ongoing basis, unless the admission agreement is terminated early by the contractor in which case the gilts exit basis would apply. Letting employers will be liable for future deficits and contributions arising. See Note (j) for further details

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in Note (j)

(a) Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

The Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

(b) Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to Surrey County Council, all District and Borough Councils and Surrey Police Authority:

- This is subject to there being no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilisation parameter will be +/-1% of pay per annum from 2023. As such, the majority of stabilised employers will have rates frozen at current levels for the three year from 1 April 2020. Alternative contribution patterns may be agreed with the Administering Authority discretion subject to meeting the likelihood of meeting the target.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

(c) Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority may adopt a rolling time horizon or a reducing time horizon at successive triennial valuations depending on specific employer circumstances. The Administering Authority reserve the right to propose alternative time horizons, for example where there are no new entrants.

(d) Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will generally be set as monetary amounts, with the exception of Academy rates. However, the Administering Authority reserves the right to amend this approach on a case by case basis where appropriate.

(e) Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

(f) Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

(g) Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the MAT that they are joining. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT. If two MATs merge during the inter-valuation period, the merged MAT will pay the higher of the certified rates for the individual MAT's.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and /or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

(h) Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

(i) Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i. Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii. Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of surplus would be determined by the Administering Authority in accordance with the Regulations

iii. Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

Subject to an assessment of the strength of the employer and appropriate safeguards in place, the Administering Authority is willing to administer any of the above options as long. The approach should be contained in a separate signed risk sharing agreement between the letting scheme employer and the contractor and included as an annex to the Admission Agreement. Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

(j) Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The default position will be for a cessation to be triggered, but the Fund has the discretion on whether to be apply this in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of it relating to the Admission Body's employer contributions, any legal undertakings (such as risk sharing agreements or guarantees) and any other relevant factors.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1.3% loading to the ceasing employer's total liability, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there may be other Fund administration expenses associated with the cessation, both of] which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation. For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or gilts exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

The Administering Authority can give consideration to setting up pools for employers with very similar characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary, the Administering Authority may allow smaller employers of similar types to pool their contributions in order to smooth out the effects of costly events, e.g., ill-health retirements or deaths in service.

From the 1 April 2019, a Town and Parish Council Pool will be created. This pool has been created as a way of sharing experience and smoothing out the effects of costly rare events such as death in service for these small employers. It also provides some mitigation against the cliff-edge gilts exit basis calculation at cessation. Full details of the operation of this new pool are set out in Appendix H.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling. Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies who belong to a MAT are permitted to pool for contribution rate purposes.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, a change of employer risk category or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') immediately wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Following completion of the 2019 actuarial valuation, the Fund's current early retirement strain factors will be reviewed and the new strain factors will become effective from 1 April 2020.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

However, these strains are currently met by a Fund-operated ill health risk management solution (see 3.8 below).

3.8 Internal Ill health insurance

The Fund operates a form of cost-sharing between employers whereby all ill-health early retirement strain costs are spread across all employers in the Fund. This self-insurance policy will come into effect from 1 April 2019. This self-insures against ill health events which applies to all employers in the Fund such that:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

Further details are set out in Appendix G.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each bulk transfer case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

Prior to the 2019 valuation, the Fund operated a single investment strategy. At the time of writing the Fund is working towards the implementation of three focused investment strategies to more appropriately reflect the characteristics of different cohorts of employers. The Fund's three investment strategies will have a range of allocation to growth assets. More detail of these strategies are set out in the Investment Strategy Statement.

Employers are allocated by the Administering Authority and the Fund's Strategic Investment Advisor to the investment strategy which is most appropriate given the employer's funding objective and current funding position. Please see the ISS for more details.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's two funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values, however, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings.

5 Statistical reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS 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 framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 20 January 2020 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published before 1 April 2020.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website
- A copy sent by email to each participating employer in the Fund;
- A copy to the Pension Fund Committee and Local Pensions Board

- A full copy annual report and accounts of the Fund;
- Copies sent to independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in the future). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://www.surreypensionfund.org

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

- **B1 The Administering Authority should:-**
  - operate the Fund as per the LGPS Regulations;
  - effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
  - collect employer and employee contributions, and investment income and other amounts due to the Fund;
  - ensure that cash is available to meet benefit payments as and when they fall due;
  - pay from the Fund the relevant benefits and entitlements that are due;
  - invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
  - communicate appropriately with employers so that they fully understand their obligations to the Fund;
  - take appropriate measures to safeguard the Fund against the consequences of employer default;
  - manage the valuation process in consultation with the Fund's actuary;
  - provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
  - prepare and maintain a FSS and a ISS, after consultation;
  - notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
  - monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.
- **B2 The Individual Employer should:-**
  - deduct contributions from employees' pay correctly;
  - pay all contributions, including their own as determined by the actuary, promptly by the due date;
  - have a policy and exercise discretions within the regulatory framework;
  - make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
  - notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

- B3 **The Fund Actuary should:-**
  - Prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
  - provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
  - provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
  - prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
  - assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
  - advise on the termination of employers' participation in the Fund; and
  - fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.
- B4 **Other parties:-**
  - investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
  - investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
  - auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
  - governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
  - legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
  - MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance. Operation of three investment strategies to meet needs of a diverse employer group.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of

Risk	Summary of Control Mechanisms
	any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

- **C3 Demographic risks**

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees' declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	From 1 April 2019 the Fund will operate a form of internal insurance whereby any ill-health early retirement strain costs are in effect spread among all employers
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E). The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- at the end of the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high likelihood , as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;

9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or

10. differences in the required likelihood of achieving the funding target.

- **D5 How is each employer's asset share calculated?**

The Fund uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

- ### E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

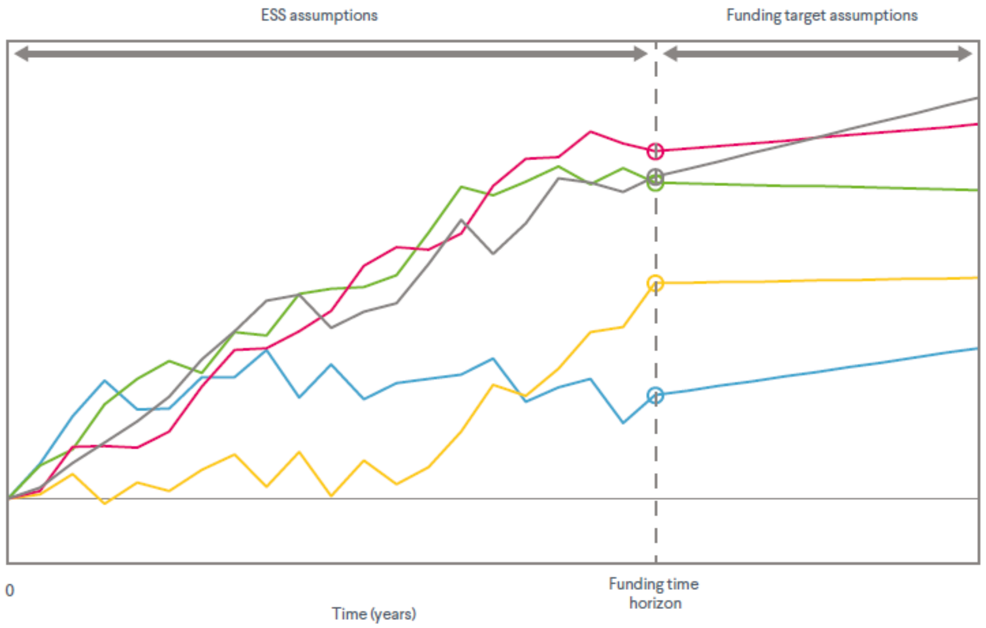
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has two different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E2 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

Benefit increases and CARE revaluation

Salary growth

Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

E3 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

The salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2.9% p.a. until 31 March 2023, followed by
2. Retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of RPI less 0.1%. This is a change from the previous valuation, which assumed a blended assumption of RPI less 0.7% per annum. The change has led to a decrease in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These

	Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the **Primary and Secondary contribution rates**, and other statutory information for a Fund, and usually individual employers too.

Appendix G – Fund’s Ill Health Policy

This document provides details of the Surrey Pension Fund (“the Fund”) ill health self-insurance service which is in place for all Fund employers.

The policy is effective from 1 April 2019 and will be reviewed and revised as necessary at each formal valuation of the Fund.

Background

The Fund has considered the options available to help employers mitigate the risk of having to pay a large cash sum due to an ill health early retirement and the resulting augmentation strain cost that arises as a result of enhanced and early payment of the member’s pension. To mitigate this risk to employers and to evidence good governance and risk management, the decision has been taken to operate an in house self-insurance policy within the Fund. This policy sets out the approach that will be taken as well as the benefits of this service to the employers in the Fund.

Description

The purpose of this self-insurance service is to create a pool of assets that will recompense participating employer for the strain costs associated with ill-health early retirements. This will be achieved through:

- Collecting a small proportion of employers’ contributions as premiums;
- Allocating these contributions to a segregated sub-fund;
- When ill health retirements occur for a participating employer, the strain cost (as calculated by the Administering Authority) will be met from the assets held in the segregated sub-fund.

Both Tier 1 and Tier 2 ill health early retirement strains will be covered by this service.

Section I.4 Participating employers

The service will mitigate the ill-health early retirement risk for all employers with active members in the Fund.

Premiums

The premium will be set as an appropriate percentage of payroll and will be deducted from each employer’s regular monthly contributions. The premium rate will be reviewed at each formal valuation of the Fund which occurs every 3 years, with the next formal valuation to be carried out on 31 March

2019.

Please note no additional contributions are being requested from employers to meet this potential cost. Instead the ill health premium will be taken from the contributions currently being paid and certified for each employer in the Rates and Adjustments certificate.

Section I.6 **Benefits/drawbacks of Ill Health Self-insurance**

Employers should be aware that this policy does not necessarily fully protect their valuation funding position / accounting balance sheet as the assumptions underlying the calculation of the strain amount (and therefore benefit) are not the same as those used for funding / accounting. Necessarily the calculation of the strain cost is based on a number of assumptions. In practice the additional cost of the ill-health early retirement will only be known when the benefits have been paid in full to the member and any dependants. There is a risk that the fund over/underpays the actual cost of strains to employers using current, accepted practice.

This self-insurance policy is a form of pooling ill health early retirement strain costs amongst the participants. As with other forms of pooling there are associated benefits and risks.

- Employers are protected from the risk of having to pay large cash sum strain payments into the Fund. In particular this is a major risk for smaller employers who do not have the cashflow available to fund these payments which can be very expensive; but

- There is a risk of cross subsidy if the claim experience of one particular employer is very high compared to that of another.

Appendix H – Town and Parish Council Pool

This document provides details of the Surrey Pension Fund ("the Fund") Town and Parish Council ("Councils") pooling arrangement.

The policy is effective from 1 April 2019 and will be reviewed and revised as necessary at each formal valuation of the Fund.

Background

The Fund has set up a Town and Parish Council pool which all Town and Parish Councils will be entered in to. The pool is intended to benefit the Councils through the pooling of risks and stabilising of contribution rates. This policy sets out the approach that will be taken as well as the benefits of this pool to the Town and Parish Councils in the Fund.

Description

The purpose of the Town and Parish Council Pool is to stabilise the pension funding requirements of the Councils who most often only have one or two participating member. By joining the pool, the Councils benefit from:

- One common contribution rate payable by all employers in the pool. This should help maintain stability in the contributions between formal valuations;
- Their cessation debt, which is triggered when the last active member leaves, will be calculated on an ongoing basis;

Section I.9 Participating employers

All Town and Parish Councils in the Fund will be automatically included in the pool unless they formally opt out in writing.

Section I.10 Benefits/drawbacks of pooling

Employers should be aware that this is a full risks pooling arrangement and as such carries both benefits and drawbacks for each participating Council.

(a) Benefits

The main benefit of pooling is that it reduces the volatility of contribution rates arising because of experience. For example:

- **Mortality** risks; pooling gives the Town and Parish Councils some protection against the higher cost of paying benefits to one or two individuals who enjoy a much longer than expected retirement.

Some employers may pay lower regular contributions by staying out of a pool (e.g. employers with young membership, better budgetary discipline and lower pay awards). If employers are small, however, they could still benefit from the protection the pool gives from uncertain and unpredictable events such as unusually long periods in retirement.

A further benefit will be that the cessation debt for employers participating in the pool is calculated on an ongoing basis rather than a more prudent cessation basis. This is possible due to the sharing of risks that the pool offers and the security that it offers the Fund.

b) **Drawbacks and risks**

It is worth remembering that some employers may be adversely affected by pooling and end up paying higher contributions than they would pay if they are out of the pool because they are subsidising other members of the pool. Specific examples of this include:

- Sharing the impact of **pay awards.** This can be a drawback for employers whose pay awards are lower than the average for the pool and who, in effect, subsidise employers whose pay awards are higher;
- Employers with **younger members** than other employers in the pool (since it is less expensive to fund for younger members).

Employers should be aware that the balance may, however, swing in their favour at future valuations if their own experience over that time is poor. For example, at the actuarial valuation, an employer may find that its own individual experience would suggest a specific contribution rate. The contributions are, however, set lower than this theoretical rate because the employer benefits from the pooled rate. The average experience of all the employers in the pool has kept this employer's rate down. The other employers in the pool are therefore subsidising the employers with poorer experience. Given that pooling is a way of averaging experience, there will always be winners and losers in a pooling arrangement.

Membership of a pool results in loss of control for individual employers. An employer with an individual contribution rate has more control over its pension contributions and can reduce them by, for example, exercising discipline in pay awards.

Appendix I - Surrey Pension Fund's Admissions Policy

This document is an annexe to the Funding Strategy Statement prepared in accordance with regulation 58 and it should be read in conjunction with that document. There are a range of employers who are eligible to participate in the Local Government Pension Scheme (LGPS) and their participation is governed by Schedule 2 of the LGPS regulations 2013.

(1) Scheme Employers whose employees / nominees participate automatically

Schedule 2, Part 1 contains a list of bodies that are required to participate in the LGPS and all eligible employees are admitted, although they can subsequently choose to opt-out.

Schedule 2, Part 2 lists employers who can designate a person or a class of employee to participate in the LGPS. Although they are currently known as designating bodies they were previously known as resolution bodies.

Schedule 2, Part 4 Column 1 sets out a list of persons who are eligible for membership of the LGPS and column 2 identifies their deemed scheme employer.

(2) Scheme Employers whose employees / nominees participate by virtue of an admission agreement

Schedule 2, Part 3

These are bodies that participate in the LGPS by virtue of an admission agreement. There are two main groups;

(i) Schedule 2, Part 3 1(a), formerly known as community admission bodies (CABs). They are defined as *"a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise)."* The administering authority will usually only admit these bodies if they provide a bond, a guarantor (usually a scheme employer) or a charge on an asset.

(ii) Schedule 2, Part3, 1(d)(i), formerly known as transferee admission bodies (TABs). They are defined as "a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement".

(iii) It is vital that employers who are thinking of **letting a contract** allow a significant lead time to sort out the pension issues and engage with the Pension Fund Team at the earliest opportunity. A brief guide to negotiating an admission agreement is appended to this document as Annexe 1.

The purpose of the policy

- To manage the risk of an employer not being able to honour its liabilities by implementing good governance, sound financial controls, effective risk management and strengthening the employer covenant.
- To improve access to the LGPS where possible in order to improve cash flow, delay maturity and promote sustainability.
- To monitor the employer covenant and secure pension liabilities by means of bonds, charges on assets and guarantors, where applicable.
- To manage and mentor employers with weak covenants by means of regular reviews and formal covenant checks, where it is cost effective to do so.

In more detail

This section explores the types of employer that can participate in the scheme in more detail.

Although the members pay banded contributions in accordance with regulation 9, employers' contributions are more fluid and are based on a range of factors including past service liability, the funding horizon, the strength of the covenant and decisions affecting their employees' pensions. These questions are considered separately in another key document, the Funding Strategy Statement.

"Scheduled" bodies

County Councils, Borough Councils and other employers specified in Part 1 of Schedule 2 are required to admit all their employers who are not eligible to participate in another public sector pension scheme (e.g. the Teachers' Pension Scheme or the NHS Pension Scheme) in relation to that employment.

This category also includes local education authority (LEA) schools that convert to academies, multi academy trusts (MATs) and other variants of school (such as Free Schools) that are established under the umbrella legislation and required to admit all their non-teaching staff to the LGPS. If they let a contract, such as a catering or a cleaning contract, the TUPE transfer is subject central government guidance called Fair Deal, which stipulates that the transferees should be offered access to the same public sector pension scheme. Each contractor who takes over a TUPE transferred function becomes a new employer in the LGPS by means of an admission agreement. As academies are listed in Part 1 of Schedule 2, the administering has no discretion about whether to admit employees or employees who are TUPE transferred, as long as they were eligible to be members at the point of transfer.

Links to MHCLG guidance on Fair Deal and Academies below:
http://lgpslibrary.org/assets/othergov/201310FD.pdf
http://lgpslibrary.org/assets/othergov/201704Academies.pdf

Designating Bodies (formerly known as Resolution Bodies)

These bodies can designate individual employees or classes or classes of employee as being eligible to participate in the LGPS and the administering authority cannot deny them access once they have been designated. They tend to be small employers that can levy charges, such as town and parish councils, but they can include sizeable quangos.

Admitted Bodies

These employers participate in the LGPS by virtue of an admission agreement. The Administering Authority can set criteria for admitting employers and it can decline access if they are not met. There are two distinct types of admission agreement;

(1) Community Admission Agreements (CABs)

They are now known as Schedule 2, Part 3 1(a) bodies but their old name, CABs, is self-explanatory. They are generally non-profit organisations with a community of interest with a scheme employer or provide a service on behalf of a scheme employer and could include housing associations, charities and (historically) sixth form colleges. The Administering Authority will generally require the strongest possible employer covenant for CABs such as a bond, a charge on a realisable asset or a Scheme Employer guaranteeing the pension liabilities.

(2) Transferee Admitted Bodies (TABs)

Schedule 2, Part3, 1(d)(i) bodies are known as TABs. A TAB comes into being when a scheme employer lets a contract to (usually) a contractor but, occasionally, a Scheme Employer in its own right that tenders for an outsourced contract (e.g. SCS). They have a relatively strong employer covenant, because the letting authority is standing behind the pension liabilities, but they can enhance it by requiring the TAB to take out a bond to protect against a default. These transfers usually take place on fully funded basis but, occasionally, the letting authority will consider a pass through side agreement in return for a significant concession in contract price. This because a pass through allows contractors to fix the cost (a known quantity) due to the letting authorities shouldering the investment risk (an unknown quantity).

Links to MHCLG's guide to admission agreements are shown below:
http://lgpslibrary.org/assets/othergov/200912ABG.pdf

Surrey Pension Fund, as the Administering Authority, is responsible for the stewardship of the pension fund and it acts in the collective interest of all the employing authorities. Where it has discretion over whether to admit a body, it will seek the strongest possible covenant reasoning that if a body offers an indispensable service to the community it is likely that a county / borough council will be prepared to guarantee the pension liabilities. Nonetheless, the Pension Fund Team will not forget that the relationship with employers is a partnership and it will work closely with employers who experience difficulties to deliver the best possible outcome for both parties. We take a holistic view of the pension fund and we realise that strong covenants (prudence) need to be balanced by maintaining the contribution base / cash flow (sustainability).

Annexe 1 – a brief guide to Admission Agreements for transferee admission bodies (TABs)

Best value authorities (e.g. county and borough councils) are governed by the Best Value Authorities Staff Transfers (Pensions) Direction 2007, which requires them to offer the LGPS, a genuinely equivalent or a better pension scheme. Scheme Employers covered by New Fair Deal (e.g. central government bodies and academies) should offer the same occupational pension (i.e. the LGPS).

Scheme Employers who are thinking of letting a contract should contact the Pension Fund Team to discuss the options with a substantial lead time well in advance of the contract being let. If they decide to go ahead;

- The Pension Fund Team will send the letting authority an application form which should be completed by both the letting authority and the contractor.
- The application form sets out the basis of the transfer and the professional fees the contractor will have to meet. The default position is a fully funded transfer with the contractor taking on the investment fluctuation risk. Alternatively, the letting authority can agree a pass through agreement where they retain the investment risk, but they will usually require a significant concession in contract price for doing so. The letting authority may require the contractor to take out a bond to protect against a pension default / unforeseen pension costs.
- The letting authority, or their payroll provider, will be required to produce a data capture setting out the relevant details of the transferring employees, which they should then send it to the Pension Fund Team.
- The application form will drive the drafting of the admission agreement, and any supporting documents, and the actuary will use the data capture to calculate the contractor's contribution rate / bond.
- The Admission Agreement is a tripartite agreement (the Administering Authority, the letting authority and the contractor) that regulates the pension arrangements for the duration of the contract and determines the employees / classes of employees who can participate in the LGPS.
- The Funding Strategy Statement in conjunction with the LGPS Regulations 2013 will determine what happens when the admission agreement terminates.

Appendix I - Surrey Pension Fund's Policy for exiting employers

This policy governs the treatment of exiting employers and sets out the methodology for calculating any surplus or deficit.

The policy will be reviewed annually but it will undergo a thorough overhaul after each (currently) triennial valuation.

The principles set out in this document have general application for any employer exiting the pension fund; however, this paper focuses on employers who participate in the pension fund by virtue of an admission agreement because they have a usually have a definite termination date.

Surrey Pension Fund (SPF) takes a holistic view of the pension fund and it will work with its partners to achieve the best possible outcome for all stakeholders impacted by exiting employers. Although SPF's primary aim is to protect the pension fund, it will consider a flexible approach in instances where the employer covenant is strong enough to justify doing so.

This document should be read in conjunction with the Funding Strategy Statement (FSS) which establishes the strategic context for the issues explored here.

Scheme employers

Scheme employers have statutory right to participate in the pension scheme albeit that those listed in Schedule 2 Part 2 may have to designate individuals or classes of employee as being eligible to join.

Admission bodies

These bodies are listed in Schedule 2 Part 3 and there are two main types; "transferee admitted bodies" which are guaranteed by a scheme employer and "community of interest" admitted bodies, which may not necessarily have a guarantor. It is Surrey Pension Fund's policy to only consider admitting the latter group if are supported by a guarantor or are they able to offer a suitable realisable asset as security.

Admitted bodies are further subdivided into open (to new members) and closed (to new members) admission agreements. The latter group's membership may dwindle over time unless the agreement is novated and opened to new members.

Anticipating exiting the pension scheme

The Pension Fund engages with employers at regular intervals and undertakes periodic covenant reviews so an impending departure should not usually be a surprise. Employers who anticipate exiting the fund in the foreseeable future can adjust their funding position with a view to meeting the potential liabilities at the point of termination. Nonetheless, "front-loading" may be challenging for the departing employer because unlike the liabilities of ongoing employers, which are estimated on relatively optimistic assumptions, an exit payment would be calculated on a low risk (gilts) basis.

Exiting the fund

Notwithstanding the provisions in the Admission Agreement, the Administering Authority may consider any of the following events as triggering the cessation of an admission agreement with any type of body:

i. The last active member in relation to that employer / admission agreement ceasing to participate in the Fund. Although the administering Authority is required to obtain a revised rates and adjustments certificate showing the exit payment due under regulation 64(2)(a) it may by written notice suspend the termination for up to three years under regulation 64(2B) if, in its reasonable opinion, the employer is likely to have one or more active members within that period. The default position is that a cessation would be triggered but the Fund has discretion over whether it should apply in any given case.

ii. The insolvency, winding up or liquidation of the Admission Body.

iii. Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund.

iv. The failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund / overriding legislation.

The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm a suitable alternative guarantor, as required by the Fund.

Upon cessation, the Administering Authority will instruct the Fund actuary to carry out an exit valuation to determine whether there is any deficit or surplus. Where there is a deficit, the payment of the whole amount will normally be sought from the Admission Body. Where there is a surplus, the Administering Authority has the discretion to pay an exit credit to the Admission Body. That decision will turn on the quantum of the surplus, the proportion attributable to employer contributions, any legal undertakings (e.g. a pass through agreement) and other relevant factors. With reference to the Funding Strategy Statement, it is possible that neither an exit payment nor an exit credit would be payable if a risk sharing arrangement has been put in place, depending on the terms of the admission agreement and the side agreements.

The LGPS benefit structure from 1st April 2014 is under review following the Government's defeat in the McCloud, Sargeant and Mostyn (collectively known as McCloud) cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1.3% loading to the ceasing employer's total liability, as an estimate of the possible impact of the consequent benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there may be other Fund administration expenses associated with it, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process enhances administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation. For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must protect the interests of the other ongoing employers. The actuary will therefore adopt an approach which, as far as is reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future.

Where a guarantor does not exist the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This model makes no allowance for potential future investment outperformance above gilt yields, and builds in an allowance for future improvements in life expectancy. This could result in significant cessation debts crystallising.

Where there is a guarantor standing behind future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply a guarantor of last resort and, therefore, the cessation valuation will be carried out as though there is no guarantor. However, where the guarantor (which will usually be a scheme employer in its own right) is contractually obliged to support the exiting employer, the cessation may be calculated using either the ongoing participation basis or a gilts exit basis, depending on circumstances.

Moreover, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise a deficit or a surplus. This approach may be adopted where the employer cannot pay the contributions due and it falls within the terms of the guarantee.

Any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting the other employers in the Fund or, alternatively, the employer contribution rates set at the next formal valuation may be adjusted to recover the shortfall.

Where a ceasing Admission Body is continuing in business the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept suitable alternative security to be held against any deficit on the gilts exit basis and would carry out the cessation valuation on the ongoing participation basis. The secondary employer contributions would be derived from this cessation debt. The security offered must be realisable and the arrangement would be monitored as part of each formal valuation and the secondary contributions would be adjusted as required. The Admission Body may only terminate the agreement by paying the outstanding debt calculated on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members and the exiting employer would be required to pay any fees.

Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced employer's contribution rate, an extended time horizon for funding targets, a change of employer risk category or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

i. the extent of the employer's deficit,

ii. the amount and quality of the security offered,

iii. the employer's financial security and business plan and

iv. whether the admission agreement is likely to be open or closed to new entrants.

Early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. The relevant age may be different for different tranches of membership, following the benefit changes in April 2008 and April 2014. Employers are required to pay additional contributions ('strain costs') immediately wherever an employee retires before attaining this age. The actuary's funding model does not make any allowance for premature retirement, except on grounds of permanent ill-health.

Following completion of the 2019 actuarial valuation, the Fund's current early retirement strain factors will be reviewed and the new strain factors will become effective from 1 April 2020.

Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis and, consequently, have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise;

i. the employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations or;

ii. the last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

Policy on bulk transfers

Occasionally a scheme employer / admitted body will be transferred to, or merged with, another entity which may participate in the LGPS or another public sector pension scheme. This may result in bulk transfers to or from Surrey Pension Fund.

Each bulk transfer case will be treated on its own merits, but in general:

i. the Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members,

ii. the Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities,

iii. the Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period and

iv. this may require the employer's contributions to increase between valuations.

Conclusion

The primary objective of the Pension Fund is to ensure that members' pensions are paid and this is achieved by controlling costs, managing and mentoring employers and making sure that the funding model is sustainable. The Local Government Pension Scheme regulations are constantly evolving and the Ministry of Housing, Communities and Local Government (MHCLG) has consulted about introducing deferred employers and expanding the binary options set out in the regulations. Managing the spectrum of exiting employers requires flexible solutions and Surrey may consider a broader approach where it achieves a better outcome for the pension fund as a whole and the employer covenant is strong enough to justify the additional risk.

Governance Compliance Statement

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

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

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

Principle	**Surrey's Approach**	**Compliance**
STRUCTURE		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Committee. The Committee is responsible for these areas under the terms of reference contained in the Council's Constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Committee. The Committee comprises county councilors, borough/district councilors, an external employer representative and a union representative to represent employees and pensioners. All Committee members have full voting rights.	Comply

That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is currently no secondary committee..	n/a
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	There is currently no secondary committee.. Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Committee.	n/a
Principle	**Surrey's Approach**	**Compliance**
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	With over 150 employer bodies, not all stakeholders are directly represented on the Pension Fund Committee. All stakeholders are free to make representations in writing to the Committee. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Committee.	Explain
• scheme members (including deferred and pensioner scheme members);	The Pension Fund Committee membership includes a trade union representative.	Comply

• independent professional observers; and	The Committee employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Committee meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Committee as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Committee processes.	Comply

Principle	Surrey's Approach	Compliance
SELECTION AND ROLE OF LAY MEMBERS		
That Committee or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Committee members are given initial and ongoing training to support them in their role as trustees.	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Committee because the Council retains legal responsibility as the administering authority.	Comply

TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Pension Fund Committee members receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all members of the Pension Fund Committee. All members currently enjoy voting rights.	Comply

Principle	Surrey's Approach	Compliance
MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	There is currently no secondary committee.	n/a
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Committee welcomes representations on any issue in writing at any time.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Fund Committee have equal access to committee papers, documents and advice.	Comply

Principle	Surrey's Approach	Compliance
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Committee. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment, administration and governance issues. A business plan is approved each year.	Comply
PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Governance Policy Statement

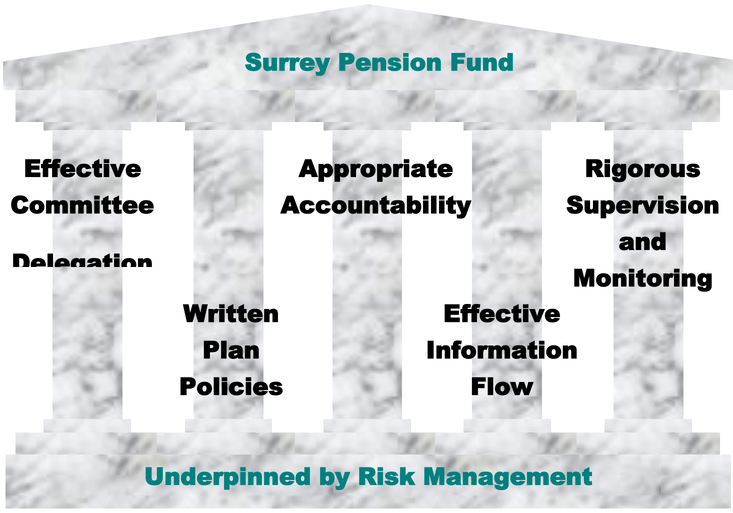
Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

1. Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the "five principles") to support its overall governance framework.



The governance framework focuses on:

- The effectiveness of the Pension Fund Committee and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Committee members.
- The ability of the Pension Fund Committee and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Committee and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

2. Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective Committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund administration implementation)

Funding

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective Information Flow; written plan policies

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Effective Committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

3 Terms of Reference and Decision Making

1) Terms of Reference:

Governance Principle: Effective Committee delegation; written plan policies

The Pension Fund Committee's Terms of Reference as approved by Full Council on 19 March 2013.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective Committee delegation

The Pension Fund Committee shall be made up of:

4 Conservative members;

1 Liberal Democrat member;

1 Independent member;

2 Districts and Boroughs Members

1 Employer Representative;

1 Employee Representative

Decision Making:

Governance Principle: Effective Committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

4. Operational Procedures

(b)

(c) Frequency of Meetings:

Governance Principle: Effective Committee delegation; effective information flow

The Pension Fund Committee shall convene no less frequently than four times per year. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer and any matters requested by members of the Pension Fund Committee.

Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective Committee delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency is evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

The Pension Fund Committee shall report to the Audit and Governance Committee on a frequency, and with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund’s annual report.

5 Review of this policy statement

Responsibility for this document resides with the Chief Finance Officer. It will be reviewed by the Chief Finance Officer no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority’s governance policy or if there are any changes in relevant legislation or regulation.

Pension Fund Committee: Terms of Reference

a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.

b) To determine policy for the investment, funding and administration of the pension fund.

c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.

d) To appoint and monitor all relevant external service providers:

- fund managers;
- custodian;
- corporate advisors;
- independent advisors;
- actuaries;
- governance advisors;
- all other professional services associated with the pension fund.

e) To monitor performance across all aspects of the service.

f) To ensure that arrangements are in place for consultation with stakeholders as necessary

g) To consider and approve the annual statement of pension fund accounts.

h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

F10	Director of Corporate Finance/ Strategic Finance Manager (Pensions)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee. Delegated authority to the Chief Finance Officer to take any urgent action as required between Committee meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Committee and any relevant Consultant and/or Independent Advisor.
H4	Lead Pensions Manager	To exercise discretion (excluding decisions on admitted body status) in relation to the Local Government Pension Scheme where no policy on the matter has been agreed by the Council and included in the Discretionary Pension Policy Statement published by the Council,

H5	Director of Corporate Finance	subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer. To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.

SURREY COUNTY COUNCIL

Statement of Accounts

Surrey Pension Fund

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 Chief Finance Officer & Deputy Director for Business Services (Chief Finance Officer).
• 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 Chief Finance Officer

The Chief Finance Officer 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 Chief Finance Officer 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 Chief Finance Officer has also:

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

I certify that the statement of accounts set out in this report present a true and fair view of the Surrey County Council Pension Fund at 31 March 2020 and its income and expenditure for the year then ended.

Leigh Whitehouse
Executive Director of Resources (s151 Officer)

Independent Auditor’s Report & Statement of Consistency

Independent auditor’s report to the members of the Surrey Pension Fund on the consistency of the pension fund financial statements of Surrey Pension Fund Pension Fund included in the Pension Fund Annual Report

Opinion

The pension fund financial statements of Surrey Pension Fund (the ‘pension fund’) administered by Surrey County Council (the "Authority") for the year ended 31 March 2021 which comprise the Fund Account, the Net Asset Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the “Statement of Accounts”).

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the Pension Fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor’s report thereon is not a substitute for reading the audited Statement of Accounts and the auditor’s report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 30 November 2021.

Executive Director of Resources’ responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority (In this case, the Executive Director of Resources) is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 20120/21.

Auditor’s responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ciaran T McLaughlin

Ciaran McLaughlin

Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

30 November 2021

SURREY PENSION FUND ACCOUNTS 2020/2021

Surrey Pension Fund - Fund account

2019/20 £000		Note	2020/21 £000
	Contributions and benefits		
186,625	Contributions receivable	7	206,681
11,082	Transfers in	8	12,727
197,707			219,408
(161,643)	Benefits payable	9	(160,022)
(15,339)	Payments to and on account of leavers	10	(14,465)
176,982			174,487
20,725	**Net additions from dealings with members**		44,921
(12,431)	Investment and governance expenses	14	(10,107)
(2,270)	Administration expenses		(2,929)
(14,701)			(13,036)
6,024	**Net additions including fund management expenses**		31,885
	Return on investments		
51,320	Investment income	16	25,564
(551)	Taxes on income		(859)
(512,885)	Change in market value of investments	17	1,096,943
(462,116)	**Net return on investments**		1,121,648
(456,092)	**Net increase in the fund during the year**		1,153,533
	Closing Net Assets of the Scheme		
4,315,578	**At 1 April (Opening)**		3,859,486
3,859,486	**At 31 March (Closing)**		5, 013,019

Surrey Pension Fund - Net asset statement

31 Mar 2020 £000		Note	31 Mar 2021 £000
	Investment assets	17	
661,248	Bonds		**792,693**
2,090,123	Equities		**2,992,053**
280,413	Property unit trusts		**266,256**
394,217	Diversified growth		**455,222**
305,912	Private equity		**375,944**
	Derivatives	17c	
1,905	- Foreign exchange contracts		**4,449**
130,996	Cash		**107,494**
	Other short term investments		
3,590	Other investment balances	17b	**6,174**
3,868,404	**Total investment assets**		**5,000,285**
	Investment liabilities		
	Derivatives	17c	
(40,336)	- Foreign exchange contracts		**(11,675)**
(2,114)	Other investment balances	17b	**(4,669)**
	Borrowings		
3,825,954	**Net investment assets**		**4,983,941**
3,630	**Long-term debtors**	12	**1,815**
36,277	**Current assets**	11	**35,311**
(6,375)	**Current liabilities**	13	**(8,048)**
3,859,486	**Net assets of the scheme available to fund benefits at the reporting period end**		**5,013,019**

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 1: Description of the fund

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

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

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

Border to Coast Pensions Partnership

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities with the goal to transition assets into larger asset pools, increasing buying power, economies of scale amongst other benefits. Border to Coast Pensions Partnership (BCPP) was established in 2018, as a joint partnership between 12 Local Government Pension Schemes, including Surrey Pension Fund.

a) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.
- The number of employees in the fund and the number of pensioners as at 31 March 2020 and 31 March 2021 are:

Surrey Pension Fund	**31 Mar 2020**	**31 Mar 2021**
Total Number of Employers	**282**	**302**
Employees in the Scheme		
Surrey County Council	17,133	18,720
Other Employers	18,325	20,646
Total	**35,458**	**39,366**
Pensioners		
Surrey County Council	13,483	14,100
Other Employers	13,761	14,263
Total	**27,244**	**28,363**
Deferred Pensioners		
Surrey County Council	29,991	27,037
Other Employers	18,621	17,025
Total	**48,612**	**44,062**
Total Number of Members	**111,314**	**111,791**

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Regulations 2013 'as disclosed in the introduction and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 and new rates applied from April 2020. Currently employer contribution rates range from 12.7% to 43.6% of pensionable pay.

c) Benefits

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

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

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website.

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

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

LGPS 2014 employee contribution rates for 2020/21	
Pensionable payroll banding	Contribution rate
Up to £14,600	5.5%
£14,601 to £22,800	5.8%
£22,801 to £37,100	6.5%
£37,101 to £46,900	6.8%
£46,901 to £65,600	8.5%
£65,601 to £93,000	9.9%
£93,001 to £109,500	10.5%
£109,501 to £164,200	11.4%
More than £164,201	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website or the LGPS 2014 scheme website

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2020/21 financial year and its position at the year end at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

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

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

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

b) Transfers to and from other schemes

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

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

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

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

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

Fund account – expense items

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2021 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts. All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Governance expenses

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

Net assets statement

h) Financial assets

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. This has led to the creation of eight asset pools in the UK, and Surrey Pension Fund, along with 11 other funds, is now a partner fund of Border to Coast Pensions Partnership. Each Partner Fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £833,333 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated. More information on this can be found in Note 4.

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

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

i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.

- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

v) Limited partnerships

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

vi) Pooled investment vehicles

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

i) Foreign currency transactions

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

j) Derivatives

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

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

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

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

k) Cash and cash equivalents

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

l) Financial Assets

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities

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

n) Actuarial present value of promised retirement benefits

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

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

o) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

Note 4: Critical judgements in applying accounting polices

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

An allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

Investment of Class A Shares & B Shares in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2021 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd is intending to trade at a break even position (no/minimal profit or loss) with any values off-set against Partner Fund future costs. The company have now published a set of full year audited accounts and these show the company equity as equal to the 'Called up Share Capital' i.e. Class B Regulated Capital of £10m (shared equally between the twelve partner fund.
- The shares will never be traded externally

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

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

The items in the net assets statement or subsequent notes as at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. a +0.5% increase in Pensions Increase Rate will increase liabilities by £747m a +0.5% increase in Salary Increase Rate will increase liabilities by £61m a +0.5% increase in the Discount Rate will increase liabilities by £824m a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.
Private equity	Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. These are usually classified as Level 3 Investments.	The total private equity investments in the financial statement are £375.9 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments. Detailed sensitivity analysis are noted within Note 18a of the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation using best available dates of valuation. These are usually classified as Level 3 Investments.	The total private equity fund of fund investments are £168.8 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments

Property Unit Trust	Valuation techniques are used to determine the carrying amount of pooled property funds.	The total property unit trust in the financial statement are £118.2 million. There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments.

Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 7: Contributions receivable

By Category:

2019/20 £000		**2020/21 £000**
39,470	**Total Employees' Contributions**	**44,332**
	Employers' Contributions:	
104,583	Normal Contributions	111,413
	Augmentation Contributions	
42,572	**Employers deficit**	50,937
147,155	**Total Employers' Contributions**	**162,350**
186,625		**206,681**

By Authority:

2019/20 £000		**2020/21 £000**
84,191	Administering authority	82,695
93,981	Scheduled bodies	115,705
8,453	Admitted bodies	8,282
186,625		**206,681**

The latest actuarial valuation carried out as at 31 March 2019, set contribution rates for fund employers with effect from April 2020. The financial year 2020/2021 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2019/20 £000		2019/20 £000
11,082	Individual transfers in from other schemes	12,727
11,082		**12,727**

Note 9: Benefits payable

By category

2019/20 £000		2020/21 £000
134,183	Pensions	139,089
23,829	Commutation and lump sum retirement benefits	16,569
3,539	Lump sum death benefits	4,267
92	Interest on late payment of benefits	97
161,643		**160,022**

By employer

2019/20 £000		2020/21 £000
77,586	Administering Authority	74,978
70,730	Scheduled Bodies	72,285
13,327	Admitted Bodies	12,758
161,643		**160,022**

Note 10: Payments to and on account of leavers

2019/20 £000		2020/21 £000
14,844	Group transfers to other schemes	13,983
503	Refunds of contributions	493
(8)	Payments for members joining state schemes	(11)
15,339		**14,465**

Note 11: Current assets

2019/20		2020/21
£000		£000
2,938	Contributions – employees	2,600
8,842	Contributions – employer	6,898
24,497	Sundry debtors	25,813
36,277		**35,311**

Analysis of current assets

2019/20		2020/21
£000		£000
5,073	Central government bodies	2,436
25,519	Other local authorities	27,519
5,685	Other entities and individuals	5,356
36,277		**35,311**

Note 12: Long term debtors

2019/20		2020/21
£000		£000
3,630	Central government bodies	1,815
3,630		**1,815**

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

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2021 is £3.630m but £1.815m was due in 2020/21, leaving a long term debtor of £1.815m.

Note 13: Current liabilities

2019/20 £000		2020/21 £000
6,061	Sundry creditors	7,700
314	Benefits payable	348
6,375		**8,048**

Analysis of current liabilities

2019/20 £000		2020/21 £000
908	Central government bodies	610
3,141	Other local authorities	2,920
2,326	Other entities and individuals	4,518
6,375		**8,048**

Note 14: Investment and governance expenses

2019/20 £000		2020/21 £000
10,427	Investment management fees	7,506
85	Investment custody fees	112
1,919	Oversight and governance costs	2,489
12,431		**10,107**

The investment management fees includes £611k in respect of transaction costs (2019/20: £612k).

As part of its oversight and governance costs in 2020/21, the fund had also spent £1.4m in respect of pooling costs as part of Surrey Pension Fund’s ongoing transition into the Border to Coast Pensions Partnership (BCPP).

Note 15: External Audit Costs

2019/20		2020/21
£000		**£000**
42	Payable in respect of external audit	51*
16	Payable in respect of IAS 19 Assurance Letters	16
47		**67**

*** £9k of these costs relate to 19/20**

Note 16: Investment income

2019/20		2020/21
£000		**£000**
	Bonds	
	UK	
5,529	Overseas	**2,619**
	Equities	
9,264	UK	**3,565**
19,286	Overseas	**7,657**
13,231	**Property unit trusts**	**7,214**
2,166	**Diversified growth**	**1,044**
1,457	**Private equity**	**3,110**
302	**Interest on cash deposits**	**298**
85	**Other**	**57**
51,320		**25,564**

Note 17a: Reconciliation of movements in investments and derivatives 2020/21

	Market value at 31 Mar 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2021
	£000	£000	£000	£000	£000
Bonds	**661,248**	72,619	0	58,826	**792,693**
Equities	**2,090,124**	754,998	(697,620)	844,551	**2,992,053**
Property unit trusts	**280,412**	7,457	(9,864)	(11,749)	**266,256**
Diversified growth	**394,217**	1,491	0	59,514	**455,222**
Private equity	**305,912**	90,485	(51,768)	31,315	**375,944**
Derivatives					
- Futures	**0**				**0**
- Forex contracts	(38,431)	64,483	(102,041)	68,763	**(7,226)**
	3,693,482	**991,534**	**(861,293)**	**1,051,219**	**4,874,942**
Cash	**130,996**			**43,021**	**107,494**
Other Short Term Investments					
Other investment balances	**1,476**				**1,505**
Other Fund Movements				2,703	
	3,825,954			**1,096,943**	**4,983,942**

Note 17a: Reconciliation of movements in investments and derivatives 2019/20

	Market value at 31 Mar 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Market movements £000	Market value at 31 Mar 2020 £000
Bonds	**706,529**	5,525		(50,806)	**661,248**
Equities	**2,489,806**	1,110,692	(1,088,114)	(422,260)	**2,090,124**
Property unit trusts	**283,240**	64,376	(56,096)	(11,108)	**280,412**
Diversified growth	**402,589**	2,607	0	(10,979)	**394,217**
Private equity	**255,964**	64,769	(42,561)	27,740	**305,912**
Derivatives					
- Futures	**0**				**0**
- Forex contracts	**(123)**	73,771	(72,332)	(39,747)	**(38,431)**
	4,138,005	**1,321,740**	**(1,259,103)**	**(507,160)**	**3,693,482**
Cash	**150,680**				**130,996**
Other Short Term Investments					
Other investment balances	**(38)**				**1,476**
Other Fund Movements				(5,725)	
	4,288,647			**(512,885)**	**3,825,954**

Note 17b: Analysis of investments

	31 Mar 2020	31 Mar 2021	
Fixed interest securities	**£000s**	**£000s**	
UK public sector & quoted	216,201	193,930	Level 2
Overseas pooled fund	445,047	598,763	Level 1
	661,248	**792,693**	
Equities			
UK quoted	**174,990**	**50,947**	Level 1
UK pooled funds	**385,440**	**523,858**	Level 1
Overseas quoted	**302,373**	**388,632**	Level 1
Overseas pooled funds	**1,227,320**	**2,028,614**	Levels 1 & 2
	2,090,123	**2,992,053**	
Property unit trusts			
UK property funds	196,394	178,529	Levels 2 & 3
Overseas property funds	84,019	87,727	Levels 2 & 3
	280,413	**266,256**	
Diversified growth			
Overseas diversified growth funds	394,217	455,222	Level 1
	394,217	**455,222**	
Private equity			
UK limited partnerships	110,636	123,836	Level 3
Overseas limited partnerships	87,894	83,316	Level 3
Overseas fund of funds	107,381	168,793	Level 3
	305,912	**375,945**	
Derivatives			
FX forward contracts	(38,431)	(7,226)	Level 2
	(38,431)	**(7,226)**	
Cash deposits	**130,996**	**107,494**	Level 1
Other short term investments			
Other investment balances			
Outstanding sales	**1,347**	**4,302**	Level 2
Outstanding purchases	**(2,114)**	**(4,669)**	Level 2
Tax due on accrued income	**1,475**	**1,090**	Level 1
Accrued income - dividends and interest	**768**	**781**	Level 1
	1,476	**1,505**	
Total investments	**3,825,954**	**4,983,942**	

Note 17c: Analysis of derivatives

Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2021 the Fund had forward currency contracts in place with a net unrealised loss of (£7.2m) (net unrealised loss of (£38.4m) at 31 March 2020).

2020/21

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
4	Three Months	GBP	EUR	159,996	(185,028)	2,208	0
5	Three Months	GBP	JPY	80,126	(11,869,700)	2,240	0
6	Three Months	GBP	USD	589,701	(829,869)	0	(11,677)
						4,448	**(11,677)**

2019/20

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
2	One Month	GBP	EUR	291	(328)	0	0
1	One Month	GBP	JPY	25	(3,319)	0	0
1	One Month	GBP	USD	14,622	(17,214)	744	0
1	One Month	USD	GBP	1,838	(1,490)	0	0
1	Three Months	JPY	GBP	496,500	(3,483)	231	0
2	Three Months	GBP	JPY	82,348	(11,768,100)	0	(5,696)
1	Three Months	USD	GBP	19,289	(14,622)	930	0
3	Three Months	GBP	EUR	161,914	(19,317)	0	(9,225)
7	Three Months	GBP	USD	533,601	693,926	0	(25,408)
						1,905	**(40,329)**

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. The fund operates a stock lending programme in partnership with the fund custodian. As at 31 March 2021 the value of quoted securities on loan was £22.8 million (£42.6million as at 31 March 2020) in exchange for collateral held by the fund custodian at fair value of £24.2 million (£47.1million as at 31 March 2020).

Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018 and into the BCPP Global Equity Alpha Fund in September 2019, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

Market value 31 March 2020		Manager	Market value 31 March 2021	
£000	**%**		**£000**	**%**
364,115	9.4	Border to Coast UK Equity Alpha	523,858	10.5
446,212	11.6	Border to Coast Global Equity Alpha	662,732	13.3
810,327			**1,186,590**	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	**%**		**£000**	**%**
1,000,839	25.9	Legal & General Investment Management (LGIM)	1,606,657	32.3
192,295	5.0	Majedie Asset Management	0	0
327,631	8.5	Newton Investment Management	446,941	9.0
379,937	9.8	Western Multi Asset Credit	533,867	10.7
65,110	1.7	Franklin Templeton Investments	64,896	1.3
147,141	3.8	Baillie Gifford Life Limited	173,222	3.5
288,479	7.5	CBRE Global Multi-Manager	283,258	5.7
125,886	3.3	Ruffer	152,142	3.1
121,190	3.1	Aviva	129,858	2.6
2,648,508			3,390,841	
3,458,835			**4,577,431**	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

Market value 31 March 2020 £000	%	Security	Market value 31 March 2021 £000	%
235,681	6.1	LGIM - TLCV Bespoke (34048)	263,058	5.3
364,115	9.4	Border to Coast UK Equity Alpha	523,858	10.6
446,212	11.6	Border to Coast Global Equity Alpha	662,732	13.5
379,937	9.8	Western Multi-Asset Credit EUR AC	533,867	10.8
335,219	8.7	LGIM – MSCI World Low Carbon	483,983	9.8
305,439	7.9	LGIM – Rafi Multi Factor	438,570	8.9
0		LGIM World Emerging Markets Fund	310,292	6.3
2,066,603			**3,216,360**	

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2 & 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Pooled Investments - Hedge funds	Level 3	Closing bid price where bid and	NAV-based pricing set on a forward	Valuations could be affected by material

		offer prices are published. Closing single price where single price published		events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts

Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2010. With the outbreak of COVID-19 and the illiquid nature of the Fund's Level 3 investments, the Fund is still satisfied with the below sensitivity range,

	Assessed Valuation Range (+/-) %	Value at 31 March 2021 £000	Value on Increase £000	Value on Decrease £000
Private Equity	10%	375,945	413,540	338,351
Property funds	10%	118,168	129,985	106,351
Total		**494,113**	**543,524**	**444,702**

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 17 above) produce different price results.

Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2020	Transfers in/ out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2021
	£000	£000	£000	£000	£000	
Property unit trusts	132,022	0	3,974	(9,178)	(8,650)	118,168
Private equity	305,912	0	90,485	(51,767)	31,315	375,945
	437,934	0	94,459	(60,945)	22,665	494,113

Note 18c: Classification of financial instruments

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

As at 31 March 2020				As at 31 March 2021		
Designated as fair value though profit and loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Financial assets at amortised cost £000	Financial liabilities at amortised costs £000
			Financial assets			
661,248			Bonds	792,693		
2,090,124			Equities	2,992,053		
280,412			Property unit trusts	266,256		
394,217			Diversified growth	455,222		
305,912			Private equity	375,945		
			Derivatives	4,449		
	130,996		Cash		107,494	
			Other short term investments			
3,590			Other investments	6,174		
	39,907		Debtors		37,126	
3,735,503	**170,903**		**Total financial assets**	**4,892,792**	**144,620**	
			Financial liabilities			
(38,431)			Derivatives	(11,675)		
(2,114)			Other investment balances	(4,669)		
		(6,375)	Creditors			(19,557
			Borrowings			
(40,545)		**(6,375)**	**Total financial liabilities**	**(16,346)**		**(19,557**
3,694,958	**170,903**	**(6,375)**		**4,860,102**	**144,620**	**(19,557**

Note 18d: Net gains and losses on financial instruments

31 March 2020 £000		31 March 2021 £000
	Financial Assets	
(467,439)	Designated at Fair Value through profit and loss	944,219
	Loans and Receivables	43,083
	Financial Liabilities	
(39,741)	Fair Value through profit and loss	68,754
(5,695)	Loans and Receivables	(8)
(512,885)	**Total**	**1,056,048**

Note 18e: Fair Value Hierarchy

31 March 2021	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at Fair Value	2,711,697	1,763,526	461,880	4,937,102
Loans and Receivables	0	0	0	0
Financial Liabilities at Fair Value	0	(16,346)	0	(16,346)
Net financial assets	**2,711,697**	**1,747,180**	**461,880**	**4,920,756**

31 March 2020	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at Fair Value	2,148,280	1,151,134	437,934	3,737,348
Loans and Receivables	47,067	1,366	0	48,433
Financial Liabilities at Fair Value	0	(42,450)	0	(42,450)
Net financial assets	**2,195,347**	**1,110,050**	**437,934**	**3,743,331**

Note 18f: Book cost

The book cost of all investments at 31 March 2021 is £3,429million (£3,235 million at 31 March 2020).

Note 19: Outstanding commitments

At 31 March 2021 the Fund held part paid investments on which the liability for future calls amounted to £296million (£378.5million as at 31 March 2020)

Note 20: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) **Market risk**

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

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

Other price risk

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

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

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

Other Price risk – Sensitivity Analysis

Asset type	Value at 31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
UK equities	574,805	18.7	682,035	467,575
Overseas equities	2,417,248	13.1	2,733,937	2,100,559
Bonds	598,763	8.3	648,460	549,066
Index-linked	193,930	8.3	210,066	177,794
Cash	107,494	2.2	109,862	105,126
Property	266,256	4.7	278,808	253,704
Private Equities	375,945	5.0	394,757	357,133
Diversified growth fund	455,222	6.3	484,021	426,423
Other assets	(5,721)	2.2	(5,847)	(5,595)
Total Investment Assets	4,983,711	10.4	5,500,614	4,466,928

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2020/21 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three year

Asset type	Value at 31 March 2020 £000	Change %	Value on increase £000	Value on decrease £000
UK equities	560,430	21.3	679,802	441,058
Overseas equities	1,529,693	16.8	1,786,681	1,272,705
Bonds	445,047	10.2	490,442	399,652
Index-linked	216,201	6.5	230,254	202,148
Cash	130,996	2.1	133,811	128,181
Property	280,413	5.4	295,482	265,344
Alternatives	305,912	4.8	320,501	291,323
Diversified growth fund	394,217	6.0	418,028	370,406
Other assets	-36,955	2.1	(36,161)	(37,749)
Total Investment Assets	3,825,954	8.4	4,173,287	3,478,621

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

Interest rate risk

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

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2020 £000		As at 31 March 2021 £000
130,996	Cash & cash equivalents	107,494
0	Other short term investments	
445,047	Fixed interest securities	598,763
576,043	**Total**	**706,257**

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2021	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	107,494	1,075	(1,075)
Other short term investments	0		
Fixed interest securities	598,763	5,988	(5,988)
Total	**706,257**	**7,063**	**(7,063)**

Asset type	Carrying amount as at 31 March 2020	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	130,996	1,310	(1,310)
Other short term investments	0		
Fixed interest securities	445,047	4,450	(4,450)
Total	**576,043**	**5,760**	**(5,760)**

Currency risk

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

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

Currency risk – sensitivity analysis

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2020/21 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2021 £000	% Change	Value on increase £000	Value on decrease £000
Equities	3,196,669	7.70	3,442,882	2,950,456
Fixed interest	598,763	7.70	644,881	552,645
Property and Private Equity	301,623	7.70	324,855	278,391
Diversified Growth	455,222	7.70	490,284	420,160
Cash and Other Assets	5,619	7.70	6,052	5,186
Total	**4,557,895**	**7.70**	**4,908,953**	**4,206,837**

Asset type	Value at 31 March 2020 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,299,887	7.35	1,395,460	1,204,314
Fixed interest	445,047	7.35	477,769	412,325
Property and Private Equity	279,294	7.35	299,829	258,759
Diversified Growth	394,217	7.35	423,201	365,233
Cash and Other Assets	11,619	7.35	12,473	10,765
Total	**2,430,064**	**7.35**	**2,608,732**	**2,251,396**

b) Credit risk

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

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

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

The fund held no fixed term deposits with other Local Authorities as at 31 March 2021.

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

The fund has a call account with Lloyds Bank (A+ credit rating) and 5 accounts with money market funds, managed by JP Morgan, Aberdeen, Black Rock, Deutsche, Goldman Sachs and Aviva (all with AAA credit rating). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2020 £000		**Balance at 31 March 2021 £000**
	Call account	
19,000	Lloyds	0
	Money market fund	
1,800	Goldman Sachs	0
25,000	Aberdeen MMF	100
20,000	Aviva	13,500
15,100	Blackrock	100
1,600	Deutsche	11,100
	Current account	
123	HSBC	171
82,623	**Internally Managed Cash**	**24,971**
48,373	Externally Managed Cash	82,523
130,996	**Total Cash**	**107,494**

The fund's cash holding under its treasury management arrangements as at 31 March 2021 was £24.9million (£82.6million at 31 March 2020).

c) Liquidity risk

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

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

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2020/21

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

d) Derivative risk

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

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

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

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2020/21 amounted to £70,887k (£74,480k in 2019/20).

2019/2020 £000		2020/2021 £000
48,894	Employers' current service contributions	52,262
21,126	Lump sum payments to recover the deficit in respect of past service	17,926
4,460	Payments into the fund to recover the additional cost of early retirement liabilities	698
74,480		**70,887**

ii) Surrey Pension Fund paid Surrey County Council £3,373k for services provided in 2020/21 (£2,270k in 2019/20).

2019/2020 £000		2020/2021 £000
453	Treasury management, accounting and managerial services	410
2,270	Pension administration services	2,449
-	Pension Admin Transformation	249
2,723		**3,373**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2021 were £2,620k (£3,070k at 31 March 2020).

iv) The Fund is administered by Surrey County Council. Consequently, there is a close relationship between the Authority and the Fund. The Authority is also the single largest employer of members in the Fund. All costs incurred by the Council as Administering body were recharged to the Pension Fund, with management, and other overheads apportioned to the Fund.

v) Members of both Pension Fund Committee and Local Pension Board are required to declare their interests at each meeting. Declarations of interest are recorded in the minutes of each meeting as part of the public record and a copy can be found on the Surrey County Council website.

Note 22: Key management personnel

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

2019/20 £	Position	2020/21 £	
17,754	Executive Director of Corporate Resources	10,676	3
10,637	Director of Corporate Finance	16,652	1
100,904	Strategic Finance Manager (Pensions)	102,924	2
52,619	Senior Specialist Advisor	68,674	2
60,297	Senior Pensions Finance Specialist	68,532	2
242,211		**267,458**	

2019/20
1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund

2020/21
1. 10% of time allocated to pension fund
2. 100% of time allocated to pension fund
3. 5% of time allocated to pension fund

The Members of the Pension Fund Committee as at 31 March 2021 are shown below;

Elected Members:
Tim Evans (Chairman), Ben Carasco (Vice-Chairman), John Beckett, David Mansfield and Hazel Watson, Charlotte Morley,

Co-opted Members:
Ruth Mitchell, Tony Elias and Philip Walker

Note 23: Custody

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

Custodian arrangements for the managers responsible for private market funds are as follows:

Private Market Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York Mellon
Livingbridge (Formerly ISIS)	Lloyds Banking Group
SL Capital	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America
Pantheon	State Street Bank & Trust Co. NA New York
Glennmont Partners	Augentius (Luxembourg) S.A.
Border to Coast	Northern Trust International Banking Corporation

Note 24: Actuarial statement for 2020/21 - Funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,286 million, were sufficient to meet 96% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £196 million.

Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS. Contributions have the aim of achieving full funding within an appropriate time horizon and with an appropriate likelihood of success.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.2%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's Vita Curves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	22.9 years	25.7 years

- *Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.
The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.
Gemma Sefton FFA
For and on behalf of Hymans Robertson LLP
4 May 2021
Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

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

Present value of promised retirement benefits

Year ended	31/03/2021	31/03/2020
Active members (£m)	3,466	2,265
Deferred members (£m)	2,169	1,576
Pensioners (£m)	2,381	2,205
	8,016	**6,046**

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.
The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.
It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £1,627m. I estimate that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £93m.

Financial assumptions

Year ended (% p.a.)	31 March 2021	31 March 2020
Pension Increase Rate	2.85%	1.90%
Salary Increase Rate	3.75%	2.80%
Discount Rate	2.00%	2.30%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.3 Years	24.7 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.4 Years	26.4 Years

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

Commutation assumptions

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

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	747
0.5% p.a. increase in the Salary Increase Rate	1%	61
0.5% p.a. decrease in the Real Discount Rate	10%	824

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2021 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA (For and on behalf of Hymans Robertson LLP)   4 May 2021

Note 26: Additional Voluntary Contributions

Market Value 2019/20 £000	Position	Market Value 2020/21 £000
13,548	Prudential	14,310*
13,548		**14,310**

*** The market value for 2020/21 is an estimate and is subject to change. The finalised value is expected after the accounts are signed and will therefore be disclosed in the 2021/22 accounts.**

Additional Voluntary Contributions, net of returned payments, of £1.1million were paid directly to Prudential during 2020/21 (£2.1million during 2019/20).

Note 27: Investment Strategy Statement

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

Note 28: Annual report

The Surrey Pension Fund Annual Report 2020/2021 provides further details on the management, investment performance and governance of the Fund.

SURREY
COUNTY COUNCIL

Scheme Advisory Board Statistics

Surrey
Pension
Fund

Scheme Advisory Board Statistics

Financial Performance and Forecast:

	2020/21 Budget £000	2020/21 Actuals £000	2020/21 Variance £000	2021/22 Budget £000
Income				
Employers contributions	150,665	162,350	11,685	166,138
Members contributions	39,865	44,332	4,467	44,775
Total Contributions	**190,530**	**206,682**	**16,152**	**210,913**
Transfers In	**10,539**	**12,727**	**2,188**	**12,024**
Investment income	**52,346**	**25,564**	**-26,782**	**26,075**
Total Income	**253,415**	**244,973**	**-8,442**	**249,012**
Expenditure				
Pensions	-144,668	-139,089	5,579	-146,889
Commutation and lump sum retirement benefits	-20,100	-16,569	3,531	-20,100
Other benefits	-3,915	-4,364	-449	-4,609
Total benefits	**-168,682**	**-160,022**	**8,660**	**-171,598**
Leavers	**-19,559**	**-14,465**	**5,094**	**-16,956**
Administrative Expenses	**-2,225**	**-2,929**	**-704**	**-3,363**
Oversight and governance costs	**-1,328**	**-2,489**	**-1,161**	**-1,357**
Investment expenses	**-10,731**	**-7,618**	**3,113**	**-5,533**
Taxes on income	**-995**	**-859**	**136**	**-495**
Total Expenditure	**-203,520**	**-188,382**	**15,138**	**-199,302**
Net Income (Expenditure)	**49,895**	**56,591**	**6,696**	**49,710**
Change in Market Value	**548,466**	**1,096,943**	**548,477**	**98,911**
Net increase in Fund Value	**598,361**	**1,153,533**	**555,172**	**148,621**
Net Asset Value	**4,457,847**	**5,013,019**	**555,172**	**5,161,640**

Surrey Pension Fund 2021-22 Operational Budget

2021/22 Operational Budget	**£000**
Orbis Pensions Administration Baseline	
Staffing	1,265
Non-Staffing	450
Overheads	280
Total Orbis Pensions Administration Baseline	**1,995**
Orbis Pensions Administration Projects	
Backlog	300
I-Connect	60
GMP Reconciliation	35
Total Orbis Pensions Administration Projects	**395**
Oversight & Governance	
Fund Officers & Management	434
Advisers	235.3
Audit	36
Memberships and Benchmarking	117.5
Legal Costs	23.5
Pooling Costs (including Governance)	508
Training Budget	3
Total Oversight & Governance	**1,357.3**
Investment & Custody	
Custody Fees	120
Investment Management Fees	5,403
Total Investment & Custody	**5,523**
Total 2021/22 Operational Budget	**9,270,5**

Three Year Forecast:

	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	Total £000
Income				
Contributions	210,913	213,530	214,817	**639,260**
Transfers in	12,024	11,360	10,732	**34,116**
Investment income	26,075	26,597	27,129	**79,801**
Total income	**249,012**	**251,487**	**252,678**	**753,176**
Expenditure				
Benefits	171,598	179,773	186,054	**537,426**
Transfer out	16,956	19,875	23,297	**60,127**
Management expenses	10,004	8,579	7,581	**26,164**
Total expenditure	**198,557**	**208,227**	**216,932**	**623,717**
Net income	**50,393**	**43,196**	**35,681**	**129,269**

Contribution by Employers

A table of the active employers with employee and employer contributions made during the year is shown below.

Employing Organisation	Type	Employees Contributions £000	Employers Contributions £000
A2 Dominion	Admitted Body	9	129
Ability Housing Association	Admitted Body	5	27
ABM Catering - (Stanwell Fields CofE Primary School)	Admitted Body	0	1
ABM Catering - (Saxon Primary School)	Admitted Body	1	3
ABM Catering - (Northmead Junior School)	Admitted Body	2	9
ABM Catering - (Raleigh School)	Admitted Body	1	2
ABM Catering - (Stanwell Fields CofE Primary School)	Admitted Body	0	1
ABM Catering - LLT Riverbridge	Admitted Body	1	3
ABM Catering (LLT - Echelford School)	Admitted Body	1	3
Academy of Contemporary Music	Admitted Body	4	11
Achieve Lifestyle	Admitted Body	11	57
Amey LTD (Mole Valley)	Admitted Body	3	8
Ash Parish Council	Designating Body	8	28
Ashley CofE Aided Primary School	Academy	32	119
Auriol Junior School	Academy	25	84
Banstead Infant School	Academy	15	53
Barnsbury Primary School	Academy	28	99
Beaufort Primary School	Academy	37	128
Bisley Parish Council	Designating Body	2	6
Blenheim High School	Academy	64	254

Bletchingley Village Primary School	Academy	21	82
Boxgrove Primary School	Academy	43	170
Bramley Oak School	Academy	16	68
Bramley Parish Council (Quarterly)	Designating Body	2	5
Broadmere Primary Academy	Academy	26	88
Broadwater School Academy	Academy	28	111
Brooklands College	Scheduled Body	134	752
Brookwood Park Ltd	Admitted Body	5	14
Brookwood Primary School	Academy	12	42
Burstow Parish Council	Designating Body	2	7
Byfleet Primary School	Academy	14	51
Cardinal Newman Catholic Primary School	Academy	23	83
Carwarden House Community School	Academy	37	124
Catalyst (Southern Addictions Advisory Service (SADAS))	Admitted Body	19	116
Chartwood	Academy	32	121
Chertsey High School	Academy	22	81
Chiddingfold Parish Council	Designating Body	2	6
Childhood First (Pepper Harrow Foundation)	Admitted Body	19	125
Christ's College	Academy	31	110
Churt Parish Council	Designating Body	1	3
Clarion Housing Group	Admitted Body	8	156
Cleves Academy Trust	Academy	34	122
Cobham Free School	Academy	37	115
Collingwood College	Academy	105	340
Compass Contract Services	Admitted Body	3	8

Compass: GLF	Admitted Body	1	4
Compass: Xavier Catholic Education Trst	Admitted Body	5	18
Connaught Junior School	Academy	18	68
Cordwalles Junior School	Academy	10	36
Cranleigh Parish Council	Designating Body	8	23
Crawley Ridge Infant School	Academy	10	42
Crawley Ridge Junior School	Academy	15	59
Cross Farm Infant School	Academy	9	34
Crowhurst Parish Council	Designating Body	0	1
Cuddington Com Prim Sch	Academy	16	59
Cuddington Croft Primary School	Academy	23	82
Danetree Primary School	Academy	40	140
Darley Dene Primary School	Academy	27	91
de Stafford School	Academy	36	124
Dormansland Parish Council	Designating Body	1	3
Dovers Green School	Academy	32	114
Dunsfold Parish Council	Designating Body	0	2
East Horsley Parish Council	Designating Body	2	5
East Surrey College	Scheduled Body	273	1,039
East Surrey Rural Transport	Admitted Body	3	13
Eastwick infant	Academy	40	149
Edwards & Ward (Ash Grange Primary School)	Admitted Body	0	1
Effingham Parish Council (6 Months)	Designating Body	2	5
Elmbridge Borough Council	Scheduled Body	821	6,698
Elmbridge Building Control	Admitted Body	12	23

Elmbridge Housing Trust	Admitted Body	-	560
Engage Enrich Excel Academy	Academy	8	20
Epsom & Ewell Borough Council	Scheduled Body	596	2,330
Epsom and Ewell High School	Academy	76	220
Esher Church of England High School	Academy	86	297
Esher Church School	Academy	16	60
Esher College	Academy	86	251
Farnham Heath End	Academy	33	110
Farnham Town Council	Designating Body	24	51
Freedom Leisure - Guildford (Wealden Leisure)	Admitted Body	25	64
Freedom Leisure - Woking (Wealden Leisure)	Admitted Body	16	45
Frensham Parish Council	Designating Body	1	4
Fullbrook School	Academy	68	252
Fusion Lifestyle	Admitted Body	1	2
George Abbot School	Academy	110	389
GEP Trust	Academy	32	112
GLF	Academy	194	514
Glyn School	Academy	58	188
Godalming College	Academy	69	210
Godalming Town Council	Designating Body	21	54
Goldsworth MAT	Academy	3	8
Goldsworth Primary School	Academy	49	153
Good Shepherd Trust	Academy	41	90
Gordons School Academy Trust	Academy	35	135
Guildford Borough Council	Scheduled Body	1,351	9,502

Guildford College	Scheduled Body	301	1,260
Guildford County School	Academy	58	190
Guildford Grove Primary School	Academy	39	159
Hale Primary School	Academy	19	74
Hammond School	Academy	10	37
Hamsey Green Primary	Academy	18	66
Hanover Housing Association	Admitted Body	67	844
Haslemere Town Council	Designating Body	6	17
Hatchlands Primary School	Academy	4	16
Hawkedale School	Academy	12	51
Heathside School	Academy	70	244
Hillcroft Primary School	Academy	29	100
Hinchley Wood Primary School	Academy	31	126
Hinchley Wood School	Academy	84	306
Hoe Valley Free School	Academy	43	119
Holly Lodge Primary School	Academy	18	71
HOLMESDALE COMM INF SCH	Academy	23	84
Holy Family Catholic Primary School	Academy	12	43
Holy Trinity C of E Primary Sch	Academy	21	79
Horley Town Council	Designating Body	9	26
Howard of Effingham School	Academy	47	165
IESE ltd	Admitted Body	46	173
Innovate (Weydon MAT)	Admitted Body	2	6
Jubilee High School	Academy	39	128
Kenyngton Manor Primary Schl (Academy)	Academy	28	99

Kier (May Gurney)	Admitted Body	6	20
Kingfield Primary School	Academy	10	37
Kings College Gldfrd	Academy	24	99
Knaphill School	Academy	15	46
Knaphill School	Academy	11	36
Lakeside Primary School	Academy	22	85
Leatherhead Trinity School and Children's Centre	Academy	30	127
Lift Mutil Academy Trust	Academy	9	26
Lightwater Village School	Academy	12	41
Lime Tree Primary School	Academy	31	107
Linden Bridge School	Academy	66	238
Lingfield Parish Council	Designating Body	1	3
Loseley Fields Primary School	Academy	23	96
Lumen Learning Trust	Academy	15	40
Marden Lodge Primary School and Nursery	Academy	15	52
Maybury Primary School	Academy	19	66
Meadhurst Primary school	Academy	29	107
Meadow Primary School	Academy	33	114
Merstham Park School	Academy	13	38
Merstham Primary School	Academy	11	39
Merton & Sutton Joint Cemetery Board	Admitted Body	0	1
Mole Valley	Scheduled Body	623	2,058
Moor House School	Admitted Body	32	311
Mytchett Primary School	Academy	11	45
Nescot	Scheduled Body	272	1,132

New Haw Community Junior School	Academy	25	83
New Monument Primary Academy	Academy	11	39
Northmead Junior	Academy	29	102
Ottershaw Cof E Infant & Juniors	Academy	23	82
Oxted School	Academy	72	248
Pabulum (Burpham Primary School)	Admitted Body	2	11
Pabulum (Cranmere Primary School)	Admitted Body	1	3
Pabulum Ltd	Admitted Body	2	6
Peaslake Free School	Academy	3	11
Pine Ridge Infant School	Academy	21	73
Pinnacle Housing	Admitted Body	7	22
Pirbright Village School	Academy	23	84
Pond Meadow School	Academy	70	239
Potters Gate CofE School	Academy	28	104
Pyrcroft Grange Primary School	Academy	26	91
Pyrford Church of England Aided Primary School	Academy	39	139
Queen Eleanor's Church of England School	Academy	16	59
Ravenscote Junior School	Academy	26	92
Reigate School	Academy	67	221
Reigate & Banstead	Scheduled Body	1,101	8,554
Reigate College	Academy	110	338
Reigate Grammar School	Admitted Body	113	444
Riverbridge Primary School	Academy	44	143
Rodborough School	Academy	45	169
Rosebery Housing Association	Admitted Body	4	139

Rosebery School	Academy	45	146
Runnymede Borough Council	Scheduled Body	854	2,869
Russell Education Trust	Academy	29	56
Rydens Enterprise School	Academy	39	140
S Farnham Ed Tt	Academy	58	198
Salesian School, Chertsey	Academy	112	337
Salfords Primary School	Academy	21	74
Sandcross Primary School	Academy	49	175
Sandfield Primary School	Academy	14	57
Sandringham School	Academy	12	48
SAVI	Academy	13	41
Saxon Primary School	Academy	28	94
Sayes Court School	Academy	16	57
Send Parish Council	Designating Body	2	6
SERCO	Admitted Body	17	46
Shalford Infant School	Academy	9	31
Shalford Parish Council	Designating Body	2	4
Sir William Perkins School	Admitted Body	8	70
Skanska Construction Ltd	Admitted Body	22	61
South Camberley prm and nursery	Academy	32	111
Spelthorne Borough Council	Scheduled Body	857	4,304
Springfield Primary School	Academy	25	90
St Alban's Catholic Primary School	Academy	20	72
St Andrew;s CofE Primary School	Academy	20	75
St Andrew's Church of England Infant School	Academy	5	19

St Anne's Catholic Primary School	Academy	21	75
St Augustine's Catholic Primary School	Academy	25	84
St Charles Borromeo Catholic Primary School, Weybridge	Academy	16	56
St Cuthbert Mayne	Academy	10	35
St Hugh of Lincoln Catholic Primary School	Academy	11	40
St John the Baptist Catholic Comprehensive School, Woking	Academy	104	329
St John's Church of England Primary School	Academy	26	95
St John's Pri Sch	Academy	19	69
St Lawrence Primary School	Academy	11	41
St Marks & All Saints Primary (formerly Green Oak Primary)	Academy	9	35
St Mary's C of E (Aided) Junior School (Oxted)	School	36	161
St Mary's CofE Junior School	Academy	12	42
St Matthews CoE Sch	Academy	24	85
St Paul's Catholic College/ Pavilion - yqwY&g8d	School	53	209
St Paul's CofE Primary School	Academy	27	91
St Peters' Catholic School	Academy	65	199
St Polycarp's Catholic Primary School	Academy	20	73
St Stephens CoE Sch	Academy	23	85
St Thomas of Canterbury Catholic Primary School	Academy	28	99
Stanwell Fields CofE Primary School	Academy	21	63
Stoughton Infant School	Academy	27	96
Sunbury Manor School	Academy	64	228
Surrey Choices	Admitted Body	49	103
Surrey County Council Pool	Scheduled Body	19,374	69,768
Surrey Heath Borough Council	Scheduled Body	660	2,592

Surrey Hills Pri Sch	Academy	13	46
Surrey Police	Admitted Body	3,670	11,047
Surrey Sports Park	Admitted Body	12	30
Sythwood Primary School	Academy	54	189
Tandridge District Council	Scheduled Body	653	2,744
Tatsfield Primary School	Academy	8	30
Thamesmead School	Academy	64	232
The Abbey School	Academy	29	96
The Alliance Multi Academy Trust (TAMAT)	Academy	11	27
The Ashcombe School	Academy	67	230
The Beacon School	Academy	52	167
The Bishop David Brown School	Academy	53	176
The Bishop Wand Church of England School	Academy	46	161
The Echelford Primary School	Academy	34	112
The Grove Primary School	Academy	24	92
The Hermitage School	Academy	20	71
The Horsell Village School	Academy	15	51
The Howard Partnership Trust	Academy	144	457
The Kite Academy Tru	Academy	37	120
The Knaphill Lower School	Academy	12	39
The Magna Carta School	Academy	53	202
The Marist Catholic primary school	Academy	31	111
The Matthew Arnold School	Academy	34	110
The Oaktree School	Academy	30	103
The Park School	Academy	24	87

The Raleigh School	Academy	33	75
The Ridgeway School	Academy	60	209
The Royal Grammar School	Admitted Body	9	157
The Swan Trust	Academy	4	11
The Vale Primary School	Academy	12	41
The Warwick School	Academy	50	174
The Weald CofE Primary School	Academy	12	43
Therfield School	Academy	48	164
Thomas Knyvett College	Academy	33	119
Tomlinscote School and Sixth Form College	Academy	63	258
University of Creative Arts	Scheduled Body	1,039	3,258
University of Surrey	Scheduled Body	485	2,753
Wallace Fields Junior School	Academy	26	92
Walton Oak School	Academy	34	111
Warlingham Parish Council	Designating Body	1	3
Warlingham School	Academy	96	335
Warlingham Village Primary School	Academy	12	44
Warren Mead School	Academy	13	44
Warren Mead Infant School	Academy	16	56
Waverley	Scheduled Body	848	3,728
Waverley Abbey CofE Junior School	Academy	17	62
Waverley Hoppa Transport	Admitted Body	9	40
West End PC	Designating Body	2	7
West Ewell Primary School	Academy	34	121
West Hill School	Academy	29	111

Westfield Primary School	Academy	26	95
Weydon School	Academy	103	319
Weyfield Academy	Academy	19	61
Whyteleafe Primary School	Academy	22	80
Whyteleafe Village Council	Designating Body	1	3
Windlesham Parish Council	Designating Body	4	13
Windlesham Village Infant School	Academy	5	21
Wishmore Cross Academy	Academy	19	60
Witley Parish Council	Designating Body	4	11
Woking	Scheduled Body	900	3,975
Woking College	Academy	47	145
Woking Community Transport	Admitted Body	-	31
Woking High School	Academy	94	310
Woodlea Primary School	Academy	9	33
Woodmansterne Primary School	Academy	22	77
Woolmer Hill School	Academy	30	104
Worplesdon Parish Council	Designating Body	5	14
Wray Common primary school	Academy	28	95
Wyke Primary School	Academy	12	49

SURREY
COUNTY COUNCIL

Contacts

Surrey
Pension
Fund

Contacts

Benefits and Contributions

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

Pensions Unit
Room 218
Kingston Upon Thames
Surrey KT1 2EB
Telephone: 020 8541 9289 or 9292
E Mail: mypensions@surreycc.gov.uk
Fax: 020 8541 9287

Accounts and Investments

Information regarding the accounts and investments can be obtained from The Pension Fund Team at

Pension.fund@surreycc.gov.uk

Pension Scheme Regulations

1997 Regulations S.I. 1997/1612 Copies may be obtained from:

The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612.htm

Useful Addresses

Occupational Pensions Board

PO Box 1NN
Newcastle upon Tyne
NE99 1NN
Tel: 0191 225 6316

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London
SW1V 1RB

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

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

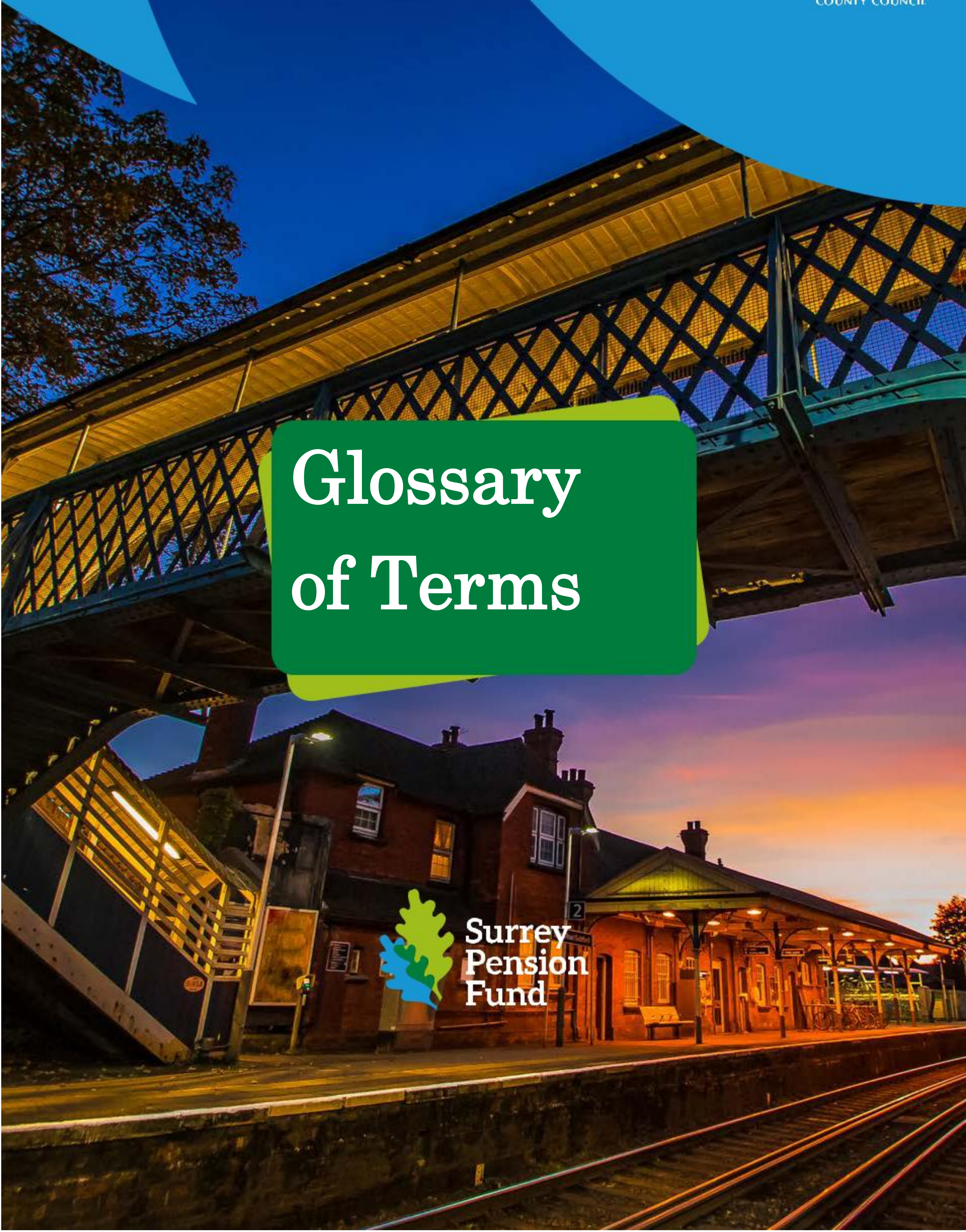
Tel: 0207 630 2200
Email:enquiries@pensions-ombudson.org.uk

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

National Website
www.lgps.org.uk

SURREY
COUNTY COUNCIL

Glossary of Terms



Surrey Pension Fund

Glossary of Terms

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

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

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

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

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

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.

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.

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.

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.**

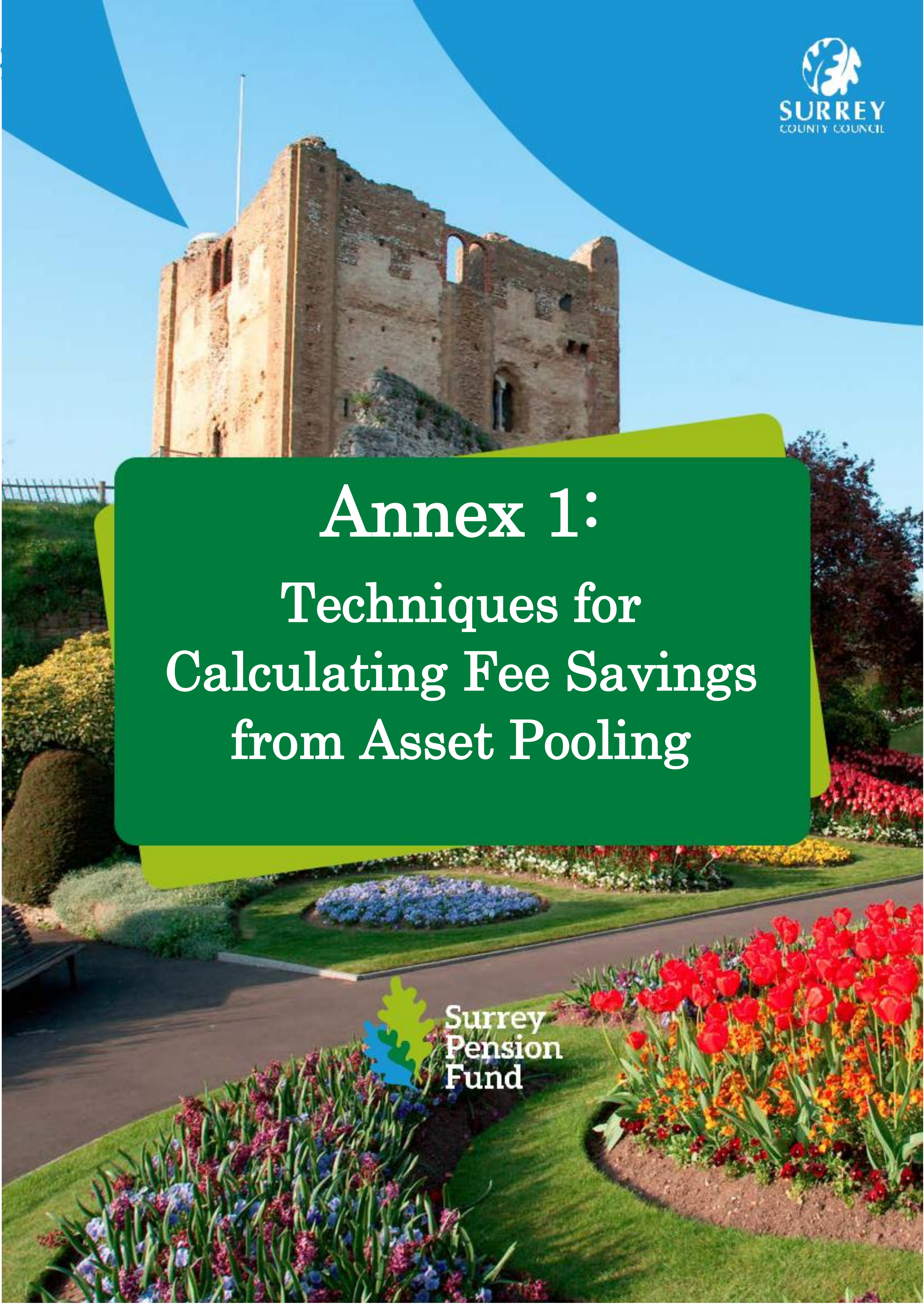
Unrealised Gains/(losses)
The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

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

SURREY
COUNTY COUNCIL

Annex 1:

Techniques for Calculating Fee Savings from Asset Pooling



Surrey
Pension
Fund

Savings Analysis from Asset Pooling **Calculating price and quantity variances for an asset portfolio transferred to BCPP UK Equity Alpha Fund using 31/10/2018 valuations, as at 31/03/2019**			**Rounded to nearest £1000**
		%	
Value of UK Equities as at as at 31/10/2018	£316m	70.38%	
Value of UK Equities as at as at 31/10/2018	£133m	29.62%	
Total Value of UK Equities	**£449m**	**100.00%**	
Ad valorem fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
Ad valorem fee rate	33bps per £1m		
Price Variance Workings			
Current Fund Values at old fee rate:	(£464m x 70.38%) x £0.0024		£784,000
	(£464m x 29.62%) x £0.0035		£481,000
			£1,265,000
Current Fund Value at new fee rate:	£464m x £0.0033		**£1,531,000**
Price Variance			**£266,000**
Quantity Variance Workings			
Old fee rate x (old fund value - new fund value):	£0.0024 x (£449m - £464m) x 70.38%		-£25,000
	£0.0035 x (£449m - £464m) x 29.62%		-£16,000
Quantity Variance			**-£41,000**
Total Variance Workings			
Old fees - new fees:	£1,224,000 - £1,531,000=		-£307,000
Total Variance			**-£307,000**

Annex 1: Techniques for Calculating Fee Savings from BCPP UK Equity Alpha Fund

Savings Analysis from Asset Pooling Calculating price and quantity variances for an asset portfolio transferred to BCPP UK Equity Alpha Fund using 31/10/2018 valuations, as at 31/03/2019			**Rounded to £000s**
		%	
Value of UK Equities as at as at 31/10/2018	£316m	70.38%	
Value of UK Equities as at as at 31/10/2018	£133m	29.62%	
Total Value of UK Equities	**£449m**	**100.00%**	
Ad valorem old fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
Ad valorem new fee rate	0bps per £1m		
Price Variance Workings			
Current Fund Values at old fee rate:	(£464m x 70.38%) x £0.0024		£653,000
	(£464m x 29.62%) x £0.0035		£137,000
			£790,000
Current Fund Value at new fee rate:	£464m x £0.0000bps		**£0**
Price Variance			**-£790,000**
Quantity Variance Workings			
Old fee rate x (old fund value - new fund value):	£0.0024 x (£449m - £464m) x 70.38%		-£25,000
	£0.0035 x (£449m - £464m) x 29.62%		-£16,000
Quantity Variance			**-£41,000**
Total Variance Workings			
Old fees - new fees:	£790,000 - £0 =		£749,000
Total Variance			**£749,000**
Total Manager Fee Savings per annum			**£442,000**

Annex 1: Techniques for Calculating Fee Savings from BCPP Global Equity Alpha Fund
No Performance fee savings. No performance fees paid for previous manager and current manager

Savings Analysis from Asset Pooling **Calculating price and quantity variances for an asset portfolio transferred to BCPP Global Equity Alpha Fund using 30/09/2019 valuations, as at 31/03/2020**			**Rounded to £000s**
		%	
Value of Global Equities as at 30/09/2019	£556m	100.00%	
Total Value of Global Equities	**£556m**	**100.00%**	
Ad valorem fee rate			
Fund Manager 1	55bps per first £60m, 35bps >£60m		
Value of Assets as at 31/03/2020	£446m		
Ad valorem fee rate	33.7bps per £1m		
Price Variance Workings			
Current Fund Values at old fee rate:	(£60m) x £0.0055		£330,000
	(£446m - £60m) x £0.0035		£1,351,000
			£1,681,000
Current Fund Value at new fee rate:	£446m x £0.00337		**£1,503,000**
Price Variance			**-£178,000**
Quantity Variance Workings			
Old fee rate x (old fund value - new fund value):	£0.0035 x ((£556m - £60m) - (£446m - £60m))		£385,000
Quantity Variance			**£385,000**
Total Variance Workings			
Old fees - new fees:	£2,066,000 - £1,503,000 =		£563,000
Total Variance			**£563,000**

No Performance fee savings. No performance fees paid for previous manager and current manager

Surrey County Council

Surrey Pension Fund

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