

# Annual Report 2021/22



Surrey  
Pension  
Team

## Vision and Mission



The Surrey Pension Team has started a new chapter with a refreshed vision and mission and ambitious plans for the future.

### Our vision

To provide our customers with a better tomorrow

### Our mission

To responsibly deliver a first-class customer experience

# Contents

<b>Chair's statement</b>	<b>4-6</b>
<b>Members and Advisors</b>	<b>7-15</b>
<b>Overview</b>	<b>16-17</b>
<b>Pensions and Governance Summary</b>	<b>18-33</b>
LGPS Scheme Details	19-21
Governance Summary	22-23
Local Pension Board Annual Report	24-32
Knowledge and Skills Policy	33
<b>Investment Report</b>	<b>34-57</b>
Annual Investment Review	35-42
Investment Arrangements, Performance & Post Pool Reporting	43-57
<b>Responsible Investment</b>	<b>58-64</b>
<b>Fund Policies</b>	<b>65-227</b>
Communication Policy	66-84
Administration Strategy	85-109
Investment Strategy Statement	110-123
Responsible Investment Policy	124-150
Funding Strategy Statement	151-211
Governance Compliance Statement	212-219
Governance Policy Statement	220-227
<b>Statement of Accounts</b>	<b>228-280</b>
Statement of Responsibilities	229
Pension Fund Statement of Accounts	230-280
<b>Scheme Data</b>	<b>277-299</b>
Scheme Advisory Board Statistics	278-280
Contributions by Employer	281-299
<b>Contacts</b>	<b>300-301</b>
<b>Glossary of Terms</b>	<b>302-307</b>
<b>Annex 1: Techniques for Calculating Fee Savings from Asset Pooling</b>	<b>308-311</b>

# Chair's Statement



Surrey  
Pension  
Team

## Chair's Statement



2021/22 continued to be impacted by the ongoing Covid-19 global pandemic. The investment approach of the Surrey Pension Fund remained unchanged during the year with the market value of the Fund at 31 March 2022 at £5.3bn (2021 £5.0bn) with around 60% invested in equities (2021 61%).

More than 300 employers participate in the Fund and we have over 100,000 members.

### Investment Strategy

The investment strategy is 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 the Border to Coast Pension Partnership (BCPP), and the minimisation of risk. Ongoing adjustments in asset allocation are made proactively in line with these aims.

During 2021/22, action was undertaken to transition assets from other external managers into BCPP Multi Asset Credit and BCPP Listed Alternatives Funds in line with the Fund's commitment to its Investment Strategy.

### Investment pooling within the LGPS

Surrey Pension Fund continues to make the most of opportunities for pooling the Fund's assets with other LGPS funds in the Border to Coast Pensions Partnership. 39% of the Fund's equity investments are held with Border to Coast.

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. The Border to Coast Pension Partnership 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 at 31 March 2022 was approximately £60 billion.

## Investing Responsibly

The Fund takes an active role in ensuring it invests with due attention to our environmental, social and governance (ESG) responsibilities. Our focus remains on our fiduciary duty, maintaining appropriate investments for financial return while also having regard to the UN Sustainable Development Goals

The Surrey Pension Fund has a policy of engagement on ESG issues and enhances its influence through the Local Authority Pension Fund Forum as well as BCPP's Engagement Lead, Robeco. The Committee is regularly informed about shareholder voting outturns and how this may impact investment decisions.

Our own revised Responsible Investment policy was agreed by the Committee in June 2022 and will be the subject of consultation during the latter part of the year.

The Fund is signed up to the Task Force on Climate-related Financial Disclosures (TCFD) and will continue to report against these disclosures in due course.

The Investment Strategy of the Fund remains under regular review and will be further developed during 2022 in conjunction with the 2022 Actuarial Valuation.

## Management

The Fund continues to evolve as it takes account of its wider responsibilities, with the Pension Team continuing to address office working practices which have changed as a result of working through the pandemic. I thank the Pension Team for their continuing hard work as we all strive to ensure the best experience for our members.

**Nick Harrison**  
**Chairman of the Surrey Pension Fund Committee**

# Members and advisors



**Surrey  
Pension  
Team**

## Membership of the Pension Fund Committee

### Membership as at 31 March 2022



**Nick Harrison: Chairman**

Party: Residents' Association and Independent

Borough and District: Reigate and Banstead

E: [nicholas.harrison@surreycc.gov.uk](mailto:nicholas.harrison@surreycc.gov.uk)

T: 01737 215405

Appointed  
25/05/2021



**Trefor Hogg :Vice Chairman**

Party: Conservative

Borough and District: Surrey Heath

E: [trefor.hogg@surreycc.gov.uk](mailto:trefor.hogg@surreycc.gov.uk)

T: 07711 228505

Appointed  
25/05/2021



**David Harmer**

Party: Conservative

Borough and District: Waverley

E: [david.harmer@surreycc.gov.uk](mailto:david.harmer@surreycc.gov.uk)

T: 01428 606921

Appointed  
25/05/2021



**George Potter**

Party: Liberal Democrats

Borough and District: Guildford

E: [george.potter@surreycc.gov.uk](mailto:george.potter@surreycc.gov.uk)

T: 0208547 8324

Appointed  
25/05/2021



**Richard Tear**

Party: Conservative

Borough and District: Surrey Heath

E: [richard.tear@surreycc.gov.uk](mailto:richard.tear@surreycc.gov.uk)

Appointed  
25/05/2021





**Kelvin Menon**  
Co-opted Members  
Employer Representative

Resigned  
06/05/2021  
Re-appointed  
25/05/2021



**Philip Walker**  
Co-opted Members  
Employee & Pensioners Representative

Resigned  
06/05/2021  
Re-appointed  
25/05/2021



**Cllr Steve Williams**  
Co-opted Members  
Borough & District

Appointed  
02/08/2021

**Mark Sugden**  
Co-opted Members  
Borough & District

Appointed  
09/06/2021  
Resigned  
24/05/2022

## Members appointed after 31 March 2022



### **Robert Hughes**

Party: Conservative

Borough and District: Guildford

E: robert.hughes1@surreycc.gov.uk

Appointed  
24/05/2022



### **Cllr Robert King**

Co-opted Members

Borough & District

E: Robert.King@surreycc.gov.uk

Appointed  
11/07/2022

## Previous members of the Committee that served during the year

	Appointed	Resigned
<b>Tim Evans</b>		06/05/2021
<b>Ben Carasco</b>		06/05/2021
<b>John Beckett</b>		06/05/2021
<b>David Mansfield</b>		06/05/2021
<b>Hazel Watson</b>		06/05/2021
<b>Tony Elias</b>		06/05/2021
<b>Ruth Mitchell</b>		06/05/2021
<b>Charlotte Morley</b>		06/05/2021
<b>John O'Reilly</b>	25/05/2021	09/06/2021

In addition to the above, Mark Maddox served as a Borough and District Representative from 02/08/21 and sadly passed away on 01/03/2022.

## Membership of the Local Pension Board



**Tim Evans: Chairman**  
Independent Chair

Appointed  
19/07/2021



**David Lewis: Vice Chairman**  
Councillor – Employer Representative

Appointed  
19/07/2021



**Trevor Willington**  
Surrey LGPS Members



**Siobhan Kennedy**  
Employer Representative



**Fiona Skene**  
Surrey LGPS Members

**William McKee**  
Surrey LGPS Members

Appointed  
19/07/2021

**Previous members of the Board that served during the year**

- Paul Bundy**
- Rohit Dara**
- David Stewart**
- Nick Harrison**

Resigned  
28/04/2021  
06/10/2021  
04/05/2021  
05/05/2021

## Officer contact details



### **Leigh Whitehouse**

Deputy Chief Executive  
(s151 Officer)

E: [leigh.whitehouse@surreycc.gov.uk](mailto:leigh.whitehouse@surreycc.gov.uk)

T: 020 8541 7012



### **Anna D'Alessandro**

Director of Corporate Finance &  
Commercial

E: [anna.dalessandro@surreycc.gov.uk](mailto:anna.dalessandro@surreycc.gov.uk)

T: 07885 434034



### **Neil Mason**

Assistant Director- LGPS Senior  
Officer

E: [neil.mason@surreycc.gov.uk](mailto:neil.mason@surreycc.gov.uk)

T: 020 8213 2739



### **Steve Turner**

Professional Advisor - Mercer

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T: 01483 777035



**Anthony Fletcher**

Professional Advisor - Independent

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T: 020 7079 1000



**Gemma Sefton**

Fund Actuary – Hymans Robertson

E: [gemma.sefton@hymans.co.uk](mailto:gemma.sefton@hymans.co.uk)

T: 0141 566 7568

**Fund Managers**

- Aviva Investors
- Baillie Gifford
- CBRE Global Investors
- Franklin Templeton Investments
- Legal and General Investment Management
- LGPS Pool: Border to Coast Pensions Partnership
- Newton Investment Management
- Ruffer LLP
- Western Asset Management

**Global Custodian**

- Northern Trust

**Bankers**

- HSBC

**Legal Advisors**

- Eversheds (Pensions Law),
- Browne Jacobson (Legal Due Diligence)

**Private Market Managers**

- Abrdn Private Equity
- LGPS Pool: Border to Coast Pensions Partnership
- BlackRock
- Capital Dynamics
- Goldman Sachs Asset Management
- Hg Capital
- Livingbridge Equity Partners
- Pantheon Global Infrastructure
- Glennmont Partners
- Darwin Alternative Investment Management

**AVC Provider**

- Prudential Assurance Company
- Utmost Life and Pensions

**Auditors**

- Grant Thornton UK LLP

# Overview



Surrey  
Pension  
Team



## Overview

### Investment

A summary of the fund value over time is provided in the table below.

£m	2017/18	2018/19	2019/20	2020/21	2021/22
Contributions and transfers	191	191	198	219	227
Less benefits and expenses	(167)	(176)	(192)	(187)	(201)
Net additions	24	15	6	32	26
Net investment income	65	58	51	25	24
Change in market value	98	186	(513)	1,097	295
Net return on investments	163	244	(462)	1,122	319
Net increase in funds	187	259	(456)	1,154	345
<b>Fund value at 31 March</b>	<b>4,056</b>	<b>4,315</b>	<b>3,859</b>	<b>5,013</b>	<b>5,358</b>

### Membership

The table below shows membership by type as at 31 March in each of the last five years.

Number (000s) at March	2018	2019	2020	2021	2022
Contributory Employees	36	34	35	40	41
Pensioners and Dependants	25	26	27	28	30
Deferred Pensions	45	50	49	44	43
<b>Total</b>	<b>106</b>	<b>110</b>	<b>111</b>	<b>112</b>	<b>114</b>

In 2021/22 there were over 1,800 new pensions paid.

Retirement type	Number
Ill Health	21
Early	117
Normal	1,691
<b>Total</b>	<b>1,829</b>

# Pensions and Governance Summary



Surrey  
Pension  
Team

# LGPS Scheme Details

## Overview

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 (1/98th for the 50/50 section of the scheme)
- 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 Price Index
- requires members to have at least 2 years' membership to qualify for pension benefits

## Key LGPS Facts England and Wales

- Made up of 86 regional funds and 8 LGPS Pension Pools
- Around 6.1 million members
- Total fund assets over £330 billion

## Key LGPS Facts Surrey Pension Fund

- Made up of more than 300 employers
- More than 100,000 members
- Total fund assets over £5 billion

The following pay ranges and employee contribution rates were applied for 2021/22:

<b>Band</b>	<b>Actual pensionable pay for an employment</b>	<b>Main section contribution rate for that employment</b>	<b>50/50 section contribution rate for that employment</b>
1	Up to £15,000	5.50%	2.75%
2	£15,001 to £23,600	5.80%	2.90%
3	£23,601 to £38,300	6.50%	3.25%
4	£38,301 to £48,500	6.80%	3.40%
5	£48,501 to £67,900	8.50%	4.25%
6	£67,901 to £96,200	9.90%	4.95%
7	£96,201 to £113,400	10.50%	5.25%
8	£113,401 to £170,100	11.40%	5.70%
9	£170,101 or more	12.50%	6.25%

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

Pre-2014: <https://lgpsregs.org/timelineregs/Default.html>

Post-2014: <https://lgpsregs.org/schemeregs/lgpsregs2013/timeline.php>

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 participating employers and to the desirability of maintaining as nearly constant 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 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 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

## Chair's Statement



2021/22 has been another challenging year for the Surrey Pension Fund.

Covid-19 continued to pose significant issues for the Pension Team, which was undergoing operational changes as a result of the turnaround programme. Remote working enforced through the initial phases of Covid-19 have evolved into the agile working approach now adopted by the Pension Team.

The Board continued to meet during the year (virtually as required) to provide the necessary oversight and guidance to the executive team.

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 Local Government Pension Scheme (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.

The Board has closely tracked the administrative performance of the Fund and its impact on the member and employer experience through quarterly KPIs, 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 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 during the year. But we can only operate with the support of the Pensions Team. I would like to pay personal tribute to the immense amount of hard work carried out by the Team ably led by Neil Mason during these difficult times. I thank you all.

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 Governance Manager at the Surrey Pension Team ([adele.seex@surreycc.gov.uk](mailto:adele.seex@surreycc.gov.uk)).

**Tim Evans**

Chair of the Surrey Local Pension Board

*July 2022*

## Compliance checklist

	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 subsequent years. The Board received a report on Compliance with the Pensions Regulator's Code of Practice No. 14 at its meeting on 11 November 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 11 November 2021, with specific policies also reviewed periodically in 2021/22 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 outline of the current communications channels for members and employers as part of a training session in October 2015. The Draft Communications policy was presented to the Board 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

	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:
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 verbal update on discretions on 11 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 2020/21 on 11 November 2021.
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 regular Breach of Law update as and when potential breaches occur, the last report was on 18 February 2022.

## Meetings and agenda items

Meeting	Agenda items
1 27 May 2021	<i>Meeting cancelled.</i>
2 5 August 2021	<ol style="list-style-type: none"> <li>1. Administration Performance Report</li> <li>2. Annual Report</li> <li>3. Breach of Law Report</li> <li>4. Summary of the Pension Fund Committee Meetings of 11 December 2020 and 9 July 2021</li> <li>5. Cyber Security</li> <li>6. Review of Internal Dispute Resolution Cases in 2021/22 (Quarter One)</li> <li>7. Summary of the 2020/21 Internal Audit Reviews of Investments and Administration and Details of the 2021/22 Internal Audit Plan</li> <li>8. Recent Developments in the LGPS</li> <li>9. Risk Registers</li> <li>10. Scheme Advisory Board Review of Governance in the LGPS</li> <li>11. The Pension Regulator's Consultation on a Single Combined Code of Practice</li> <li>12. Training Policy</li> <li>13. Turnaround Board Update</li> </ol>
3 11 November 2021	<ol style="list-style-type: none"> <li>1. Summary of the Pension Fund Committee Meeting of 10 September 2021</li> <li>2. Turnaround Programme Update</li> <li>3. Administration Performance Report and Update - 1 July to 30 September 2021</li> <li>4. Valuation 2022</li> <li>5. Compliance with the Pension Regulator's Code of Practice No. 14</li> <li>6. Draft Annual Report &amp; Statement of Accounts</li> <li>7. Risk Registers 2021/22 - Quarter 2</li> </ol>
4 18 February 2022	<ol style="list-style-type: none"> <li>1. Summary of the Pension Fund Committee of 10 December 2021</li> <li>2. Risk Registers 2021/22 - Quarter 3</li> <li>3. Administration Performance Report and Update 1 October to 31 December 2021</li> <li>4. Turnaround Programme</li> <li>5. Progress of 2021/22 Internal Audit Plan</li> </ol>

## Board attendance and training log

### Members of the Local Pension Board

Name	Position	Representing	Appointed	Appointment ended
Tim Evans	Chair	Independent Chair	19/07/2021	-
David Lewis	Vice-Chair	Scheme Employers	19/07/2021	-
Siobhan Kennedy		Scheme Members	29/04/2020	-
William McKee		Scheme Members	19/07/2021	-
Fiona Skene		Scheme Members	10/12/2020	-
Jeremy Webster		Scheme Employers	19/07/2021	-
Trevor Willington		Scheme Members	17/07/2015	-
Nick Harrison		Scheme Employers	17/07/2015	05/05/2021
Paul Bundy		Scheme Employers	17/07/2015	28/04/2021
David Stewart		Scheme Members	17/07/2015	04/05/2021
Rohit Dara		Scheme Employers	22/09/2020	06/10/2021

### Meeting attendance

Name	May 2021			
	Meeting cancelled	August 2021	November 2021	February 2022
Tim Evans	n/a	✓	✓	✓
David Lewis	n/a	✓	Apologies	✓
Siobhan Kennedy	n/a	✓	✓	✓
William McKee	n/a	✓	✓	✓
Fiona Skene	n/a	✓	Apologies	Apologies
Jeremy Webster	n/a	✓	✓	✓
Trevor Willington	n/a	✓	✓	✓
Nick Harrison	n/a	n/a	n/a	n/a
Paul Bundy	n/a	n/a	n/a	n/a
David Stewart	n/a	n/a	n/a	n/a
Rohit Dara	n/a	Apologies	n/a	n/a

## Training of current Board members

Name	The Pensions Regulator Public Sector Toolkit	Local Government Association Fundamentals 1	Local Government Association Fundamentals 2	Local Government Association Fundamentals 3
Tim Evans				
David Lewis				
Siobhan Kennedy	✓	✓	✓	✓
William McKee	✓			
Fiona Skene				
Jeremy Webster	✓			
Trevor Willington	✓	✓		✓

## Additional Training

Name	AGM Training Nov 2021	Actuarial and Investment Training Dec 2021
Tim Evans	✓	
David Lewis	✓	✓
Siobhan Kennedy	✓	✓
William McKee	✓	✓
Fiona Skene	✓	✓
Jeremy Webster		✓
Trevor Willington		

## Register of interests

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.

- 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	Employment	LGPS Pension?	Conflict with Employment ?	Note	Other conflicts
Tim Evans	N/A	Yes	No	N/A	N/A
David Lewis	N/A	No	No	N/A	N/A
Siobhan Kennedy	Homelessness, Advice & Allocations Lead for Guildford Borough Council.	No	No	N/A	N/A
William McKee	N/A	Yes	No	N/A	N/a
Fiona Skene	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 themselves from the discussion.	N/A
Jeremy Webster	N/A	No	No	N/A	N/A
Trevor Willington	N/A	Yes	No	N/A	N/A
Nick Harrison	Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd.	No	No	Deutsche Bank has no role in relation to the Surrey Pension Fund and no role more generally in providing banking or other services to Surrey County Council.	N/A
Paul Bundy	Head of Finance, Surrey 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 themselves from the discussion.	N/A
David Stewart	Senior HR Business Partner – Reward at University of Law.	Yes	No	Employer's pension services administered by Orbis - this is managed by being recorded at each meeting, and any likelihood of conflict arising mitigated by the member removing themselves from the discussion.	N/A
Rohit Dara	GMB branch secretary	No	No	N/A	N/A



## Knowledge & 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  
Pension  
Team

## 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 31<sup>st</sup> March 2022.
- 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.

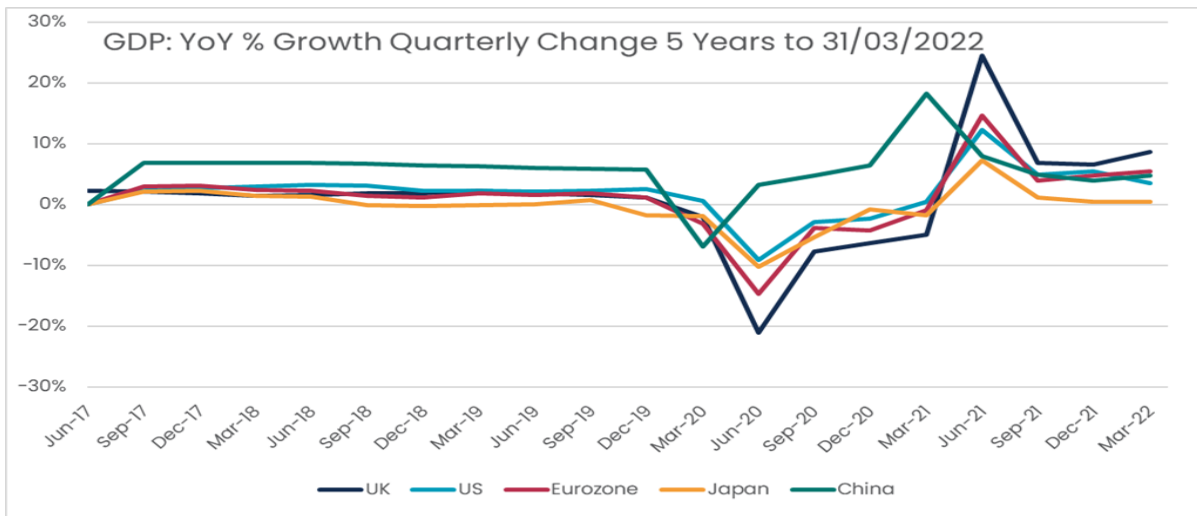
## 1. Economic and market background

The last financial year was dominated by a strong economic recovery and rising inflation. Economic growth was fuelled by a sharp rebound in spending as lockdowns ended and Covid restrictions were reduced supported by the tail winds of easy fiscal and monetary policy, and excess savings accumulated during the pandemic. This growth was accompanied by rising inflation, driven initially by the strong demand of goods, then by shortages of workers and finally by rising energy prices. As a result, by the end of the calendar year central banks were talking openly of increasing interest rates and governments were reducing fiscal support. Then on the 24th February Russia invaded Ukraine, which has increased geopolitical risk for markets and the real economy alike.

As can be seen in chart 1 below, the global economic recovery varied significantly by region with the UK and US which led the removal of lockdown restrictions enjoying the strongest bounce back in growth. Japan saw the weakest recovery, driven by a much lower vaccination rate but also by the lockdown that accompanied the hosting of the Olympics. Towards the end of the financial year China also experienced weaker growth, again due to a combination of a poor vaccination programme and lockdowns to tackle the omicron variant and the government's "zero covid" policy. Outside of China other emerging economies also struggled, as they faced the headwinds of a rising US dollar and continued trade tensions from US-China to Brexit.

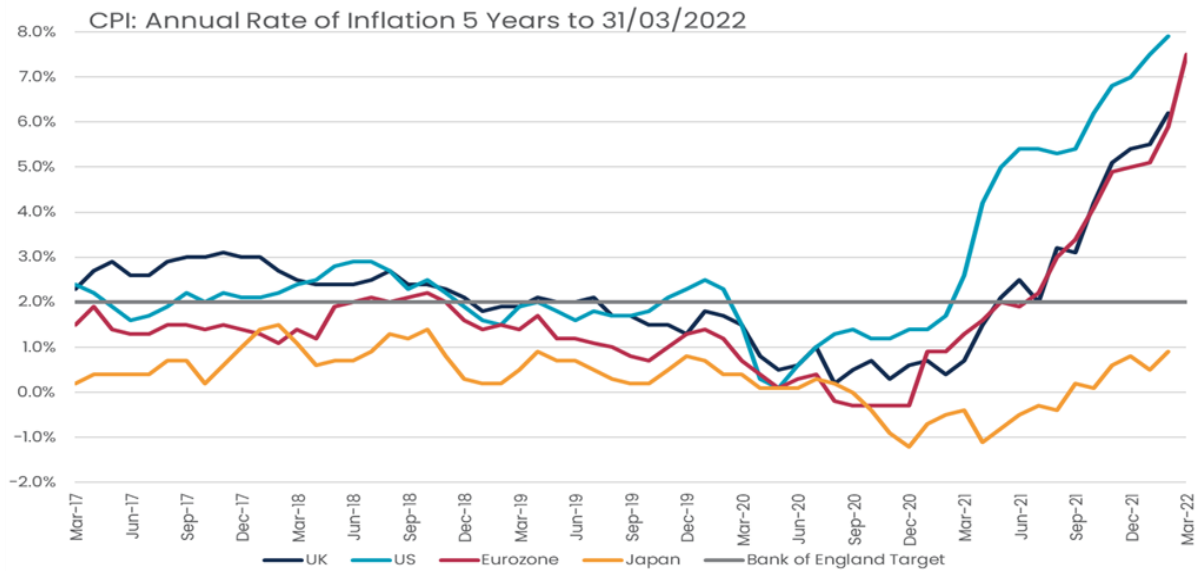
The biggest change over the year has been the increase in both actual reported inflation and short-term inflation expectations. In the summer and autumn of last year inflation was widely expected to increase as supply side issues caused by the re-opening of economies met increased demand. At the time consensus forecasts expected inflation to peak below 5% in first half of 2022 before slowly declining by the end of the year. However as can be seen in chart 2 below, actual inflation has not only turned out to be higher but is also expected to be more persistent rather than transitory.

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



Inflation is expected to peak in the summer of 2022 but in the UK, this may not be until the end of the year as another step change in energy costs hits consumers in October. Needless to say, the situation in Ukraine has significantly increased the uncertainty and the risk of recession, especially in Europe because of its reliance on Russian supplied gas as well as other key commodities supplied by both Ukraine and Russia.

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



## Central Banks

Last year markets expected no change in rates before 2023, however by the end of 2021 inflation was on the rise, predominately driven by supply side issues, which are largely outside of the control of central banks. In the fourth quarter after some prevarication the Bank of England became the 1st major central bank to start raising interest rates, followed by the US Fed in February 2022. Since then, the Fed, BoE and the ECB have changed their rhetoric and are now openly stating that getting inflation under control is more important than maintaining economic growth, despite the increased uncertainty caused by the Russian aggression in Ukraine. The exceptions to this are Japan where the Bank of Japan has re-iterated its easy policy with no change in overnight rates or bond yield policy. And China which has eased monetary policy in light of a weakening growth outlook.

## Global politics

The most significant geo-political event in the fiscal year was the decision by Russia on the 24th February, to invade Ukraine seeking to grab more land in the eastern part of the country, but more importantly to replace the perceived pro-western government by force, with a regime completely in the Russian “sphere of influence” like the government in Belarus. Western governments quickly responded with a strong degree of unity, pledging support for Ukraine and imposing escalating sanctions on Russia including excluding its banks from the international payments system and freezing the international assets of the Russian Government, Officials and Oligarchs, linked to Russia. This has already had a significant impact on markets and economic sentiment, but it is very early days and if Russia, follows its usual strategy this is just the beginning of a very destructive, salami style attempt to take control of Ukraine.

## Market Returns

As can be seen in table 1 below, over the fiscal year in sterling terms Global equities returned +12.8%, and the UK equity market did slightly better, at +13.0%. The UK with its higher yielding, cheaper, mix of energy, commodity and financial companies outperformed the high growth, more interest rate sensitive US technology dominated winners of the last couple of years. Emerging Markets, had a difficult year, returning around -4%, not least because of Russia being cut off from the world's financial markets following its invasion of Ukraine. Food inflation, a strengthening US dollar and the resurgence of covid infections in China in Q1, also contributed to the woes of Emerging Markets, but the aggregate result hides a wide range of returns with commodity rich countries like Brazil and regions like the gulf states experiencing strong positive returns.

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 2022.

### % TOTAL RETURN DIVIDENDS REINVESTED

#### MARKET RETURNS

	Period end 31 <sup>st</sup> March 2022	
	3 months	12 months
All World	-2.4	12.8
Regional indices		
UK All Share	+0.5	13.0
North America	-2.1	19.7
Europe ex UK	-9.5	3.9
Japan	-3.5	-2.3
Pacific Basin	-2.2	-4.3
Emerging Equity Markets	-2.5	-3.3
UK Gilts - Conventional All Stocks	-7.5	-5.3
UK Gilts - Index Linked All Stocks	-5.7	4.6
UK Corporate bonds*	-6.9	-5.4
Overseas Bonds**	-4.5	-3.8
UK Property quarterly^	4.0	18.8
Sterling 7 day LIBOR	0.0	0.0

FTSE Indices except where noted \* iBoxx £ Corporate Bond; \*\*Citigroup WGBI ex UK hedged; ^MSCI

Rising inflation, interest rates and the war, caused government bond yields to rise significantly over the fourth quarter of the financial year once again delivering negative returns. Re-establishing the trend seen over the year where bond markets sought to price in the strong economic recovery leading to negative returns from the most interest rate sensitive long maturity sectors. UK investment grade corporate bonds also delivered poor returns as yields increased and credit spreads widened.

UK property markets had a very strong year, returning +19%, as they bounced back from the covid restrictions. Most private markets assets (not represented in the table above), including Infrastructure, private equity and private debt also delivered steady positive returns. The performance of alternative asset classes like property and private markets underlines the importance of having a diversified asset allocation.

## 2. Fund Performance and Manager Structure

At the end March 2022, the Surrey Pension Fund was valued at £5.3 billion, this represents an increase of £0.3 billion, since 31st March 2021. The Fund achieved a total net investment return of +6.7% for the year, underperforming the benchmark return of +9.6%. Over the last 3 years the Fund has achieved a total return of +6.7% p.a. which is below the benchmark return of +7.5% p.a. Over the year the “Past Service funding level” of the Surrey Pension Fund improved from 96% to 108%.

The absolute return of the Fund would have been somewhat better had it not been for the change in investor sentiment after central banks decided to tighten monetary, governments reduced covid fiscal support and the Russian invasion of Ukraine in the fourth quarter of the financial year. On a relative basis the marked underperformance of the active equity managers selected by BCPP to run the UK and Global equity funds had the most significant negative impact. Alternative investments such as property, private equity, infrastructure and private debt all delivered strong positive returns, demonstrating the importance of a diversified asset allocation.

In terms of structure the Fund had a busy year and executed several planned changes in asset allocation. In October the Fund switched it's index driven (passive) global equity allocation, managed by LGIM from the RAFI multi-factor and MSCI world low carbon index funds to the LGIM Future World global equity index fund. In doing so the fund has substantially improved the ESG and carbon metric's arising from its passive equity allocation. The Index that LGIM's Future World fund follows, uses a combination of exclusions and engagement with consequences to achieve a “decarbonisation pathway” target of at least 50% lower emissions compared to the benchmark as of May 2021 and a further at least 7% year over year reduction out to 2050.



In November 2021, Surrey transitioned from Western's Multi-Asset Credit (MAC) and the Templeton global total return fund to BCPP's MAC fund and in February 2022 from Surrey's various diversified growth funds (DGF's) to BCPP's Listed Alternatives fund. It is too early at this stage to make any meaningful comments about the performance of either fund but thus far they have performed inline with what could have been expected given market conditions.

The change in the MAC manager was driven by the availability of a MAC solution provided by BCPP and is consistent with the policy to have more of the Fund's investments managed by Asset managers selected by the Pool, to achieve economies of scale and better value for money. The BCPP solution has a similar performance objective to the Western fund, but a wider investment opportunity set.

The decision to divest from the portfolio of DGF's was driven both by Surrey's strategic asset allocation to have more of the Fund's returns driven by an allocation to private rather than listed markets and the pooling objective. Whereas the DGF's were almost completely invested in mainstream listed equity and bond markets, the listed alternatives fund will be invested in vehicles that will target alternative credit, infrastructure, private equity and specialist real estate. This fund is a proxy for Surrey's allocation to closed-end private market assets and is expected to have a similar risk and return profile. The fund will be used as a source of liquidity to pay for draw-downs of committed capital for Surrey's private market allocation but also to keep the Fund's private market strategic asset allocation closer to target.

Despite Covid and "working from home" BCPP continues to make 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. At this early stage it is difficult to assess the performance of this allocation but early results are promising. Progress on the development of a BCPP sponsored property solution and an active global regional equity fund remains slow and is unlikely to be realised before 2023.

### **3. Economic and Market outlook**

While I have noted Russia as a geopolitical risk in my presentations to the Pension Fund Committee in the past. I had not believed President Putin felt so insecure in his position that he would attempt further incursions into Ukrainian territory and the replacement of the Ukrainian government by force.

Like covid 2 years ago the weight that can be given to these events in a probability based analysis of how to invest is low but their impact can be high and long lasting. Unlike covid, the impact of war cannot be easily offset by fiscal and monetary policy, and the development of a vaccine.

Nonetheless the political response by western governments to act with varying degrees of unity to impose sanctions and to freeze the overseas assets of the Russian government and Oligarchs alike is impressive. The adjustment from here is rather more difficult to achieve, Russia and Ukraine are major sources of energy, commodities and food to the rest of the world and in particular gas to Europe. Substitution of these important commodities is a long term issue which needs to be addressed by markets as unless the war ends soon and there is the removal of Putin's regime, the west cannot go back to business as usual with Russia.

The good news is that the global economy was strong on back of a re-opening post covid, due to the latent impact of fiscal spending, high household savings, strong consumer demand and low interest rates. What the war has done is increase uncertainty, reduce consumer sentiment and increase the length of the period of higher inflation. All of which will reduce economic activity and make life very difficult for central banks. As they cannot push rates up high enough to choke off inflation without the risk of pushing the economy into recession.

I believe we are right in the middle of the bad news for inflation. As a result, it is entirely likely that over the next 6 to 12 months, the year over year inflation reports will be higher and this will make equity and bond markets more volatile as they see the inflation data and worry about how the central banks will respond on monetary policy. Central Banks are currently talking very strongly about their willingness to tackle inflation with higher interest rates. It will be interesting to see if they are willing to push their respective economies into a hard rather than a soft landing. I suspect that they will not want to cause a deep recession, but I believe that growth could be much lower than forecast over this fiscal year and probably in the next fiscal year as higher inflation, interest rates and taxes impact the economy, but I also believe that as a result inflation will also be falling by the end of 2022.

While higher interest rates and inflation are bad news for longer duration bond markets, they are not necessarily a bad outcome for equity markets. But it can be bad news for growth stocks, thus far this year the MSCI AC world "growth index" is down -24% whereas the equivalent "value index" is only down -9%. This could continue for a while longer as the valuations of "growth" companies come down to more normal levels. Going forward, I would not be surprised to see more subdued returns and greater volatility from markets in general.

## Anthony Fletcher

Senior Adviser

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## Investment Arrangements, Performance & Post Pool Reporting

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

There are a number of 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 the managers to assess performance.

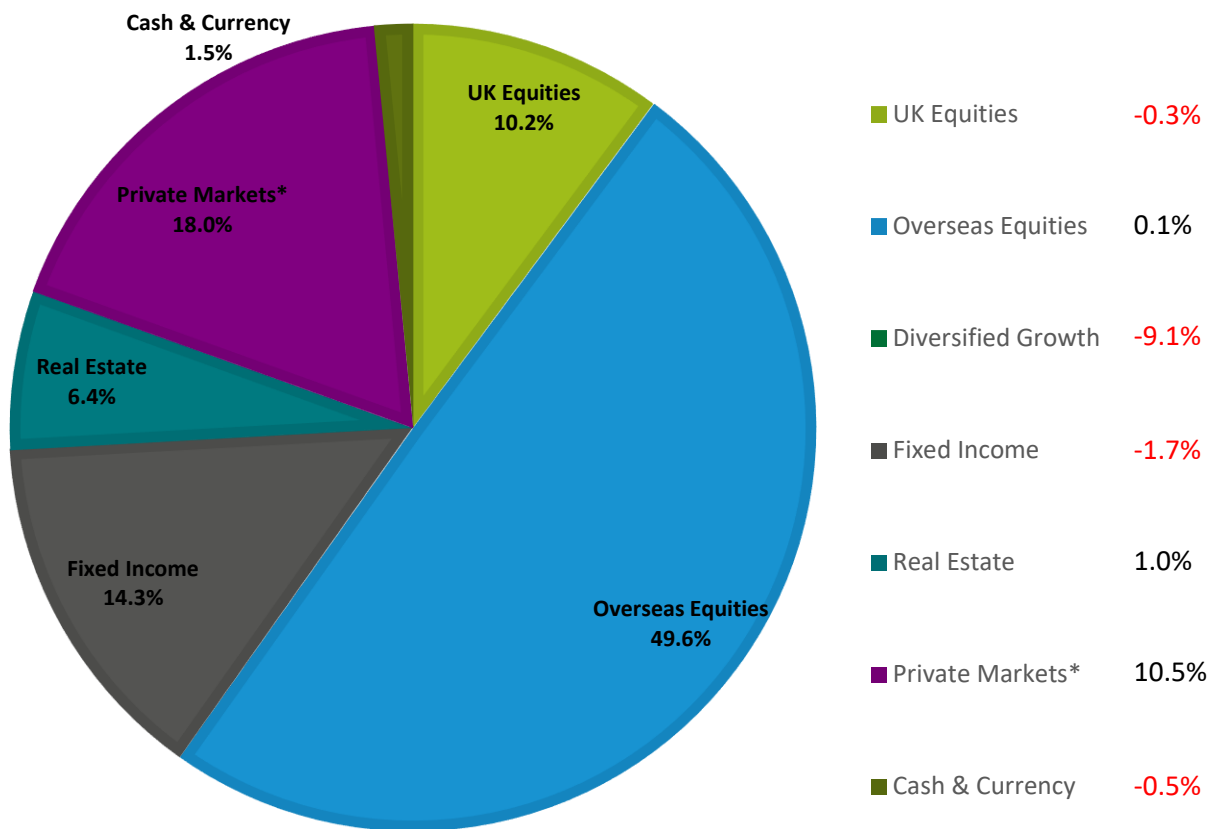
As at 31 March 2022, Equity, Fixed Income and Real Estate exposure is gained through assets held with Border to Coast Pension Partnership (BCPP), Newton Investment Management, Legal & General Investment Management and CBRE. In addition, the Fund has investments in private market funds managed by BCPP, Darwin Alternative Investment Management, Goldman Sachs Capital Partners, abrdn Private Equity, Pantheon, Capital Dynamics, Glennmont Partners, HG Capital, Blackrock, and Livingbridge. Through the year the ending 31 March 2022, the Fund also held at assets with Aviva Investors, Baillie Gifford, Franklin Templeton, Ruffer LLP and Western Asset Management.

As at 31 March 2022 the market value of assets under management was £5.3bn.

## Asset Allocation

The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2022 is shown in the chart below. The percentage change since 31 March 2021 is shown as well.

ASSET ALLOCATION AS AT 31 MAR 2022



\*Includes listed Alternatives

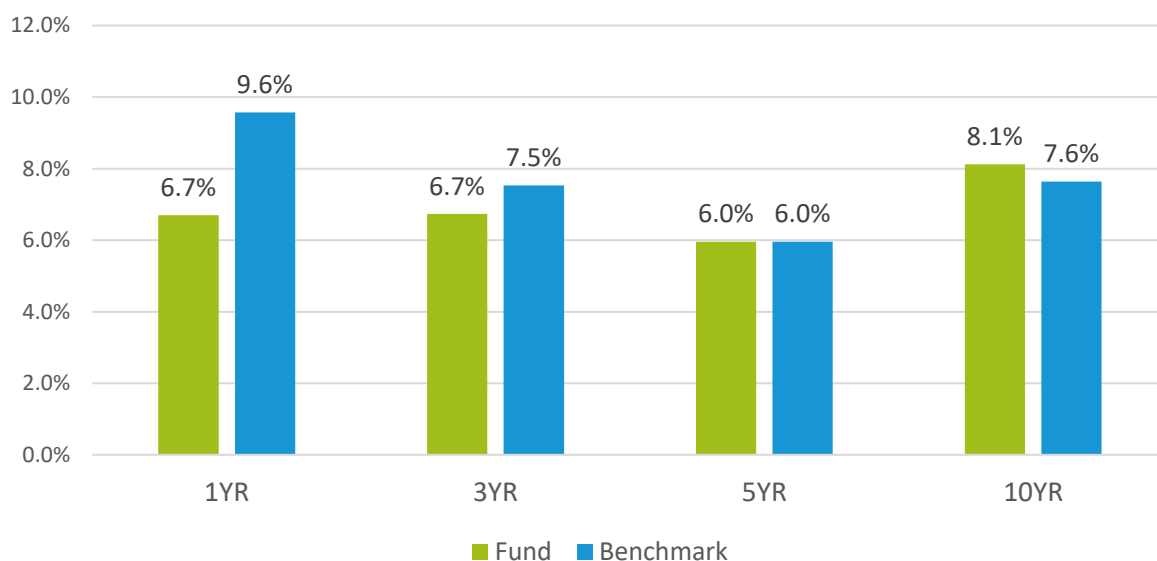
The table below shows the investment breakdown by asset class over the last two years and the actual versus target allocation as at 31 March 2022.

Asset class	MV (£) as at 31 Mar 2021	Asset Allocation (%) as at 31 Mar 2021	MV (£) as at 31 Mar 2022	Asset Allocation (%) as at 31 Mar 2022	Target Allocation (%) as at 31 March 2022
<b>Listed Equities</b>	2,992.1	60.0%	3,167.5	59.5%	54.8%
<b>Diversified Growth</b>	455.2	9.1%	-	0.0%	
<b>Private Markets</b>	375.9	7.5%	548.9	10.3%	17.0%
<b>Listed Alternatives</b>	-	0.0%	402.3	7.6%	3.0%
<b>Real Estate</b>	266.3	5.3%	331.8	6.2%	7.6%
<b>Fixed Interest Securities</b>	792.7	15.9%	760.1	14.3%	17.6%
<b>Internally Managed Cash, Liquidity Fund &amp; Currency Overlay</b>	101.7	2.0%	114.4	2.1%	0.0%
<b>Total</b>	4,983.9		5,325.0		

Fourteen fund managers undertook the management of investments during 2021-22 in a mix of passive and active investment. The Fund assesses investment performance against a customised 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. Performance against target and benchmark is 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 annualised basis, for the previous 1, 3, 5- and 10-year periods.

### Total Fund Return (net of fees) as at 31 March 2022



Over the last 1- and 3-year period to 31 March 2022, the Fund recorded investment performance below that of the benchmark, as shown in the chart above. However, over the 10-year period the Fund outperformed the benchmark. The performance over all periods is in excess of the target return of the Fund, which is 5%.

The allocation as at 31 March 2022 for each fund manager is shown in the table below.

<b>Mandate / Manager</b>	<b>MV (£m) as at 31 March 2022</b>	<b>Allocation (%) as at 31 March 2022</b>
<b>Total Fund</b>	<b>5,325.0</b>	
<b>Active Global Equity</b>	<b>1,205.7</b>	<b>22.6%</b>
BCPP Global Equity Alpha	712.9	13.4%
Newton Global Equity	492.8	9.3%
<b>Active Regional Equity</b>	<b>541.2</b>	<b>10.2%</b>
BCPP UK Equity Alpha	541.2	10.2%
<b>Passive Global Equity</b>	<b>1,006.3</b>	<b>18.9%</b>
LGIM - Future World Global	1,006.3	18.9%
<b>Passive Regional Equity</b>	<b>414.3</b>	<b>7.8%</b>
LGIM - Europe Ex-UK	52.2	1.0%
LGIM Emerging Markets	299.7	5.6%
LGIM - Japan	16.6	0.3%
LGIM - Asia Pacific ex-Japan	45.8	0.9%
<b>Fixed Income</b>	<b>760.1</b>	<b>14.3%</b>
BCPP MAC	582.9	10.9%
LGIM Gilts	177.2	3.3%
<b>Private Markets Proxy</b>	<b>402.3</b>	<b>7.6%</b>
BCPP Listed Alternatives*	402.3	7.6%
<b>Private Markets</b>	<b>548.9</b>	<b>10.3%</b>
Various Private Managers	548.9	10.3%
<b>Real Estate</b>	<b>331.8</b>	<b>6.2%</b>
CBRE	331.8	6.2%
<b>Internally managed cash, Liquidity Fund &amp; Currency Overlay</b>	<b>114.4</b>	<b>2.1%</b>

## 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:

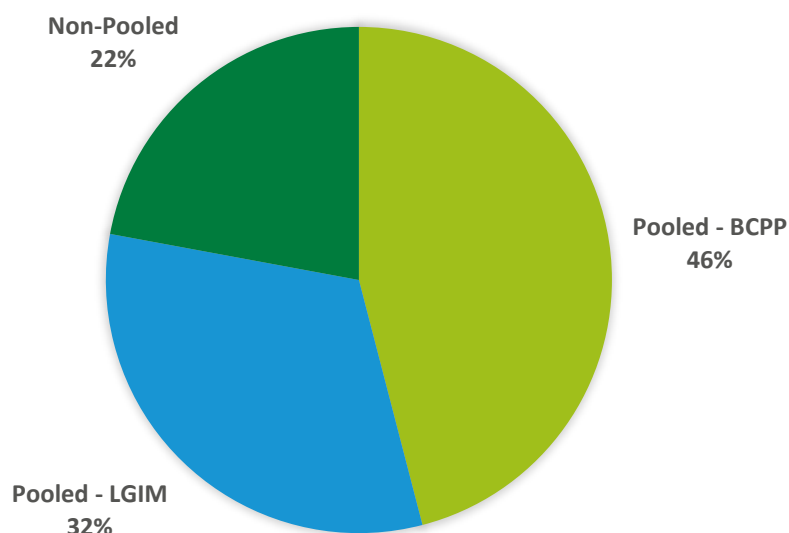
- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

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 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.

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 the pool and from Partner Funds.

### POOLED ASSET SPLIT AS AT 30 JUNE 2022





## Transition Costs and Fee Savings

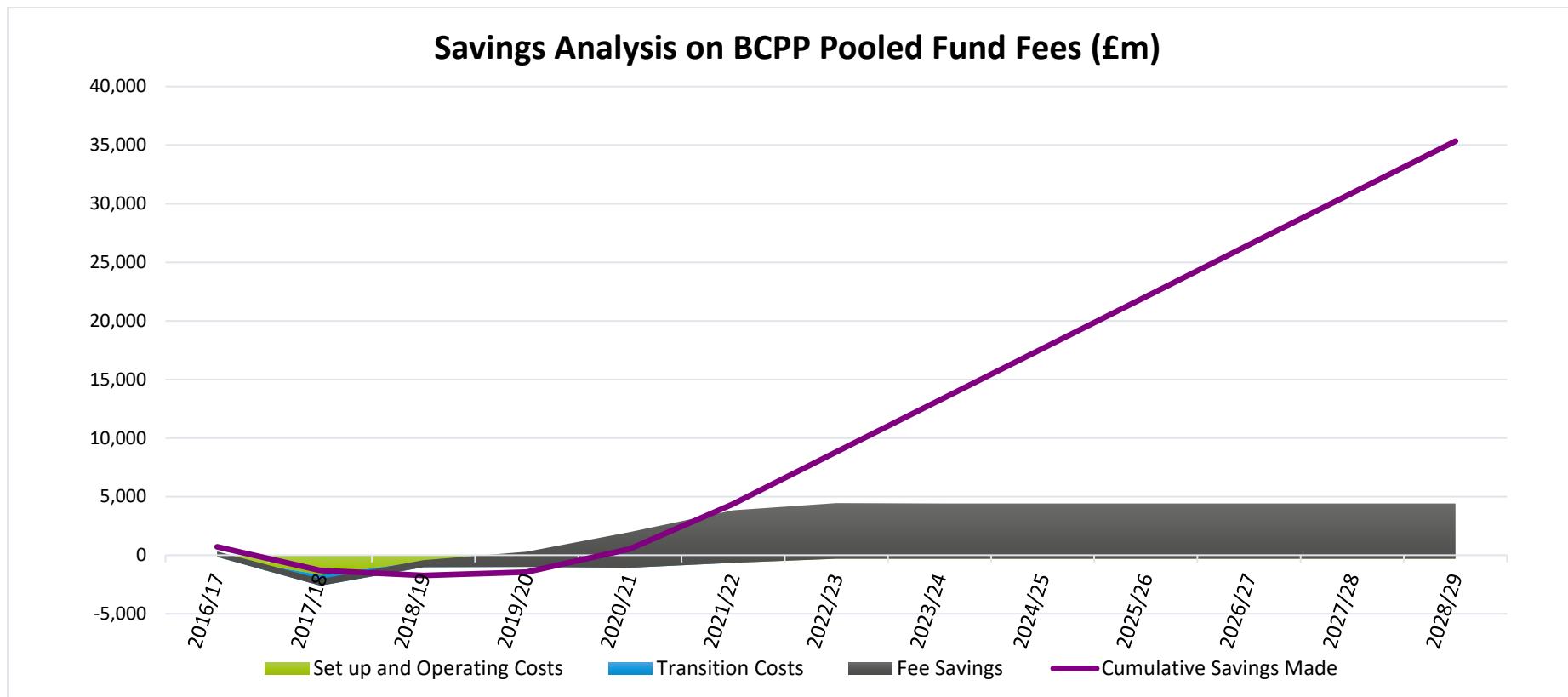
The initial transition costs are highlighted below with the expected savings from fee rates.

Pooling Costs 2021-22	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
<b>Set up and Operating Costs</b>		<b>691.0</b>	<b>691.0</b>	<b>4,080.0</b>
Other Costs		0.0	-	903.0
<b>Transition Costs</b>				
Transition Fees		172.0	172.0	
Other Transition Costs Commissions		0.2	0.2	
Other Transition Costs Taxes and Stamp Duty		202.0	202.0	
<b>Total Transition costs ex implicit</b>		<b>374.2</b>	<b>374.2</b>	<b>1,783.0</b>
<b>Other Transition Costs Implicit</b>		<b>4,284.0</b>	<b>4,284.0</b>	<b>12,649.0</b>
<b>Total Transition Costs</b>		<b>5,349.2</b>	<b>5,349.2</b>	<b>19,415.0</b>

The Fund is now realising savings due to pooling. The Fee Savings analysis is shown in Annex 1

**Savings Analysis on BCPP Pooled Fund Fees (£m)**

	<b>2016-18 (Cum)</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>	<b>2029/30</b>	<b>2030/31</b>	<b>2031/32</b>
Set up and Operating Costs	-182	-1,686	-528	-992	-691	-661	-304	-304	-304	-304	-304	-304	-304	-304	-304
Transition Costs		-915	-494		-374										
Fee Savings	898	576	601	1,282	3,043	4,494	4,750	4,712	4,726	4,726	4,726	4,726	4,726	4,726	4,726
<b>Cumulative Savings Made</b>	<b>716</b>	<b>-1,309</b>	<b>-1,730</b>	<b>-1,440</b>	<b>538</b>	<b>4,371</b>	<b>8,817</b>	<b>13,225</b>	<b>17,647</b>	<b>22,069</b>	<b>26,491</b>	<b>30,913</b>	<b>35,335</b>	<b>39,757</b>	<b>44,179</b>



During 2021-22 Border to Coast has continued to liaise with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting against key metrics 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 and Emerging Markets Alpha.

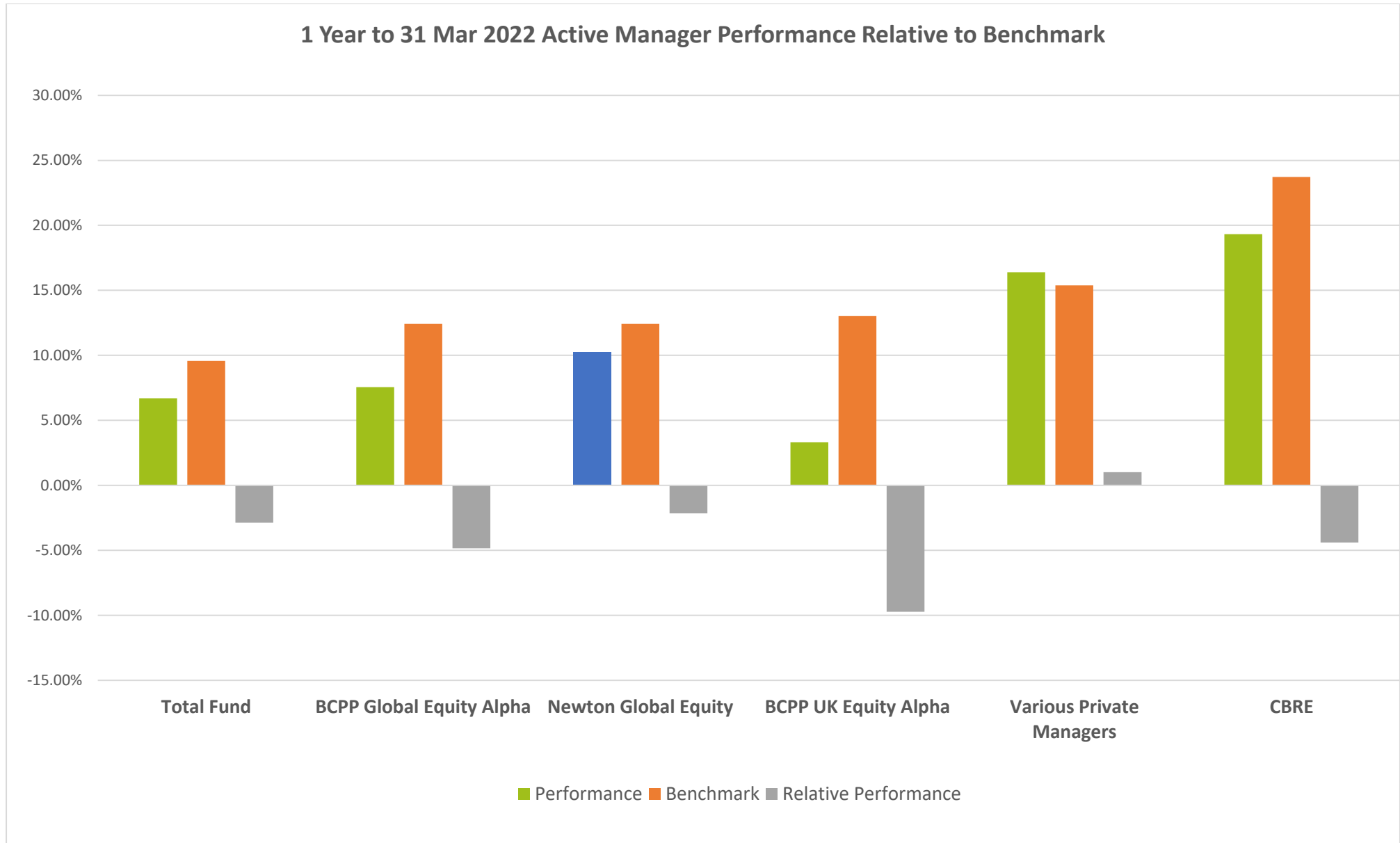
## Cost Transparency

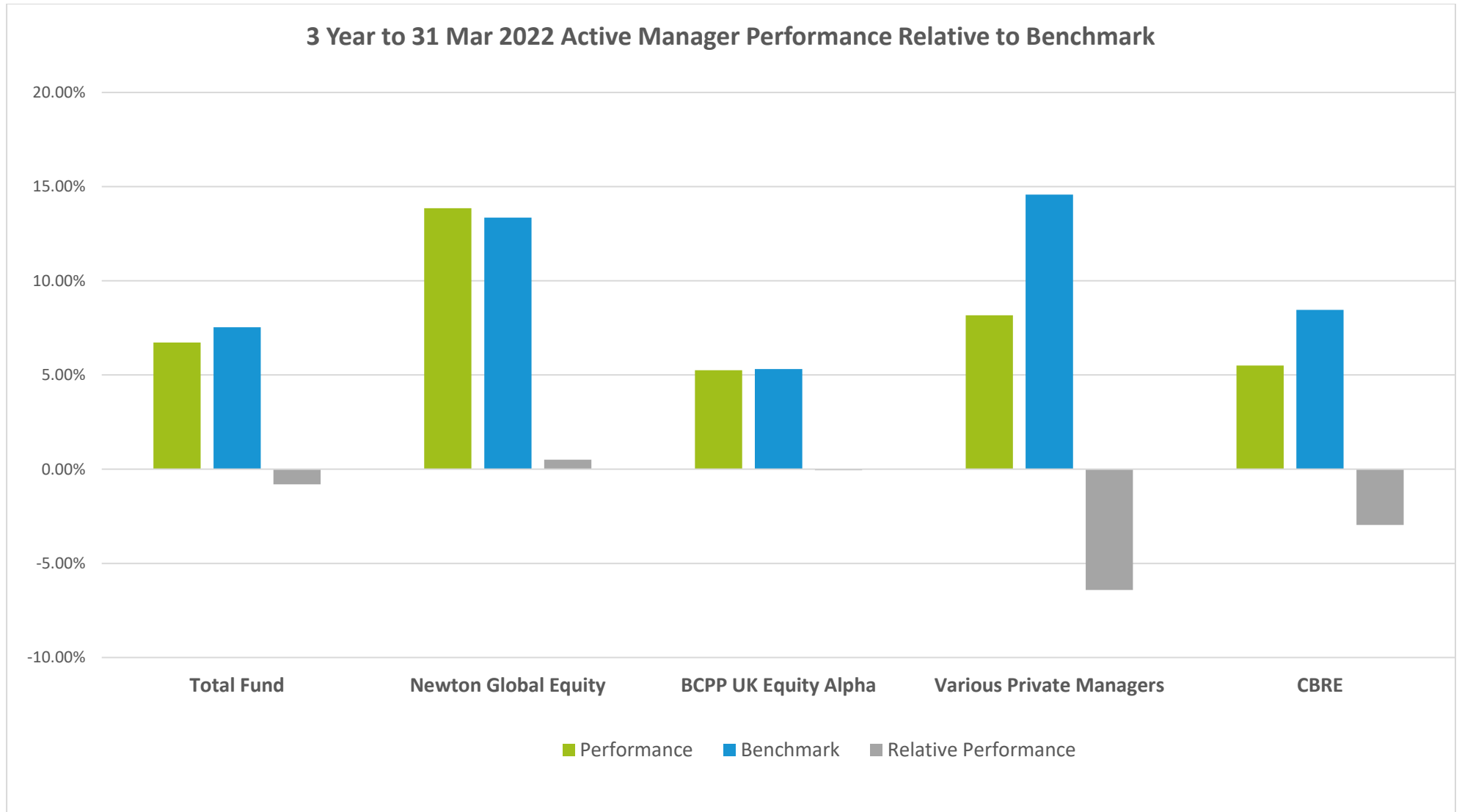
Given the level of scrutiny that had existed historically with the transparency of investment management expenses, a Voluntary Code of Transparency covering investment management fees and costs was developed and approved by the Local Government Scheme Advisory Board and launched in May 2017. A copy of 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.

The majority of Surrey Pension Fund's Investment Managers are signatories to the LGPS Transparency Code and have provided Cost Transparency templates in time for the production of this year's annual report. This was done either through the Scheme Advisory Board commissioned portal Byhiras or provided directly to officers. The table below represents Investment Management Expenses for over 97% of the Fund's assets.

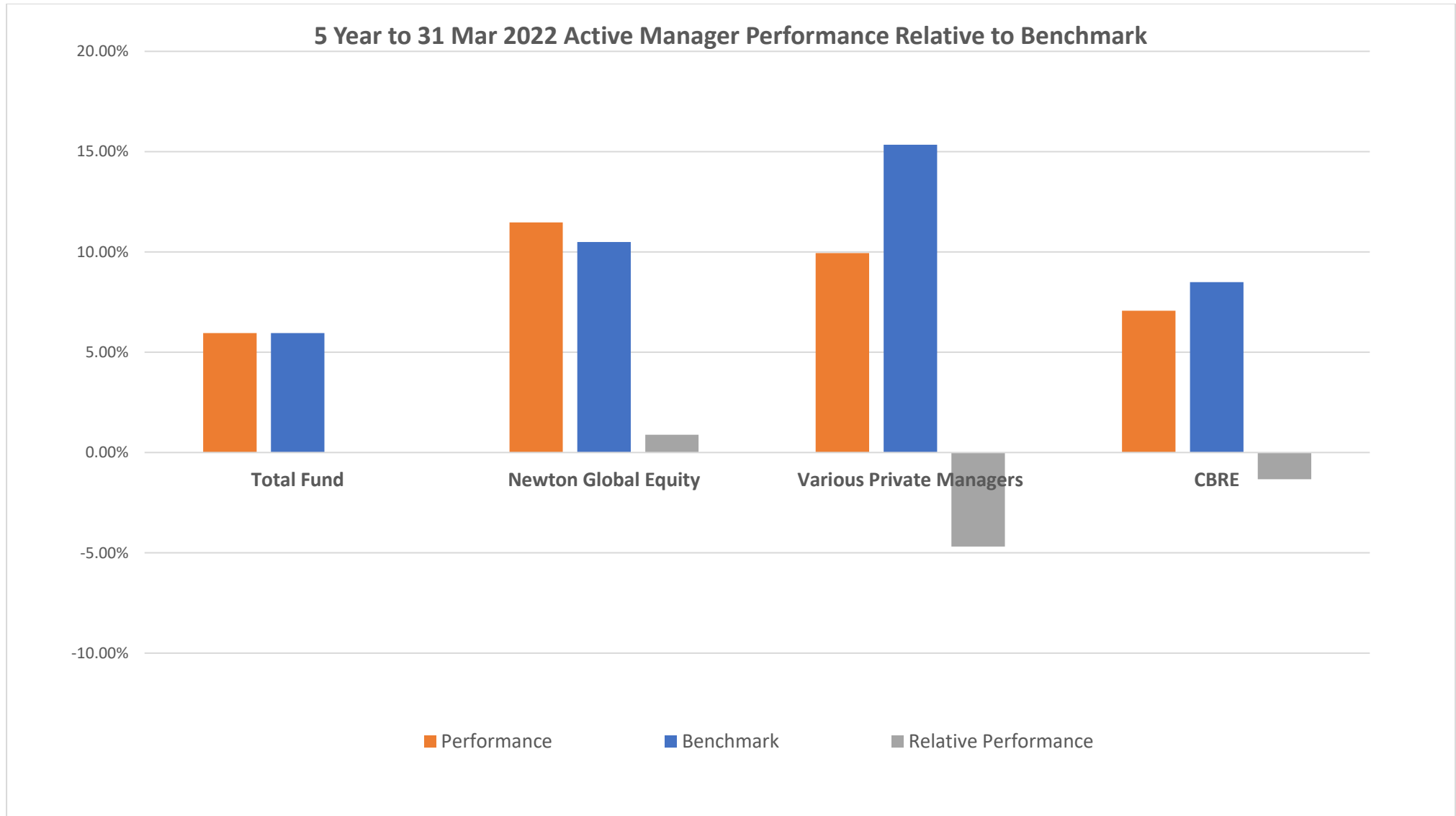
2021-22 Investment Management Expenses	Pooled Assets						Non-Pooled Assets						Total Assets
	BCPP			LGIM			External, incl Real Estate			Private Markets			Total £000s
	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s	
<b>Total Fund Management &amp; Administration Expenses</b>	<b>649</b>	<b>4,536</b>	<b>5,185</b>	<b>643</b>	<b>559</b>	<b>1,202</b>	<b>4,308</b>	<b>3,539</b>	<b>7,847</b>	<b>4,137</b>	<b>12,772</b>	<b>16,909</b>	<b>31,143</b>
Management Fees	649	4,371	5,020	643	559	1,202	4,186	3,089	7,275	4,137	3,813	7,950	21,447
Administration	-	156	156	-	-	0	-	202	202	-	7,161	7,161	7,519
Governance & Compliance	-	9	9	-	-	0	-	240	240	-	1,798	1,798	2,047
Client Service/ Custody & Communication	-	-	-	-	-	0	122	8	130	-	-	-	130
							-						
<b>Total Transaction Costs</b>	<b>-</b>	<b>3,021</b>	<b>3,021</b>	<b>-</b>	<b>227</b>	<b>227</b>	<b>179</b>	<b>3,556</b>	<b>3,735</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,983</b>
Indirect transaction costs	-	-	-	-	227	227	-	343	343	-	-	-	570
Commissions	-	311	311	-	0	0	-	353	353	-	-	-	664
Taxes and stamp duty	-	941	941	-	0	0	-	1,068	1,068	-	-	-	2,009
Implicit Costs	-	1,782	1,782	-	448	448	-	1,716	1,716	-	-	-	3,946
Other transaction costs	-	-	0	-	-	-	179	244	423	-	-	-	423
Less: Dilution Levy Offset	-	(13)	(13)	-	(448)	(448)	-	(168)	(168)	-	-	-	(629)
<b>Total Investment Management Expenses</b>	<b>649</b>	<b>7,557</b>	<b>8,206</b>	<b>643</b>	<b>786</b>	<b>1,429</b>	<b>4,487</b>	<b>7,095</b>	<b>11,582</b>	<b>4,137</b>	<b>12,772</b>	<b>16,909</b>	<b>38,126</b>

As at 31 Mar 2022		1Y			3Y			5Y		
Manager / Mandate	£m	Performance	Benchmark	Relative Performance	Performance	Benchmark	Relative Performance	Performance	Benchmark	Relative Performance
<b>Total Fund</b>	<b>5,325.1</b>	6.70%	9.57%	-2.87%	6.73%	7.53%	-0.80%	5.96%	5.96%	0.00%
<b>Active Global Equity</b>	<b>1,205.7</b>									
BCPP Global Equity Alpha	712.9	7.56%	12.42%	-4.85%						
Newton Global Equity	492.8	10.26%	12.42%	-2.15%	13.86%	13.36%	0.50%	11.47%	10.50%	0.89%
<b>Active Regional Equity</b>	<b>541.2</b>									
BCPP UK Equity Alpha	541.2	3.31%	13.03%	-9.72%	5.25%	5.31%	-0.06%			
<b>Passive Global Equity</b>	<b>1,024.7</b>									
LGIM - Future World Global	1,024.7									
<b>Passive Regional Equity</b>	<b>414.3</b>									
LGIM - Europe Ex-UK	52.2	6.19%	5.70%	0.49%						
LGIM Emerging Markets	299.7	-3.56%	-3.64%	0.07%						
LGIM - Japan	16.6	-2.43%	-2.67%	0.24%						
LGIM - Asia Pacific ex-Japan	45.8	2.16%	2.09%	0.06%						
<b>Fixed Income</b>	<b>760.1</b>									
BCPP MAC	582.9									
LGIM Gilts*	177.2	-0.26%			-5.62%					
<b>Private Markets Proxy</b>	<b>402.3</b>									
BCPP Listed Alternatives*	-									
<b>Private Markets</b>	<b>558.1</b>									
Various Private Managers	-	16.40%	15.39%	1.01%	8.17%	14.58%	-6.41%	9.94%	15.35%	-4.69%
<b>Real Estate</b>	<b>338.4</b>									
CBRE	338.4	19.33%	23.72%	-4.39%	5.50%	8.46%	-2.96%	7.07%	8.50%	-1.33%
<b>Internally managed cash, Liquidity Fund &amp; Currency Overlay</b>	<b>80.4</b>									









# Responsible Investment



Surrey  
Pension  
Team

# Responsible Investment

## Responsible Investment

During the year ended 31 March 2022, the Fund worked towards completing its own new Responsible Investment (RI) Policy, with the help of Minerva Analytics. After several rounds of review by the Responsible Investment Sub-Committee, the Policy was approved by the Pension Fund Committee on the 17th June 2022, subject to consultation with the Pension Fund members. Following this consultation, the information will be reviewed, and amendments considered. The core beliefs laid out in the document are re-produced below.

- Surrey believes that the United Nations Sustainable Development Goals represent an appropriate foundation in terms of the Fund's overall RI approach [THE 17 GOALS | Sustainable Development \(un.org\)](#)
- Surrey believes that taking account of RI considerations can provide investment opportunities, as well as identifying investment risks
- Surrey requires the consideration of Environmental, Social and Governance (ESG) factors to be incorporated into the portfolio construction process of all investments made by its investment managers.
- RI considerations are important irrespective of asset class
- RI considerations are important across all time horizons, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by our stakeholders
- Going further, Surrey believes that ESG factors are relevant in the context of benchmarking, risk analysis and investment opportunity identification
- Responsible management of RI Issues by Surrey and its agents is also considered a reputationally important issue
- Surrey views climate risk - and the issues which contribute to it - as being of significant concern to all stakeholders, and as a result the Fund's approach towards 'Net Zero' is a prominent area of focus
- Surrey believes in an 'Engagement with Consequences' approach. This advocates the use of engagement over divestment as the means to promote our RI beliefs – however, taking legal action against company management or selling an asset remain options when it comes to inadequately addressed ESG concerns in the investments made by our managers
- We also recognise the value in engaging collaboratively to leverage greater influence together with other investors who share our priorities through joint initiatives and organisations
- The exercise of our ownership rights through voting is an important part of implementing our RI beliefs

## Task Force for Climate-Related Financial Disclosures (TCFD)

The Task Force 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 2021, more than 2600 organisations globally had declared their support for the TCFD, representing a market capitalisation of over \$25 trillion [Source: 2021 Status Report] Since its launch, TCFD has become the de-facto climate framework for global regulators. In November 2020, the UK 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 12 months, the number of organisations expressing support for the TCFD has grown more than a third, 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. The TCFD reports can be found on the Surrey Pension Fund website via the link below.

[Surrey Pension Fund TCFD](#)

## Looking to the Future

The Pension Fund 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 United Nations Sustainable Development Goals (UN SDGs) mapping exercise shown below had TCFD considerations included at its core, and as such climate risks were formally considered as part of this exercise. One of the key outputs was the identification of the Core Investment Beliefs to be used by the Fund in setting its overall investment strategy. Furthermore, as the Fund recognises that climate change is a material investment consideration, it has adopted the policy of Border to Coast Pensions Partnership (BCPP), the Fund's pooled investment partner, 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 Responsible Investment (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 the Local Authority Pension Fund Forum (LAPFF).
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

## United Nations Sustainable Development Goals

### 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:

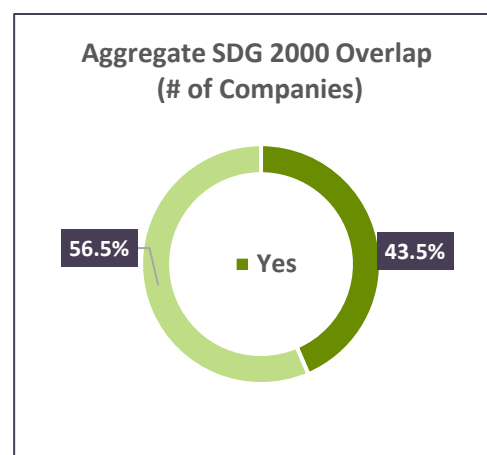
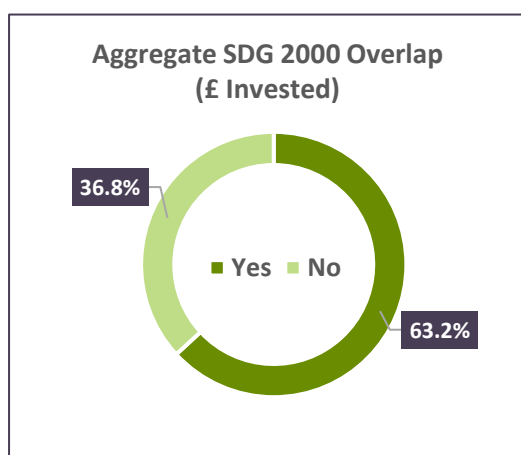
Surrey Pension Fund sought to examine its investment arrangements in the wider context of the UN SDGs, to identify risks and opportunities. Specifically, the outcomes from the exercise focus on:

- 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 could continue further as Impact Investors and integrate the SDGs into its Investment Strategy.
- Where there was 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 were.
- The Fund's own Responsible Investment approach and in the context of Border to Coast Pensions Partnership.

## Minerva's Approach

Minerva 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 reviewed the Fund's investments and managers in the context of the World Benchmarking Alliance's SDG 2000 benchmark. This list represented the 2,000 companies in the world that – should they be managed in a sustainable, risk-aware manner – were most likely to help deliver the 17 SDGs.

Using the World Benchmarking Alliance's SDG2000 benchmark to measure the Fund's starting position with respect to the SDGs, as 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 were deemed most likely by the World Benchmarking Alliance to help deliver the SDGs by 2030.



## SDGs - Looking to the Future

Surrey County Council, as the Administering Authority of the Fund, continues to 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 simultaneously working towards a sustainable future. Having considered all aspects of incorporating ESG into the investment approach at the Pension Fund Committee meeting held in December 2020, it was agreed that the UN SDGs provided a strong framework with a forward thinking and comprehensive approach in referencing the transition to sustainability.

To further strengthen the Fund's approach, the following actions were requested of Officers and advisor, where appropriate:

- Draft relevant changes to the Investment Strategy Statement.
- 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 BCPP on developing an SDG approach to pooled assets.

These action points resulted in the development of the new RI Policy. In the coming months, Officers will be preparing an implementation plan which will set out how the new RI Policy will work in practice. Once completed, the implementation plan will be brought before the Pension Fund Committee for consideration. The formal implementation of the Fund's RI Policy will then take place once the plan has been approved by the Committee. Reports covering how the Fund's RI Policy is working will then be submitted to the Committee on a regular basis.

### **Responsible Investment Activities of our Key Partners**

The responsible investment activities undertaken by Border to Coast Pensions Partnership (BCPP) and supporting documents can be found by following the link below.

[Responsible Investment - BCPP](#)

The responsible investment activities undertaken by Legal & General Investment Management (LGIM) and supporting documents can be found by following the link below.

[Responsible Investing | LGIM Institutional](#)

The Fund is a member of the LAPFF, a membership group of LGPS funds that campaigns on Environmental, Social and Governance (ESG), issues. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.



# Fund Policies



Surrey  
Pension  
Team

# 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 114,000 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	41,000
Deferred scheme members	43,000
Pensioner members	30,000

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://www.linkedin.com/company/surrey-pension-team/>

### **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

Stakeholder	Communication	Key message/Objectives
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

Stakeholder	Communication	Key message/Objectives
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/](http://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](mailto: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://www.linkedin.com/company/surrey-pension-team/>
- 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 Surrey Pension 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 is 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.

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

Surrey Pension Team  
PO Box 471  
Reigate  
RH2 2HA

Telephone: 0300 200 1031

Email: [myhelpdeskpensions@surreycc.gov.uk](mailto:myhelpdeskpensions@surreycc.gov.uk)

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

Freedom of Information Officer  
Legal Democratic & Cultural Services  
Surrey County Council  
Woodhatch Place  
11 Cockshot Hill  
Reigate  
Surrey  
RH2 8EF

Telephone: 03456 009 009

Email: [foi@surreycc.gov.uk](mailto:foi@surreycc.gov.uk)

or use the [Freedom of information request form](#)

## 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

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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



Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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 Based by Request	Always Available Online (Link also in New Starter Pack)	Within 2 months of request	Fund Website or Member Self Service	All Members
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

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement	Method of Distribution	Audience Group
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

## 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 Surrey Pension Administration Team
7. Additional penalties for poor performance by employers
8. Penalties for poor performance by the Surrey Pension Administration Team
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:

Governance Manager  
Surrey Pension Team  
PO Box 471  
Reigate  
RH2 2HA  
Email: [adele.seex@surreycc.gov.uk](mailto:adele.seex@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

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 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
<b>New starter</b>	When the team 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

Activity	Description	Service standards	Limits
<b>Inter-fund adjustment in (aggregation) estimate</b>	Check previous service recorded on starter form and write to previous provider(s) if a transfer has been requested	20 working days	No
<b>Inter-fund adjustment in (aggregation) actual</b>	Check correct payment has been received, update database and issue statutory notice.	20 working days	No
<b>Transfer-in estimate</b>	Check previous service details and offer member the option to transfer and advise of timescales	20 working days	No
<b>Transfer-in actual</b>	Check correct payment has been received, update database and issue statutory notice	20 working days	No
<b>Additional Pension Contributions Actual</b>	Update database and inform payroll of the additional pension contribution deduction to be made	20 working days	No
<b>Additional Voluntary Contributions</b>	Provide information on the Fund's AVC schemes	10 working days	No
<b>Nomination Forms</b>	Update database and send acknowledgement	20 working days	No
<b>Member correspondence</b>	Reply to member query	20 working days	No
<b>Employer correspondence</b>	Reply to employer query	20 working days	No

Activity	Description	Service standards	Limits
<b>Employee Estimates</b>	Estimate of deferred benefits and/or voluntary retirement for age 60 and over	30 working days	No
<b>Employer estimate</b>	Provide employer with estimate as requested <sup>1</sup>	10 working days	More than five estimates at a time per employer will require additional resource, to be agreed with the SPF.
<b>Refunds (Frozen Refunds)</b>	Calculate refund due and issue payment	20 working days	No
<b>Opt-outs</b>	Provide a memo to payroll to cease contributions and inform the member accordingly	20 working days	No
<b>Deferred</b>	Calculate final pay for surrey members, deferred benefits and issue confirmation to all members	2 months	No
<b>Inter-Fund Adjustment Out Estimate</b>	Provide service and pay details to new employer	20 working days	No

<sup>1</sup> Scheme employers are encouraged to utilise the on-line self-service estimate portal. This will provide instant estimate results.

Activity	Description	Service standards	Limits
<b>Inter-Fund Adjustment Out Actual</b>	Issue payment	20 working days	No
<b>Provide estimate of transfer value</b>	Provide transfer details	20 working days	No
<b>Make payment of transfer value</b>	Issue payment	20 working days	No
<b>Death in service</b>	Send condolence letter, request certificate and enclosed any claim forms	5 working days	No
<b>Death in service final letter</b>	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
<b>Death of deferred member initial</b>	Send condolence letter, request certificates and enclosed any claim forms	5 working days	No
<b>Death of deferred member final</b>	Provide details of any benefits due and make payment of death grant	10 working days	No
<b>Deferred in to payment</b>	Send initial letter and forms to member	10 working days	No

Activity	Description	Service standards	Limits
<b>Retirement</b>	Calculate final pay for Surrey members, retirement benefits and send initial letter and forms to all members	15 working days	No
<b>Payment of retirement grant and initiate pension.</b>	Issue payment of retirement grant and initiate payroll record	15 working days	No
<b>Revised Payments including Guaranteed Minimum Pensions/Modifications</b>	Inform the member of any adjustments to the pension in payment and update payroll entry	20 working days	No
<b>Death on pension</b>	Terminate payment, send condolence letter, request certificate and enclosed any claim forms	5 working days	No
<b>Death on pension final letter</b>	Provide details of deceased's pension, monies due to/from the estate and spouse's/dependants benefits	10 working days	No
<b>Complaints</b>		All complaints to be dealt with in line with the additional criteria	No

Activity	Description	Service standards	Limits
<b>Employer forums seminars</b>	Employer forum hosted by the SPF	Annually	Yes – limited to one per year. Further seminars will be chargeable.
<b>Requests for legislative or regulatory advice</b>	Provision of technical advice and employer email bulletins	15 working days	No.
<b>Follow-up to all member queries not answered within SLA</b>	Email / letter to update member	10 working days	
<b>Pension payments</b>	Monthly payment of regular pensions.	Paid on the final Thursday of each month	
<b>Annual benefit statements</b>	Provision of an annual benefit statement for all active and deferred pension members	By 31 August following the end of year	

Activity	Description	Service standards	Limits
<b>Pension Saving Statements</b>	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
<b>Dedicated employer contact</b>	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.
<b>Discretions policy</b>	The Scheme Employer should provide the SPF with a copy of their Discretions Policy by 1 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.
<b>Payment of monthly contributions</b>	Correct payments should be made to the SPF by the 19 <sup>th</sup> (21 <sup>st</sup> 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.

Activity	Timescale	Potential consequence of breach
<b>Payment of capital sums(* include footnote)</b>	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.
<b>Monthly contribution schedule</b>	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.
<b>End of year processing</b>	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.
<b>Correct admission of members in to the SPF</b>	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.

Activity	Timescale	Potential consequence of breach
<b>Notification of new starters</b>	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.
<b>Notification of leavers</b>	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.
<b>Notification of retirements</b>	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.
<b>Notification of relevant changes</b>	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.
<b>Appoint an Independent Registered Medical Practitioner (IRMP) in order to consider all ill-health retirement applications</b>	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
<b>Appoint a “nominated adjudicator” as part of the stage 1 internal dispute resolution procedure (IDRP)(add footnote re AA offer)</b>	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.
<b>Comply with auto-enrolment legislation as required by the Pensions Regulator</b>	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
<b>New employer processing</b>	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

Activity	Description	Indicative charge	Comments
			incurred irrespective of whether or not the applying Scheme Employer abandons the application.
<b>Re-assessment of the bond value of the new scheme employer</b>	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	
<b>Reports for scheme employer FRS102/IAS19 returns</b>	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	
<b>General actuarial queries</b>	Additional actuarial queries in relation to the scheme employer	According to the prevailing rates of the SPF actuary	
<b>General legal queries</b>	Additional legal queries in relation to the scheme employer	According to the prevailing rates of the SPF legal advisers	
<b>Pension strain costs</b>	A pension strain cost may be incurred by the scheme employer where a member retires early on the grounds	The SPF will calculate the strain cost. Payment will be due as a lump-sum payment within 30	Costs are based on age, gender, service and pay of the member.

Activity	Description	Indicative charge	Comments
	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.	days of being invoiced in line with the PAS Service Level Agreement.	
<b>Valuation of unfunded liabilities</b>	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.	
<b>Costs of awarding additional pension</b>	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.	
<b>Cessation costs</b>	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 )	<i>These costs are in addition to any cessation deficit payment required in</i>

Activity	Description	Indicative charge	Comments
<i>accordance with the Funding Strategy Statement</i>		Further charge is according to the prevailing rates of the Fund actuary  The SPF approach to Scheme Employer cessation is laid out in the Funding Strategy Statement.	
<b>Provision of stage 1 Internal Dispute Resolution Procedure (IDRP) adjudication</b>	The Scheme Employer will incur an administration fee if they nominate the SPF as their stage 1 IDR 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.
<b>Establishment of security for the Fund</b>	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.	
<b>Covenant assessment</b>	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 Surrey Pension Administration Team

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

## 7. Additional costs arising from an employer's level of performance (regulation 70)

Activity	Description	Indicative charge	Comments
<b>Failure to provide end of year returns in good time</b>	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 30 <sup>th</sup> June as it may be too late to produce an annual benefit statement (they must be sent out by 31 <sup>st</sup> August).	
<b>Failure to provide monthly contribution returns in good time</b>	This is dealt with in requirements for scheme employers (above).		
<b>Failure to initiate an admission agreement or arrange alternative pension arrangements before a contract is let.</b>	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.	
<b>Failure to pay pension strain costs in good time.</b>	This is dealt with in requirements for scheme employers (above).		
<b>Pension recharges that are late for any reason.</b>	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.	

## 8. Additional costs arising from an employer's level of performance (regulation 70)

Activity	Description	Indicative charge	Comments
<b>Failure to self-calculate a contribution rate within 10 working days.</b>	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.	
<b>Failure to provide membership data for new academies within 15 working days.</b>	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.	
<b>Failure to provide membership data for exiting employers 15 working days.</b>	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.	
<b>Failure to produce papers for the Local Pension Board, Local Firefighters Board and Pension Fund Committee within the deadlines.</b>	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.	

Activity	Description	Indicative charge	Comments
<b>Failure to provide the pension strain costs flowing from early retirements to the Pension Fund Team.</b>	<p>The consolidated schedule for the quarter must be provided within ten working days of the end of the quarter.</p> <p>Any delay can lead to a serious loss of investment returns.</p>	<p>A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.</p>	
<b>Failure to recharge the Compensation / Crombie / Injury award costs flowing from the payment of compensation benefits.</b>	<p>The consolidated schedule for the month must be produced within ten working days of the end of the month.</p> <p>Any delay can lead to a serious loss of investment returns.</p>	<p>A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.</p>	

## 9. 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.

*Note: This document has been updated in August 2022 to reflect changes in contact details at the Fund and to remove references to Orbis which is no longer involved in the administration of the Fund.*

# 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 Director of Corporate Finance and the Strategic Finance Manager (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:

- an independent non-voting chairman
- four employer representatives;
- four employee representatives.

The Local Pension Board is advised by the Strategic Finance Manager (Pensions).

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.

As approved by the Surrey Pension Fund Committee 10/09/2021

## 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 (primarily 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 affordable, 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 listed equities and bonds (e.g. Private Equity, Private Debt, Infrastructure 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 longterm 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 return on the Listed Equity assets of 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:

<b>Asset class</b>	<b>Allocation %</b>	<b>Advisory ranges %</b>	<b>Role(s) within the strategy</b>
<b>Listed Equities</b>	<b>54.8</b>	<b>51.8 – 57.8</b>	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	12.0		
Global Market Cap	13.0		
Global Regional	10.0		
Emerging Markets	3.8		
Global Sustainable	16.0		
<b>Alternatives</b>	<b>27.6</b>	<b>22.6-32.6</b>	Generate returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Equity	5.0	2.0-8.0	
Infrastructure	6.0	3.0-9.0	
Private Debt	6.0	2.0-8.0	
Miscellaneous Alternatives	3.0	0.0-6.0	
Property	7.6	4.6–10.6	
<b>Multi Asset Credit</b>	<b>12.1</b>	<b>9.1-15.1</b>	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
<b>Fixed Interest Gilts</b>	<b>5.5</b>	<b>2.5-8.5</b>	
Fixed Interest Gilts	5.5		Low risk income stream
<b>Total</b>	<b>100.0</b>		

**Note:** Due to the closed ended nature of the majority of the Alternatives allocation, assets awaiting drawdown will be invested into Listed Alternatives, which aim to replicate some of the risk exposures whilst providing more liquidity in order to meet drawdowns.

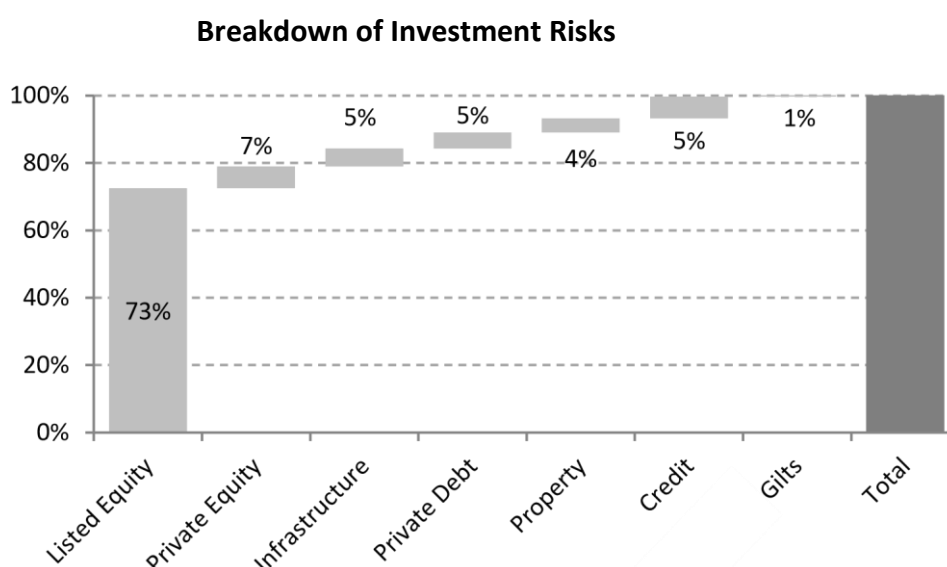
Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible. The rebalancing process has been delegated to Officers, although the Committee have discretion to exclude certain mandates from the rebalancing at their 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.

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 Multi Asset Credit. The chart excludes the risk associated with the change in value of the Fund's liabilities..

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 risk:** 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 risk:** The Fund is developing a separate Responsible Investment Policy, which will set out in detail the approach taking to ESG issues, including climate change. The policy will build on the holistic review of the Fund's approach to Responsible

Investment in 2020, where it was agreed that the UN Sustainable Development Goals should play a key role in helping shape the investment strategy, as well as monitoring progress on ESG issues over time.

In general, the Committee prefers to take an engagement-led approach to ESG, but does reserve the right to disinvest from companies where engagement has not driven the changes expected.

#### 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 become a shareholder in Border to Coast Pensions Partnership (Border to Coast) Limited. Border to Coast is an Financial Conduct Authority (FCA) regulated Operator and an

Alternative Investment Fund Manager (“AIFM”). The Border to Coast submission received approval from Government on 12 December 2016.

Border to Coast has an internal team of investment managers, in addition to appointing external managers. Its role is 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 Border to Coast. 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 Border to Coast.

### **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 "extrafinancial" 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 Committee and half yearly reports to the 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: Border to Coast Sustainability Resources

Border to Coast publish all reports related to Sustainability on their website at the link below. This includes the Corporate Governance and Voting Guidelines, Responsible Investment Policy and the annual Investment Reports.

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

# Responsible Investment Policy

## Investment Arrangements, Performance & Post Pool Reporting

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

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 the implementation of certain responsible investment (RI) and stewardship responsibilities.

### 1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its eleven 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, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. 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 longterm investor and representative of asset owners, we will 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.

## 1.1. Policy framework

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. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

### RI Policy Framework



## 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 (available on the [website](#)). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven 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, taking into account evolving best practice, 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 considers 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 Single use plastics Biodiversity	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 Political lobbying

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all

internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

### **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 necessary 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; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on 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 and maintain 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 takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is 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 are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

### **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 is therefore 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 is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

#### **5.4. Real estate**

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as

GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

#### **5.5. External manager selection**

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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. We will encourage managers to become signatories to the

UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

## 5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO<sub>2</sub>) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

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.

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

## 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 practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship

Code<sup>2</sup> and have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the Financial Reporting Council; we are also a signatory to the UN-supported Principles of Responsible Investment<sup>3</sup>.

## 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 may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

### 6.1.1. Use of proxy advisors

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 is 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

<sup>2</sup> The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve longterm risk-adjusted returns to shareholders. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship>

<sup>3</sup> The UN-supported 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's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors the services provided by Robeco monthly, with a six monthly and full annual review.

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 any, or a combination of the following, occur:

- 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 to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depository until one day after meeting date.

During this blocking period, shares cannot be sold; 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 refrain 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 eleven Partner Funds are members of the 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. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.
- 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<sup>4</sup> breaches or OECD Guidelines<sup>5</sup> for Multinational Enterprises 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.

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<sup>4</sup> 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.

<sup>5</sup> OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

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 or OECD Guidelines for Multinational Enterprises.

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 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<sup>6</sup> 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. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process.

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

### 6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

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<sup>6</sup> SMART objectives are: specific, measurable, achievable, relevant and time bound.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

### 6.2.2. 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 also report 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.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

## 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 & 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 Executive 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. 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 Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair 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 Chair 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 and inclusion 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, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one

person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

### 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 Chair or Senior Independent Non-executive Director except when it is appointing the Chair'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 issues such as 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. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality<sup>7</sup> voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

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<sup>7</sup> A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

## 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. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. 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. Considering 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. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

## 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 high executive pay does not systematically lead to better company performance. 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 selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

- **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. 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. Executives' 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.

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.



## 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 be aligned with those of the majority of the workforce, 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 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. Any proposals concerning 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. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

## 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 unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **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.

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

### **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.

### **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. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards 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.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

## Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)<sup>8</sup> toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools enable us to assess how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

## 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

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<sup>8</sup> The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

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 [employer.pensions@surreycc.gov.uk](mailto:employer.pensions@surreycc.gov.uk).

## 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 <a href="#">Appendix E</a> )			Ongoing, but may move to “gilts exit basis” – see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(See <a href="#">Appendix D – D.2</a> )					
Stabilised contribution rate	Yes – see <a href="#">Note (b)</a>	No	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	20 years	14 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – <a href="#">Note (d)</a>	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	

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Likelihood of achieving target – <a href="#">Note (e)</a>	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 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 – <a href="#">Note (f)</a>	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	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
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 <a href="#">Note (j)</a>			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 <a href="#">Note (i)</a>		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 <a href="#">Note (i)</a> 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 \(j\)](#)

### **Article I. 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.

### **Article II. 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.

### **Article III. 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.

### **Article IV. 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.

### **Article V. 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.

**Article VI. 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.

**Article VII. 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.

### **Article VIII. 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.

### **Article IX. 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.

### Article X. 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 Statutory 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.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> <p>Operation of three investment strategies to meet needs of a diverse employer group.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p>



Risk	Summary of Control Mechanisms
	<p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

○ **C3 Demographic risks**

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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

Risk	Summary of Control Mechanisms
	<p>are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

o **C4 Regulatory risks**

Risk	Summary of Control Mechanisms
<p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>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.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
<p>Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a>).</p>	<p>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.</p>
<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

○ **C5 Governance risks**

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

Risk	Summary of Control Mechanisms
	<p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>
An employer ceasing to exist resulting in an exit credit being payable	<p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

## 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

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
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%
	<b>Volatility (Disp) (1 yr)</b>	1%	7%	10%	17%	17%	14%	11%	1%		

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.

○ **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

<b>Funding basis</b>	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.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	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 <a href="#">2.3</a> ).
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor's.

<b>Letting employer</b>	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.
<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See <a href="#">Appendix D</a> for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . 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.

<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.
<b>Valuation</b>	A risk management exercise to review the <b>Primary and Secondary contribution rates</b> , 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.

### Article XI. 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.

### Article XII. 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.

### Article XIII. Participating employers

The service will mitigate the ill-health early retirement risk for all employers with active members in the Fund.

### Article XIV. 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 2022.

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.

### Article XV. 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.

### Article XVI. 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.

### Article XVII. 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;

### Article XVIII. Participating employers

All Town and Parish Councils in the Fund will be automatically included in the pool unless they formally opt out in writing.

### Article XIX. 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.

### Article XX. 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, Part 3, 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://lqpslibrary.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 requirement to publish a governance compliance statement was introduced by Regulation 73A of The Local Government Pension Scheme Regulations 1997 (as amended) on 30<sup>th</sup> June 2007, carried forward into the Local Government Pension Scheme (Administration) Regulations 2008 by Regulation 31 on 1<sup>st</sup> April 2008 and, since 1<sup>st</sup> April 2014, it rests in Regulation 55 of the Local Government Pension Scheme Regulations 2013. The legislation is complemented by statutory guidance issued by MHCLG in November 2008, which informs the structure of this statement.

Under regulation 55, all administering authorities in England and Wales must prepare a written statement setting out:

- Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- If the authority does so;
  - the terms, structure and operational procedures of the delegation,
  - the frequency of any committee or sub-committee meetings,
  - whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

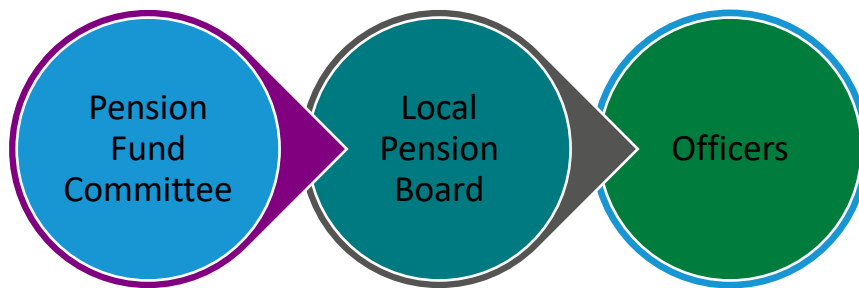
It is important to note that elements of the 2008 Statutory Guidance have been superseded by the Public Sector Pension Schemes Act 2013.

## PART II - THE PRINCIPLES

### **The Structure**

Surrey County Council is both an Administering Authority and an employing authority under the scheme regulations, and each function is entirely separate. The Pension Fund Committee is the scheme manager for the administering authority under regulation 5(7) of the Public Sector Pension Scheme Regulations 2013.

The Pension Fund Committee is assisted by Surrey Local Pension Board which is set up under regulation 7 of the Public Sector Pension Schemes Act 2013 and performs an advisory role.



## The statement

### A - Structure

<p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Surrey County Council is an administering authority for the Local Government Pension Scheme (LGPS) and has established a Pension Fund Committee (PFC – formerly known as Surrey Pension Fund Board) with responsibility for the governance and administration of the Pension Fund.</p> <p>The PFC undertakes statutory functions on behalf of the LGPS and ensures compliance with legislation and best practice. It determines policy for the investment, funding and administration of the pension fund and monitors administration performance and service delivery.</p> <p>The PFC appoints and monitors all relevant external service providers including:</p> <ul style="list-style-type: none"> <li>• fund managers,</li> <li>• custodians,</li> <li>• corporate advisors,</li> <li>• independent advisors,</li> <li>• actuaries,</li> <li>• governance advisors and</li> <li>• all other professional services associated with the pension fund.</li> </ul>
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<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p>	<p>The Pension Fund Committee consists of 10 members;</p> <p>6 County Councillors</p> <p>2 District/Borough Councillors</p> <p>1 Employer representative</p> <p>1 Employee representative (an active, deferred or pensioner member).</p>
<p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>The Local Pension Board (LPB) assists the Pension Fund Committee and it consists of 8 members;</p> <p>2 County Councillors,</p> <p>2 other employer representatives that come from nominations from other employers in the fund (e.g. District, Borough and Parish Councils, Academies, Police and other scheduled or admitted body employers in the Surrey Pension Fund),</p> <p>1 x GMB nominated representative,</p> <p>1 x Unison nominated representative and</p> <p>2 other member's representatives.</p> <p>There is an excellent working relationship and effective communication between the two bodies.</p>
<p>d) 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.</p>	<p>The Local Pension Board reports are available to all Committee members and the Chairman of the Local Board presents a summary of the meeting to the Pension Fund Committee.</p>
<p><b>B - Representation</b></p>	

<p>a) That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g., admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisors (on an ad-hoc basis).</li> </ul>	<p>All the non-political/non-trades union seats on both bodies are widely advertised by e-mail, newsletters and on the website and appointments flow from an open competition.</p> <p>All employers, whether they be schedule 2 part 1, part 2, part 3 or part 4 can nominate employer representatives for either body, but the appointment will be made solely on the basis of merit.</p> <p>Active, deferred and pensioner members can compete for the member seats on either board on an equal footing.</p> <p>The PFC appoints a range of contracted professional advisors (see A[a] above) supplemented by ad hoc specialist advisors as required.</p> <p>All the members of both bodies have equal access to papers and resources.</p>
<p><b>C - Selection and Role of Lay members</b></p>	



<p>a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Officers ensure that those on the Committee/Board have the appropriate skills and knowledge.</p> <p>The Fund has a comprehensive training plan ensuring that Committee/Board members are properly and effectively trained.</p> <p>The effectiveness of the Board is monitored, improvements are made where necessary and risk assessments are undertaken on a regular basis. There is a special requirement for board members to demonstrate knowledge and capacity.</p>
<p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda</p>	<p>Members of both bodies are invited to declare any financial, pecuniary or conflict of interest relating to any of the matters on the agenda at the beginning of each meeting.</p>
<p><b>D - Voting</b></p>	
<p>a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>All the members of the Pension Fund Committee and the Local Pension Board have equal voting rights on their respective bodies, except the independent Chair of the Local Pension Board.</p>
<p><b>E - Training, facility time and expenses</b></p>	

<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Surrey County Council has a Members' Allowances Scheme policy and elected members' reasonable expenses are paid and the Chairs of the PFC and the LPB receive special responsibility allowances weighted to the demands of their roles.</p>
<p>b) 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.</p>	<p>Although there is not a formal policy on lay members reasonable additional expenses, for example attending external training, they would be reimbursed.</p>
<p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</p>	<p>Surrey Pension Fund has a comprehensive training plan and it designs, monitors and finances the members' training.</p>
<p><b>F – Meetings, frequency and quorum</b></p>	
<p>a) That an administering authority's main committee or committees meet at least quarterly.</p>	<p>The Pension Fund Committee meets (at least) quarterly.</p>
<p>b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p>	<p>The Local Pension Board meets quarterly, and its meeting precedes the Pension Fund Committee's.</p>
<p>c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented</p>	<p>Surrey Pension Fund's governance arrangements are fully inclusive.</p>

<b>G - Access</b>	
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Every member of both bodies is provided with all the papers by encrypted e-mail, unless their e-mail account is on the host authority's server. Special arrangements are made for any members without an e-mail account or with specific disabilities.
<b>H - Scope</b>	
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<p>The PFC and the LPB oversee all aspects of management and administration. This includes monitoring and analysing pension administration performance, approving the Administering Authority's discretions, its Administration Strategy and a raft of other policies.</p> <p>Both the PFC and the LPB are closely engaged with Environment and Social Governance (ESG), Task Force on Climate-related Financial Disclosure (TCFD) and Sustainable Development Goals (SDG) issues.</p>
<b>I – Publicity</b>	
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	<p>All of Surrey Pension Fund's statutory and optional governance policies are published on our website and are replicated in part in this document.</p> <p>The Pension Fund sends regular newsletters, bulletins and updates to all of its stakeholders.</p>

# 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

Overall governance framework

Delegation of functions and allocation of responsibility for:

- a) Administration
- b) Funding
- c) Investment
- d) Communication
- e) Risk management

Terms of reference and decision making:

- Structure of committees and representation
- Voting rights

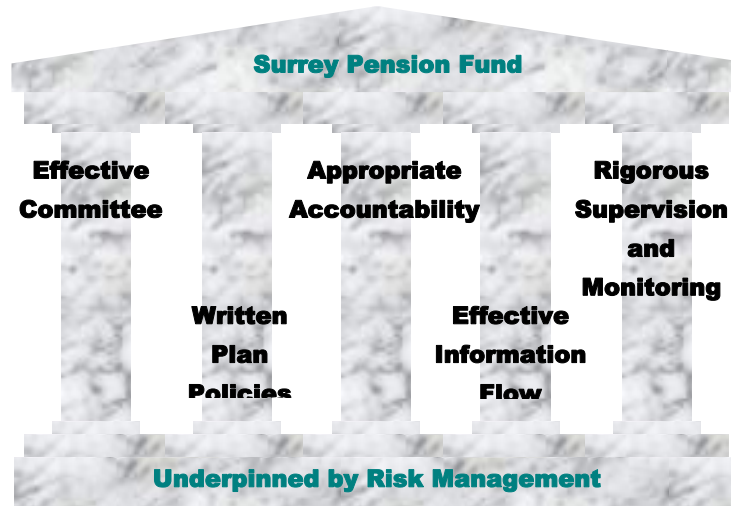
Operational procedures:

- Frequency of meetings
- Competencies, knowledge and understanding
- Reporting and monitoring

Review of this policy statement

## 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

### **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**

### **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/ Funding 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	Assistant Director – LGPS Senior Officer	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, subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer.
H5	Director of Corporate Finance	To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.

# Statement of Accounts



Surrey  
Pension  
Team

## Statement of Responsibilities

### 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 2022 and its income and expenditure for the year then ended.

**Leigh Whitehouse**  
Executive Director of Resources (s151 Officer)

## Accounts 2021/22

### Independent auditor's statement to the members of Surrey County Council on the pension fund financial statements of Surrey Pension Fund included within the Pension Fund Annual Report

#### Opinion

We have examined the pension fund financial statements of Surrey Pension Fund (the 'pension fund') for the year ended 31 March 2022 included within the Pension Fund Annual Report, which comprise the Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension fund financial statements are consistent, in all material respects, with the audited financial statements of Surrey County Council for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

#### Respective responsibilities of the Executive Director of Resource and Deputy Chief Executive and the auditor

As explained more fully in the Statement of the Executive Director of Resource and Deputy Chief Executive's Responsibilities, the Executive Director of Resource and Deputy Chief Executive is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Our responsibility is to state to the members of Surrey County Council our opinion on the consistency of the pension fund financial statements within the Pension Fund Annual Report with the financial statements of Surrey County Council.

We also read the other information contained in the Pension Fund Annual Report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information comprises the information included in the Pension Fund Annual Report, other than the pension fund financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of Surrey County Council describes the basis of our opinion on those financial statements.

### **Use of this auditor's statement**

This statement is made solely to the members of Surrey County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Surrey County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Surrey County Council and the members of Surrey County Council, as a body, for our work, for this statement, or for the opinions we have formed.

**Ciaran McLaughlin**, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

23 October 2023

# **SURREY PENSION FUND ACCOUNTS 2021/2022**



## Surrey Pension Fund - Fund account

2020/21 £000		Note	2021/22 £000
	<b>Contributions and benefits</b>		
206,681	Contributions receivable	7	193,640
12,727	Transfers in	8	33,289
<u>219,408</u>			<u>226,929</u>
(160,022)	Benefits payable	9	(170,855)
(14,465)	Payments to and on account of leavers	10	(16,148)
<u>(174,487)</u>			<u>(187,003)</u>
<u>44,921</u>	<b>Net additions from dealings with members</b>		<u>39,926</u>
(10,107)	Investment and governance expenses	14	(10,826)
(2,929)	Administration expenses		(3,883)
<u>(13,036)</u>			<u>(14,709)</u>
<u>31,885</u>	<b>Net additions including fund management expenses</b>		<u>25,217</u>
	<b>Return on investments</b>		
25,564	Investment income	16	24,531
(859)	Taxes on income		(1,169)
1,096,943	Change in market value of investments	17	295,914
<u>1,121,648</u>	<b>Net return on investments</b>		<u>319,276</u>
<u>1,153,533</u>	<b>Net increase in the fund during the year</b>		<u>344,493</u>
	<b>Closing Net Assets of the Scheme</b>		
3,859,486	At 1 April (Opening)		5,013,019
<u>5,013,019</u>	At 31 March (Closing)		<u>5,357,512</u>

## Surrey Pension Fund - Net asset statement

31 Mar 2021		Note	31 Mar 2022
£000			£000
	<b>Investment assets</b>	17	
792,693	Bonds		760,065
2,992,053	Equities		3,569,755
266,256	Property unit trusts		331,775
455,222	Diversified growth		-
375,944	Private equity		548,856
4,449	Derivatives - Foreign exchange contracts	17c	1,613
107,494	Cash		133,939
6,174	Other investment balances	17b	2,126
<b>5,000,285</b>	<b>Total investment assets</b>		<b>5,348,129</b>
	<b>Investment liabilities</b>		
(11,675)	Derivatives - Foreign exchange contracts	17c	(23,165)
(4,669)	Other investment balances	17b	-
<b>4,983,941</b>	<b>Net investment assets</b>		<b>5,324,964</b>
1,815	Long-term debtors	12	-
35,311	Current assets	11	42,633
(8,048)	Current liabilities	13	(10,085)
<b>5,013,019</b>	<b>Net assets of the scheme available to fund benefits at the reporting period end</b>		<b>5,357,512</b>

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. 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 2021 and 31 March 2022 are:

Surrey Pension Fund	31 Mar 2021	31 Mar 2022
<b>Total Number of Active Employers</b>	<b>302</b>	<b>327</b>
<b>Employees in the Scheme</b>		
Surrey County Council	18,720	19,326
Other Employers	20,646	22,119
<b>Total</b>	<b>39,366</b>	<b>41,445</b>
<b>Pensioners</b>		
Surrey County Council	14,100	14,880
Other Employers	14,263	14,730
<b>Total</b>	<b>28,363</b>	<b>29,610</b>
<b>Deferred Pensioners</b>		
Surrey County Council	27,037	26,379
Other Employers	17,025	16,948
<b>Total</b>	<b>44,062</b>	<b>43,327</b>
<b>Total Number of Members</b>	<b>111,791</b>	<b>114,382</b>

## 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 2022. 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.

	<b>Service pre 1 April 2008</b>	<b>Service 1 April 2008 until 31 March 2014</b>
Basis of pension	1/80 <sup>th</sup> of final salary	1/60 <sup>th</sup> of final salary
Lump sum	Automatic lump sum 3 x 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.

	<b>Service 1 April 2008 until 31 March 2014</b>	<b>LGPS 2014 scheme</b>
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 <sup>th</sup> of salary	1/49 <sup>th</sup> of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

<b>Pre 2014 employee contribution rates</b>	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

<b>LGPS 2014 employee contribution rates for 2021/22</b>	
Pensionable payroll banding	Contribution rate
Up to £14,600	5.5%
£14,601 to £22,900	5.8%
£22,901 to £37,200	6.5%
£37,201 to £47,100	6.8%
£47,101 to £65,900	8.5%
£65,901 to £93,400	9.9%
£93,401 to £110,000	10.5%
£110,001 to £165,000	11.4%
More than £165,000	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 2021/22 financial year and its position at the year end at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 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 2021/22.

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 2022 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 contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

**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) Loans and receivables**

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 policies****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 2022 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 2022 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 +0.1% increase in Pensions Increase Rate will increase liabilities by £142m. a +0.1% increase in Salary Increase Rate will increase liabilities by £11m. a -0.1% decrease in the Discount Rate will increase liabilities by £154m. a 1 year increase in life expectancy will increase the liabilities by £310m.
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 £549 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 funds 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 £282.7 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 £153.5 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 reporting 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:

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
<b>44,331</b>	<b>Total Employees' Contributions</b>	<b>44,228</b>
	<b>Employers' Contributions:</b>	
108,306	Normal Contributions	113,675
3,107	Augmentation Contributions	2,517
50,937	Employers deficit	33,220
<b>162,350</b>	<b>Total Employers' Contributions</b>	<b>149,412</b>
<b>206,681</b>		<b>193,640</b>

By employer:

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
82,694	Administering authority	87,048
115,705	Scheduled bodies	102,187
8,282	Admitted bodies	4,405
<b>206,681</b>		<b>193,640</b>

The latest actuarial valuation carried out as at 31 March 2022, set contribution rates for fund employers with effect from April 2023. The financial year 2021/2022 was the second year of the employer contribution rates set at the prior valuation.

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

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
<b>12,727</b>	Individual transfers in from other schemes	<b>33,289</b>
<b>12,727</b>		<b>33,289</b>

**Note 9: Benefits payable**

By category:

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
139,089	Pensions	143,247
16,569	Commutation and lump sum retirement benefits	22,114
4,267	Lump sum death benefits	5,317
97	Interest on late payment of benefits	177
<b>160,022</b>		<b>170,855</b>

By employer:

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
74,979	Administering Authority	78,970
72,285	Scheduled Bodies	82,514
12,758	Admitted Bodies	9,371
<b>160,022</b>		<b>170,855</b>

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

<b>2011/22</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
13,983	Group transfers to other schemes	15,404
493	Refunds of contributions	755
(11)	Payments for members joining state schemes	(11)
<b>14,465</b>		<b>16,148</b>

**Note 11: Current assets**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
2,600	Contributions – employees	3,236
6,898	Contributions – employer	8,896
25,813	Sundry debtors	30,501
<b>35,311</b>		<b>42,633</b>

## Analysis of current assets

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
2,436	Central government bodies	4,438
27,519	Other local authorities	32,622
5,356	Other entities and individuals	5,573
<b>35,311</b>		<b>42,633</b>

**Note 12: Long term debtors**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
1,815	Central government bodies	-
<b>1,815</b>		<b>-</b>

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

On 11 March 2013 the total value of the shortfall was agreed as £18.15m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount 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 2022 is £nil.



**Note 13: Current liabilities**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
7,700	Sundry creditors	9,717
348	Benefits payable	368
<b>8,048</b>		<b>10,085</b>

## Analysis of current liabilities

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
610	Central government bodies	259
2,920	Other local authorities	4,895
4,518	Other entities and individuals	4,931
<b>8,048</b>		<b>10,085</b>

**Note 14: Investment and governance expenses**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
7,506	Investment management fees	9,145
112	Investment custody fees	122
2,489	Oversight and governance costs	1,559
<b>10,107</b>		<b>10,826</b>

The investment management fees includes £179k in respect of transaction costs (2020/21: £611k).

As part of its oversight and governance costs in 2021/22, the fund had also spent £649k 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**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
51	Payable in respect of external audit	41
16	Payables in respect of IAS 19 Assurance Letters	20
<b>67</b>		<b>61</b>

£9k of the costs in 2020/21 relate to 2019/20.

**Note 16: Investment income**

<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
2,619	Bonds – Overseas	2,079
3,565	Equities – UK	3
7,657	Equities – Overseas	7,962
7,214	Property unit trusts	8,309
1,044	Diversified growth	2,289
3,110	Private equity	3,003
298	Interest on cash deposits	9
57	Other	877
<b>25,564</b>		<b>24,531</b>

**Note 17a: Reconciliation of movements in investments and derivatives 2021/22**

	<b>Market value at 31 Mar 2021</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Market movements</b>	<b>Market value at 31 Mar 2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bonds	<b>792,693</b>	615,616	(614,138)	(34,106)	<b>760,065</b>
Equities	<b>2,992,053</b>	2,792,039	(2,421,570)	207,233	<b>3,569,755</b>
Property unit trusts	<b>266,256</b>	26,210	(9,566)	48,875	<b>331,775</b>
Diversified growth	<b>455,222</b>	2,699	(471,441)	13,520	-
Private equity	<b>375,944</b>	215,962	(69,224)	26,174	<b>548,856</b>
FX contracts	<b>(7,226)</b>	53,359	(41,508)	(26,177)	<b>(21,552)</b>
	<b>4,874,942</b>	<b>3,705,885</b>	<b>(3,627,447)</b>	<b>235,519</b>	<b>5,188,899</b>
Cash	<b>107,494</b>			<b>60,395</b>	<b>133,939</b>
Other investment balances	<b>1,505</b>				<b>2,126</b>
	<b>4,983,941</b>			<b>295,914</b>	<b>5,324,964</b>

**Note 17a: Reconciliation of movements in investments and derivatives 2020/21**

	Market value at 31 Mar 2020 £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 2021 £000
Bonds	661,248	72,619	0	58,826	792,693
Equities	2,090,124	754,999	(697,620)	844,550	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
FX contracts	(38,431)	64,483	(102,041)	68,763	(7,226)
	<b>3,693,482</b>	<b>991,534</b>	<b>(861,293)</b>	<b>1,051,219</b>	<b>4,874,942</b>
Cash	130,996			43,021	107,494
Other investment balances	1,476				1,505
Other Fund Movements				2,703	
	<b>3,825,954</b>			<b>1,096,943</b>	<b>4,983,941</b>

**Note 17b: Analysis of investments**

	<b>31 Mar 2021</b>	<b>31 Mar 2022</b>	
	<b>£000s</b>	<b>£000s</b>	
<b>Fixed interest securities</b>			
UK public sector & quoted	193,930	177,144	Level 2
Overseas pooled fund	598,763	582,921	Level 2
	<b>792,693</b>	<b>760,065</b>	
<b>Equities</b>			
UK quoted	50,947	52,747	Level 1
UK pooled funds	523,858	541,209	Level 2
Overseas quoted	388,634	422,985	Level 1
Overseas pooled funds	2,028,614	2,552,814	Level 2
	<b>2,992,053</b>	<b>3,569,755</b>	
<b>Property unit trusts</b>			
UK property funds	178,529	218,335	Levels 2 & 3
Overseas property funds	87,727	113,440	Levels 2 & 3
	<b>266,256</b>	<b>331,775</b>	
<b>Diversified growth</b>			
Overseas diversified growth funds	455,222	-	Level 1
	<b>455,222</b>	-	
<b>Private equity</b>			
UK limited partnerships	123,835	194,697	Level 3
Overseas limited partnerships	83,316	71,431	Level 3
Overseas fund of funds	168,793	282,728	Level 3
	<b>375,944</b>	<b>548,856</b>	
<b>Derivatives</b>			
FX forward contracts	(7,226)	(21,552)	Level 2
	<b>(7,226)</b>	<b>(21,552)</b>	
<b>Cash deposits</b>	<b>107,494</b>	<b>133,939</b>	Level 1
<b>Other investment balances</b>			
Outstanding sales	4,302	-	
Outstanding purchases	(4,669)	-	
Tax due on accrued income	1,090	1,230	
Accrued income - dividends and interest	782	896	
	<b>1,505</b>	<b>2,126</b>	
<b>Total investments</b>	<b>4,983,941</b>	<b>5,324,964</b>	

**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 2022 the Fund had forward currency contracts in place with a net unrealised loss of (£21.6m) (net unrealised loss of (£7.2m) at 31 March 2021).

<b>2021/22</b>							
<b>No of contracts</b>	<b>Contract settlement date within</b>	<b>Currency</b>		<b>Notional amount (local currency)</b>		<b>Asset £'000</b>	<b>Liability £'000</b>
		<b>Bought</b>	<b>Sold</b>	<b>Bought (000)</b>	<b>Sold (000)</b>		
2	Three Months	GBP	EUR	176,351	(210,475)	0	(1,925)
2	Three Months	GBP	JPY	73,141	(11,412,300)	1,613	0
6	Three Months	GBP	USD	651,956	(886,118)	0	(21,240)
						<b>1,613</b>	<b>(23,165)</b>

<b>2020/21</b>							
<b>No of contracts</b>	<b>Contract settlement date within</b>	<b>Currency</b>		<b>Notional amount (local currency)</b>		<b>Asset £'000</b>	<b>Liability £'000</b>
		<b>Bought</b>	<b>Sold</b>	<b>Bought (000)</b>	<b>Sold (000)</b>		
4	Three Months	GBP	EUR	159,996	(185,028)	2,209	0
5	Three Months	GBP	JPY	80,126	(11,869,700)	2,240	0
6	Three Months	GBP	USD	589,701	(829,869)	0	(11,675)
						<b>4,449</b>	<b>(11,675)</b>

**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 2022 the value of quoted securities on loan was £5.6 million (£22.8million as at 31 March 2021) in exchange for collateral held by the fund custodian at fair value of £6.1 million (£24.2million as at 31 March 2021).

**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, BCPP Global Equity Alpha Fund in September 2019, BCPP Multi Asset Credit (MAC) in October 2021, BCPP PE Listed Alternatives in February 2022 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 2021		Manager	Market value 31 March 2022	
£000	%		£000	%
523,858	10.5	Border to Coast UK Equity Alpha	541,209	10.1
662,732	13.3	Border to Coast Global Equity Alpha	712,861	13.3
-	-	Border to Coast Global MAC	582,921	10.9
-	-	Border to Coast Global Listed Alt	402,260	7.5
<b>1,186,590</b>			<b>2,239,251</b>	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
1,606,657	32.3	LGIM (Legal & General Investment Management)	1,700,507	31.7
446,941	9.0	Newton Investment Management	492,757	9.2
533,867	10.7	Western Multi Asset Credit	-	-
64,896	1.3	Franklin Templeton Investments	-	-
173,222	3.5	Baillie Gifford Life Limited	-	-
283,258	5.7	CBRE Global Multi-Manager	337,969	6.3
152,142	3.1	Ruffer	-	-
129,858	2.6	Aviva	-	-
<b>3,390,841</b>			<b>2,531,233</b>	
<b>4,577,431</b>			<b>4,770,484</b>	

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

The table below shows investments that represent more than 5% of the net assets of the scheme.

Market value 31 March 2021		Security	Market value 31 March 2022	
£000	%		£000	%
263,058	5.3	LGIM - TLCV Bespoke (34048)	262,815	4.9
523,858	10.6	Border to Coast UK Equity Alpha	541,209	10.1
662,732	13.5	Border to Coast Global Equity Alpha	712,861	13.3
0	0	Border to Coast Multi Asset Credit	582,921	10.9
0	0	Border to Coast Multi Listed Alternatives	402,260	7.5
533,867	10.8	Western Multi-Asset Credit EUR AC	0	0
483,984	9.8	LGIM – MSCI World Low Carbon	0	0
438,570	8.9	LGIM – Rafi Multi Factor	0	0
310,292	6.3	LGIM World Emerging Markets Fund	299,134	5.6
0	0	LGIM Future World Global Equity Index	1,024,039	19.1
<b>3,216,361</b>			<b>3,825,239</b>	



**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.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
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

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Hedge funds	Level 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
Unquoted Equities	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (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 2022. 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 2022	Value on Increase	Value on Decrease
	%	£000	£000	£000
Private Equity	10%	548,856	603,742	493,970
Property funds	10%	153,524	168,876	138,172
<b>Total</b>		<b>702,380</b>	<b>772,618</b>	<b>632,142</b>

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 is caused by how this profitability is measured since different methods (listed in the first table of Note 18 above) produce different price results.

#### Note 18b: Reconciliation of Fair Value Measurements within Level 3

	Market value at 31 Mar 2021	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 2022
	£000	£000	£000	£000	£000	£000
Property unit trusts	118,168	0	34,357	(6,512)	7,511	153,524
Private equity	375,944	0	215,962	(69,224)	26,174	548,856
	<b>494,112</b>	<b>0</b>	<b>250,319</b>	<b>(75,736)</b>	<b>33,685</b>	<b>702,380</b>

**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 2021			As at 31 March 2022		
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
<b>Financial assets</b>					
792,693			Bonds	760,065	
2,992,053			Equities	3,569,755	
266,256			Property unit trusts	331,775	
455,222			Diversified growth	-	
375,944			Private equity	548,856	
4,449			Derivatives	1,613	
	107,494		Cash		133,939
6,174			Other investments	2,126	
	37,126		Debtors		42,633
<b>4,892,791</b>	<b>144,620</b>		<b>Total financial assets</b>	<b>5,214,190</b>	<b>176,572</b>
<b>Financial liabilities</b>					
(11,675)			Derivatives	(23,165)	
(4,669)			Other investment balances		
		(8,048)	Creditors		(10,085)
			Borrowings		
<b>(16,344)</b>		<b>(8,048)</b>	<b>Total financial liabilities</b>	<b>(23,165)</b>	<b>(10,085)</b>
<b>4,876,447</b>	<b>144,620</b>	<b>(8,048)</b>		<b>5,191,025</b>	<b>176,572</b>
					<b>(10,085)</b>

**Note 18d: Net gains and losses on financial instruments**

31 March 2021		31 March 2022	
£000		£000	
<b>Restated</b>	<b>Financial Assets</b>		
985,159	Designated at Fair Value through profit and loss	261,696	
43,029	Loans and Receivables	60,400	
	<b>Financial Liabilities</b>		
68,763	Fair Value through profit and loss	(26,177)	
(8)	Loans and Receivables	(5)	
<b>1,096,943</b>	<b>Total</b>	<b>295,914</b>	

Note that the comparatives for the year to March 2021, have been restated to correct figures disclosed in the accounts last year. The equivalent note in the 2020/21 audited accounts contained incorrect analysis of some items. The note now agrees to the amount shown on the face of the Fund account statement.

**Note 18e: Fair Value Hierarchy**

31 March 2022	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With	Total
			significant unobservable inputs Level 3 £000	
Financial assets at Fair Value	526,105	4,119,644	702,380	5,348,129
Financial Liabilities at Fair Value	0	(23,165)	0	(23,165)
<b>Net financial assets</b>	<b>526,105</b>	<b>4,096,479</b>	<b>702,380</b>	<b>5,324,964</b>

Pooled investments transferred from level 1 to level 2 for March 2022 as a result of reconsidering the classification of the holdings concerned. All investments are regularly reviewed to ensure the classification remains appropriate, taking into account relevant and current information.

31 March 2021 (Restated)	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	2,736,668	1,763,524	500,093	5,000,285
Financial Liabilities at Fair Value	0	(16,344)	0	(16,344)
<b>Net financial assets</b>	<b>2,736,668</b>	<b>1,747,180</b>	<b>500,093</b>	<b>4,983,941</b>

Note that the comparatives for the year to March 2021, have been restated to correct figures disclosed in the 2020/21 audited accounts. The equivalent note in the 2020/21 accounts did not include the full value of some items in each category. The note now agrees to the total investment value shown on the face of the Net asset statement.

#### **Note 18f: Book cost**

The book cost of all investments at 31 March 2022 is £3,874million (£3,429million at 31 March 2021).

#### **Note 19: Outstanding commitments**

At 31 March 2022 the Fund held part paid investments on which the liability for future calls amounted to £553million (£296million as at 31 March 2021).

**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 2022 £000	Change %	Value on increase £000	Value on decrease £000
UK equities	593,956	17.9	700,452	487,460
Overseas equities	2,975,799	13.9	3,390,030	2,561,568
Bonds	582,921	8.0	629,730	536,112
Index-linked	177,144	9.1	193,264	161,024
Cash	133,939	2.4	137,167	130,711
Property	331,775	4.9	347,866	315,684
Private Equities	548,856	6.1	582,336	515,376
Other assets	(19,426)	2.4	(19,894)	(18,958)
<b>Total Investment Assets</b>	<b>5,324,964</b>	<b>10.7</b>	<b>5,894,203</b>	<b>4,755,725</b>

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 2021/22 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 period.

Asset type	Value at 31 March 2021 Restated £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	375,944	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)
<b>Total Investment Assets</b>	<b>4,983,941</b>	<b>10.4</b>	<b>5,500,614</b>	<b>4,466,928</b>

Note that the comparatives for the year to March 2021, have been restated to correct figures disclosed in the 2020/21 audited accounts. The equivalent note in the 2020/21 accounts contained incorrect analysis of some items. The note now agrees to the total investment value shown on the face of the Net asset statement.



Note: 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 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

<b>As at 31 March 2021</b>		<b>As at 31 March 2022</b>
<b>£000</b>		<b>£000</b>
107,494	Cash & cash equivalents	133,939
598,763	Fixed interest securities	582,921
<b>706,257</b>	<b>Total</b>	<b>716,860</b>

### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

<b>Asset type</b>	<b>Carrying amount as at 31 March</b>	<b>Change in net assets</b>	
	<b>2022</b>	<b>+100 bps</b>	<b>- 100 bps</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash & cash equivalents	133,939	1,339	(1,339)
Fixed interest securities	582,921	5,829	(5,829)
<b>Total</b>	<b>716,860</b>	<b>7,168</b>	<b>(7,168)</b>

Asset type	Carrying amount as at 31 March		Change in net assets	
	2021			
	£000	+100 bps	- 100 bps	£000
Cash & cash equivalents	107,494	1,075	(1,075)	
Fixed interest securities	598,763	5,988	(5,988)	
<b>Total</b>	<b>706,257</b>	<b>7,063</b>	<b>(7,063)</b>	

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

### Currency risk – sensitivity analysis

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 2021/22 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant. The tables show assets with potential non-UK exposures.

Asset type	Value at 31 March		Value on increase £000	Value on decrease £000
	2022 £000	% Change		
Equities	2,975,799	7.34	3,194,350	2,757,248
Fixed interest	582,921	7.34	625,732	540,110
Property & Private Equity	467,599	7.34	501,941	433,257
Cash and Other Assets	4,189	7.34	4,497	3,881
<b>Total</b>	<b>4,030,508</b>	<b>7.34</b>	<b>4,326,520</b>	<b>3,734,496</b>

Asset type	Value at 31 March		Value on increase £000	Value on decrease £000
	2021 Restated £000	% Change		
Equities	2,417,248	7.70	2,603,429	2,231,067
Fixed interest	598,763	7.70	644,881	552,645
Property & Private Equity	339,835	7.70	366,010	313,660
Diversified Growth	282,000	7.70	303,720	260,280
Cash and Other Assets	5,619	7.70	6,052	5,186
<b>Total</b>	<b>3,643,465</b>	<b>7.70</b>	<b>3,924,092</b>	<b>3,362,838</b>

Note that the comparatives for the year to March 2021, have been restated to correct figures disclosed in the 2020/21 audited accounts. The note has been restated to include only those items with a non-UK currency exposure.

#### 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 2022.

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 5 accounts with money market funds, managed by Morgan Stanley, Aberdeen, Black Rock, Deutsche and Aviva (all with AAA credit rating). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

<b>Balance at 31 March 2021 £000</b>		<b>Balance at 31 March 2021 £000</b>
	<b>Money market fund</b>	
100	Aberdeen MMF	100
13,500	Aviva	100
100	Blackrock	14,700
11,100	Deutsche	100
0	Morgan Stanley	100
	<b>Current account</b>	
171	HSBC	42
<b>24,971</b>	<b>Internally Managed Cash</b>	<b>15,142</b>
82,523	Externally Managed Cash	118,797
<b>107,494</b>	<b>Total Cash</b>	<b>133,939</b>

The fund's cash holding under its treasury management arrangements as at 31 March 2022 was £15.1million (£24.9million at 31 March 2021).

### 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 2021/2

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 2021/22 amounted to £74,190k (£70,887k in 2020/21).

<b>2020/2021</b>		<b>2021/2022</b>
<b>£000</b>		<b>£000</b>
52,263	Employers' current service contributions	55,162
17,926	Lump sum payments to recover the deficit in respect of past service	18,318
698	Payments into the fund to recover the additional cost of early retirement liabilities	710
<b>70,887</b>		<b>74,190</b>

ii) Surrey Pension Fund paid Surrey County Council £4,725k for services provided in 2021/22 (£3,373k in 2020/21).

<b>2020/2021</b>		<b>2021/2022</b>
<b>£000</b>		<b>£000</b>
444	Treasury management, accounting & managerial services	545
2,680	Pension administration services	3,883
249	Pension Admin Transformation	297
<b>3,373</b>		<b>4,725</b>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2022 were £1,456k (£2,620k at 31 March 2021).

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.

2020/21	Position	2021/22	
£		£	
10,676	Exec Director of Corporate Resources	11,029	1
16,652	Director of Corporate Finance	16,684	2
102,924	Assistant Director – LGPS Senior Officer	116,705	3
<b>130,252</b>		<b>144,418</b>	

1. 5% of time allocated to pension fund
2. 10% of time allocated to pension fund
3. 100% of time allocated to pension fund

The Members of the Pension Fund Committee as at 31 March 2022 are shown below;

Elected Members:

Nick Harrison (Chairman), Trefor Hogg (Vice-Chairman), David Harmer, George Potter, Richard Tear and Mark Sugden.

Co-opted Members:

Mark Madox, Steve Williams, Philip Walker and Kelvin Menon.

**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:

<b>Private Market Manager</b>	<b>Custody Provider</b>
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 2021/22 - 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), dated April 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term);
- where appropriate, ensure stable employer contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy;
- use reasonable measures to reduce the risk of 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,358 million, were sufficient to meet 102% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £101 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

**Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.



**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 2022 valuation were as follows:

<b>Financial assumptions</b>	<b>31 March 2022</b>
Discount rate	4.4%
Salary increase assumption	3.7%
Benefit increase assumption (CPI)	2.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.3 years	24.9 years
Future Pensioners*	23.1 years	26.3 years

- \*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Steven Scott FFA

For and on behalf of Hymans Robertson LLP

22 May 2023

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

CIPFA's Code of Practice on Local Authority Accounting 2021/22 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**

<b>Year ended</b>	<b>31/03/2022</b>	<b>31/03/2021</b>
Active members (£m)	2,797	3,466
Deferred members (£m)	2,240	2,169
Pensioners (£m)	2,725	2,381
	<b>7,762</b>	<b>8,016</b>

As requested, the promised retirement benefits at 31 March 2022 are based on the results of the 31 March 2022 funding valuation using the Fund's membership as at 31 March 2022.

The above 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 2022 and 31 March 2021. I estimate that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £644m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £130m.

**Financial assumptions**

Year ended (% p.a.)	31 March 2022	31 March 2021
Pension Increase Rate	3.20%	2.85%
Salary Increase Rate	4.20%	3.75%
Discount Rate	2.70%	2.00%

**Demographic assumptions**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% 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	24.9 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.1 Years	26.3 Years

Please note that the longevity and other demographic assumptions are in line with 31 March 2022 funding valuation. The assumptions have changed since the previous IAS26 disclosure for the Fund as at 31 March 2021.

**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:

Change in assumption at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	146
1 year increase in member life expectancy	4%	310
0.1% p.a. increase in the Salary Increase Rate	0%	13
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	132

**Professional notes**

This paper accompanies the 'Accounting Covering Report – 31 March 2022' which 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.

Steven Scott AFA (For and on behalf of Hymans Robertson LLP) 19 April 2023

**Note 26: Additional Voluntary Contributions**

<b>Market Value</b>	<b>Position</b>	<b>Market Value</b>
<b>2020/21</b>		<b>2021/22</b>
<b>£000</b>		<b>£000</b>
14,310	Prudential	16,053
<u>14,310</u>		<u>16,053</u>

The market values above are estimates provided by the Prudential.

Additional Voluntary Contributions, net of returned payments, of £1.9 million were paid directly to Prudential during 2021/22 (£1.1 million during 2020/21).

**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 2021/2022 provides further details on the management, investment performance and governance of the Fund.

# Scheme Data



Surrey  
Pension  
Team

## Scheme Advisory Board Statistics

### Financial Performance and Forecast:

£m	2021/22 Budget	2021/22 Actual	2021/22 Variance	2022/23 Budget
<b>Income</b>				
Employer contributions	166	150	(16)	168
Member contributions	45	44	(1)	45
Total contributions	211	194	(17)	213
Transfers in	12	33	21	35
Investment income	26	25	(1)	26
<b>Total income</b>	<b>249</b>	<b>252</b>	<b>3</b>	<b>274</b>
<b>Expenditure</b>				
Pensions	(147)	(143)	4	(167)
Commutation/lump sum retirement	(20)	(22)	(2)	(20)
Other	(5)	(6)	(1)-	(6)
Total benefits	(172)	(171)	1	(193)
Transfers out	(17)	(16)	1	(17)
Administrative expenses	(3)	(4)	(1)	(3)
Oversight/governance costs	(1)	(1)	-	(3)
Investment expenses	(6)	(9)	(3)	(11)
Taxes on income	-	(1)	(1)	(1)
<b>Total expenditure</b>	<b>(199)</b>	<b>(202)</b>	<b>(3)</b>	<b>(228)</b>
<b>Net income</b>	<b>50</b>	<b>50</b>	<b>-</b>	<b>46</b>
Change in Market Value	99	295	196	109
Net increase in Fund Value	149	345	196	155
Fund Value	5,162	5,358	196	5,512

## 2022-23 Operational Budget

£000	2022/23 Budget
<b>Administration</b>	
Staffing	1,651
Non staffing	418
Overheads	744
<b>Total administration</b>	<b>2,813</b>
<b>Oversight and governance</b>	
Fund Officers and Management	1,348
Advisors	884
Audit	60
Memberships and Benchmarking	161
Pooling Costs (including Governance)	500
Training	100
<b>Total oversight and governance</b>	<b>3,053</b>
<b>Investment and custody</b>	
Fund Officers	80
Custody fees	120
Investment Management Fees	11,144
<b>Total investment and custody</b>	<b>11,344</b>
Total operational budget	<b>17,210</b>

## Three Year Forecast

£m	2022/23	2023/24	2024/25
<b>Income</b>			
Total contributions	213	215	216
Transfers in	35	37	39
Investment income	26	26	27
<b>Total income</b>	<b>274</b>	<b>278</b>	<b>282</b>
<b>Expenditure</b>			
Total benefits	(193)	(208)	(223)
Transfers out	(17)	(17)	(18)
Management expenses	(18)	(20)	(29)
<b>Total expenditure</b>	<b>(228)</b>	<b>(245)</b>	<b>(270)</b>
<b>Net income</b>	<b>46</b>	<b>33</b>	<b>12</b>



## Contributions by Employers

A table of the active employers with employee and employer contributions made during the year is shown below.

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
A2 Dominion	Admitted Body	9	29
Ability Housing Association	Admitted Body	4	23
ABM Catering - (Saxon Primary School)	Admitted Body	1	3
ABM Catering - (Northmead Junior School)	Admitted Body	18	9
ABM Catering - (Raleigh School)	Admitted Body	0	1
ABM Catering - LLT Riverbridge	Admitted Body	0	2
ABM Catering (LLT - Echelford School)	Admitted Body	1	4
ABM Catering (St Peters Catholic School)	Admitted Body	2	10
Academy of Contemporary Music	Admitted Body	2	7
Achieve Lifestyle	Admitted Body	12	50
Activate learning Guildford College	Scheduled Body	300	1018
Amey LTD (Mole Valley)	Admitted Body	2	4
Ash Grange	Academy	22	101
Ash Parish Council	Designating Body	9	31

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Ashley CofE Primary	Academy	43	123
Athena-GEP Trust / Learning Partner Academy Trust	Academy	24	64
Auriol Junior School	Academy	25	91
Banstead Infant School	Academy	15	55
Barnsbury Primary School (Academy)	Academy	31	114
Beaufort Primary School (Academy)	Academy	37	132
Bishop David Brown School	Academy	37	140
Bisley Parish Council	Designating Body	1	3
Blenheim High School	Academy	62	224
Bletchingley Village Primary School	Academy	24	91
Boxgrove Primary Academy	Academy	44	182
Bramley Oak School	Academy	32	130
Bramley Parish Council	Designating Body	2	5
Broadmere Primary Academy	Academy	28	97
Broadwater School Academy	Academy	46	178
Brooklands College	Scheduled Body	146	600
Brookwood Park Ltd	Admitted Body	5	13

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Brookwood Primary School	Academy	13	48
Burstow Parish Council	Designating Body	1	2
Byfleet Primary School	Academy	15	51
Cardinal Newman Catholic Primary School	Academy	24	87
Carrington School	Academy	51	186
Carwarden House Community School	Academy	38	130
Catalyst (Southern Addictions Advisory Service (SADAS))	Admitted Body	18	72
Chertsey High School	Academy	27	95
Chiddingfold Parish Council	Designating Body	2	5
Childhood First (Pepper Harrow Foundation)	Admitted Body	9	29
Christ's College	Academy	31	113
Churt Parish Council	Designating Body	1	3
Clarion Housing Group	Admitted Body	7	43
CLEVES ACADEMY TRUST	Academy	36	123
Cobham Free School	Academy	45	141
Collingwood College	Academy	103	317
Compass Contract Services	Admitted Body	3	9

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Compass: GLF	Admitted Body	1	2
Compass: Xavier Catholic Education Trust (Chartwell Services - Salesians)	Admitted Body	2	8
Connaught Junior School	Academy	21	82
Cordwalles Junior School	Academy	12	44
Cranleigh Parish Council	Designating Body	7	18
Crawley Ridge Infant School	Academy	10	41
Crawley Ridge Junior School	Academy	16	60
Cross Farm Infant School	Academy	9	36
Crowhurst Parish Council	Designating Body	0	0
Cuddington Community Primary School	Academy	16	60
Cuddington Croft School	Academy	25	90
Danetree Primary School	Academy	45	161
Darley Dene Primary School	Academy	30	107
De Stafford School	Academy	38	130
Dormansland Parish Council	Designating Body	0	2
Dovers Green School	Academy	32	112
Dunsfold Parish Council	Designating Body	0	2

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
East Horsley Parish Council	Designating Body	2	6
East Surrey College	Scheduled Body	211	788
East Surrey Rural Transport	Admitted Body	3	11
Eastwick Junior and Eastwick Infant School	Academy	38	147
Edwards & Ward (Ash Grange Primary School)	Admitted Body	0	1
Edwards & Ward (St Joseph's Catholic School)	Admitted Body	2	7
Effingham Parish Council	Designating Body	2	5
Elmbridge Building Control	Admitted Body	11	17
Elmbridge Council	Scheduled Body	797	1898
ENGAGE ENRICH EXCEL ACADEMY	Academy	9	20
Epsom & Ewell Council	Scheduled Body	531	1381
Epsom and Ewell High School	Academy	81	239
Esher Church School	Academy	18	67
Esher CofE High School	Academy	90	311
Esher College	Academy	95	269
Farnham Heath End School	Academy	39	134
Farnham Town Council	Designating Body	24	49

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Folly Hill Infant School	Academy	1	2
Fordway Centre	Academy	5	20
Fox Grove School	Academy	8	29
Freedom Leisure - Guildford (Wealden Leisure)	Admitted Body	27	69
Freedom Leisure - Woking (Wealden Leisure)	Admitted Body	18	48
Frensham Parish Council	Designating Body	1	3
Frimley Junior School	Academy	20	89
Fullbrook School	Academy	72	262
Fusion Lifestyle	Admitted Body	1	2
George Abbot School	Academy	85	323
GLF Central	Academy	218	599
Glyn School	Academy	62	207
Godalming College	Academy	86	251
Godalming Town Council	Designating Body	22	60
Goldsworth Academy Trust	Academy	22	64
Goldsworth Primary School	Academy	42	134
Good Shepherd Trust - central staff	Academy	44	101

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Gordons School Academy Trust	Academy	39	148
Greensand MAT	Academy	9	22
Guildford Borough Council	Scheduled Body	1449	3565
Guildford County School	Academy	62	193
Guildford Grove Primary School	Academy	43	172
Hale Primary School	Academy	21	80
Hammond School	Academy	14	51
Hamsey Green Primary School	Academy	22	79
Hanover Housing Association	Admitted Body	59	229
Haslemere Town Council	Designating Body	7	19
Hatchlands Primary School	Academy	7	25
Hawkedale School	Academy	10	44
Heathside School	Academy	76	255
Highfield South Farnham Primary (Pilgrim's Way)	Academy	8	26
Hillcroft Primary School	Academy	30	107
Hinchley Wood Primary School	Academy	35	133
Hinchley Wood School (Secondary School)	Academy	88	317

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Hoe Valley School	Academy	54	152
Holly Lodge Primary School	Academy	19	74
Holmesdale Infant School	Academy	24	84
Holy Family Catholic Primary School	Academy	12	45
Holy Trinity Primary School	Academy	24	91
Horley Town Council	Designating Body	8	22
Howard of Effingham School	Academy	45	163
IESE Ltd	Admitted Body	60	186
Independent Catering (The Priory School)	Admitted Body	1	6
Innovate Serv Ltd (Ash Manor )	Admitted Body	2	4
Innovate Serv Ltd (Weydon MAT) - Farnham Heath	Admitted Body	1	4
ISS (The Howard Partnership Trust - Howard of Effingham)	Admitted Body	5	22
Jubilee High Academy	Academy	41	140
Kenyngton Manor Primary Schl (Academy)	Academy	25	92
Kier (May Gurney)	Admitted Body	6	21
Kingfield Primary	Academy	20	74



<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Kings College Gldfrd	Academy	31	122
Kite Academy Trust - central staff	Academy	44	143
Knaphill School	Academy	12	41
Lakeside Primary School	Academy	23	88
Leatherhead Trinity School and Children's Centre	Academy	28	119
Lightwater Village School	Academy	13	47
Lime Tree Primary School Academy	Academy	30	104
Linden Bridge School	Academy	56	202
Lingfield Parish Council	Designating Body	1	3
Loseley Fields Primary School	Academy	27	108
Lumen Learning Trust Central Staff	Academy	17	51
Magna Carta School	Academy	46	173
Marden Lodge Primary School and Nursery	Academy	16	58
Matthew Arnold School	Academy	35	116
Maybury Primary School	Academy	20	68
Meadhurst Primary school	Academy	27	101
Meadow Primary School	Academy	31	115

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Merstham Park School	Academy	21	71
Merstham Primary School	Academy	11	41
Merton & Sutton Joint Cemetery Board	Admitted Body	0	1
Mole Valley Council	Scheduled Body	608	1481
Moor House School	Academy	29	149
Mytchett Primary School	Academy	12	49
NESCOT	Scheduled Body	231	782
New Haw Community Junior School	Academy	21	69
New Monument Primary Academy	Academy	9	34
Northmead Junior School	Academy	30	104
Oaktree School Academy	Academy	28	102
Ottershaw Cof E Infant & Juniors	Academy	24	87
Oxted School	Academy	67	246
Pabulum (Burpham Primary School)	Admitted Body	1	4
Pabulum Ltd (Epsom and Ewell)	Admitted Body	1	2
Peaslake Free School	Academy	3	12
Pine Ridge and Lorraine Schools Federation	Academy	24	82

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Pinnacle Housing	Admitted Body	7	22
Pirbright Village School	Academy	24	84
Pond Meadow School	Academy	74	253
Potters Gate CofE Primary School	Academy	28	104
Pycroft Grange Primary	Academy	29	105
Pyrford Church of England Aided Primary School	Academy	42	150
Queen Eleanor's School	Academy	16	58
Rapid Clean (St Augustines School)	Admitted Body	0	2
Ravenscote Community Junior School	Academy	27	95
Reigate & Banstead Council	Scheduled Body	1161	2503
Reigate Grammar School	Academy	117	448
Reigate Learning Alliance (Prvsly Reigate College)	Academy	116	347
Reigate School	Academy	66	216
Reigate Valley Col	Academy	12	48
Riverbridge Primary School	Academy	47	167
Rodborough School	Academy	46	168
Rosebery Housing Association	Admitted Body	2	9

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Rosebery School	Academy	45	147
Runnymede Council	Scheduled Body	900	2255
Russell Education Trust	Academy	12	38
Salesian School	Academy	120	365
Salfords Primary School	Academy	24	82
Sandcross Primary School	Academy	58	189
Sandfield Primary School	Academy	15	61
Sandringham School	Academy	12	48
SAVI	Academy	8	29
Saxon Primary School (Academy)	Academy	29	103
Sayes Court School	Academy	18	67
SCC Schools	Scheduled Body	569	2418
Send Parish Council	Designating Body	1	1
SERCO	Admitted Body	15	42
Shalford Infant School	Academy	9	29
Shalford Parish Council	Designating Body	1	4
Shawley Community Primary School Academy	Academy	1	5

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Sir William Perkins School	Academy	7	39
Skanska Construction Ltd	Admitted Body	2	6
South Camberley Primary and Nursery School	Academy	33	111
South Farnham Education Trust	Academy	71	228
Spelthorne Borough Council	Scheduled Body	815	2067
Springfield Primary School	Academy	23	82
St Alban's Catholic Primary School	Academy	24	87
St Andrew's Church of England Infant School	Academy	5	18
St Andrew's CofE Primary School	Academy	18	68
St Anne's Catholic Primary School	Academy	23	85
St Augustine's Catholic Primary School	Academy	25	88
St Charles Borromeo Catholic Primary School	Academy	18	65
St Cuthbert Mayne	Academy	10	38
St Edmunds Primary School	Academy	13	47
St Hugh of Lincoln Catholic Primary School	Academy	10	36
St John the Baptist	Academy	105	343
St John's Primary School	Academy	19	69

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
St John's Primary School , Knaphill	Academy	12	37
St John's Prm and Nrsy Sch Dorking (Acad)	Academy	26	98
St Lawrence Primary School	Academy	9	35
St Mark and All Saints Church of England Primary School	Academy	11	43
St Mary's CofE Primary School	Academy	39	174
St Mary's Primary Sch Chiddingfold(Acad)	Academy	13	47
St Matthew's C of E Primary School	Academy	24	84
St Paul's Catholic College	Academy	58	222
St Peters Catholic Secondary School	Academy	63	221
St Polycarp's Catholic Primary School	Academy	21	77
St Stephen's C of E Primary School	Academy	22	78
St Thomas' Catholic Primary School	Academy	29	104
St.Paul's Church of England Primary School, Addlestone	Academy	29	102
Stanwell Fields CofE Primary School	Academy	23	73
Stoughton Infant School	Academy	27	92
Sunbury Manor School	Academy	65	228
Surrey Choices	Admitted Body	35	80

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Surrey County Council - (S1) & Surrey Schools (S4)	Scheduled Body	20206	52289
Surrey Heath BC	Scheduled Body	643	1571
Surrey Hills All Saints C of E Primary School	Academy	10	40
Surrey Sports Park	Admitted Body	12	34
Sythwood Primary School	Academy	55	198
Tandridge DC	Scheduled Body	634	1510
Tatsfield Parish Council	Designating Body	1	3
Tatsfield Primary School	Academy	8	30
Thamesmead School	Academy	65	222
The Abbey School	Academy	30	101
The Alliance Multi Academy Trust (TAMAT) - Central Staff	Academy	10	28
The Ashcombe School	Academy	69	251
The Beacon School	Academy	56	184
The Bishop Wand Church of England School	Academy	44	149
The Echelford Primary School (Academy)	Academy	39	137
The Grove Primary School	Academy	24	95
The Hermitage School	Academy	21	76

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
The Horsell Village Academy	Academy	14	52
The Howard Partnership - central staff	Academy	159	511
The Knaphill Lower School	Academy	10	34
The Marist Catholic Primary School	Academy	30	108
The Park School	Academy	24	88
The Raleigh School	Academy	21	71
The Ridgeway School	Academy	64	225
The Royal Grammar School	Academy	2	16
The Swan Trust	Academy	9	28
The Vale Primary School	Academy	12	43
The Weald Primary School	Academy	11	40
Therfield School	Academy	52	186
Thomas Knyvett College	Academy	31	114
Three Rivers Academy (frmly Rydens Enterprise School)	Academy	42	153
Tomlinscote School	Academy	68	274
Unified Academy (Chartwood)	Academy	23	77
Unity Trust	Academy	10	35



<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
University of Creative Arts	Scheduled Body	908	2651
University of Surrey	Scheduled Body	463	1925
Wallace Fields Infant School	Academy	26	84
Walton Oak School	Academy	37	130
Warlingham Parish Council	Designating Body	1	3
Warlingham School	Academy	100	333
Warlingham Village Primary Academy	Academy	15	52
Warren Mead Infant School	Academy	12	44
Warren Mead Junior School	Academy	17	59
Waverley Abbey CofE Junior School	Academy	19	72
Waverley BC	Scheduled Body	855	2130
Waverley Hoppa Transport	Admitted Body	10	43
Welcare (Surrey County Council)	Admitted Body	2	11
West End Parish Council	Designating Body	2	5
West Ewell Primary School	Academy	37	136
West Hill School	Academy	30	113
Westfield Primary School	Academy	26	92

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Wey Valley College	Academy	9	37
Weydon School	Academy	109	349
Weyfield Primary Academy	Academy	18	58
Whyteleafe Primary School	Academy	27	99
Whyteleafe Village Council	Designating Body	1	2
Windlesham Parish Council	Designating Body	4	11
Windlesham Village Infant School	Academy	6	24
Wishmore Cross Academy	Academy	18	59
Woking BC	Scheduled Body	922	2202
Woking College	Academy	55	166
Woking High School	Academy	86	351
Woodlea Primary School	Academy	9	34
Woodmansterne School	Academy	23	85
Woolmer Hill School	Academy	33	115
Worplesdon Parish Council	Designating Body	5	15
Wray Common primary school	Academy	27	93
Wyke Primary School	Academy	12	49

<b>Employing Organisation</b>	<b>Type</b>	<b>Employees Contributions £000</b>	<b>Employers Contributions £000</b>
Xavier Catholic Education Trust	Academy	13	35

# Contacts



Surrey  
Pension  
Team

## Contacts

### Benefits and Contributions

Enquiries should be directed in writing to Surrey Pension Team at the following address:  
Surrey Pension Team  
PO Box 471, Reigate, RH2 2HA

Telephone: 020 8541 9289 or 9292  
Email: [mypensions@surreycc.gov.uk](mailto:mypensions@surreycc.gov.uk)  
Fax: 020 8541 9287

### Accounts and Investments

Information can be obtained from Surrey Pension Team  
Investments: [pension.fund@surreycc.gov.uk](mailto:pension.fund@surreycc.gov.uk)  
Accounts: [employer.pensions@surreycc.gov.uk](mailto:employer.pensions@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](http://www.opsi.gov.uk/si/si1997/19971612.htm)

### Useful Addresses

#### Occupational Pensions Board

PO Box 133, Newcastle upon Tyne NE99 1NN  
Telephone: 0191 225 6316

#### Money and Pension Services (MaPS)

Holborn Centre, 120 Holborn, London, EC1N 2TD  
Telephone: 01159 659570  
Email: [contact@maps.org.uk](mailto:contact@maps.org.uk)

#### Pensions Ombudsman

10 South Colonnade, Canary Wharf, E14 4PU  
Telephone Local: 0800 917 4487  
Telephone Overseas: 0207 630 2200  
Email: [enquiries@pensions-ombudson.org.uk](mailto: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 LGPS Website

[www.lgps.org.uk](http://www.lgps.org.uk)

# Glossary of Terms



Surrey  
Pension  
Team

## 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.



# Annex 1: Techniques for Calculating Fee Savings from Asset Pooling



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## 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 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%	
<b>Total Value of UK Equities</b>	<b>£449m</b>	<b>100.00%</b>	
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		
<b>Price Variance Workings</b>			
	(£464m x 70.38%) x		
<b>Current Fund Values at old fee rate:</b>	£0.0024		£784,000
	(£464m x 29.62%) x		
	£0.0035		£481,000
			<b>£1,265,000</b>
	<b>Current Fund Value at new fee rate:</b>	£464m x £0.0033	<b>£1,531,000</b>
<b>Price Variance</b>			<b>£266,000</b>
<b>Quantity Variance Workings</b>			
	£0.0024 x (£449m - £464m) x		
<b>Old fee rate x (old fund value - new fund value):</b>	70.38%		-£25,000
	£0.0035 x (£449m - £464m) x		
	29.62%		-£16,000
<b>Quantity Variance</b>			<b>-£41,000</b>
<b>Total Variance Workings</b>			
	£1,224,000 -		
	<b>Old fees - new fees:</b>	£1,531,000=	-£307,000
<b>Total Variance</b>			<b>-£307,000</b>

## Annex 1: Techniques for Calculating Fee Savings from BCPP UK Equity Alpha Fund

<b>Savings Analysis from Asset Pooling</b>			<b>Rounded to £000s</b>
<b>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</b>			
		%	
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%	
<b>Total Value of UK Equities</b>	<b>£449m</b>	<b>100.00%</b>	
<b>Ad valorem old fee rate</b>			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
<b>Ad valorem new fee rate</b>			
	0bps per £1m		
<b>Price Variance Workings</b>			
	(£464m x 70.38%) x		
<b>Current Fund Values at old fee rate:</b>	£0.0024		£653,000
	(£464m x 29.62%) x		
	£0.0035		£137,000
			<b>£790,000</b>
	<b>Current Fund Value at new fee rate:</b>	£464m x £0.0000bps	<b>£0</b>
<b>Price Variance</b>			<b>-£790,000</b>
<b>Quantity Variance Workings</b>			
	£0.0024 x (£449m - £464m) x		
<b>Old fee rate x (old fund value - new fund value):</b>	70.38%		-£25,000
	£0.0035 x (£449m - £464m) x		
	29.62%		-£16,000
<b>Quantity Variance</b>			<b>-£41,000</b>
<b>Total Variance Workings</b>			
	<b>Old fees - new fees:</b>	£790,000 - £0 =	£749,000
<b>Total Variance</b>			<b>£749,000</b>
<b>Total Manager Fee Savings per annum</b>			<b>£442,000</b>

## Annex 1: Techniques for Calculating Fee Savings from BCPP Global Equity Alpha Fund

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%
<b>Total Value of Global Equities</b>	<b>£556m</b>		<b>100.00%</b>
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		
<b>Price Variance Workings</b>			
<b>Current Fund Values at old fee rate:</b>	(£60m) x £0.0055		£330,000
	(£446m - £60m) x £0.0035		£1,351,000
			<b>£1,681,000</b>
<b>Current Fund Value at new fee rate:</b>	£446m x £0.00337		<b>£1,503,000</b>
<b>Price Variance</b>			<b>-£178,000</b>
<b>Quantity Variance Workings</b>			
<b>Old fee rate x (old fund value - new fund value):</b>	£0.0035 x ((£556m - £60m) - (£446m - £60m))		£385,000
<b>Quantity Variance</b>			<b>£385,000</b>
<b>Total Variance Workings</b>			
	£2,066,000 -		
<b>Old fees - new fees:</b>	£1,503,000 =		£563,000
<b>Total Variance</b>			<b>£563,000</b>

**No Performance fee savings. No performance fees paid for previous manager and current manager**

# Annual Report 2021/22

