

Surrey Pension Fund

Annual Report 2018/19



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Chairman's Introduction



2018/19 has been a very busy and successful year for Surrey Pension Fund with strong investment performance and growth in the number of employers in the Fund. The value

of the Fund has increased from £4.1bn to £4.3 bn and while we await the results of the Triennial Valuation as at 31 March 2019, our 31 December 2018 funding level was 93.3%. The number of employers in the fund is now over 270 and we service over 100,000 members.

Investment pooling within the LGPS

Surrey Pension Fund continues to make methodical and carefully considered progress towards pooling the Fund's assets with other LGPS funds in the Border to Coast Pensions Partnership (BCPP). Our UK Equity holdings were successfully transitioned in November 2018.

The Committee is prudent in ensuring that the BCPP sub funds provide the asset class and mix to suit the fund's investment strategy. Border to Coast operates investment funds for its Partner Funds to invest in based on their strategic asset allocations. The assets under management across the twelve Partner Funds total approximately £46 billion

Changes in the Investment Strategy

The Fund has continued with its total overhaul of its investment strategy to ensure a fully diversified portfolio, appropriate to the Fund's long term

objectives having regard to the fund's size, the opportunities presented by pooling with BCPP, and the minimisation of risk. This has involved further adjustments in asset allocation.

Investing Responsibly

The Fund continues to take an increasingly active role in ensuring it invests with due attention to our environmental, social and

governance (ESG) responsibilities. Our focus remains on maintaining appropriate investments having every regard to Climate Change implications and our responsibilities in helping maintain a sustainable world. We believe that our ESG objectives are best served by engagement so, in addition to the commitments in our own investment strategy statement, the Fund is a party to the BCPP Responsibility Investment Policy and a member of the BCPP Climate Change Working Party. The Fund also offers its full support to the Local Authority Pension Fund Forum as well as BCPP's Engagement Lead, Robeco. More widely the Fund is signed up to the Taskforce for Climate Related Financial Disclosures (TCFD) and will begin to report against these disclosures for the 2019/20 Annual Report.

Funding Strategy

Our successful funding strategy remains unchanged while we await the results of the 2019 triennial valuation.

Management



Neil Mason and his team have been outstanding over the year in dealing with the increasingly heavy work load. So much so that the Surrey Pension Fund received the Local Authorities Pension Forum's Award for Scheme Governance in September 2018.

Membership of the Pension Fund Committee

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

	<p>Tim Evans: Chairman Party: Conservative Borough and District: Spelthorne E: tim.evans@surreycc.gov.uk T: 01932 785138</p>
	<p>Ben Carasco: Vice Chairman Party: Conservative Borough and District: Woking E: ben.carasco@surreycc.gov.uk T: 07733 307525</p>
	<p>Ayesha Azad Party: Conservative Borough and District: Woking E: a.azad@surreycc.gov.uk T: 01483 757646</p>

	<p>John Beckett Party: Residents Association Borough and District: Epsom and Ewell E: john.beckett@surreycc.gov.uk T: 020 8393 8208</p>
	<p>David Mansfield Party: Conservative Borough and District: Surrey Heath E: david.mansfield@surreycc.gov.uk T: 01483 799328</p>
	<p>Hazel Watson Party: Liberal Democrats Borough and District: Mole Valley E: h.watson@surreycc.gov.uk T: 01306 880120</p>
	<p>Ruth Mitchell Party: Conservative Borough and District: Elmbridge, Hersham Village E: rmitchell@elmbridge.gov.uk T: 01932 220557</p>

 A portrait of Tony Elias, a middle-aged man with glasses, wearing a dark suit, white shirt, and red tie.	<p>Tony Elias Party: Conservative Borough and District: Tandridge E: Cllr.tony.elias@tandridgedc.gov.uk T: 01883742685</p>
 A portrait of Margaret Janes, a woman with short brown hair, wearing a dark blazer over a light-colored top, sitting at a desk with her hands clasped.	<p>Margaret Janes Head of Pensions University of Surrey</p>
	<p>Philip Walker Employee & Pensioners Representative</p>

Membership of the Local Pension Board



Nick Harrison: Chairman

Party: Residents' Association and Independent
Borough and District: Reigate and Banstead
E: nicholas.harrison@surreycc.gov.uk
T: 01737 215405



Graham Ellwood: Vice Chairman

Party: Conservative
Borough and District: Guildford
E: graham.ellwood@surreycc.gov.uk
T: 07899 846626






Paul Bundy

Head of Finance
Surrey Police
E: Paul.Bundy@surrey.pnn.police.uk







Tina Hood

Surrey LGPS Members
E: tina.hood@surreycc.gov.uk

	<p>Paresh Rajani Surrey LGPS Members</p>
	<p>David Stewart Surrey LGPS Members</p>
	<p>Katy Meakin Human Resources Manager Waverley Borough Council E: Katy.Meakin@waverley.gov.uk</p>
	<p>Trevor Willington Surrey LGPS Members</p>

Officer Contact Details

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



Anthony Fletcher

Professional Advisor - Independent

E: Anthony.Fletcher@MJHudson.com

T: 020 7079 1000



Gemma Sefton

Fund Actuary

T: 0141 566 7568

E: gemma.sefton@hymans.co.uk

Bankers

HSBC

Fund Managers

LGPS Pool: Border to Coast Pensions Partnership

Baillie Gifford
CBRE Global Investors
Franklin Templeton Investments
Legal and General Investment Management
Majedie Asset Management
Marathon Asset Management
Newton Investment Management
Western Asset Management
Aviva Investors
Ruffer

Global Custodian

Northern Trust

Legal Advisors

Evershed (Pensions Law),
Browne Jacobson (Legal Due Diligence)

Private Equity Advisors

BlackRock
Capital Dynamics
Goldman Sachs Asset Management
Hg Capital
Livingbridge Equity Partners
Standard Life Capital Partners
Pantheon Global Infrastructure
Glennmont Partners
Darwin Property Investment Management

AVC Provider

Prudential Assurance Company
Equitable Life Assurance Society

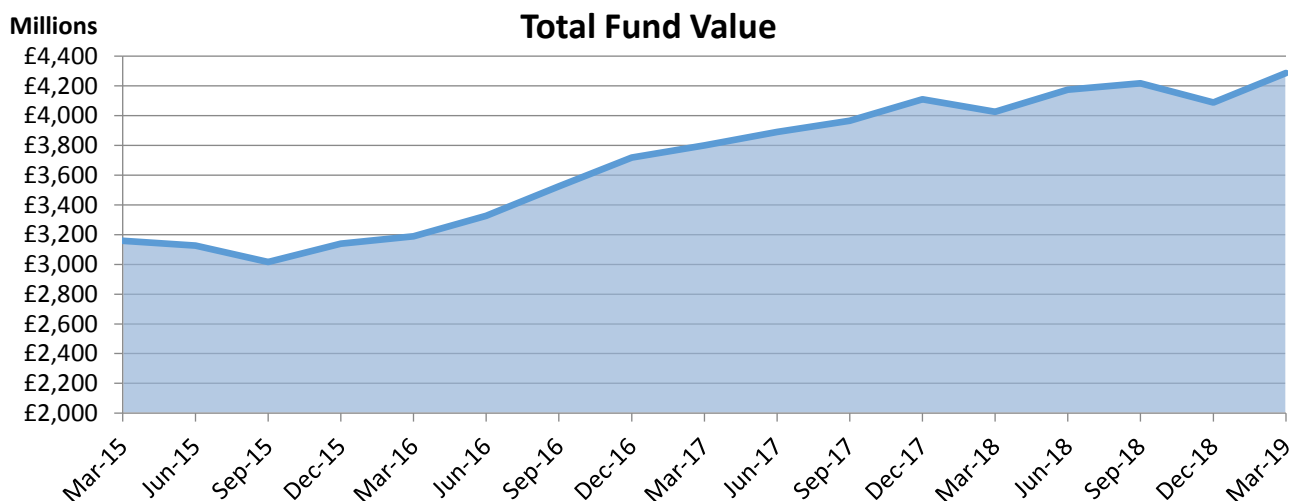
Auditors

Grant Thornton UK LLP

Overview

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19
Contributions and transfers in	192,419	199,650	191,164	191,730
Less benefits and expenses	-139,213	-157,645	-167,521	-176,248
Net additions	53,206	42,005	23,643	15,482
Net investment income*	45,592	61,238	64,719	58,270
Change in market value	-68,655	541,953	98,662	185,943
Net return on investments	-28,063	603,191	163,381	244,213
Net increase in Fund	30,143	645,196	187,024	259,695
Fund value at 31 March	3,223,663	3,868,859	4,055,883	4,315,578

*Net of Investment and governance expenses and tax withheld expenses



	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019
Contributory Employees	30,023	32,530	32,851	34,072	34,298	35,802	34,292
Pensioners and Dependants	20,572	21,598	22,481	23,197	24,025	25,135	25,929
Deferred Pensions	28,256	30,639	33,833	34,158	41,573	45,079	49,874
Total	78,851	84,767	89,165	91,427	99,896	106,016	110,195

LGPS Scheme Details

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

The new Scheme:

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

Key LGPS Facts England and Wales SCC

- Made up of 90 regional funds
- Around 5.3 million members
- Total fund assets are £217 billion
- Total expenditure on benefits is over £9.4 billion p.a.

Key LGPS Facts

- Made up of 271 employers
- Around 100,000 members
- Total fund assets are £4.3 billion
- Total expenditure on benefits is over £176 million p.a.

The following pay ranges and employee contribution rates will apply from April 2019 as follows:

Actual Pensionable Pay	Contribution Rate
Up to £14,400	5.5%
£14,401 to £22,500	5.8%
£22,501 to £36,500	6.5%
£36,501 to £46,200	6.8%
£46,201 to £64,600	8.5%
£64,601 to £91,500	9.9%
£91,501 to £107,700	10.5%

£107,701 to £161,500	11.4%
£161,501 or more	12.5%

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

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

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

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

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

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

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

Under the Regulations employer contributions are determined in two parts.

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

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation-proofing

benefits is funded through the employers' contribution rate.

Pension Fund Governance

Pensions 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 Board:

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Surrey Pension Fund Committee has 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 Councilors
- 2 x Other employer representatives

Member representatives

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

The first meeting of the year for the Local Pensions Board was the 25 July 2018. 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



This is the fourth annual report of the Surrey Local Pension Board. We have used 2018/19 to continue to build on the good practice developed since our establishment in 2015.

The Board is a requirement of the Local Government Pension Scheme Regulations 2013. Its primary functions are to assist Surrey County Council in:

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

The next few pages of this report set out how we have done this, and summarise the topics covered at our meetings. We meet quarterly some weeks ahead of the meetings of the Pension Fund Committee, taking the lead in reviewing administrative performance and projects, and the risk register, reporting issues of concern. The Board also reviews the activities of the Pension Fund Committee, making comments and recommendations as appropriate.

Key highlights of our work are as follows:

- The Board asked for improvements in the reporting of key performance indicators, which have highlighted quite substantial processing backlogs. The Pensions Administration service has committed to an improvement plan and the use of an external provider to clear these backlogs. Progress is being actively monitored by the Board.
- The Board has stressed the importance of annual benefit statements to members, and we are pleased to report that the Pensions Administration Service has consistently improved their timeliness over the last three years.
- The Board asked that there is scheme member representation, as observers, on the Border to Coast Pension Pool. Working with other local authorities who are part of the Border to Coast Pool, this has now been implemented.

You can find out more by writing to the Board's supporting officer, Ben Cullimore at ben.cullimore@surreycc.gov.uk, democraticservices@surreycc.gov.uk or phoning 0208 213 2782.

Nick Harrison
Chairman of the Surrey Local Pension Board

To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme.	How the Board does this
a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.	The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together.
b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.	The Board has oversight of Pension Fund policies and processes. The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis.
c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.	The Board reviewed employer pension discretions in July 2016, and have continued to monitor compliance over the past year.
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 23 October 2018, with specific policies also reviewed periodically in 2018/19 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. This is an item for fuller consideration 2018/19.
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.
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.	<p>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.</p> <p>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.</p>
k) Review the complete and proper exercise of employer and administering authority discretions.	The Board reviewed these discretions on July 2018.
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 accounts and fund annual report on 23 October 2018.
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.	N/A.

25 July 2018

- Pension Fund Committee update
- Administration Performance Report: 1 April 2018 to 30 June 2018
- Administration Update: 1 April 2018 to 30 June 2018
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter One
- Customer Complaints Report: Quarter One
- Communications Update
- Cyber Security
- Risk Registers 2018/19: Quarter One
- Local Pension Board Annual Report
- Training Bulletin: Quarter One
- Pre-Valuation Project Plan
- Border to Coast Update

23 October 2018

- Annual Report/Statement of Accounts 2017/18
- Administration Update: 1 July 2018 to 30 September 2018
- Administration Performance Report: 1 July 2017 to 31 August 2018
- Risk Registers 2018/19: Quarter Two
- Customer Complaints Report: Quarter Two
- Annual Benefit Statements Exercise 2018
- Summary of the Pension Fund Committee Meeting of 14 September 2018
- Border to Coast Update
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter Two

17 January 2019

- Governance Review
- Pension Committee Update
- Border to Coast
- Administration Update
- Administration Performance Report
- Risk Registers 2018/19: Quarter Three
- Discretions Exercise Report
- Additional Voluntary Contributions Governance Review Exercise
- Review of Internal Dispute Resolution Cases 2018/19: Quarter Three
- Recent Developments in the LGPS



25 April 2019

- Summary of Pension Fund Committee Meeting of 8 February 2019
- Administration Update (1 January 2019 to 31 March 2019)
- Administration Performance Report (1 January 2019 to 31 March 2019 - Quarter Four)
- Risk Registers 2018/19 (Quarter Four)
- Training Policy
- Compliance With the Pensions Regulator's Code of Practice No. 14
- Review of Internal Dispute Resolution Cases in 2018/19 (Quarter Four)
- Recent Developments in the LGPS
- Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance on Asset Pooling
- Border to Coast Update

Members of the Local Pension Board

Name	Representing	Appointed	Appointment ended
(NH) Nick Harrison (Chairman)	Scheme employers	17 July 2015	N/A
(GE) Graham Ellwood (Vice Chairman)	Scheme employers	14 June 2017	N/A
(PB) Paul Bundy	Scheme employers	17 July 2015	N/A
(TH) Tina Hood	Scheme members	29 January 2016	N/A
(PR) Paresh Rajani	Scheme members	3 May 2016	N/A
(DS) David Stewart	Scheme members	17 July 2015	N/A
(CW) Claire Williams-Morris	Scheme employers	17 July 2015	17 January 2019
(TW) Trevor Willington	Scheme members	17 July 2015	N/A

Meeting attendance

Meeting date	In attendance	Apologies
25 July 2018	NH, GE, DS, PR, PB, TH	CW, TW
23 October 2018	NH, GE, PR, TW, PB, TH	DS, CW
17 January 2019	NH, PB, PR, TW	GE, TH, DS, CW
25 April 2019	NH, PB, DS	GE, TH, PR, TW

Compulsory training

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

Additional training

Training	In attendance
Pension Committee and Pension Board Member Training (5 July 2018)	PB
Pension Committee and Pension Board Member Training (30 July 2017)	PB
Goldman Sachs Pensions Investment Training	NH, GE, CW, PR

Hymans Training	NH, GE, TW, PB, PR, TH
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Publications distributed to all Local Pension Board members

Local Government Pension Secretariat bulletins	170-183
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The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

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

A conflict of interest would prejudice an individual’s ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.

An example of a potential conflict of interest could be:

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

- a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;
- a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;
- an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

Name	LGPS Member/ Employer Representative	Date of Appointment/ Termination (if applicable)	Relevant employment or positions held	In receipt of a LGPS pension?	State d Conflict with Employment?	Additional note	Other Conflicts of Interest
Nick Harrison	Employer	17/07/2015	Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd.	No	No	Deutsche Bank itself has no role in relation to the Surrey Pension Fund and no role more generally in providing banking, investment or other services to Surrey County Council.	N/A
Graham Ellwood	Employer	14/06/2017	Elected Member of Surrey County Council; RI of Wilton Wealth Management Ltd	No	No	N/A	N/A
Paul Bundy	Employer	17/07/2015	Service Director Finance, Surrey & Sussex Police	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.	N/A
Tina Hood	Member	29/01/2016	GMB Branch Secretary Surrey County Branch County Hall	Yes	No	N/A	N/A

Paresh Rajani	Member	03/05/2016	Electrical Services Engineer, Neighbourhood & Housing Management Services, Guildford Borough Council; Unison representative	No	No	Employer not involved in financial business.	N/A
David Stewart	Member	17/07/2015	Shared Performance and Reward Manager (LBHF and RBKC), Shared Human Resources London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea	Yes	No	Employer's pension services are administered by Orbis - this is actively managed by being recorded at every meeting, and any likelihood of conflict arising would be mitigated by the member removing himself from the discussion.	N/A
Trevor Willington	Member	17/07/2015		Yes	No	Employer not involved in financial business.	N/A
Claire Morris	Employer	17/07/2015 – 17/01/2019	Head of Financial Services and Deputy Chief Financial Officer, Guildford Borough Council	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing herself from the discussion.	N/A

Knowledge and Skills Policy

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

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

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

The members of the Committee are to partake in the CIPFA Knowledge and Skills Framework in order to identify areas where further training is required.

Communication Policy Statement

1 Communication Objectives

- To accurately communicate the provisions and requirements of the Local Government Pension Scheme (LGPS) to all stakeholders.
- To identify and meet all regulatory requirements regarding provision of information.
- To promote appropriately membership of the LGPS Scheme to employees of participating employers.
- To communicate clearly to all stakeholders their own responsibility for communication and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications.
- To ensure communications are made in a timely manner.
- To use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

2 Stakeholders

The various stakeholders for the purpose of this communication policy are identified below:

- Active members
- Prospective members
- Deferred members
- Pensioners
- Employers

3 Website

The Pension Fund has an established website:

surreypensionfund.org

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

Surrey Pension Fund Administration Strategy

1. Legislative Framework

- 1.1 This strategy statement has been prepared by Surrey County Council as the administering authority to the Surrey Pension Fund in accordance with Regulation 59 of the Local Government Pension Scheme) Regulations 2013.

2. Review

- 2.1 This strategy will be kept under review and will be revised, after consultation with scheme employers, following any material changes in legislation or policies that relate to the strategy.

3. Purpose

- 3.1 The purpose of the strategy is to establish levels of performance and procedures for liaison and communication for both the administering authority (AA) and the employers participating in the fund with a view to maintaining good working relationships, transparency and efficient administration.

4. Employer Duties & Responsibilities

- 4.1 The employer should nominate a person or persons to liaise with the AA on pension administration matters.
- 4.2 The employer should ensure that any information passed on behalf of the employer to the AA or any requests for information made on behalf of the employer to the AA are undertaken by a duly authorised officer of the employer.
- 4.3 The employer should notify the AA in respect of the following changes in a scheme member's status and within the required timescale by completing the appropriate pension form or secure on-line submission:
 - New Joiner
Within one month of joining
 - Change in member's details e.g. hours, maternity etc
Within one month of the change
 - Retirements
Two months prior to the date of retirement. It is however recognised that there will be occasions where this time limit cannot be met, for example, because the member has retired with little or no notice or details of pensionable pay cannot be provided until the member has left employment.

- Death in Service
Within five working days of the member's death
- Leavers
Within one month of the member leaving
- TUPE transfer of scheme member
At least two months before the transfer date. This is to allow adequate time for pension protection to be put in place as appropriate.

- 4.4 The employer must determine the pension contribution rate at which its employees should contribute to the scheme from 1 April each year and, where there is a change to the member's pensionable pay during the year, from that date. Where an employee holds more than one post, the employer must determine the rate applicable for each post.
- 4.5 The employer will ensure that member and employer pension contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions the member has requested to pay.
- 4.6 The employer will ensure that pension contributions are paid to the AA within seven days of the end of each month.
- 4.7 The employer will ensure that additional voluntary contributions are paid to the relevant provider within seven days of being deducted from the member's pay.
- 4.8 The employer must, no later than 30 April each year, provide the AA with year-end information to 31 March in an approved format in respect of each post the member holds.
- 4.9 The employer is responsible for exercising the discretionary powers given to employers by the LGPS regulations. The employer is also responsible for publishing its policy in respect of these discretions to its employees and forwarding a copy to the AA.
- 4.10 The AA is not required to verify the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. Therefore, employers should ensure that all information provided is accurate.
- 4.11 Any over-payment resulting from inaccurate information supplied by the employer may be recovered from the employer if it cannot be recovered from the scheme member.
- 4.12 In the event of the AA being fined by The Pensions Regulator, this fine may be passed on to the relevant employer where that employer's action or inaction resulted in the fine.
- 4.13 The employer must nominate a person to hear complaints made under Stage 1 of the Internal Disputes Resolution Procedure and should provide this person's name, job

title, and office address. When an amendment to these details is made, a notification of the change should be sent to the AA immediately.

- 4.14 The employer must obtain the approval of the AA as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.
- 4.15 The employer must pay to the AA any cost identified by the AA as a result of the employing authority's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.
- 4.16 The employer must also pay to the AA any charge identified by the AA as a result of the employing authority's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

5. Administering Authority Duties & Responsibilities

New Joiners

- 5.1 *Confirmation letter of scheme admittance to all members.*
Within 20 days
- 5.2 *Transfers from previous pension schemes.*
Within 20 days

Existing Active Members

- 5.3 *Annual Benefit Statement*
By 30 September providing year end data has been received from the employer
- 5.4 *Benefit estimates to employers*
Within ten days of receipt of request
- 5.5 *Retirements*
Within ten days of retirement
- 5.6 *Death in Service*
Death Benefits and dependants' pensions
Within five days

Early Leavers

- 5.7 *Deferred Benefit statement*
Within one month of leaving
- 5.8 *Refunds*
Within ten days
- 5.9 *Transfer to new pension scheme*
Within 20 days

Deferred Benefit Members

- 5.10 *Annual Benefit Statement*
By 30 June
- 5.11 *Benefits put into payment*
Within ten days
- 5.12 *Death Benefits and dependants' pensions*
Within five days

Pensioner Members

- 5.13 *Changes in personal details*
Payroll record updated before next payroll run
- 5.14 *Death benefits and dependants' pensions*
Within five days

*The timescales for completing the tasks above are measured from the date the AA is in receipt of all the relevant information required to complete the task is expressed in "working days"

Communication

- 5.15 The AA will provide employers with the necessary forms and documents for it to carry-out its pension administration responsibilities. These forms to be available in paper and electronic format, where appropriate
- 5.16 The AA will provide a guide to the Local Government Pension Scheme for scheme members for employer to issue.
- 5.17 The AA will provide a joiner pack to new scheme members.
- 5.18 The AA will issue a newsletter for active scheme members at least once a year
- 5.19 The AA will issue regular employer newsletters and provide training at County Hall for employers to comply with their pension administration responsibilities.
- 5.20 The AA will enable scheme members and employers to visit Pension Services during normal working hours from 8.30am to 5.30pm.
- 5.21 The AA will maintain a Pension Fund Website which will include:
- General information on the LGPS
 - Copies of all the publications of the pension fund including newsletters, scheme guides, strategy statements, annual reports and accounts.
 - Standard forms to be used by employers when providing information to the pensions team
- 5.22 The AA will arrange a Pension Fund Annual General meeting for employers and produce an annual report.

Data Quality and Security

5.23 The AA will ensure that the data held on the systems used to administer the scheme will be secure and regularly backed up to an off-site location. The AA will apply year end data quality control and review processes.

6. Unsatisfactory Performance by an Employer

6.1 Where an employer materially or consistently fails to operate in accordance with the standards laid down in this strategy, which results in additional administration costs being incurred by the AA, the AA may issue a written notice to the employer requiring that these extra costs are met by the employer. Steps to recover additional administration costs would normally only be pursued after support and training had been offered by the AA to address the underperformance.

Investment Report



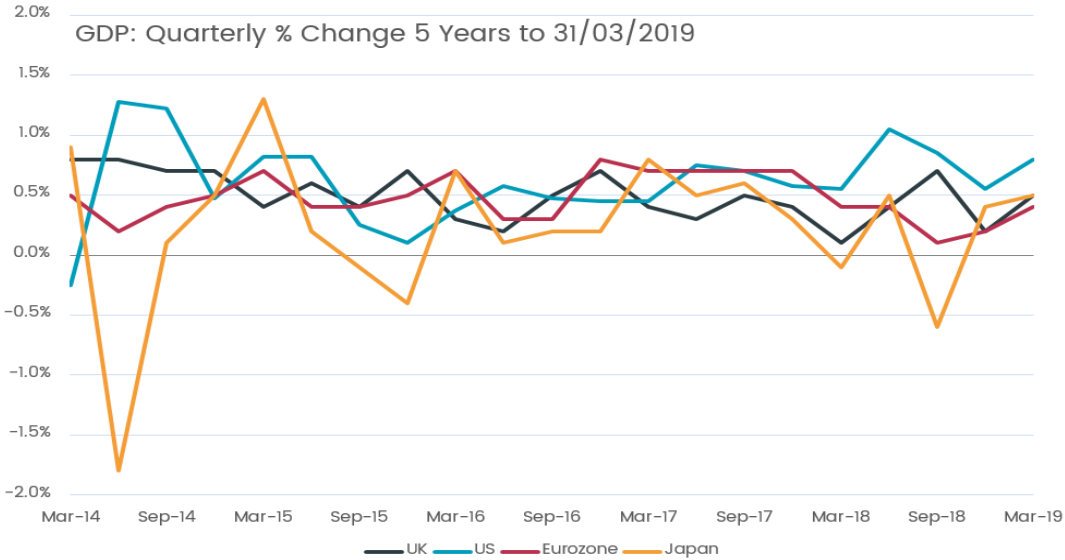
Annual Investment Review

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

- Provide a review of the economic and market background over the 12 months to 31st March 2019.
- 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.

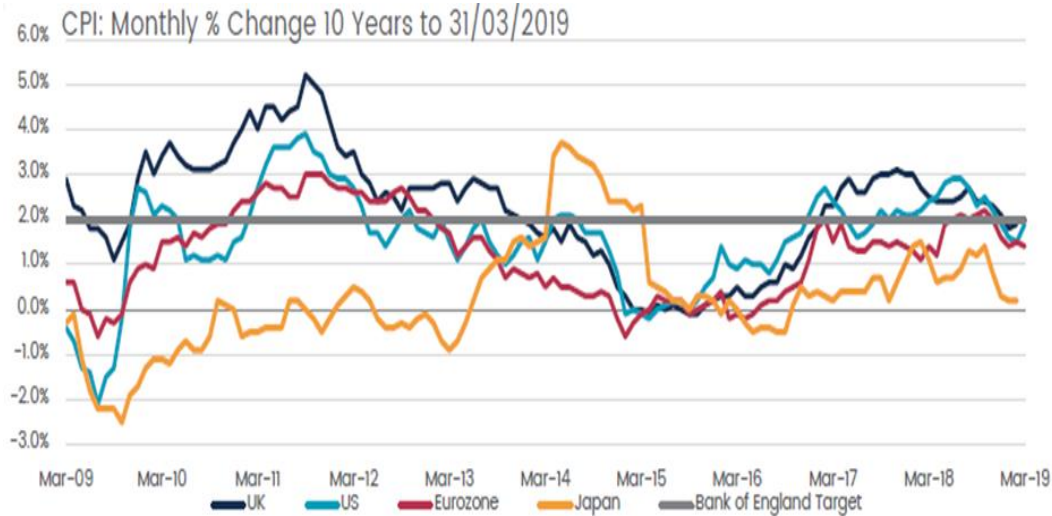
Over the financial year to the end of March 2019 global economic growth, outside of the USA, slowed and became more mixed by region. In the USA, growth improved from an annual rate of 2.3% to 2.9%, mainly due to the one-off stimulus provided by Mr Trump’s tax cuts. The UK economy grew by 1.4%, the Eurozone by 1.9%, and even China’s official growth rate of 6.6% represented a slowdown from previous years. Japan only achieved a growth rate of 0.3%, as the economy was impacted by a number of natural disasters over the summer months.

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



Over the year the rate of inflation fell despite the volatility of the oil price and the impact of higher real wage growth in the US, UK and Europe. The unemployment rate has steadily fallen over the year and is at reported lows in the US and the UK. Despite this, central banks seem unable to achieve normalisation around their target inflation rates of 2%.

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



The US Federal Reserve (the Fed) raised interest rates by 0.25% four times during 2018 and further tightened monetary policy via its Quantitative Tightening (QT) programme. Following the bout of extreme equity market volatility in the fourth quarter of 2018, and in December in particular, the Fed decided to cancel its two planned rate increases for 2019 and to also end its QT programme in September 2019. This effectively means that the Fed’s balance sheet will not return to its former level at the start of its QE programme, which means the Fed has permanently expanded the money supply and debased the currency. The Bank of England raised the base rate from 0.5% to 0.75% in August 2018, its highest level since 2009. The European Central Bank ended its QE programme in December 2018 but was then forced to re-open a loan support programme early in 2019 in an effort to stimulate the flagging Eurozone economies. The Bank of Japan did not change its very easy monetary policy stance throughout the year.

The political scene has again been dominated by Mr Trump together with the UK government’s attempts to negotiate an exit from the EU. At home Mr Trump has continued to try and find a way of funding the construction of the wall on the US/Mexico border. His dispute over congressional funding led to the longest ever partial shutdown of the US government, but after 35 business days he backed down and the Budget was passed. In February however he declared a national emergency, enabling him to use Presidential powers to fund construction. Furthermore, he claimed that Mr Mueller’s investigation into his links with Russia “completely exonerated” him. On the global scene, realising the negative impact his trade negotiations were having on the global economy and stock markets, he started to sound more conciliatory.

In the UK the Brexit negotiations have turned into a complete impasse. With the government failing three times to get the Withdrawal Agreement passed, it was forced to seek an extension to the negotiations. The EU granted a flexible deadline that has moved the final date for departure from the 29th March to the 31st October 2019. In the House of Commons, the debates that followed showed that there is no majority in Parliament for anything and the cross-party negotiations also delivered no compromise solution. As a result, the UK government has been forced to hold European Parliamentary elections. In Europe there is a lame duck leader in Mrs Merkel in Germany and an under-pressure President in France. The elections are widely expected to lead to a fragmentation of representation across most member countries, not just in the UK.

Equity markets rose by more than 10% between March and September 2018, but then relinquished all these gains in the fourth quarter on worries about rising US bond yields and trade tensions, resulting in the first negative calendar year for equity markets since 2015. The significant change in the Fed’s policy from tightening to neutral and the more conciliatory tone of Mr Trump’s rhetoric on the US/China trade negotiations were mainly responsible for a sharp rally from January to March 2019. As can be seen in table 1 below, the very strong first quarter returns lifted the 12 month returns into positive territory in all equity markets except Japan in Sterling terms. The continued weakness of Sterling against the US dollar means that US equity markets dominated global equity market returns for Sterling based investors.

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 2019.

% TOTAL RETURN DIVIDENDS REINVESTED

MARKET RETURNS

	Period end 31 st March 2019	
	3 months	12 months
FTSE UK All-Share	9.4	6.4
MSCI ACWI – Global Equities	10.1	12.6
FTSE Regional Indices		
North America	11.3	17.5
Europe ex UK	8.0	2.6
Japan	4.5	-0.9
Pacific Basin	4.0	3.9
Emerging Equity Markets	8.0	1.9
UK Gilts - Conventional All Stocks	3.4	3.7
UK Gilts - Index Linked All Stocks	5.9	5.5
UK Corporate bonds*	4.8	4.1
Overseas Bonds**	2.2	2.9
Property IPD quarterly	0.3	4.3
Cash 7 day LIBID	0.2	0.8

(Source: - * iBoxx £ Corporate Bond; **Citigroup WGBI ex UK hedged)

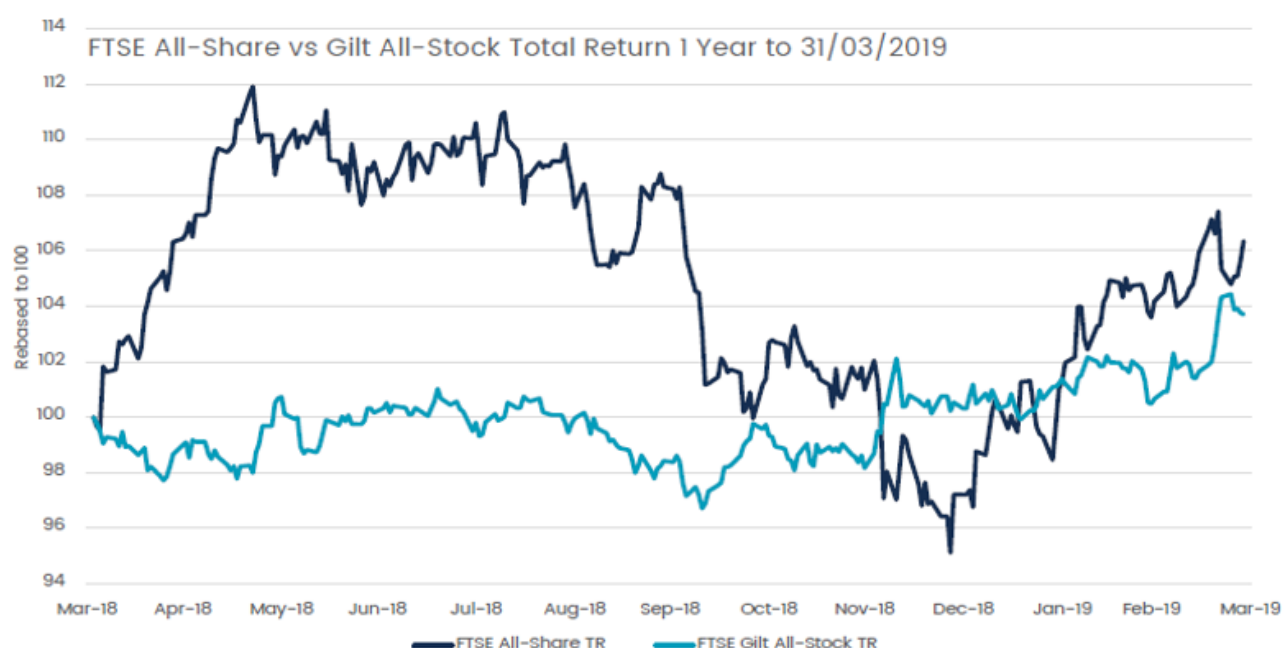
Bond markets also had a roller coaster year, US 10 year government bond yields peaked in November 2018 at 3.24%, having started the year at 2.74%. By the 31st March 2019 they had been driven down 0.3% to 2.41%, by moderating growth, lower inflation and the change in the Fed's policy stance. This fall in yields was matched by UK 10 year Gilts, which fell to 1%, but the weakness and political uncertainty in Europe drove 10 year German government yields down by 0.55% and into negative territory at -0.07%.

Chart 3, below, shows the performance of the major equity market indices over the year, the pale blue line is the US S&P 500 which has outperformed both the UK and MSCI global index, the green line is the MSCI Emerging market index, which has performed poorly on the back of Mr Trump's trade negotiations and the strength of the US dollar. Chart 4 shows how the UK bond and equity market indices have moved over the last 12 months.

Chart 3: - Global Equity market indices since 31st March 2018 local currency terms.



Chart 4: - UK bond and Equity market prices since 31st March 2018



Source: - Bloomberg

Brexit was the main driver of the value of Sterling vs US dollar, by May 2018 Sterling had rallied on the expectation of a “deal” but as the year went on the currency gradually weakened and has been range bound between US\$ 1.25 and 1.33 in the first quarter of 2019. Being invested outside the UK was a benefit to the Fund.

At the end of March 2019, the Surrey Pension Fund was valued at £4,286.4 million, this represents a total increase in value of £260.8 million since 31st March 2018. The Fund achieved a total net investment return of 5.7% for the year, outperforming both the benchmark return of 3.7% and the target return of 4.7%. Over the last 3 years the Fund has achieved a total return of 9.3% p.a. which is ahead of the benchmark return of 8.3% and slightly behind the target return of 9.4%. This

3 year annualised return is well ahead of the actuarial assumptions made in 2016 and as a result the “funding level” of the Surrey Pension Fund has improved from 83% to 93% funded.

Over the financial year the structure of the Fund has been reviewed and some changes have been made. Research was carried out to discover the Fund’s “Carbon Intensity”. It was found that in aggregate the Fund’s investments had a much lower carbon intensity than the benchmark indices and the market. As part of this discovery process each of the Fund’s external managers, including the Border to Coast Pensions Partnership (BCPP) Surrey’s chosen LGPS pooling partner, was asked to demonstrate how they took Environmental, Social and Governance (ESG) criteria into consideration when making investment decisions. It was found that all of Surrey’s Active managers used ESG factors as a core part of their investment due diligence process and to a greater or lesser extent they were able to demonstrate how they measured ESG and how it altered investment decisions. All of Surrey’s active equity managers use engagement with investee companies directly, and in partnership with others, to seek to constantly improve the ESG rating of their investments.

As part of the Fund’s ongoing strategic review of investments, the Fund increased its allocation to Global equity and reduced its exposure to UK equity. The opportunity was taken to further reduce the Fund’s carbon intensity by investing in a Low Carbon passive global equity fund and a RAFI indexed factor-based fund. The Low Carbon fund will in particular have a significantly lower carbon intensity than the previous market cap weighted passive investments. Also, through its allocation to Private markets the Fund has committed capital for investment in a Renewables Infrastructure Fund. The Fund has also made its first investment using BCPP. In November 2018, the majority of the UK active equity portfolio managed by Majedie and UBS was transitioned to the BCPP UK Equity Alpha Fund. In the new financial year it is expected that further investment solutions provided by BCPP will be used, this will involve the transition of active global equity from Marathon and Newton and new commitments to Private Equity, Debt and Infrastructure.

While the overall Fund enjoyed a strong outperformance of the benchmark and outperformance target, the performance of the Fund’s external active asset managers was quite varied. The Diversified Growth Fund and the Bond Fund managers had a difficult year and significantly underperformed their benchmarks. Whereas the active global equity managers in aggregate outperformed the benchmark and the outperformance target. CBRE, the property fund manager, had another good year and also beat its benchmark and target. There is no 12 month data for the BCPP UK Equity Alpha Fund, the LGIM Low Carbon passive fund and the RAFI factor fund as these investments have only recently been made. Over the fourth quarter the BCPP UK Equity Alpha Fund outperformed the benchmark, but slightly underperformed the outperformance target.

and Market Outlook

A more Dovish Fed has increased the chance of a soft landing in the US which, combined with economic stimulus from China, has given this very long economic expansion a new lease of life. Add to this the fact that first quarter 2019 earnings have outperformed their dramatically lowered expectations. This leads one to the conclusion that most of the good news is probably already in the price at this level of equity markets.

I believe that equity markets can continue to outperform bonds, but there are a number of dark clouds on the horizon that could make equity markets more volatile over the next 12 months; the reality of mixed and lower economic performance, the risk of a harder line on the trade negotiations, the fading positive impact of the tax cuts and the US Bond market yield curve is inverted (long dated yields are lower than short dated yields), this historically is a sign that the bond market is indicating a US recession is on the horizon.

The US trade dispute with China has had a big impact on growth and remains a major concern for equity markets. After it appeared that some form of agreement might be reached, in May 2019 President Trump suddenly increased tariffs on a wide range of Chinese exports from 10% to 25% and threatened to impose new tariffs on other goods. China has responded with its own tariffs on US foodstuffs and other items. In recent days Mr Trump has launched an all-out attack on the global telecoms giant Huawei effectively making it illegal for US companies to trade with them. Given Huawei's 30% share for the global mobile telecoms market, this could have serious implications for investment and growth. Elsewhere, the US has withdrawn from the Iran Nuclear Agreement sponsored by Mr Obama and Europe and imposed sanctions on Iran, further raising tensions in the Middle East.

In the European Parliamentary elections, the newly formed "Brexit Party" was the main beneficiary of the electorate's unhappiness with the UK Parliament, but other Parties that promoted "Remain" agendas among their policies were also beneficiaries at the cost of the Conservative and Labour parties. This pattern was repeated across Europe with the majority centre right coalition in the European Parliament losing ground to a more fragmented group made up more right wing and populist politicians. Against this backdrop, trying to agree something between the UK and the EU over the summer months is going to be very difficult unless it is to accept the Withdrawal Agreement or Revoke article 50.

In the UK, the failure to deliver Brexit and the inability of the main parties to find an agreement on the way forward has cost the Conservative party its fourth Prime Minister over the UK's relationship with the EU and it now has its third since the referendum. The process of electing a new leader, who will automatically become the new Prime Minister, started with eleven candidates, from whom Conservative MP's chose Mr Hunt and Mr Johnson, to go forward to a vote of the full membership of the party. In the end the party membership chose the favourite, Mr Johnson as their leader and our new Prime Minister. With 98 calendar days to go before the next deadline for leaving the EU expires Mr Johnson has pledged to negotiate a new deal with the EU that is both better and does not require the "Backstop". Needless to say, the new leadership of the EU have said the only deal available is the Withdrawal Agreement, negotiated by the last UK Prime Minister. If we are to believe the new PM then this has significantly increased the risk of a "No Deal" exit on the 31st October 2019.

Over the next twelve months I expect low returns from most investment markets and the potential for higher volatility. This emphasises the importance of a diversified portfolio of assets where the sources of return are genuinely diverse and lowly correlated. I note that the Fund is already reasonably diverse, and that progress has been made to increase diversification over the last 12 months. The outcome of the Triennial Valuation needs to be taken into consideration and the continuing strategy review is expected to lead to a wider set of asset classes being employed by the Fund. The closer collaboration with the Border to Coast Pension Partnership, to find investment solutions, should lead to a wider range of investment opportunities, which could help mitigate the risk and volatility of returns over the medium to long term. Diversification is not a guarantee of positive returns but it should lead to lower correlation and better risk adjusted returns.

Anthony Fletcher, Senior Adviser – MJ Hudson Allenbridge

Independent Investment Adviser to the Surrey Pension Fund.

24th July 2019

Investment Arrangements, Performance & Post Pool Reporting

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

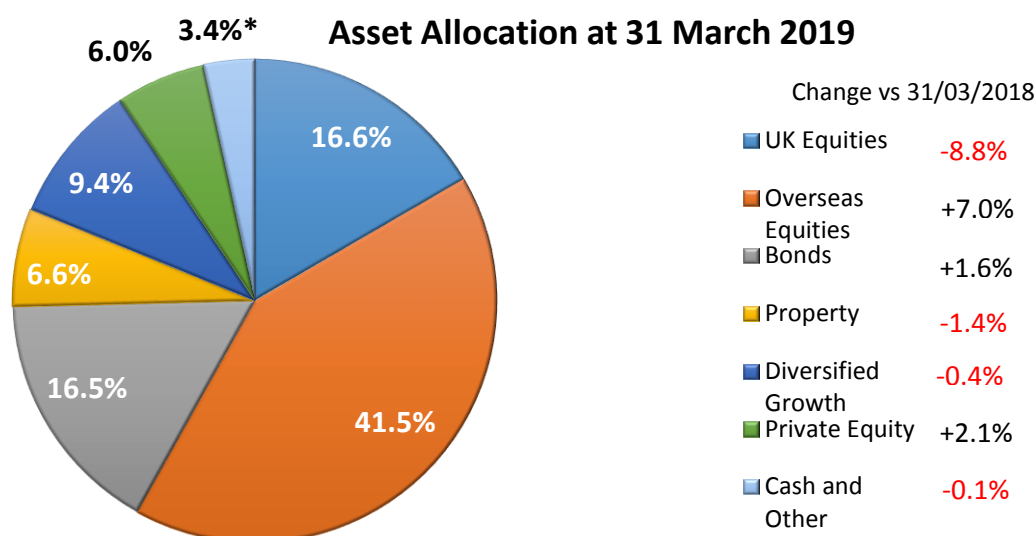
There are a number of external investment managers, who have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual stocks within approved classes. They are required to take a long-term view, balancing risk against return and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

In addition the Fund has investments in private equity funds managed by Blackrock, Goldman Sachs, Hg Capital, Living Bridge Equity Partners, Capital Dynamics, Standard Life Capital Partners as well as Infrastructure funds, Pantheon Access as well as a new clean energy infrastructure fund, Glenmont Partners.

At 31 March 2019 the market value of assets under management was £3.9bn, excluding the private equity portfolio, internally managed cash, and residual cash held by the custodian. The proportion with each of the investment managers is shown below.

Portfolio Distribution

The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2019 is shown in the below chart, with the prior year allocation shown in the table below. There has been a reduction in allocation to UK Equities with a target allocation of 17.4% of the whole portfolio (excluding cash), with the reduction offset by an increase in Overseas Equities. The Fund has also restructured its Passive LGIM Funds, transitioning into a RAFI Multi Factor Fund and Low Carbon Fund in January 2019.



*Difference of 1dp in Cash Allocation above to table below due to rounding differences.

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

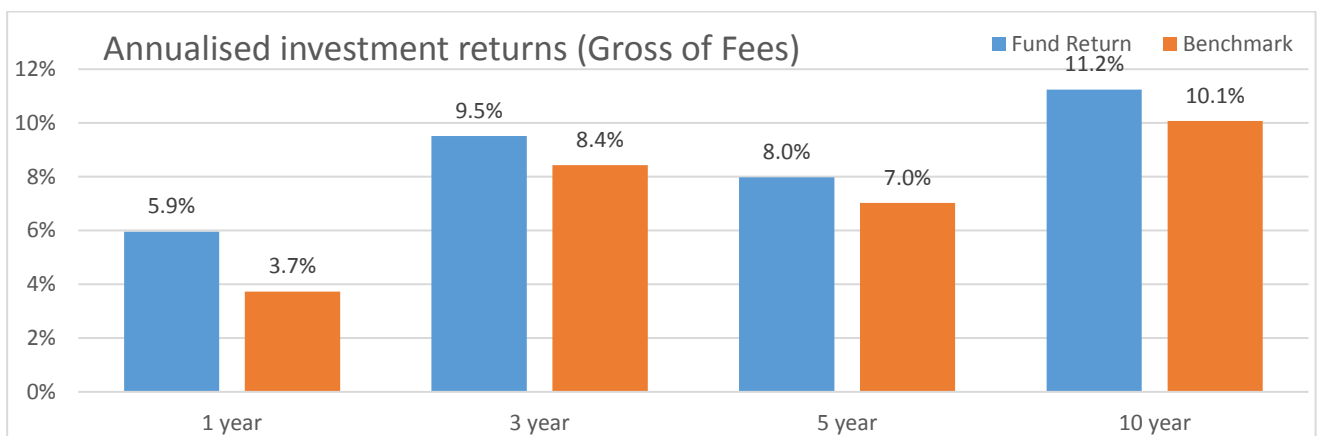
	Market Value as at 31 March 2018 £000	Actual Allocation 31 March 2018	Asset Allocation Target as at 31 March 2019	Market Value as at 31 March 2019 £000	Actual Allocation 31 March 2019	Movement in Year
Local Assets						
Fixed interest securities	396,093	9.8%	12.10%	495,283	11.55%	1.72%
Index linked securities	205,115	5.1%	5.50%	211,246	4.93%	-0.16%
Equities	2,413,734	59.9%	47.80%	2,025,606	47.23%	-12.66%
Property unit trusts	321,738	8.0%	6.20%	283,240	6.60%	-1.38%
Diversified growth	394,288	9.8%	11.40%	402,589	9.39%	-0.39%
Private equity	155,781	3.9%	5.00%	255,964	5.97%	2.10%
Cash and other	143,309	3.6%	0.00%	150,519	3.51%*	-0.05%
Pooled Assets						
BCPP UK Equity Alpha	0	0	12.00%	464,200	10.82%	10.82%
Total		100.0%			100.0%	

Eleven fund managers undertook the management of investments during 2018/2019 in a mix of passive and active investment. A summary of investment managers and the value of the assets under management is shown on page 46.

The Fund assess investment performance against a customized benchmark provided by the Fund custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Funds asset allocation. This allows the Fund to measure performance against a 100% passive allocation.

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

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



The fund recorded investment performance above that of the benchmark for the previous 12 months to 31 March 2019 as well as outperformance over the longer term 3 year period, shown in the above chart. The outperformance above the benchmark is partly a result of strong investment returns generated by actively managed portfolios. The annual investment returns as at 31 March 2019 for each fund manager are shown in the below table.

Investment Manager	Mandate	Market value 31 March 2019	Percentage of Funds Under Management as at 31 March 2019
		£000	
Active Funds Managed within Border to Coast Pensions Partnership (BCPP)			
Border to Coast UK Equity Alpha	UK Equity	464,200	11.1%
Passive Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Legal & General Investment Managers	Multi Asset	1,190,723	28.3%
Active Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)			
Majedie Asset Management	UK Equities	243,621	5.8%
Marathon Asset Management	Global Equities	505,222	12.0%
Newton Investment Management	Global Equities	333,760	7.9%
Western Asset Management	Multi Asset Credit	422,967	10.1%
Franklin Templeton Investments	Unconstrained Fixed Income	72,316	1.7%
CBRE Global Multi Manager	Property	287,636	6.8%
Baillie Gifford Life Limited	Diversified Growth	161,151	3.8%
Ruffer	Diversified Growth	121,748	2.9%
Aviva	Diversified Growth	119,691	2.8%
Total		3,923,035	
Total Funds Under Management		4,200,699	

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 12 other funds, is now a partner fund of Border to Coast Pensions Partnership.

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

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

Assets transitioned in 2018/19

The Fund transitioned its first asset into Border to Coast's UK Equity Alpha Fund in November 2018 worth approximately £464m as at 31 March 2019.

Future Transition Plans

The Fund has also subscribed to BCPP's Alternative Investment offerings with £50m committed in Private Equity in May 2019 and a further £100m committed in Infrastructure in June 2019. These funds are expected to generate savings in fees compares to previously subscribing to Private Equity and Infrastructure as a single fund.

In terms of future transition plans in 2019/20, The Fund expects to transition into BCPP's Global Equity Funds as well as its Multi Asset Credit Portfolio.

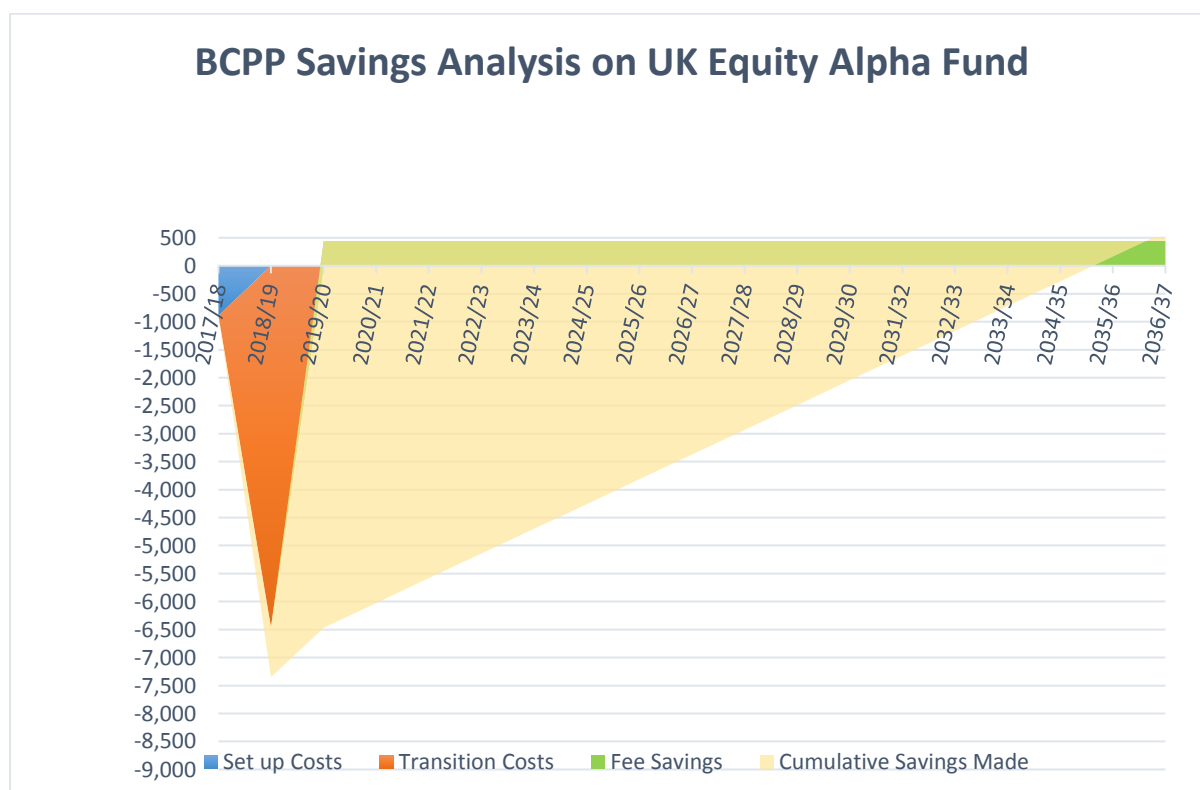
The Client Relations Team at Border to Coast Pensions Partnership can be contacted at crm@bordertocoast.org.uk

Transition Costs and Fee Savings

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

Pooling Costs	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
Set up Costs:				
Other Costs	893		893	893
Transition Costs				
Transition Fees	62		62	62
Other Transition Costs Commissions	101		101	101
Other Transition Costs Taxes and Stamp Duty	752		752	752
Other Transition Costs Implicit		5,544	5,544	5,544
Total Transition Costs	1,807	5,544	7,351	7,351

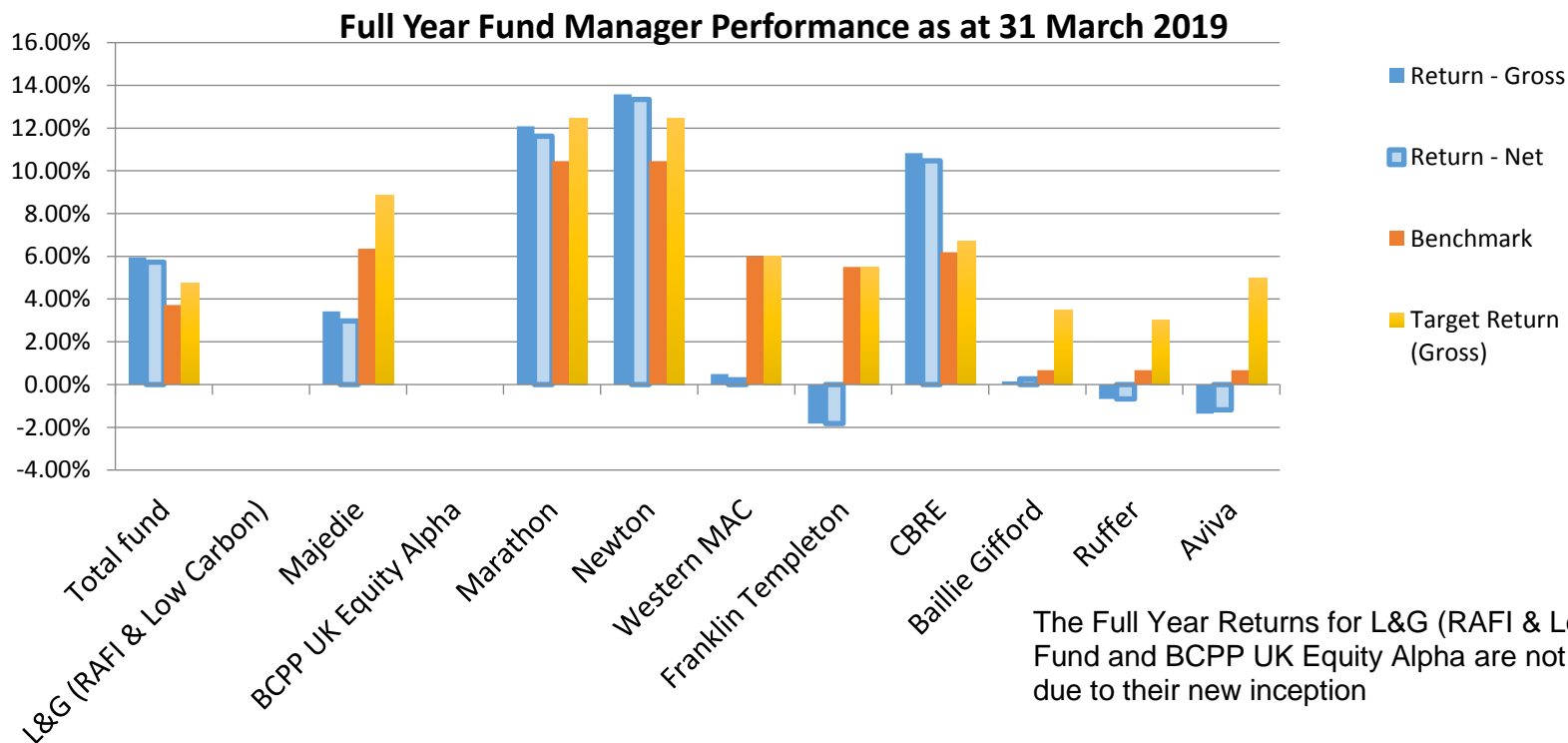
Based on current projections of Manager Fee savings from the BCPP UK Equity Alpha Fund against its initial set up and transition costs, the Fund expects to realise savings in approximately 16.6 years. The Fee Savings analysis is shown in Annex 1 (p114-p115)



	Pooled Assets: Border to Coast Pensions Partnership			Local Assets		
2018-19 Investment Management Expenses	Direct £000s	Indirect £000s	Total £000s	Direct £000s	Indirect £000s	Total £000s
Management Fees		355	355	9,687		9,687
Transaction Costs		136	136	569		569
Commissions		130	130			
Taxes and stamp duty		53	53			
Implicit Costs		-47	-47			
Custody		20	20	171		171
Other		6	6			
Total Investment Management Expenses		654	654	10,427		10,427

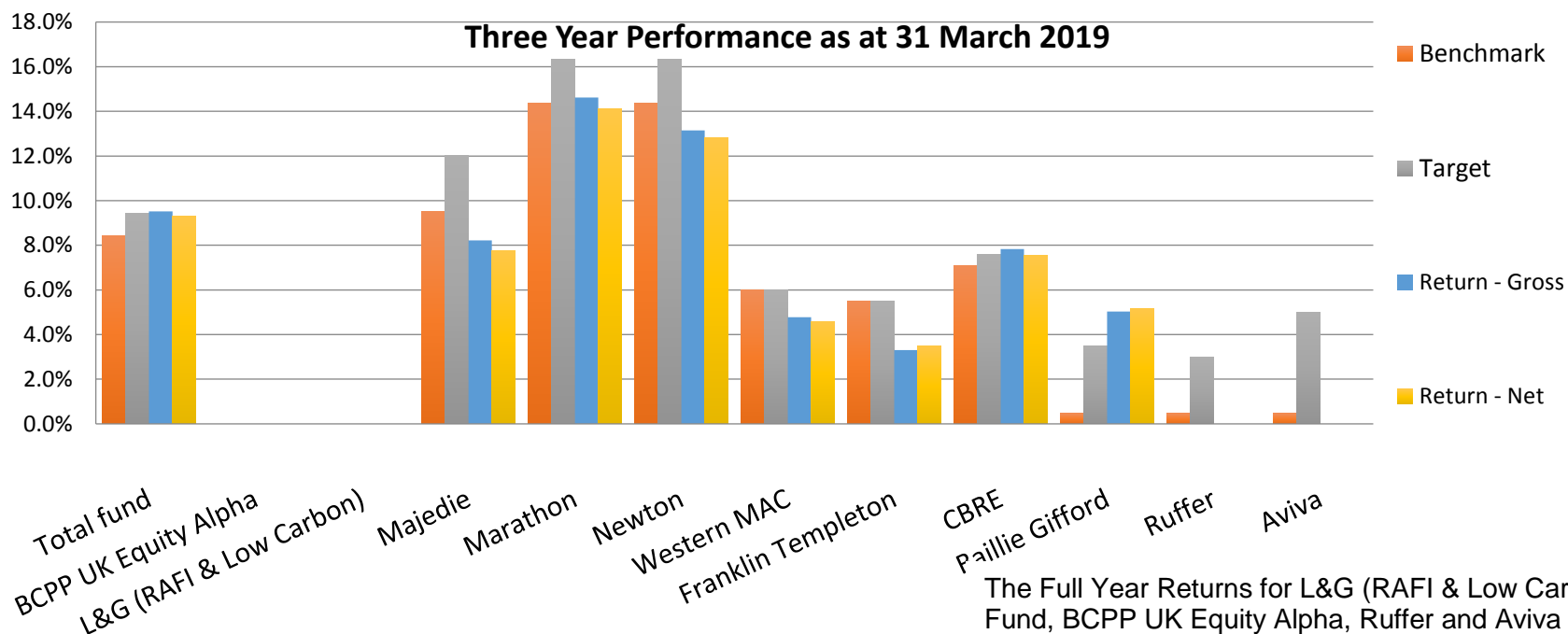
Manager	Asset Category	Net of Fees Performance	Gross of Fees Performance	Benchmark Index	Benchmark Performance	Target Return Relative to Benchmark (Gross) 1 Year (%)
		1 Year (%)	1 Year (%)		1 Year (%)	
Total fund		5.73%	5.95%	Customised	3.73%	4.73%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-	-	MSCI World/ MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	2.98%	3.42%	FTSE All Share	6.36%	8.86%
Marathon	Active Listed Equity	11.62%	12.08%	MSCI AC World	10.45%	12.45%
Newton	Active Listed Equity	13.35%	13.58%	MSCI AC World	10.46%	12.46%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	0.22%	0.49%	Total Return Fund (+6% target return)	6.00%	6.00%
Franklin Templeton*	Absolute Return Fund	-1.83%	-1.83%	Barclays Multiverse Index (+5.5% target return)	5.50%	5.50%

CBRE	Property Fund	10.46%	10.82%	IPD UK All Balanced Funds	6.20%	6.70%
Baillie Gifford	Diversified Growth Fund	0.27%	0.14%	UK Base Rate	0.67%	3.50%
Ruffer	Diversified Growth Fund	-0.68%	-0.68%	UK Base Rate	0.67%	3.00%
Aviva	Diversified Growth Fund	-1.18%	-1.36%	UK Base Rate	0.67%	5.00%
Alternatives	Private Equity/ Infrastructure	18.04%	18.04%	MSCI World Index	20.76%	5.00%



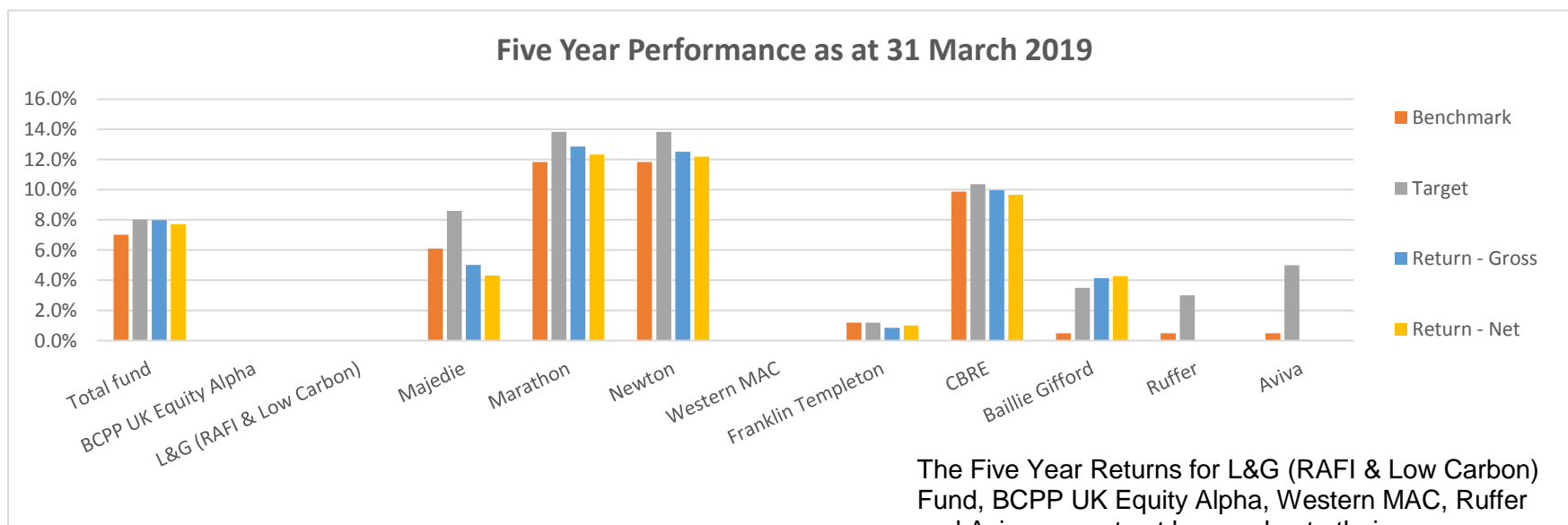
Manager	Asset Category	Net of Fees Performance	Gross of Fees Performance	Benchmark Index	Benchmark Performance	Target Return Relative to Benchmark (Gross) 3 Year (%)
		3 Year (%)	3 Year (%)		3 Year (%)	
Total fund		9.30%	9.50%	Customised	8.40%	9.40%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-		MSCI World/ MSCI World Low Carbon	-	-
Majedie	Active Listed Equity	7.8%	8.2%	FTSE All Share	9.5%	12.0%
Marathon	Active Listed Equity	14.1%	14.6%	MSCI AC World	14.3%	16.3%
Newton	Active Listed Equity	12.8%	13.1%	MSCI AC World	14.4%	16.4%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	4.6%	4.8%	Total Return Fund (+6% target return)	6.0%	6.0%
Franklin Templeton*	Absolute Return Fund	3.5%	3.3%	Barclays Multiverse Index (+5.5% target return)	5.5%	5.5%

CBRE	Property Fund	7.5%	7.8%	IPD UK All Balanced Funds	7.1%	7.6%
Baillie Gifford	Diversified Growth Fund	5.2%	5.0%	UK Base Rate	0.5%	4.0%
Ruffer	Diversified Growth Fund	-	-	UK Base Rate	0.5%	-
Aviva	Diversified Growth Fund	-	-	UK Base Rate	0.5%	-
Alternative Funds	Private Equity/ Infrastructure	14.83%	14.83%	MSCI World Index	21.66%	5.00%



Manager	Asset Category	Net of Fees Performance 5 Year (%)	Gross of Fees Performance 5 Year (%)	Benchmark Index	Benchmark Performance 5 Year (%)	Target Return Relative to Benchmark (Gross) 5 Year (%)
Total fund		7.7%	8.00%	Customised	7.00%	8.00%
Asset pool managed investments						
BCPP UK Equity	Active Listed Equity	-	-	FTSE All Share	-	-
Non-asset pool managed investments						
L&G (RAFI Multi Factor & Low Carbon)	Passive Listed Equity	-		MSCI World/ MSCI World Low Carbon		
Majedie	Active Listed Equity	4.3%	5.0%	FTSE All Share	6.1%	8.6%
Marathon	Active Listed Equity	12.3%	12.9%	MSCI AC World	11.8%	13.8%
Newton	Active Listed Equity	12.2%	12.5%	MSCI AC World	11.8%	13.8%
Western – MAC	Multi Asset Credit Fund (Fixed Income)	-	-	Total Return Fund (+6% target return)		6.00%
Franklin Templeton*	Absolute Return Fund	1.0%	0.8%	Barclays Multiverse Index (+5.5% target return)	1.2%	1.2%

CBRE	Property Fund	9.7%	10.0%	IPD UK All Balanced Funds	9.9%	10.4%
Baillie Gifford	Diversified Growth Fund	4.3%	4.1%	UK Base Rate	0.5%	4.0%
Ruffer	Diversified Growth Fund	-	-	UK Base Rate	0.5%	0.5%
Aviva	Diversified Growth Fund	-	-	UK Base Rate	0.5%	0.5%
Alternative Funds	Private Equity/ Infrastructure	15.49%	15.49%	MSCI World Index	16.67%	5.00%



Fund Policies



Investment Strategy Statement

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

1. Introduction

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

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

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

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

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

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

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

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

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

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

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

Key Investment Beliefs

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

(i) Investment Governance

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

-

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

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

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

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(ii) Long Term Approach

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

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

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

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

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

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

(iii) Appropriate Investments

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

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

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

(iv) Management Strategies

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

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

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

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

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

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

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

Objectives

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

- i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.
- ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the value of the Fund's liabilities.

- iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.
- iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.
- v. To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- vi. To achieve an overall Fund return 1% per annum in excess of the combined portfolio benchmark over rolling three-year periods.

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

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

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

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

Growth Fixed Income Assets	12.1	9.1-15.1	
Total Return	2.4		Offer diversified, unconstrained exposure to global fixed income markets.
Multi Asset Credit	9.7		Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Inflation Linked Gilts	5.5	2.5-8.5	
Index Linked Gilts	5.5		Low risk income stream with an explicit linkage to inflation.
Total	100.0		

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

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

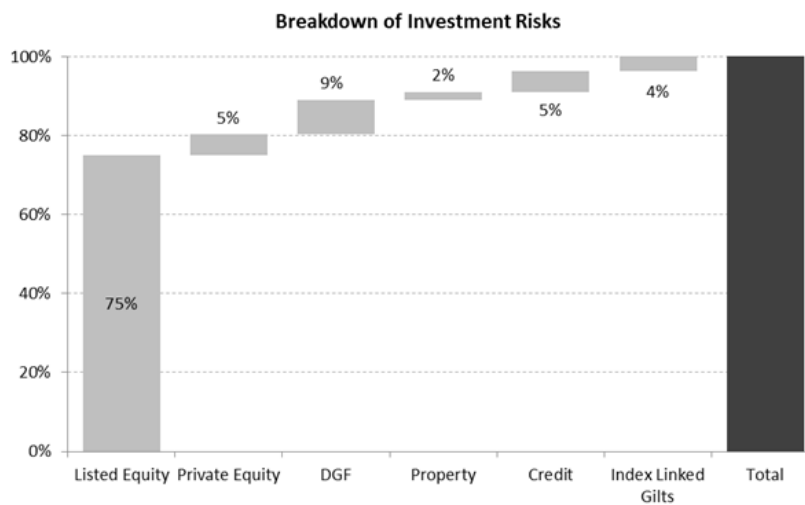
3. Risk measurement and management

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

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

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

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



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

The following risks are recognised and considered by the Committee:

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

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

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

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

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

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes

that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

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

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

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

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

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

Environmental, Social and Governance: the Committee wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Committee requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

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

4. Approach to asset pooling

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

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

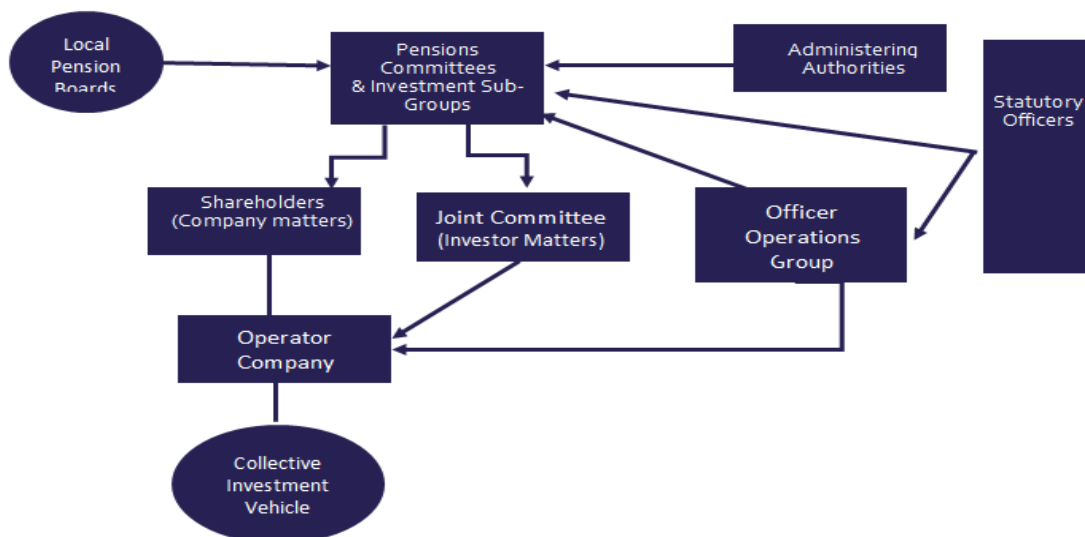
BCPP is a partnership of the following administering authorities:

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

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

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

The governance structure of BCPP is as follows:



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

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

- - Officer support to the representatives from the Officer Operations Group and the Statutory Officer Group.

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

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

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

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

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

The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues. However external fund managers are expected to take into account ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection.

The Fund also holds expectations of its fund managers to hold companies to account reference the highest standards of behavior and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria.

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

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

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

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

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

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

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

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

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

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

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

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

Principle 3: Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

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

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

In addition, quarterly reports of voting actions are posted on the Fund's website (www.surreypensionfund.org)

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

Advice Taken

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

Appendix A: Myners Investment Principles Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

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

✓ Full compliance

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

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

Principle 2: Clear Objectives

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

✓ Full compliance

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

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

Principle 3: Risk and liabilities

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

✓ **Full compliance**

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

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

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

Principle 4: Performance assessment

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

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

✓ **Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

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

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

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment

principles.

- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

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

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

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

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

Principle 6: Transparency and reporting

Administering authorities should:

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

✓ **Full compliance**

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

Quarterly reports to the 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: Investment Manager Performance Targets and Benchmarks

Manager	Portfolio	Allocation (%)	Benchmark Index	Performance Target
BCPP	UK Equities	12.0	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only	5.5	FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods

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

*See Appendix C

Appendix C: BCPP Responsible Investment Policy (November 2018)

The Appendix C BCPP Responsible Investment Policy has been shown separately in the *Responsible Investment Policy* Section of Surrey Pension Fund's Annual Report 2018-19 from page

Appendix D: BCPP Corporate Governance and Voting Guidelines (November 2018)

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 is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

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

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

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

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

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

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

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

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

Composition and independence

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

The board of large 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, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

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 ten years will be assessed on a case-by-case basis.

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

- Representing a significant shareholder.

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

Leadership

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

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

Non-executive Directors

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

Diversity

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

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

Succession planning

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

Directors' availability and attendance

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

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

Re-election

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

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

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

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

Directors' remuneration

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

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

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

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

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

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

Annual bonus

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

Long-term incentives

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

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

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

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

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

Corporate reporting

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

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

Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

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

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. 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 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 where there are differing views on issues.

Shareholder rights

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

Dividends

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

Voting rights

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

Authority to issue shares

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

Disapplication of Pre-emption Rights

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

Share Repurchases

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

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Virtual Shareholder General Meetings

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

Shareholder Proposals

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

Investment trusts

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

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

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

Appendix E: Private Equity

The table below outlines details on the Fund's private equity commitments. The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Committee reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund. Fees paid to managers vary due to the levels of risk taken and the geographic areas in which

the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers.

Name	Currency	Inception	Commitment
UK Funds			£/€/ \$m
HG Capital 5	£	2006	7.9
HG Capital 6	£	2009	9.4
HG Capital 7	£	2013	15.0
Livingbridge 4 LP	£	2007	13.0
Livingbridge Enterprise 1 LP	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Darwin Property Fund	£	2017	40.0
Capital Dynamics LGPS CPAV	£	2016	24.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	\$	2013	20.0
Standard Life SOF II	\$	2014	20.0
Standard Life SOF III	\$	2016	25.0
Standard Life SOF III	\$	2016	20.0
Glennmont Clean Energy Europe III	€	2018	45.0
US Fund of Funds			
Blackrock Div PEP I	\$	2001	5.0
Blackrock Div PEP II	\$	2001	5.0
Blackrock Div EP III	\$	2005	17.5
GSAM PEP 2000	\$	2000	9.5
GSAM PEP 2004	\$	2004	10.0
GSAM PEP 2005	\$	2006	17.0
GSAM PEP X	\$	2008	18.0

GSAM PEP XI	\$	2011	40.0
GSAM Vintage Fund VI	\$	2013	20.0
GSAM Vintage Fund VII	\$	2016	50.0
GSAM West Street Infrastructure	\$	2017	20.0
Pantheon Global Infrastructure Fund III	\$	2017	60.0
US Funds			
Capital Dynamics US Solar Fund	\$	2011	24.9

Responsible Investment Policy

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

For assets managed in the 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.

Appendix C: BCPP Responsible Investment Policy (November 2018)

Responsible Investment Policy

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

1. Introduction

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

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

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and

representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

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

2. What is responsible investment?

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

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

3. Governance and Implementation

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

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

4. Skills and competency

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

5. Integrating RI into investment decisions

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

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

Environmental	Social	Governance	Other
Climate change Resource & energy management	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 Bribery & corruption

5.1. Listed Equities (Internally managed)

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

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

5.2. Private Markets

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

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

- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

5.3. Fixed Income

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

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

5.4. External Manager Selection

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

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

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

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore 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 the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)¹ recommendations.

¹ The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
<https://www.fsb-tcfd.org/publications/finalrecommendations-report/>

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

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code² and the UN Principles of Responsible Investment³.

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 here xxxxxx.

A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. 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.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Procedures are in place to enable

² The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

<https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx>

³ The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

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

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

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

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

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies 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 and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

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 compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various

engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact⁴ 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.

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

6.3. 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.

7. 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.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. 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.

9. 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.

⁴UN 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.

Appendix D: BCPP Corporate Governance and Voting Guidelines (November 2018)

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 is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

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

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

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

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

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

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

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

Composition and independence

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

The board of large 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, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

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 ten years will be assessed on a case-by-case basis.

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

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

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

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

Non-executive Directors

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

Diversity

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

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

Succession planning

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

Directors' availability and attendance

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

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

Re-election

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

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

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

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

Directors' remuneration

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

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

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

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

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

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

- **Annual bonus**

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

- **Long-term incentives**

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

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

receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

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

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

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

Corporate reporting

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

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

Audit

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

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. 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 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 where there are differing views on issues.

Shareholder rights

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

• Dividends

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

• Voting rights

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting.

There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

Shareholder Proposals

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

Investment trusts

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

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

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

Funding Strategy Statement

The FSS is reviewed in detail at least every three years as part of the triennial valuation. The full Funding Strategy Statement can be found using the link below;

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 2017.

1.2 What is the Surrey Pension Fund?

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 Principles / Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- to achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- 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, and in what circumstances you might need to pay more. 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.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Neil Mason (Senior Specialist Advisor) in the first instance at neil.mason@surreycc.gov.uk or on telephone number 020 8213 2739.

2 Basic Funding issues

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

2.1 How does the actuary measure 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 probability of achieving that funding target over that time horizon, allowing for different likelihoods of 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 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 will aim to return the employer to full funding over an appropriate period (the "time horizon"). 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 DCLG 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 measured 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). However, 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, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). 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 **probability 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, or potentially ceasing from the Fund, then the required probability 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 deficit (or surplus) 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 deficit/surplus and funding level 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).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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 probability 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 deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

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 probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "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 may, at its sole discretion, 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 probability 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 be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities, Police and Town/Parish Councils	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	17 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount/% of payroll	Monetary amount/% of payroll	Monetary amount/% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term	
Probability of achieving target – Note (e)	66%	80% 75% if form of security offered	70% if part of a MAT/75% if standalone	70% if guaranteed by LA 75% if form of security offered 80% otherwise	70% if guaranteed by LA 75% if form of security offered 80% otherwise	70% if guaranteed by LA 75% if other form of security offered or has other guarantor (not LA) 80% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					To be reviewed in last 3 years of contract

New employer	n/a	n/a	Note (g)	Note (h)	Notes (h) & (i)
Cessation of participation: cessation debt payable	Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (i) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (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. using a discount rate set equal to 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.

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 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

- Total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

- The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. 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.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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.

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.

Note (e) (Probability 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 probability. A higher required probability 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 probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability 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.

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.

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 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 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 initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;
- 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.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. 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.

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 fall in gilt yields;
- 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.

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 at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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 as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission 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.

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 it should be noted that current legislation does not permit a refund payment to the Admission Body.

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 deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing 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 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. 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 would 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, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation 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.

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 from the 2016 valuation onwards.

Employers who are permitted to enter (or remain in) a pool at the 2016 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 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 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.

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.

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the cost will be recovered from the Fund's internal ill health insurance as outlined below.

3.8 Internal ill health insurance

The Fund 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.

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 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 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 Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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.

The same investment strategy is currently followed for all employers.

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 asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is 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](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 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 Department of Communities & Local Government (DCLG) 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 DCLG 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, DCLG 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.

DCLG 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 Department for Communities and Local Government (DCLG) 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 1 February 2017 for comment;
- b) Comments will be requested within 30 days;
- c) Following the end of the consultation period the FSS will be updated where required and then published before 1 April 2017.

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. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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 Statement of Investment Principles/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 Statement of Investment Principles/Investment Strategy Statement (SIP/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 SIP/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 SIP/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 SIP/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 SIP/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;
- the Department for Communities and Local Government (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 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>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</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 3.9).</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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:

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

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 results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
<p>Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).</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, where-ever possible (see Notes (h) and (j) to 3.3).</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> <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>

Risk	Summary of Control Mechanisms
	<p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</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.

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, eg investment returns, inflation, pensioners' life expectancies. However, 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 of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). 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;
3. The required **probability 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, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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 funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG 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 probability, 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 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. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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 combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, 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 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. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

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;
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 probability of achieving the funding target.

D5 How is each employer's asset share calculated?

Until 31 March 2016 the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- member specific salary and pension increases but instead uses weighted averages
- differences in values placed on liabilities due to changes in assumptions at transfer dates and formal valuation dates
- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted until 31 March 2016 meant that there were inevitably some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided to adopt a different apportionment approach going forward.

With effect from 1 April 2016, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for actual monthly Fund returns and monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for tracking employers' assets.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). 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 measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

- **Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term expectations of the Consumer Price Inflation (CPI) index. There is, however, no guarantee that Fund returns will out-perform the CPI index. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.1% per annum greater than CPI inflation at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

- **Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. Retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 0.7%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

- **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.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

- **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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 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 is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.5 years on average, which reduces the 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.

- **General**

The same financial assumptions are adopted for most employers, 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

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie 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 their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See Appendix D for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Governance Compliance Statement

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

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

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

Principle	Surrey's Approach	Compliance
STRUCTURE		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Committee. The Committee is responsible for these areas under the terms of reference contained in the Council's Constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Committee. The Committee comprises county councilors, borough/district councilors, an external employer representative and a union representative to	Comply

	represent employees and pensioners. All Committee members have full voting rights.	
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is currently no secondary committee..	n/a
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	There is currently no secondary committee.. Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Committee.	n/a
Principle	Surrey's Approach	Compliance
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:	With over 150 employer bodies, not all stakeholders are directly represented on the Pension Fund Committee. All stakeholders are free to make representations in writing to	Explain

<ul style="list-style-type: none"> employing authorities (including non-scheme employers, e.g., admitted bodies); 	<p>the Committee. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Committee.</p>	
<ul style="list-style-type: none"> scheme members (including deferred and pensioner scheme members); 	<p>The Pension Fund Committee membership includes a trade union representative.</p>	Comply
<ul style="list-style-type: none"> independent professional observers; and 	<p>The Committee employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Committee meetings.</p>	Comply
<ul style="list-style-type: none"> expert advisors (on an ad hoc basis). 	<p>Expert advisors attend the Committee as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.</p>	Comply
<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>All members are treated equally in terms of access to papers and to training that is given as part of the Committee processes.</p>	Comply

Principle	Surrey's Approach	Compliance
SELECTION AND ROLE OF LAY MEMBERS		
That Committee or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Committee members are given initial and ongoing training to support them in their role as trustees.	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Committee because the Council retains legal responsibility as the administering authority.	Comply
TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Pension Fund Committee members receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all members of the Pension Fund Committee. All members currently enjoy voting rights.	Comply

Principle	Surrey's Approach	Compliance
MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	There is currently no secondary committee.	n/a
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Committee welcomes representations on any issue in writing at any time.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Fund Committee have equal access to committee papers, documents and advice.	Comply

Principle	Surrey's Approach	Compliance
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Committee. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment, administration and governance issues. A business plan is approved each year.	Comply
PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

Governance Policy Statement

Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

Overall governance framework

Delegation of functions and allocation of responsibility for:

- Administration
- Funding
- Investment
- Communication
- Risk management

Terms of reference and decision making:

- Structure of committees and representation
- Voting rights

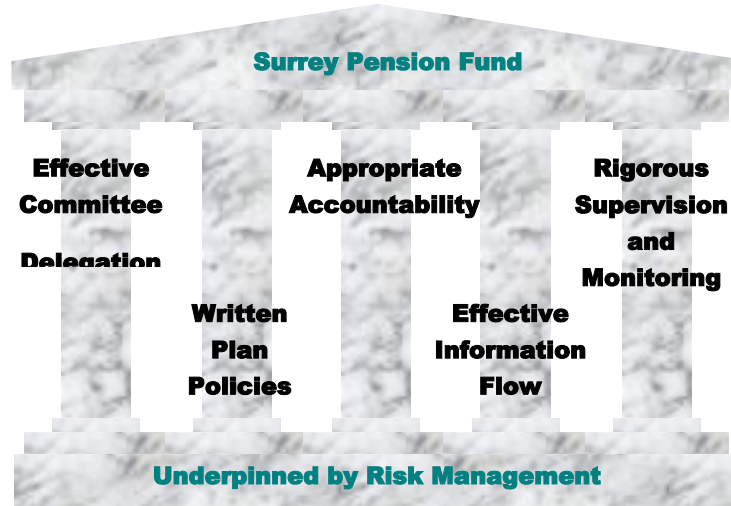
Operational procedures:

- 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 Finance/ Strategic Finance Manager (Pensions)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee. Delegated authority to the Chief Finance Officer to take any urgent action as required between Committee meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Committee and any relevant Consultant and/or Independent Advisor.
H4	Lead Pensions Manager	

H5	Director of Finance	<p>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.</p> <p>To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.</p>
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Statement of Responsibilities and Certification of Accounts

The Responsibilities of the County Council

The County Council is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer & Deputy Director for Business Services (Chief Finance Officer).
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the statement of accounts.

The Responsibilities of the Chief Finance Officer

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

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice

The Chief Finance Officer has also:

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

I certify that the statement of accounts set out in this report present a true and fair view of the Surrey County Council Pension Fund at 31 March 2019 and its income and expenditure for the year then ended.

Leigh Whitehouse

Executive Director of Resources (s151 Officer)

Independent auditor's report to the members of Surrey County Council on the consistency of the financial statements of Surrey Pension Fund included in the Pension Fund Annual Report Opinion

The pension fund financial statements of Surrey Pension Fund (the 'pension fund') administered by Surrey County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 31st July 2019.

Executive Director of Resources (s151 Officer) responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Executive Director of Resources (s151 Officer) of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements. Grant Thornton UK LLP. 2

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ciaran McLaughlin

Ciaran McLaughlin for and on behalf of Grant Thornton UK LLP, Local Auditor
110 Bishopsgate
London

EC2N 4AY

Surrey Pension Fund Accounts 2018/19

The Pension Fund Draft Accounts 2018/19 were presented to and approved by the Pension Fund Committee on 7 June 2019. Upon review of the draft accounts, there have been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit. The audited accounts were then presented and approved by the Audit and Governance Committee on 29 July 2019.

The full Surrey Pension Fund Accounts can be found below

Surrey Pension Fund - Fund account

2017/2018		Note	2018/2019
£000			£000
	Contributions and benefits		
178,283	Contributions receivable	7	176,776
<u>12,881</u>	Transfers in	8	<u>14,954</u>
191,164			191,730
-144,146	Benefits payable	9	-149,832
-9,527	Payments to and on account of leavers	10	-10,946
-12,222	Investment and governance expenses	14	-13,641
<u>-1,626</u>	Administration expenses		<u>-1,829</u>
-167,521			-176,248
	Net additions from dealings		
<u>23,643</u>	with members		<u>15,482</u>
	Return on investments		
65,751	Investment income	16	59,055
-1,032	Taxes on income		-785
<u>98,662</u>	Change in market value of investments	17	<u>185,943</u>
163,381	Net return on investments		244,213
	Net increase in the fund		
<u>187,024</u>	during the year		<u>259,695</u>
	Net assets of the fund		
3,868,859	At 1 April		4,055,883
<u>4,055,883</u>	At 31 March		<u>4,315,578</u>

Surrey Pension Fund - Net asset statement

31 Mar 2018		Note	31 Mar 2019
£000			£000
	Investment assets	17	
601,208	Bonds		706,529
2,413,734	Equities		2,489,806
321,737	Property unit trusts		283,240
394,288	Diversified growth		402,589
155,782	Private equity		255,964
	Derivatives	17c	
	- Futures		
1,327	- Foreign exchange contracts		1,329
80,636	Cash		150,680
60,000	Other short term investments		0
4,740	Other investment balances	17b	3,407
	Investment liabilities		
	Derivatives	17c	
0	- Futures		0
-1	- Foreign exchange contracts		-1,452
-3,393	Other investment balances	17b	-3,445
0	Borrowings		0
4,030,058	Net investment assets		4,288,647
7,260	Long-term debtors	12	5,450
29,861	Current assets	11	30,635
-11,296	Current liabilities	13	-9,154
4,055,883	Net assets of the fund at 31 March		4,315,578

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.

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 2018 and 31 March 2019 are:

Surrey Pension Fund	31 Mar 2018	31 Mar 2019
Total Number of Employers	251	271
Employees in the Scheme		
Surrey County Council	18,148	17,151
Other Employers	17,654	17,141
Total	35,802	34,292
Pensioners		
Surrey County Council	12,105	12,721
Other Employers	13,030	13,208
Total	25,135	25,929
Deferred Pensioners		
Surrey County Council	28,678	31,342
Other Employers	16,401	18,632
Total	45,079	49,974
Total Number of Members	106,016	110,195

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	Service 1 April 2008 until 31 March 2014
Basis of pension	<ul style="list-style-type: none"> 1/80th of final salary 	1/60 th 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 (<http://www.surreypensionfund.org>).

	Service 1 April 2008 until 31 March 2014	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 th of salary	1/49 th 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 th accrual based on Tier 1 ill health pension enhancement	1/160 th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

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

LGPS 2014 employee contribution rates for 2018/19	
Pensionable payroll banding	Contribution rate
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
More than £157,801	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 2018/19.

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 is 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 2019 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

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

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

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

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.

No 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 in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

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 2019 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
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<p>Actuarial present value of promised retirement benefits</p>	<p>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.</p>	<p>The net pension liability of the fund would change.</p> <p>a +0.5% increase in Pensions Increase Rate will increase liabilities by £574m</p> <p>a +0.5% increase in Salary Increase Rate will increase liabilities by £87m</p> <p>a +0.5% increase in the Discount Rate will increase liabilities by £674m</p> <p>a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p>
<p>Private equity</p>	<p>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.</p>	<p>The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.</p>
<p>Fund of fund investments</p>	<p>Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions</p>	<p>The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.</p>

Note 6: Events after the balance sheet date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

Note 7: Contributions receivable

By category

2017/2018		2018/2019
£0		£0
38,121	Total Employees' Contributions	38,502
	Employers' Contributions	
97,181	Normal Contributions	95,662
0	Augmentation Contributions	0
42,981	Employers deficit	42,612
140,162	Total Employers' Contributions	138,274
178,283		176,776

2017/2018		2018/2019
£000		£000
83,861	Administering authority	80,839
86,022	Scheduled bodies	87,698
8,400	Admitted bodies	8,239
178,283		176,776

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2017/2018		2018/2019
£000		£000
12,881	Individual transfers in from other schemes	14,954
12,881		14,954

Note 9: Benefits payable

By category

2017/18		2018/19
£000		£000
119,064	Pensions	126,014
21,606	Commutation and lump sum retirement benefits	19,571
3,399	Lump sum death benefits	4,146
77	Interest on late payment of benefits	101
144,146		149,832

By employer

2017/2018		2018/2019
£000		£000
69,429	Administering Authority	70,690
63,619	Scheduled Bodies	67,001
11,098	Admitted Bodies	12,141
144,146		149,832

Note 10: Payments to and on account of leavers

2017/2018		2018/2019
£000		£000
9,257	Group transfers to other schemes	10,732
283	Refunds of contributions	217
-13	Payments for members joining state schemes	-3
9,527		10,946

Note 11: Current assets

2017/2018		2018/2019
£000		£000
3,215	Contributions - employees	2,391
9,838	Contributions - employer	10,847
16,808	Sundry debtors	17,397
29,861		30,635

Analysis of current assets

2017/2018		2018/2019
£000		£000
5,612	Central government bodies	2,535
19,122	Other local authorities	23,435
5,128	Other entities and individuals	4,665
29,861		30,635

Note 12: Long term debtors

2017/2018		2018/2019
£000		£000
7,260	Central government bodies	5,450
7,260		5,450

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

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

Note 13: Current liabilities

2017/2018		2018/2019
£000		£000
11,094	Sundry creditors	8,885
202	Benefits payable	269
11,296		9,154

Analysis of current liabilities

2017/2018		2018/2019
£000		£000
1,418	Central government bodies	1,345
6,254	Other local authorities	4,424
3,624	Other entities and individuals	3,385
11,296		9,154

Note 14: Investment and governance expenses

2017/2018		2018/2019
£000		£000
11,262	Investment management fees	10,256
239	Investment custody fees	171
721	Oversight and governance costs	3,214
12,222		13,641

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

Note 15: External Audit Costs

2017/2018		2018/2019
£000		£000
<u>31</u>	Payable in respect of external audit	<u>21</u>
31		21

Note 16: Investment income

2017/2018		2018/2019
£000		£000
	Bonds	
3,667	UK	0
7,468	Overseas	5,491
	Equities	
24,959	UK	23,526
11,260	Overseas	13,733
9,062	Property unit trusts	11,101
1,052	Diversified growth	1,693
2,315	Private equity	2,821
4,807	Interest on cash deposits	519
1,161	Other	171
<u>65,751</u>		<u>59,055</u>

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2018	Reclassified Asset	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
Bonds	601,208		100,492	0	4,829	706,529
Equities	2,413,734		4,008,340	-4,070,705	138,437	2,489,806
Property unit trusts	321,737	-60,000	81,225	-65,569	5,847	283,240
Diversified growth	394,288		12,111	0	-3,810	402,589
Private equity	155,782	60,000	80,374	-91,286	51,094	255,964
Derivatives						
- Futures						
- Forex contracts	1,326		66,507	-37,130	-30,826	-123
	3,888,075	0	4,349,049	-4,264,690	165,571	4,138,005
Cash	80,636					150,680
Other Short Term Investments	60,000					
Other investment balances	1,347					-38
					20,372	
	4,030,058				185,943	4,288,647

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

	Market value at 31 Mar 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2018
	£000	£000	£000	£000	£000
Bonds	583,327	304,323	-283,524	-2,918	601,208
Equities	2,288,136	1,938,482	-1,845,436	32,552	2,413,734
Property unit trusts	275,367	88,284	-54,202	12,288	321,737
Diversified growth	390,257	2,327	0	1,704	394,288
Private equity	145,228	53,184	-50,680	8,050	155,782
Derivatives					
- Futures		311	-406	95	
- Forex contracts	-45	28,423	-68,141	41,089	1,326
	3,682,270	2,415,334	-2,302,389	92,860	3,888,075
Cash	117,498				80,636
Other Short Term Investments	42,000				60,000
Other investment balances	3,344				1,347
				5,802	
	3,845,112			98,662	4,030,058

Note 17b: Analysis of investments

	31 Mar 2018	31 Mar 2019	
	£000s	£000s	
Fixed interest securities			
UK public sector & quoted	205,115	211,246	Level 2
Overseas pooled fund	396,093	495,283	Level 1
	601,208	706,529	
Equities			
UK quoted	605,423	219,113	Level 1
UK pooled funds	418,042	492,713	Level 1
Overseas quoted	320,896	309,803	Level 1
Overseas pooled funds	1,069,373	1,468,177	Level 1/2
	2,413,734	2,489,806	
Property unit trusts			
UK property funds	279,879	206,301	Level 2/3
Overseas property funds	41,858	76,939	Level 2/3
	321,737	283,240	
Diversified growth			
Overseas diversified growth funds	394,288	402,589	Level 1
	394,288	402,589	
Private equity			
UK limited partnerships	22,717	104,877	Level 3
Overseas limited partnerships	41,411	51,366	Level 3
Overseas fund of funds	91,654	99,721	Level 3
	155,782	255,964	
Derivatives			
FX forward contracts	1,326	-123	Level 2
	1,326	-123	
Cash deposits	80,636	150,680	Level 1
Other short term investments	60,000	0	
Other investment balances			
Outstanding sales	357	1,137	Level 2
Outstanding purchases	-3,393	-3,444	Level 2
Accrued income - dividends and interest	4,383	2,269	Level 2
	1,347	-38	
Total investments	4,030,058	4,288,647	

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

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 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

2018/19		Contract settlement date within		Currency		Notional amount (local currency)		Asset	Liability
No of contracts		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000		
1	One Month	GBP	JPY	143	-20,803	0			-1
2	One Month	JPY	GBP	99,626	-685	6			0
3	Three Months	GBP	JPY	77,360	-11,150	0			-78
3	Three Months	GBP	EUR	149,652	-171,767	1,323			0
7	Three Months	GBP	USD	442,232	579,813	0			-1,373
						1,329	-1,452		
<hr/>									
2017/18		Contract settlement date within		Currency		Notional amount (local currency)		Asset	Liability
No of contracts		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000		
1	One Month	GBP	JPY	137	-20,650	0			0
5	Two Months	GBP	EUR	118,450	-134,064	702			0
5	Two Months	GBP	JPY	66,837	-9,954,387	19			0
8	Two Months	GBP	USD	374,615	-525,891	606			0
						1,327	0		

Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018, and 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 2018		Manager	Market value 31 March 2019	
£000	%		£000	%
0	0.0	Border to Coast UK Equity Alpha	464,200	11.1
0			464,200	

Investments managed outside of Border to Coast Pensions Partnership Ltd;

£000	%		£000	%
1,151,591	28.6	Legal & General Investment Management (LGIM)	1,190,723	28.3
373,811	9.3	Majedie Asset Management	243,621	5.8
311,993	7.7	UBS Asset Management	0	0
498,553	12.4	Marathon Asset Management	505,222	12.0
317,106	7.9	Newton Investment Management	333,760	7.9
322,509	8.0	Western Multi Asset Credit	422,967	10.1
73,663	1.8	Franklin Templeton Investments	72,316	1.7
150,596	3.7	Baillie Gifford Life Limited	161,151	3.8
260,170	6.5	CBRE Global Multi-Manager	287,636	6.8
122,576	3.0	Ruffer	121,748	2.9
121,117	3.0	Aviva	119,691	2.8
3,703,685			3,458,835	
3,703,685			3,923,035	

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

The following investments represent more than 5% of the net assets of the fund

Market value 31 March 2018		Security	Market value 31 March 2019	
£000	%		£000	%
494,553	12.2	Marathon Global Contractual Fund	501,089	11.6
114,467	2.8	LGIM - TLCV Bespoke (34048)	492,637	11.4
0	0	Border to Coast UK Equity Alpha	464,200	10.8
322,431	8.0	Western Multi-Asset Credit EUR AC	422,967	9.8
0	0	LGIM – MSCI World Low Carbon	352,109	8.2
0	0	LGIM – Rafi Multi Factor	345,977	8.0
496,453	12.2	LGIM World Developed Equity Index	0	0
376,553	9.3	Legal & General UK Equity Index	0	0
1,804,457			2,578,979	

Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierachy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled Investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward	Not required
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	EBITDA multiple Revenue multiple Discount for lack of	Valuations could be affected by material events occurring between

	of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	marketability Control premium	the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
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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 2019.

	Assessed Valuation Range (+/-) %	Value at 31 March 2019 £000	Value on Increase £000	Value on Decrease £000
Private Equity	10%	255,964	281,560	230,368
Property funds	10%	142,704	156,974	128,433
Total		398,668	438,434	358,801

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 16 above) produce different price results

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

	Market value at 31 Mar 2018	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 2019
	£000	£000	£000	£000	£000	£000
Equities	2,904	132	0	-2,591	-445	0
Property unit trusts	64,859	68,913	18,813	-20,416	10,535	142,704
Private equity	155,782	60,000	38,418	-51,286	53,050	255,964
	223,545	129,045	57,231	-74,293	63,140	398,668

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 2018

As at 31 March 2019

Designated as fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs	Designated as fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000	£000	£000	£000
			Financial assets		
601,208			Bonds	706,529	
2,413,734			Equities	2,489,806	
321,737			Property unit trusts	283,240	
394,288			Diversified growth	402,589	
155,782			Private equity	255,964	
1,327			Derivatives	1,329	
	80,636		Cash		150,680
	60,000		Other short term investments		
4,740			Other investment balances	3,407	
	37,121		Debtors		36,085
3,892,816	177,757		Total financial assets	4,142,864	186,765
Financial liabilities					

-1		Derivatives	-1,452	
-3,393		Other investment balances	-3,445	
	-11,296	Creditors Borrowings		-9,154
-3,394	-11,296	Total financial liabilities	-4,897	-9,154
3,889,422	177,757		4,137,967	186,765
				-9,154

Note 18d: Net gains and losses on financial instruments

31 March 2018		31 March 2019	
£000		£000	
Financial Assets			
92,860	Designated at Fair Value through profit and loss	196,397	
5,802	Loans and Receivables	20,210	
Financial Liabilities			
0	Fair Value through profit and loss	-30,826	
0	Financial liabilities at amortised cost		
98,662	Total	185,781	

Note 18e: Fair Value Hierarchy

31 March 2019	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at Fair Value	2,420,590	1,332,588	398,668	4,151,846
Loans and Receivables	52,520	1,230	0	53,750
Financial Liabilities at Fair Value	0	-4,897	0	-4,897
Net financial assets	2,473,110	1,328,921	398,668	4,200,699

As per the advice of Legal & General Investment Management (LGIM), The Fund had chosen to reclassify its passive assets held as at 31 March 2019, from Level 1 to Level 2 investments. The value of the Fund's passive assets as at 31 March 2019 was £1.191bn, which had all been reclassified as Level 2.

31 March 2018	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	

	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at Fair Value	3,462,847	206,021	223,545	3,892,413
Loans and Receivables	48,061	3,367	0	51,428
Financial Liabilities at Fair Value	0	-3,393	0	-3,393
Net financial assets	3,510,908	205,995	223,545	3,940,448

Note 18f: Book cost

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

Note 19: Outstanding commitments

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £195.1million (£127million as at 31 March 2018)

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

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 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2019 £000	Change	Value on increase £000	Value on decrease £000
UK equities	711,826	9.90%	782,308	641,344
Overseas equities	1,777,980	9.28%	1,942,938	1,613,022
Bonds	495,283	4.06%	515,368	475,198
Index-linked	211,246	9.81%	231,966	190,526
Cash	150,680	0.50%	151,433	149,927
Other short term investments	0	0.50%	0	0
Property	283,240	4.33%	295,504	270,976
Alternatives	255,964	6.01%	271,348	240,580
Diversified growth fund	402,589	4.14%	419,244	385,934
Other assets	-161	0.50%	-162	-160

Total Investment Assets	4,288,647	4.60%	4,485,771	4,091,523
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Asset type	Value at 31 March 2018 £000	Change	Value on increase £000	Value on decrease £000
UK equities	1,023,466	9.35%	1,119,188	927,744
Overseas equities	1,390,269	9.54%	1,522,927	1,257,611
Bonds	396,093	4.38%	413,439	378,747
Index-linked	205,115	10.00%	225,627	184,604
Cash	80,636	0.03%	80,663	80,609
Other short term investments	60,000	0.03%	60,020	59,980
Property	321,737	3.46%	332,866	310,608
Alternatives	155,782	6.61%	166,079	145,485
Diversified growth fund	394,288	3.74%	409,037	379,539
Other assets	2,625	0.03%	2,626	2,624
Total Investment Assets	4,030,011	6.01%	4,272,248	3,787,774

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2018 £000		As at 31 March 2019 £000	
80,636	Cash & cash equivalents	150,680	
60,000	Other short term investments	0	
396,093	Fixed interest securities	495,283	
536,729	Total	645,963	

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2019 £000	Change in net assets	
		+100 bps £000	- 100 bps £000
Cash & cash equivalents	150,680	1,507	-1,507
Other short term investments	0	0	0
Fixed interest securities	495,283	4,953	-4,953
Total	645,963	6,460	-6,460

Asset type	Carrying amount as at 31 March 2018 £000	Change in net assets	
		+100 bps £000	- 100 bps £000
Cash & cash equivalents	80,636	806	-806
Other short term investments	60,000	600	-600
Fixed interest securities	396,093	3,961	-3,961
Total	536,729	5,367	-5,367

An adjustment has been made for the 2018 Interest rate sensitivity analysis to show the monetary changes as 100bps as opposed to 10bps

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 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2019 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,479,276	11.54%	1,649,999	1,308,553
Fixed interest	495,283	11.54%	552,443	438,123
Property and Private Equity	228,026	11.54%	254,342	201,710
Diversified Growth	402,589	11.54%	449,052	356,126
Cash and Other Assets	14,026	11.54%	15,645	12,407
Total	2,619,200	11.54%	2,921,481	2,316,919

Asset type	Value at 31 March 2018 £000	% Change	Value on increase £000	Value on decrease £000
Equities	877,881	4.93%	921,173	834,589
Fixed interest	396,093	4.93%	415,626	376,560
Property and Private Equity	174,923	4.93%	183,549	166,297
Diversified Growth	394,288	4.93%	413,732	374,844
Cash and Other Assets	7,397	4.93%	7,762	7,032
Total	1,850,582	4.93%	1,941,842	1,759,322

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 2019.

Fixed Term Deposits	No. of days	Balance at 31 March 2019 £000
Other short term investments		0

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

Balance at 31 March 2018 £000		Balance at 31 March 2019 £000
	Call account	
20,000	Lloyds	19,000
	Money market fund	
4,000	Goldman Sachs	25,000
5,500	Aberdeen MMF	25,000
	Current account	
64	HSBC	18,948
29,564	Internally Managed Cash	87,948
51,072	Externally Managed Cash	62,732
80,636	Total Cash	150,680

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

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 2018/19 amounted to £63,982k (£62,796k in 2017/18).

2017/2018 £000		2018/2019 £000
41,031	Employers' current service contributions	41,466
21,286	Lump sum payments to recover the deficit in respect of past service	21,299
479	Payments into the fund to recover the additional cost of early retirement liabilities	1,217
<u>62,796</u>		<u>63,982</u>

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

2017/2018 £000		2018/2019 £000
221	Treasury management, accounting and managerial services	307
<u>1,626</u>	Pension administration services	<u>1,829</u>
<u>1,847</u>		<u>2,136</u>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

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.

2017/18 £	Position	2018/19 £	
0	Director of Resources	25,356	1
24,109	Director of Corporate Finance	26,485	1
80,681	Head of Pensions	91,202	2
25,398	Senior Specialist Advisor	23,599	2
49,059	Senior Accountant	54,956	2
179,247		221,598	

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

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 equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York 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.

Note 24: Actuarial statement for 2018/19 - funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding 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 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

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 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.1 years	26.4 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

2 May 2019

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31/03/2019	31/03/2018
Active members (£m)	3,148	2,559
Deferred members (£m)	1,523	1,359
Pensioners (£m)	1,923	1,921
	6,594	5,839

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures also include an approximate allowance for the impact of GMP equalisation.

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 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value

by £491m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2019	31 March 2018
Pension Increase Rate	2.5%	2.4%
Salary Increase Rate	2.8%	2.7%
Discount Rate	2.4%	2.7%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 Years	24.6 Years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 Years	26.4 Years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	549
0.5% p.a. increase in the Salary Increase Rate	1%	87
0.5% p.a. decrease in the Real Discount Rate	10%	676

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 30 April 2019, as this now includes allowance for the "McCloud ruling" and GMP equalisation.

Gemma Sefton FFA (For and on behalf of Hymans Robertson LLP)

9 July 2019

Note 26: Additional Voluntary Contributions

Market Value 2017/18 £000	Position	Market Value 2018/19 £000
13,621	Prudential	14,520
13,621		14,520

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

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 2018/2019 provides further details on the management, investment performance and governance of the Fund.

Scheme Advisory Board Statistics

Financial Performance and Forecast:

	2018/19 Budget £000	2018/19 Actuals £000	2018/19 Variance £000	2019/20 Budget £000
Income				
Employers contributions	145,067	138,274	-6,793	139,783
Members contributions	38,693	38,502	-191	38,117
Total contributions	183,760	176,776	-6,984	177,900
Transfers in	8,416	14,954	6,538	17,361
Investment income	77,691	59,055	-18,636	60,236
Total income	269,867	250,785	-19,082	255,496
Expenditure				
Pensions	-127,825	-126,014	1,811	-134,198
Commutation and lump sum retirement benefits	-19,300	-19,571	-271	-20,100
Other benefits	-3,732	-4,247	-515	-4,523
Total benefits	-150,857	-149,832	1,025	-158,821
Leavers	-7661	-10,946	-3,285	-12,576
Administrative expenses	-1,467	-1,829	-362	-2,225
Oversight and governance costs	-1006	-3,214	-2,208	-2,717
Investment expenses	-17,690	-10,427	7,263	-9,559
Taxes on income	-1,476	-785	691	-1,144
Total expenditure	-180,157	-177,033	3,124	-187,042
Net income	89,710	73,752	-15,958	68,454
Change in market value	80,601	185,943	105,342	85,773
Net increase in Fund Value	170,311	259,695	89,384	154,227
Net Asset Value	4,226,194	4,315,578		4,469,805

Surrey Pension Fund 2019-20 Operational Budget

2019/20 Operational Budget	£000
Orbis Pensions Administration Baseline	
Staffing	1,250
Non-Staffing	300
Overheads	280
Total Orbis Pensions Administration Baseline	1,830
Orbis Pensions Administration Projects	
Backlog	300
I-Connect	60
GMP Reconciliation	35
Total Orbis Pensions Administration Projects	395
Oversight & Governance	
Fund Officers & Management	307.2
Advisers	224.3
Audit	21
Memberships and Benchmarking	137.8
Legal Costs	23.5
Pooling Costs (including Governance)	2,000
Training Budget	3
Total Oversight & Governance	2,716.8
Investment & Custody	
Custody Fees	150
Investment Management Fees	9,339
Total Investment & Custody	9,489
Total 2019/20 Operational Budget	14,430.8

The most significant variances between budget and actuals for 2018/19 financial year were related to employer contributions, transfers into the fund, investment management expenses and the change in market value of investments.

Investment management expenses incurred was below forecast, weaker investment performance for the year led to a reduction of performance fees.

Three Year Forecast:

	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000	2019/22 Budget £000
Income				
Contributions	177,900	177,445	177,759	533,104
Transfers in	17,361	20,155	23,398	60,913
Investment income	60,236	61,441	62,670	184,347
Total income	255,496	259,040	263,827	778,364
Expenditure				
Benefits	158,821	167,954	177,231	504,006
Transfer out	12,576	14,450	16,602	43,628
Management expenses	15,646	14,932	14,296	44,874
Total expenditure	187,042	197,336	208,129	592,508
Net income	68,454	61,704	55,698	185,856

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

Employing Organisation	Employees Contributions £000	Employers Contributions £000
A2 Dominion	9	230
Ability Housing Association	5	17
Academy of Contemporary Music	5	15
Achieve Lifestyle	13	45
Amey LTD (Mole Valley)	3	6
Ash Parish Council	7	23
Ashley CofE Aided Primary School	30	108
Auriol Junior School	21	71
Babcock 4S	128	176
Banstead Infant School	10	35
Barnsbury Primary School	28	91
Beaufort Primary School	35	114
Bisley Parish Council	2	5
Blenheim High School	56	218
Bletchingley Village Primary School	19	75
Boxgrove Primary School	46	192
Bramley Parish Council (Quarterly)	2	5
Broadmere Primary Academy	22	68
Brooklands College	149	706
Brookwood Primary School	16	53
Burstow Parish Council	2	5
Busy Bees Daycare (Caring Daycare)	2	6
Cardinal Newman Catholic Primary School	20	70
Care Quality Commission	4	-
Carwarden House Community School	27	92

Catalyst (Southern Addictions Advisory Service (SADAS))	22	85
Chaldon Village Council	-	-
Chartwood	13	54
Chertsey High School	6	25
Chiddingfold Parish Council	3	6
Childhood First (Pepper Harrow Foundation)	18	84
Christ's College	34	116
Clarion Housing Group	11	48
Cleves Academy Trust	30	115
Cobham Free School	29	86
Collingwood College	88	314
Compass Contract Services	4	17
Connaught Junior School	22	80
Cordwalles Junior School	10	33
Cranleigh Parish Council	8	23
Crawley Ridge Infant School	9	33
Crawley Ridge Junior School	16	62
Cross Farm Infant School	9	33
Crowhurst Parish Council	0	-
Cuddington Com Prim Sch	10	33
Cuddington Croft Primary School	20	68
Danetree Primary School	34	116
De Stafford School	39	122
Dormansland Parish Council	1	3
Dovers Green School	32	120
Dunstable Parish Council	0	2
East Horsley Parish Council	2	4
East Surrey College	176	720
East Surrey Rural Transport	3	11
Eastwick infant	48	169

Effingham Parish Council (6 Months)	1	6
Elmbridge Borough Council	705	2,924
Elmbridge Building Control	18	49
Elmbridge Housing Trust	-	60
Energykidz Ltd	-	-
Epsom & Ewell Borough Council	528	2,082
Epsom and Ewell High School	65	187
Esher Church of England High School	89	310
Esher Church School	15	50
Esher College	68	241
Farnham Heath End	35	111
Farnham Town Council	22	47
Freedom Leisure - Guildford (Wealden Leisure)	39	89
Freedom Leisure - Woking (Wealden Leisure)	19	49
Frensham Parish Council	1	2
Fullbrook School	69	259
Fusion Lifestyle	2	7
George Abbot School	119	440
GLF	103	267
Glyn School	62	192
Godalming College	74	229
Godalming Town Council	15	37
Godstone Parish Council	-	-
Goldsworth Primary School	41	129
Good Shepherd Trust	15	37
Gordons School Academy Trust	29	109
Guildford Borough council	1,481	5,420
Guildford College	305	1,497
Guildford County School	52	185
Guildford Grove Primary School	50	206

Hammond School	8	26
Hamsey Green Primary	23	93
Hanover Housing Association	94	790
Haslemere Town Council	5	10
Hawkedale School	6	25
Heathside School	59	215
Hillcroft Primary School	28	92
Hinchley Wood School	71	274
Hoe Valley Free School	28	67
Holly Lodge Primary School	16	62
Holmesdale Comm Inf Sch	19	71
Holy Family Catholic Primary School	10	35
Holy Trinity C of E Primary Sch	16	59
Horley Town Council	7	17
Howard of Effingham School	49	163
IESE ltd	72	129
Innovate (Weydon MAT)	0	-
Jubilee High School	38	119
Kenyngton Manor Primary Schl (Academy)	32	108
Kier (May Gurney)	8	37
Kings College Gldfrd	26	110
Knaphill School	17	51
Lakeside Primary School	21	81
Leatherhead Trinity School and Children's Centre	37	158
Lightwater Village School	13	42
Lime Tree Primary School	28	92
Linden Bridge School	64	240
Lingfield Parish Council	1	3
Loseley Fields Primary School	19	81
Lumen Learning Trust	45	126

Marden Lodge Primary School and Nursery	20	63
Meadhurst Primary school	10	34
Meadow Primary School	24	83
Merstham Park School	1	4
Merstham Primary School	10	35
Merton & Sutton Joint Cemetery Board	0	1
Mole Valley Borough Council	535	1,687
Moor House School	36	223
Morrisson Facilities	-	-
Mytchett Primary School	15	55
Nescot	271	1,095
New Haw Community Junior School	24	82
New Monument Primary Academy	19	58
Northmead Junior	12	56
Northmead Junior	12	56
Oaks Academy Trust	10	35
Ottershaw Cof E Infant & Juniors	2	6
Oxted Parish Council	-	-
Oxted School	70	231
Pabulum Ltd	2	9
Peaslake Free School	3	13
Pine Ridge Infant School	25	82
Pinnacle Housing	8	29
Pirbright Village School	12	47
Pond Meadow School	59	195
Potters Gate C Of E Prm	26	92
Pycroft Grange Primary School	21	72
Pyrford Church of England Aided Primary School	36	127
Queen Eleanor's Church of England School	15	55
Ravenscote Junior School	24	81

Reef Cleaning Solutions (GSO Ltd)	0	1
Reigate School	60	206
Reigate & Banstead Borough Council	885	3,682
Reigate College	96	328
Reigate Grammar School	115	457
Riverbridge Primary School	25	73
Riverside Housing	-	186
Rodborough	41	165
Rosebery Housing Association	4	208
Rosebery School	53	162
Runnymede Borough Council	726	2,550
Russell Education Trust	26	71
Rydens Enterprise School	38	129
S Farnham Ed Tt	66	195
Salesian School, Chertsey	91	271
Salfords Primary School	16	54
Sandcross Primary School	37	150
Sandfield Primary School	13	52
Sandringham School	11	45
SAVI	13	53
Saxon Primary School	19	56
Sayes Court School	19	63
Send Parish Council	2	5
SERCO	18	72
Shalford Parish Council	1	5
Shere Parish Council	-	-
Sir William Perkins School	17	82
Skanska Construction Ltd	22	81
Skanska Rashleigh Weather Foil	-	-
South Camberley Prm and Nursery	57	205

Spelthorne Borough Council	691	2,695
Springfield Primary School	24	81
St Alban's Catholic Primary School	16	57
St Andrew;s CofE Primary School	14	51
St Andrew's Church of England Infant School	6	21
St Anne's Catholic Primary School	22	75
St Augustine's Catholic Primary School	22	74
St Charles Borromeo Catholic Primary School, Weybridge	14	49
St Cuthbert Mayne	4	13
St Hugh of Lincoln Catholic Primary School	8	29
St John the Baptist Catholic Comprehensive School, Woking	72	230
St John's Church of England Primary School	23	83
St John's Pri Sch	3	10
St Lawrence Primary School	12	41
St Mary's C of E (Aided) Junior School (Oxted)	26	112
St Mary's CofE Junior School	9	33
St Matthews CoE Sch	26	102
St Paul's Catholic College/ Pavilion - yqwY&g8d	51	198
St Paul's CofE Primary School	23	78
St Stephens CoE Sch	21	82
Stanwell Fields CofE Primary School	18	55
Staywell	6	30
Stoughton Infant School	11	41
Surrey Choices	61	
Strodes College	-	-
Surrey County Council Pool	19,516	62,371
Sunbury Manor School	62	216
Surrey Heath	583	2,168
Surrey Hills Pri Sch	4	15
Surrey Police	-	-

Surrey Sports Park	9	20
Surrey Wildlife Trust	4	19
Sythwood Primary School	56	187
Tandridge District Council	632	2,735
Tatsfield Primary School	8	35
Thamesmead School	60	216
The Abbey School	14	49
The Ashcombe School	59	187
The Beacon School	54	166
The Bishop David Brown School	42	152
The Bishop Wand Church of England School	44	161
The Echelford Primary School	19	55
The Grove Primary School	23	87
The Hermitage School	21	67
The Horsell Village School	18	57
The Howard Partnership Trust	133	379
The Kite Academy Tru	23	75
The Magna Carta School	48	182
The Marist Catholic Primary Schl	27	94
The Matthew Arnold School	39	124
The Oaktree School	20	65
The Raleigh School	15	43
The Ridgeway School	52	180
The Royal Grammar School	28	167
The Vale Primary School	4	15
The Warwick School	49	158
The Weald CofE Primary School	13	45
Therfield School	41	128
Thomas Knyvett College	35	115
Tomlinscote School and Sixth Form College	74	269

Tongham PC	-	-
University of Creative Arts	980	3,400
University of Surrey	589	3,046
Wallace Fields Junior School	18	78
Warlingham Parish Council	1	2
Warlingham School	84	316
Warlingham Village Primary School	13	41
Warren MD CFS B'nstd	1	4
Warren Mead Infant School	10	35
Waverley Borough Council	794	3,403
Waverley Abbey CofE Junior School	17	61
Waverley Hoppa Transport	10	37
West End PC	2	5
West Ewell Primary School	26	87
West Hill School	21	78
Westfield Primary School	20	72
Weydon School	71	233
Weyfield Academy	23	73
Whyteleafe Primary School	17	58
Whyteleafe Village Council	1	2
WilsonJones	1	4
Windlesham Parish Council	4	8
Windlesham Village Infant School	6	22
Wishmore Cross Academy	32	108
Witley Parish Council	4	12
Woking Borough Council	710	3,173
Woking College	37	147
Woking Community Transport	-	53
Woking High School	67	258
Woodlea Primary School	9	35

Woolmer Hill School	24	80
Worplesdon Parish Council	4	12
Wray Common Primary School	25	91
Wyke Primary School	7	26

Contacts

Benefits and Contributions

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

Pensions Unit
Room 218
Kingston Upon Thames
Surrey KT1 2EB
Telephone: 020 8541 9289 or 9292
E Mail: mypensions@surreycc.gov.uk
Fax: 020 8541 9287

Accounts and Investments

Information regarding the accounts and investments can be obtained from The Pension Fund Team at Pension.fund@surreycc.gov.uk

Pension Scheme Regulations

1997 Regulations S.I. 1997/1612
Copies may be obtained from:

The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612.htm

Useful Addresses

Occupational Pensions Board

PO Box 1NN
Newcastle upon Tyne
NE99 1NN
Tel: 0191 225 6316

The Pensions Advisory Service
(TPAS)
11 Belgrave Road
London
SW1V 1RB

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

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

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

Employee and Employer Guides

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

National Website
www.lgps.org.uk

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

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

that are issuing securities (both equity and debt).

percentage.

Savings Analysis from Asset Pooling			Rounded to nearest £1000
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			
			%
Value of UK Equities as at as at 31/10/2018	£316m		70.38%
Value of UK Equities as at as at 31/10/2018	£133m		29.62%
Total Value of UK Equities	£449m		100.00%
Ad valorem fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019	£464m		
Ad valorem fee rate	33bps per £1m		
Price Variance Workings			
	(£464m x 70.38%) x		
Current Fund Values at old fee rate:	£0.0024		£784,000
	(£464m x 29.62%) x		
	£0.0035		£481,000
			£1,265,000
	Current Fund Value at new fee rate:	£464m x £0.0033	£1,531,000
Price Variance			£266,000
Quantity Variance Workings			
	£0.0024 x (£449m - £464m) x		
Old fee rate x (old fund value - new fund value):	70.38%		-£25,000
	£0.0035 x (£449m - £464m) x		
	29.62%		-£16,000
Quantity Variance			-£41,000
Total Variance Workings			
	£1,224,000 -		
Old fees - new fees:	£1,531,000=		-£307,000
Total Variance			-£307,000

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

Savings Analysis from Asset Pooling
Calculating price and quantity variances for an asset
portfolio transferred to BCPP UK Equity Alpha Fund
using 31/10/2018 valuations, as at 31/03/2019

**Rounded
to £000s**

		%	
Value of UK Equities as at as at 31/10/2018	£316m	70.38%	
Value of UK Equities as at as at 31/10/2018	£133m	29.62%	
Total Value of UK Equities	£449m	100.00%	
Ad valorem old fee rate			
Fund Manager 1	24bps per £1m		
Fund Manager 2	35bps per £1m		
Value of Assets as at 31/03/2019			
	£464m		
Ad valorem new fee rate			
	0bps per £1m		
Price Variance Workings			
	(£464m x 70.38%) x		
Current Fund Values at old fee rate:	£0.0024		£653,000
	(£464m x 29.62%) x		
	£0.0035		£137,000
			£790,000
	Current Fund Value at new fee rate:	£464m x £0.0000bps	£0
Price Variance			-£790,000
Quantity Variance Workings			
	£0.0024 x (£449m - £464m) x		
Old fee rate x (old fund value - new fund value):	70.38%		-£25,000
	£0.0035 x (£449m - £464m) x		
	29.62%		-£16,000
Quantity Variance			-£41,000
Total Variance Workings			
	Old fees - new fees:	£790,000 - £0 =	£749,000
Total Variance			£749,000

Total Manager Fee Savings per annum	£442,000
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