

## **Suffolk Pension Board**

(Quorum 2 – 1 member of each representative group)

### **Scheme Employer Representatives**

Councillor Richard Smith MVO, representing Suffolk County Council.

Homira Javadi, representing all Borough, District, Town and Parish Councils.

Vacancy, representing all other Employers in the Fund.

### **Scheme Member Representatives**

Suzanne Williams, representing the Unions

David Rowe, representing Active Members

Eric Prince, representing Pensioners

**Date:** Thursday, 6 October 2016

**Venue:** Rose Room  
Endeavour House  
8 Russell Road  
Ipswich, Suffolk, IP1 2BX

**Time:** 11:00am

For further information on any of the agenda items, please contact Ann McPherson, Democratic Services Officer, on 01473 264379.

### **Business to be taken in public**

1. **Apologies for Absence**

To note and record any apologies for absence or substitutions received.

2. **Declarations of Interest and Dispensations**

To receive any declarations of interests, and the nature of that interest, in respect of any matter to be considered at this meeting.

3. **Appointment of Board Chairman and Vice Chairman**  
To appoint the chairman and vice chairman of the Board for the coming year.
4. **Minutes of the Previous Meeting** Pages 5 - 10  
To approve as a correct record, the minutes of the meeting held on 11 July 2016.
5. **Pension Fund Annual Report and Accounts 2015/16** Pages 11 - 114  
To consider the Fund's annual report and accounts for 2015/16 and the Auditors opinion.
6. **Suffolk's progress on Pooling of Assets**  
To receive an update on the latest information and progress in regards to the pooling of Pension Fund Assets.
7. **Compliments and Complaints** Pages 115-116  
To receive a report summarising the compliments and complaints received by the Fund's administration team.
8. **Recent Developments** Pages 117-120  
To receive an information bulletin on some recent developments that will be of interest to the Board
9. **Training needs for the Board Members** Pages 121-128  
To update and agree a training programme for board members for the next 12 months.
10. **Forward Work Programme** Pages 129-132  
To consider whether there are any matters which the Committee would wish to have included in its Forward Work Programme whilst having regard to the Key Decision Forward Plan.
11. **Urgent Business**  
To consider any other item of business which, in the opinion of the Chairman, should be considered by reason of special circumstances (to be specified in the minutes), as a matter of urgency.

**Date of next scheduled meeting – Monday, 12 December 2016 at 11:00 am.**

## Access to Meetings

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For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact Democratic Services on:

Telephone: 01473 264379;

Email: [Committee.Services@suffolk.gov.uk](mailto:Committee.Services@suffolk.gov.uk); or by writing to:

Democratic Services, Suffolk County Council, Endeavour House, 8 Russell Road, Ipswich, Suffolk IP1 2BX.

### Public Participation in Meetings

Members of the Public who wish to speak at a Suffolk Pension Fund Committee meeting should read the following guidance:

[www.suffolk.gov.uk/council-and-democracy/the-council-and-its-committees/apply-to-take-part-in-a-public-meeting/](http://www.suffolk.gov.uk/council-and-democracy/the-council-and-its-committees/apply-to-take-part-in-a-public-meeting/)

and complete the online form.

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[www.suffolk.gov.uk/council-and-democracy/the-council-and-its-committees/apply-to-take-part-in-a-public-meeting/#filming](http://www.suffolk.gov.uk/council-and-democracy/the-council-and-its-committees/apply-to-take-part-in-a-public-meeting/#filming)

## Evacuating the building in an emergency: Information for Visitors

If you hear the alarm:

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2. Follow the signs directing you to Fire Exits at each end of the floor.
3. Do not enter the Atrium (Ground Floor area and walkways). If you are in the Atrium at the time of the Alarm, follow the signs to the nearest Fire Exit.
4. Use the stairs, not the lifts.
5. Do not re-enter the building until told it is safe to do so.

**Deborah Cadman OBE**  
**Chief Executive**



Minutes of the Suffolk Pension Board meeting held on 11 July 2016 at 2:00 pm in the Rose Room, Endeavour House, Ipswich.

Present: Councillor Richard Smith MVO (Chairman), representing Suffolk County Council, David Rowe (Vice Chairman), representing Active Members and Eric Prince, representing Pensioners.

Also present: None

Supporting officers present: Paul Finbow ( Senior Pensions Specialist), Sharon Tan (Pensions Technical Specialist), Ann McPherson (Committee Administrator)

### **Public Participation Session**

There were no applications received from the public.

#### **1. Apologies for Absence and Substitutions**

Apologies were received from and Homira Javadi representing all Borough, District, Town and Parish Councils and Suzanne Williams, representing the Unions

The Chairman confirmed that Kate Harrison, representing All Other Employers in the Fund had tendered her resignation from the Board.

#### **2. Declarations of Interest and Dispensations**

The following Board members declared a local non-pecuniary interest by virtue of the fact that each was a contributing member of the Local Government Pension Scheme:

Councillor Richard Smith, MVO

David Rowe

Eric Prince

Eric Prince also declared a local pecuniary interest by virtue of the fact that he is in receipt of a pension from the Local Government Pension Scheme.

#### **3. Minutes of the Previous Meeting**

The minutes of the meeting held on 4 May 2016 were confirmed as a correct record and signed by the Chairman.

#### **4. Investment Performance of the Fund during 2015-16**

The Board received a presentation at Agenda Item 4 from Susanne Stewart, Global Services Performance Services (formally State Street Investment Analytics)

The Board heard that it had been a difficult year but longer term absolute returns are solid. In the latest year attribution, it was reported that asset allocation had been unfavourable and stock selection pulled down long term performance.

In relation to the Universe the Suffolk Pension Fund was in the top third in the latest year and the strategy employed by the Fund added value relative to other local authority funds.

For the 5 years to March 2016 the Fund took a lower risk but made an above average return.

Overall it was a difficult year for the industry and for Suffolk asset position relative to benchmark cost almost 1%.

Over the 10-year period the Fund return of 5.3% is behind the average fund due to the lower risk profile.

**Decision:** The Board agreed to note the report.

**Reason for Decision:** The report contained matters relevant to the Board as it is interested in the overall performance of the Fund.

**Alternative options:** There were none considered.

**Declarations of interest:** Declarations of interest are reported at Minute number 2 of these minutes.

**Dispensations:** There were none reported.

## 5. Update on the ACCESS Pooling submission

The Board received a report at Agenda Item 5, providing an update on Suffolk's intention to pool its Pension Fund Assets within the ACCESS Group.

The Board heard that the Suffolk Pension Fund Committee had agreed, 6 votes for, 1 against, to approve the draft report for submission to DCLG on Friday 15 July.

The Board heard that officers were still investigating the pros and cons of renting or building a Collective Investment Vehicle (CIV). Information days have been arranged for officers regarding benefits and drawbacks of each type of CIV and a decision should be made by September.

**Decision:** The Board agreed to note the report.

**Reason for Decision:** The report contained matters relevant to the Board as they need to be kept up to date with the progress towards pooling of Pension Fund assets.

**Alternative options:** There were none considered.

**Declarations of interest:** Declarations of interest are reported at Minute number 2 of these minutes.

**Dispensations:** There were none reported.

## **6. Compliments & Complaints**

The Board received a report at Agenda Item 6 providing details of the compliments and complaints received to enable them to determine any further action. The Board were told this report covered the 6/7 weeks to 20 June 2016.

The Board heard that since the meeting on 4 May 2016, two complaints have been received, one of which was in respect of a pensioner not agreeing with the details on their P60. The other was a complaint which involved the Pensions team being named as part of a larger complaint, including HR functions, from a member who left through ill health retirement.

Five compliments have been received since the 4 May. These were cases where individuals had gone out of their way to thank the team rather than the regular word of 'thanks' received daily as part of the communication with customers.

A suggestion was made that the other employer's in the Fund should have a link on their website, directing employees and pensioners to the Suffolk County Council Pensions pages on the website.

**Decision:** The Board agreed to note the report.

**Reason for Decision:** The reports contained matters relevant to the Board.

**Alternative options:** There were none considered.

**Declarations of interest:** Declarations of interest are reported at Minute Number 2 of these minutes.

**Dispensations:** There were none reported.

## **7. Pension Ombudsman**

The Board received a report at Agenda Item 7, providing them with information about the Pension Ombudsman Service.

The Board heard that the Service is a non-departmental public body stewarded by the Department of Work and Pensions and was established in 1991. It is an independent organisation, set up by law, to investigate complaints about how pension schemes are run. The service is free of charge and is funded through registration levies applied to occupational pension schemes.

The Ombudsman has no power to make changes to the pension fund's general working practices and schemes cannot be fined. A dispute will not be dealt with by the Ombudsman unless it has been through the Internal Dispute Resolution procedure.

An Ombudsman's determination is similar to a court judgement, is final and binding and cannot be reviewed further. The only exception is an appeal to the

court on a point of law if a party believes the Ombudsman has made an error of law in reaching a decision.

**Decision:** The Board agreed to note the Report.

**Reason for Decision:** The Board requested a report on the role of the Pension Ombudsman.

**Alternative options:** There were none considered

**Declarations of interest:** Declarations of interest are reported at Minute Number 2 of these minutes.

**Dispensations:** There were none reported.

## 8. Brainstorming future Work Programme Items

The Board agreed the following be added to the Forward Work Programme.

- Cost and time assessment of officers work on Pooling
- Administration practice in relation to changes to be made in the Autumn to improve Fund members and employers access to information on-line
- How the scheme is administered in regard to Guidelines and Performance criteria
- Communication to scheme members and employers about ACCESS and other day-to-day information
- Level of insurance for Board Members if a Breach is missed
- Improvements to the format of the Annual Meeting for scheme employers. A date to be fixed.
- An expert to attend each meeting to give professional advice
- The role of the Board – a scrutiny function on the Pension Fund Committee
- Reviewing of policies – are they fit for purpose?

## 9. Forward Work Programme

The Board received a report at Agenda Item 9, a copy of the Forward Work Programme.

It was agreed to add the items noted in Agenda Item 8 to the Forward Work Programme.

**Decision:** The Board agreed to note the Forward Work Programme.

**Reason for Decision:** The Forward Work Programme is a responsibility of the Board under their Terms of Reference

**Alternative options:** There were none considered.

**Declarations of interest:** Declarations of Interest are recorded at Minute No. 2 of these minutes.

**Dispensations:** There were none reported.



**10. Urgent Business**

There was none reported.

*The meeting closed at 15.51*

**Chairman**



## Suffolk Pension Board

<b>Report Title:</b>	Pension Fund Annual Report and Accounts 2015/16
<b>Meeting Date:</b>	6 October 2016
<b>Chairman:</b>	Councillor Richard Smith MVO
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
<b>Author:</b>	Paul Finbow, Senior Pensions Specialist Tel. 01473 265288

### Brief summary of report

1. This report provides the Pension Board with a copy of the Annual Report and Accounts published by the Suffolk Pension Fund and the opinion issued by the Fund's auditors, EY.

2. The Board is asked to note the Fund's Annual Report and Accounts and consider any areas of interest that the Board would like further information on to be added to the forward work programme.

### Reason for recommendation

3. The Pension Fund Annual Report and Accounts is an important channel of communication to report on the Pension Fund Committee's stewardship of the Pension Fund to employers, scheme members and other stakeholders

### Alternative options

4. There are no alternative options.

### Main body of report

5. At the Pension Board Meeting on 11 July, the Board requested to receive information about the Annual Report and Accounts of the Suffolk Fund. This was reported to the Pension Fund Committee on 22 September. A copy of the Committee paper is attached at Appendix 1 for the Board's consideration, along with the Auditors opinion at Appendix 2.

### Sources of further information

- a) None



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(published on the Pension Fund website [www.suffolkpensionfund.org](http://www.suffolkpensionfund.org) )

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## **Pension Fund Committee Chairman's Report**

As the newly appointed Chairman of the Suffolk Pension Fund Committee, I am sad to have to introduce the Pension Fund's Annual Report and Accounts for 2015-16. Peter Bellfield, the former Chairman of the Suffolk Pension Fund, lost his battle with illness this year and sadly passed away in April 2016. Peter had been involved in the Fund for over 7 years and during his chairmanship helped steer the changes in asset allocation and investment managers that has delivered the much improved investment returns for the Fund compared with other LGPS Funds.

The value of the Suffolk Pension Fund was £2.213 billion at 31 March 2016, an increase of £15m in the year. The Fund administers the local government pension scheme in Suffolk on behalf of 174 employers paying into the scheme and 55,648 scheme members. The Suffolk Pension Fund Committee is responsible for managing the Fund, with the assistance of council officers, external advisors and professional investment managers.

The last financial year was a disappointing year for investment returns. The Fund achieved an investment return of 0.7% in 2015-16. This was 0.5% higher than the average achieved by other local authority funds. The annual return over the three years has reduced to 7.0% per annum, which is also 0.5% higher than the average achieved by other local authority funds. The Fund's investment return of the longer term is well ahead of both pay and price inflation over the period, and also ahead of the expected long-term return underlying the funding strategy of the Fund.

The Committee made only one alteration to its investment mandates in the year, deciding to terminate the mandate with Blue Crest. This decision was made at the November meeting and now the majority of the investment has been returned and reinvested with Winton, another hedge fund.

Much Committee time over the last year has been devoted to considering and responding to the Government's pooling proposals. The Suffolk Fund has agreed to pool its assets with 10 other funds to form the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. The other funds involved are Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire and West Sussex. The total of the pooled fund will be in excess of £33bn. An initial outline submission went to Government in February 2016, with a full business case submitted in July 2016. We will hear in the autumn if the ACCESS pooling proposal is acceptable. The physical pooling of assets will not begin until April 2018.

**Councillor Andrew Reid**

*Chairman of the Pension Fund Committee*

*September 2016*

## **Pension Board Chairman's Report**

I am pleased to introduce the Suffolk Pension Board's first annual report, which is incorporated within the Suffolk Pension Fund annual report and accounts for 2015-16.

The Board is new and was established in 2015 in compliance with the requirements of the Public Services Pensions Act. The Board's aim is to help ensure that the Suffolk Pension Fund is managed and administered effectively, efficiently, and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

There are six members of the Suffolk Pension Board, with half of the Board members representing the employers in the Fund and the remaining half representing scheme members (actives, pensioners and deferred pensioners).

The Board has met three times in 2015-16 and has reviewed the Funds investment arrangements, along with performance, and has reviewed at each meeting the compliments and complaints received by the Fund. There has also been a particular focus on training this year to ensure board members have the knowledge and understanding to undertake their new role.

The Board wants to see improvements in communications, and will be writing to all scheme members, either when they receive their annual benefit statement, or their next pension pay slip.

The Board has also decided to facilitate and revamp the annual employers meeting to be held later this year. This fits with the Board's responsibilities to represent employers in the Fund.

2016 will see more focus of the Board's activity on compliance and risk management.

**Richard Smith MVO**

*Chairman of the Suffolk Pension Board*

*September 2016*

## Report from the Director of Resource Management

### Foreword to Annual Report and Accounts

The Suffolk County Council Pension Fund Annual Report and Accounts sets out the Pension Fund's income and expenditure and its assets and liabilities for the financial year ended 31 March 2016.

The management report sets out the work of the Pension Fund Committee during the year and explains the changes to the Fund's management arrangements that it has agreed.

The investment report sets out how the Fund's investments have performed over the year and over the longer term and what changes have been made to the Fund investment management arrangements by the Pension Fund Committee.

The governance report sets out the arrangements under the County Council's constitution for the discharge of its statutory responsibilities as the administering authority for the Local Government Pension Scheme (LGPS) in Suffolk. This includes the responsibilities of the Pension Fund Committee, the delegations to council officers and the systems and controls which relate to the management of the Fund.

The corporate social responsibility and voting report sets out how the Pension Fund has discharged its responsibilities as a responsible shareholder in relation to the Fund's shareholdings.

The administration report explains how the administration of the scheme benefits are undertaken and sets out details of the performance of the Fund and its employers in administering the scheme.

The actuarial statement sets out the actuarial position of the Fund as at March 2016. The Pension Fund Accounts for 2015-16 set out the detailed accounting statements for the Fund and have been prepared in accordance with the relevant accounting requirements.

There are also a number of policy statements and these disclosures which form part of the prescribed content of the Annual Report, are published as separate documents on the website of the Fund ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)):-

The governance policy statement sets out the arrangements approved by the County Council for the discharge of its responsibilities for the local government pension scheme in Suffolk, including the role and responsibilities of the Pension Fund Committee.

The Government has issued guidance setting out best practice on the governance arrangements for LGPS funds and administering authorities are required to report on the extent of their compliance with the best practice guidance. The Suffolk Pension Fund Committee's governance arrangements comply with the Government's guidance in all material respects.

The statement of investment principles (SIP) provides an overview of the investment strategy for the pension fund investments.

The funding strategy statement sets out the approach taken by the Pension Fund Committee to meeting the long-term liabilities of the fund. It includes the determination of the individual employers' contributions to the fund for the three years following the triennial actuarial valuation.



The administration policy statement, sets out the arrangements for the day-to-day administration of the Pension Fund, including the performance standards which the County Council and the fund's employers are expected to achieve in the administration of the scheme benefits.

The communication policy sets out how the Pension Fund will communicate with employers, scheme members and prospective scheme members.

The voting policy sets out the Pension Fund's policies in relation to voting the shareholder rights attached to the fund's shareholdings.

### **Investment Performance of the Pension Fund**

The Suffolk Pension Fund had an investment return of 0.7% in 2015-16, the average local authority Pension Fund returned 0.2%.

The Fund's investment strategy is diversified across a number of asset classes and regions which limits the Fund's exposure to the volatility of the markets. The medium-term performance of the Fund is 7.0% per year which can be attributed to the positive performance of the active investment managers managing the investments for the Suffolk Pension Fund.

Over the past five years the Fund's return was 7.3% per year, just above the local authority average of 7.1% and over 5% above inflation.

Over the longer term the Fund's investment has returned 5.3% per year over the ten years to March 2016. This is a good performance in absolute terms, although the Fund's performance is weaker than the average local authority fund over the last ten years (5.6% per year).

The Fund's long-term underperformance is mainly the result of the poor performance by a number of its investment managers six to eight years ago. The Pension Fund Committee made a number of changes to its investment management arrangements, which were aimed at improving the Fund's performance.

The Fund's allocation to equity markets is lower than the average local authority but it is anticipated that over the medium to long-term the Fund's investment strategy will provide comparable returns to those of other local authority funds, but with less exposure to the volatility of equity markets.

The Fund assesses its own investment performance and the performance of its managers by making a comparison between the Fund's return and its benchmark return, based on the returns of the markets that the Fund is invested in, or an absolute return of between 5% or 8% if there is not a specific market. On the basis of this comparison, the Fund underperformed its target benchmark investment return by 0.8% in 2015-16.

The Pension Fund Committee assesses the performance of its managers over a full business cycle, so one year's outperformance or underperformance is not considered significant in isolation. Over a five year period, the Fund has only marginally underperformed against its own target benchmark return by 0.3 % per year.

### **Investment Strategy**

The Fund's investment objectives are set out in its statement of investment principles, which is subject to an annual review by the Pension Fund Committee and was last reviewed in June 2015. There were no changes made to the principles.

The investment strategy is adopted by the Fund to achieve the objectives of the statement of investment principles, it was reviewed in November 2014. There are significant levels of diversification between different asset classes to ensure that the assets of the Pension Fund when taken in conjunction with future contributions are sufficient to ensure that all future pension and retirements benefits will be fully covered by the Fund's assets when they fall due, whilst maintaining the Fund's relatively low risk approach.

These objectives have been translated into an asset allocation plan and as at 31 March 2016, 50% of the Fund was invested in equities, with the balance in bonds (20%), property (11%), alternative investments (18%) and a small holding in cash and money markets of 1%.

### **Actuarial Valuation and Funding Strategy Statement**

The Fund is required to obtain an independent actuarial valuation of its assets and liabilities every three years. The most recent valuation took place in March 2013 when the actuarial deficit was £468 million (£306 million – March 2010) and the assets represented 79.1% of its liabilities at that date. This contrasts with the funding level at the 2010 valuation of 82.2%. The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation, in particular the decrease in the real gilt yield.

The Funding Strategy that was approved in February 2014, following the 2013 actuarial valuation set out the Pension Fund Committee's approach to funding the liabilities of the Fund, in order to recover the deficit and bring the Fund to a fully funded position over the medium to long-term.

There is a balance to be struck between the Fund's need for maintaining prudent funding levels and the employers need to manage their budgets appropriately. The approach taken, has tried to stabilise the contributions that were required for the public sector employers in the Fund, by limiting any increases in employer contributions up to a maximum of 1% - 2% of payroll, depending on the organisation.

The next actuarial valuation will be undertaken as at March 2016 and the results of the valuation will determine the employer contributions that are required for the three years starting April 2017.

The estimated funding level at March 2016 was 78.5% and the actuarial deficit at that date was £592 million. Lower yields have placed a higher value on the future liabilities held by the Fund and a lower funding value.

### **Audit**

The Pension Fund accounts are included within the County Council's Statement of Accounts for 2015-16, which is subject to audit by Ernst and Young LLP. As part of the audit review, the external auditor will provide an opinion to confirm whether the information provided within the Pension Fund Annual Report and Accounts is consistent with the information contained within the County Council's Statement of Accounts.

### **Geoff Dobson**

*Director of Resource Management*

*September 2016*

## **Statement of Responsibilities for the Pension Fund Accounts**

### **The Council's Responsibilities**

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Resource Management;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the statement of accounts

### **Certification**

I confirm that these Accounts were approved by the Audit Committee at its meeting on 28 September 2016 on behalf of Suffolk County Council and have been authorised for issue.

**Councillor Michael Bond**

*Chairman of the Audit Committee*

*28 September 2016*

## **The Responsibilities of the Director of Resource Management (Section 151 Officer)**

The Director of Resource Management is responsible for the preparation of the Council's Statements of Accounts including those of the Pension Fund. In order to comply with the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), these statements must present a true and fair view of the financial position of the Pension Fund at 31 March 2016, and the income and expenditure (spending) for the year to that date.

In preparing this Statement of Accounts, the Director of Resource Management has:

- chosen suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- followed the Code of Practice on Local Authority Accounting.

The Director of Resource Management has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

### **Certification**

I certify that this statement of accounts has been prepared in accordance with proper accounting practices and presents a true and fair view of the Pension Fund at 31 March 2016 and its income and expenditure for the year to that date.

**Geoff Dobson**

*Director of Resource Management (Section 151 Officer)*

*28 September 2016*

# **Independent Auditor's Report to the Members of Suffolk County Council**

## **Opinion on the Pension Fund financial statements**

This page cannot be populated until the accounts have been signed off by the Audit Committee on 28 September

## Management Report

### Summary of the Financial Position

The following table shows the Pension Fund's financial position for the past five years:

Financial Summary	2011-12	2012-13	2013-14	2014-15	2015-16
	£'000	£'000	£'000	£'000	£'000
Contributions	90,904	88,855	90,795	103,897	103,155
Other Income	3,619	6,062	3,855	5,561	3,478
	<b>94,523</b>	<b>94,917</b>	<b>94,650</b>	<b>109,458</b>	<b>106,633</b>
Benefits Payable	-74,562	-76,415	-76,898	-85,235	-86,370
Other Expenditure	-4,885	-12,168	-3,541	-3,945	-4,463
	<b>-79,447</b>	<b>-88,583</b>	<b>-80,439</b>	<b>-89,180</b>	<b>-90,833</b>
<b>Net additions / withdrawals(-) from dealings with members</b>	<b>15,076</b>	<b>6,334</b>	<b>14,211</b>	<b>20,278</b>	<b>15,800</b>
Investment Income (net of tax)	28,077	25,428	28,435	25,761	24,775
Management Expenses	-6,791	-7,663	-9,112	-12,053	-12,174
Change in Market Value of Investments	-3,539	186,986	84,219	279,733	-13,647
<b>Net Returns on Investments</b>	<b>17,747</b>	<b>204,751</b>	<b>103,542</b>	<b>293,441</b>	<b>-1,046</b>
<b>Change in Fund during the year</b>	<b>32,823</b>	<b>211,085</b>	<b>117,753</b>	<b>313,719</b>	<b>14,754</b>
<b>Net Assets at 31 March</b>	<b>1,555,884</b>	<b>1,766,969</b>	<b>1,884,722</b>	<b>2,198,441</b>	<b>2,213,195</b>

### Cost of Running the Fund

The costs incurred by the Pension Fund in managing the Fund are relating to administration costs, investment management costs and governance costs. These costs represent about 0.5% of the value of the Fund at 31 March 2016, which is broadly in line with previous years and with the local authority average.

The overall costs of administering the Pension Fund has increased by £0.121 million in 2015-16 to £12.174 million, the majority of which relates to investment management fees.

Administrative expenses (shown overleaf) consist of costs incurred by Suffolk County Council as administering authority of the Pension Fund, relating to activities the pension administration team perform to administer pensions and provide members with scheme and benefit entitlement information such as benefit estimates and annual benefit statements.

The Heywood administration software system supports the pensions administration team to fulfil the complex requirements around administering the scheme; such as calculating pension benefits and producing the annual statements. The system holds every pension members record and history.

	2014-15	2015-16
<b>Administration Expenses</b>	<b>£'000</b>	<b>£'000</b>
Suffolk County Council	755	755
Heywood pension administration system	217	193
Subscriptions and other costs	28	32
<b>Total Administration Expenses</b>	<b>1,000</b>	<b>980</b>

Investment management expenses are costs related to the management of the fund's assets including directly invoiced fees from investments managers and fees payable to fund managers which are deducted from the fund assets as opposed to being invoiced to the Pension Fund. The fees charged by the custodian, HSBC, are also included.

	2014-15	2015-16
<b>Investment Management Expenses</b>	<b>£'000</b>	<b>£'000</b>
AllianceBernstein	560	-
BlackRock	574	1,794
Bluecrest	1,570	849
Brookfield	59	99
KKR	275	865
Legal & General	964	957
M&G	835	1,517
Newton	1,099	1,153
Pantheon	213	722
Partners	496	218
Pyrford	486	562
Schroders	398	327
Wilshire	362	387
Winton	2,137	459
Transaction Costs	474	739
Custodian (HSBC)	20	32
Custodian (State Street Bank and Trust)	31	-
<b>Total Investment Management Expenses</b>	<b>10,553</b>	<b>10,680</b>

Notes:

1. The fees for KKR and M&G have increased because the fees are based on the net asset value of the fund which has continued to be funded during the year.
2. The custodian contract changed on 1 October 2014 from State Street to HSBC.

Included in the Investment management expenses above for some of the investments are an element of performance fee, these can be based on the net asset value breaching the watermark (highest valuation of the investment) or the returns exceeding a prescribed target. A negative figure denotes a reduction in the accumulative performance fee in investments that are paid a performance fee when the investments has been realised.

A breakdown of the performance fee element included in the previous table overleaf is as below:

	2014-15	2015-16
<b>Investment Management Expenses</b>	<b>£'000</b>	<b>£'000</b>
AllianceBernstein	354	-
BlackRock	301	1,008
Bluecrest	653	150
KKR	-	620
M&G	271	(226)
Pantheon	(5)	-
Partners	203	(175)
Winton	1,754	-
<b>Total Investment Management Expenses</b>	<b>3,531</b>	<b>1,377</b>

Oversight and governance expenses are costs relating to the 'over seeing' of the fund such as actuarial costs, internal and external audit costs and the costs of independent advisers to the Board. Costs associated with the operation and support of the Pension Fund Committee and Pension Board and costs associated with statutory and non-statutory reporting such as committee reports, annual reports and accounts are also included.

Asset pooling costs represents costs incurred for advice and guidance in relation to the Governments requirements for all LGPS Fund's to pool their assets.

	2014-15	2015-16
<b>Oversight and Governance Expenses</b>	<b>£'000</b>	<b>£'000</b>
Suffolk County Council	164	171
Pension Fund Committee	8	7
Pension Board	-	5
Actuarial Services	98	85
Audit Fees	25	36
Legal Fees	9	5
Performance Analysis	29	31
Proxy Voting Service	32	32
Investment Advice	122	96
Asset Pooling	-	28
Subscriptions and membership fees	13	18
<b>Total Oversight and Governance Expenses</b>	<b>500</b>	<b>514</b>



## Investment Income

The following table shows the sources of Investment Income earned by the Fund in 2015-16:

Investment Income	UK	Non-UK	Global
	£'m	£'m	£'m
Equities	6.850	-	6.995
Property	6.865		
Alternatives	0.277	1.234	2.398
Cash & Cash Equivalent	0.117	-	-
Other	-	-	0.175
<b>Total Income</b>	<b>14.109</b>	<b>1.234</b>	<b>9.568</b>

Global holdings are those that include an element of both overseas and UK listed assets.

Alternatives are taken to mean holdings in private equity, absolute return and infrastructure.

Other, denotes assets not falling into any other category such as investment vehicles where the underlying investments may comprise of assets of more than one type.

## Management Structure

### Pension Fund Committee

Cllr. Peter Bellfield (Chairman)  
Cllr. Andrew Reid (Vice-Chairman)  
Cllr. Michael Bond  
Cllr. Peter Byatt  
Cllr. John Field  
Cllr. Bill Knowles  
Cllr. Bert Poole  
Cllr. Jenny Antill  
Cllr. Carol Bull  
Steve Warner (Unison)

### Suffolk County Council

Geoff Dobson, Director of Resource Management

Paul Finbow, Senior Pensions Specialist

Sharon Tan, Technical Pension Specialist

Constantine House  
5 Constantine Road  
Ipswich  
Suffolk  
IP1 2DH

### Pension Fund Advisers

Actuary  
Investment Consultancy Services  
Independent Investment Adviser  
Performance Measurement  
Investment Custodians  
Banking Services  
Legal Advisers  
Voting Advisers

### Auditors

Ernst & Young LLP

### AVC Providers

Equitable Life  
Clerical Medical  
Standard Life

### Investment Managers

BlackRock Investment Management  
Bluecrest Capital (Ended Jan 16)  
Brookfield Asset Management  
Kohlberg, Kravis, Roberts  
Legal & General Investments  
M&G Investments  
Newton Investment Management  
Pantheon Ventures  
Partners Group  
Pyrford International  
Schroder Investment Management  
Wilshire Associates  
Winton Capital Management

Hymans Robertson LLP  
Hymans Robertson LLP  
Mr Mark Stevens  
State Street Global Services  
HSBC  
Lloyds Banking Group Plc  
Squire Patton Boggs  
Pension Investment Research Consultants

## Investment Report

### Investment Powers

The principal restrictions on the powers to invest local authority Pension Fund assets are contained within Schedule 1 of the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2009 (S.I. 2009/3093).

The regulations provide for the following limits on investments as set out in column 1, with the proviso that Pension Funds can approve higher limits up to the limits set out in column 2, subject to a specific resolution being approved following consideration of proper advice.

Category of investment	Col. 1	Col. 2
1. Any single sub-underwriting contract	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. The sum of:- (a) all loans (but not including loans to the UK Government); and (b) any deposits with:- (i) any local authority; or (ii) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	—
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (with the exception of gilts and bank deposits with an institution authorised under the Financial Services and Markets Act 2000).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting contracts.	15%	—
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but not including any securities guaranteed by the UK Government).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%

Category of investment	Col. 1	Col. 2
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but not including any investments guaranteed by the UK Govt).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

The Pension Fund Committee has approved the following higher limits (within the ceilings allowed in column 2 above):

- All contributions to any single partnership 5%
- All contributions to partnerships 12%
- Any single insurance contract\* 25%

The Pension Fund's investments in the pooled funds managed by Legal and General Investment Management amounted to 33% of the Fund at March 2016. These investments are structured in the form of two separate insurance contracts which ensures that the Pension Fund complies with the regulatory limit on any single insurance contract. The Suffolk Pension Fund complied with all the regulatory limits on its investments during 2015-16.

The Pension Fund has separate banking arrangements from those of the County Council. No loans are made from the Suffolk Pension Fund to Suffolk County Council.

### Statement of Investment Principles

The Pension Fund Committee has approved a customised asset allocation for the Pension Fund, based on a review of investment strategy that it carried out with the assistance of its investment advisors, Hymans Robertson and Mark Stevens.

This asset allocation is incorporated into a formal policy statement for the Fund, the Statement of Investment Principles. The statement is reviewed on a regular basis, most recently in June 2015, and published on the Pension Fund website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)).

The Fund's investments are allocated across a range of asset classes. The largest allocation is to equities which also accounts for the majority of the investment risk taken by the Fund.

## Asset Allocation

The Suffolk Pension Fund is cash flow positive, meaning that annual contributions are in excess of annual benefit payments and is therefore in a position to target a predominantly growth based strategy with the aim of maximising asset growth in the long term.

The Fund has an 80% allocation to 'growth' assets (equities and alternatives) in order to meet the long term funding assumptions set out in the 2013 actuarial valuation.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocations to asset classes other than equities and bonds allow the Fund to gain exposure to other forms of risk premium and can reduce the overall volatility of portfolios. These assets are expected to generate returns broadly similar to equities over the long term and so allocations to these can maintain the expected return and assist in the management of volatility.

The 20% allocation to bonds is designed to help manage overall levels of funding volatility.

Rebalancing of the asset allocation is carried out within guidelines which are set out in the Statement of Investment Principles.

The asset allocation of the Fund was reviewed in November and the Committee agreed to terminate the mandate with Bluecrest and invest the receipts with Winton.

The strategic benchmark and the actual asset allocation of the Fund at March 2016 are shown below:

Asset Allocation		
	Actual Allocation March 2016	Long-term Allocation
	%	%
UK Equities	17.5	16.0
Overseas Equities	33.0	30.5
<b>Total Equities</b>	<b>50.5</b>	<b>46.5</b>
Global Bonds	13.8	15.5
UK Index-linked Gilts	4.1	4.0
Emerging market debt	2.0	2.0
<b>Total Bonds</b>	<b>19.9</b>	<b>21.5</b>
Private equity	3.0	4.0
Property	11.0	10.0
Absolute return	9.5	10.0
Distressed Debt	2.1	2.0
Infrastructure	2.4	5.0
Timber	0.3	0.5
<b>Total Alternatives</b>	<b>28.3</b>	<b>31.5</b>
Cash	1.3	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The assets can be further broken down in monetary holdings as follows:

Asset Classification	UK	Non-UK	Global
	£'m	£'m	£'m
Equities	388.693	227.488	497.990
Bonds	89.893	45.082	304.827
Property	241.309	-	-
Alternatives	0.111	72.832	310.515
Cash & Cash Equivalent	16.099	6.610	-
<b>Total Assets</b>	<b>736.105</b>	<b>352.012</b>	<b>1,113.332</b>

## Investment Management Arrangements

The Fund's investment management arrangements at March 2016 are shown below.

Fund Manager Allocation			
Investment Manager	Asset class	Actual allocation March 2016	Long-term allocation
		%	%
BlackRock	UK equities	9.0	9.0
BlackRock	Bonds	6.0	6.5
BlueCrest	Absolute return	0.3	-
Brookfield	Timber	0.3	0.5
Kohlberg, Kravis, Roberts (KKR)	Infrastructure	1.6	2.5
Legal & General	Equities and Bonds	33.0	30.0
M&G Investments	Debt opportunities	2.1	2.0
M&G Investments	Bonds	7.8	9.0
Newton	Global equities	15.2	13.5
Pantheon	Private equity	1.7	2.5
Partners Group	Infrastructure	0.9	2.5
Pyrford	Absolute return	5.8	6.0
Schroder	Property	11.2	10.0
Wilshire	Private equity	1.4	1.5
Winton	Absolute Return	3.4	4.0
Internal Cash	Cash	0.3	0.5
<b>Total</b>		<b>100.0</b>	<b>100.0</b>

### Notes

- Partners and the new commitment to Pantheon remain only part funded. These investments only call for capital funding when they have an investment to fund and will continue to increase their holdings in the forthcoming financial year.
- Wilshire and the old commitment to Pantheon have reached maturity and are in the process of realising the underlying investments and returning cash to the Pension Fund. In June 2015 the Committee made a decision to continue investing in private equity with a new commitment with Pantheon.

## Market Review

### Year to 31 March 2016

The previous financial year had ended strongly with equity markets in developed economies delivering positive returns. Investor attention had focused on the European (ex UK) and Japanese equity markets, helped by continued central bank intervention, modest valuations and falling oil prices, both markets enjoyed robust returns.

However, by the end of the first quarter of the new financial year, global markets had undergone a sharp setback despite a promising start. The relief rally that followed the decisive outcome of the UK general election was short lived and UK equities fell over the quarter. Sterling had been strong against all major currencies and this turned a flat performance for the world index into a 5% decline for the unhedged UK investor over the quarter. Sterling strength was in part a response to the election result but also to weakness in the euro which was suffering as serious concerns emerged (once again) about Greece and the apparent breakdown of trust between the Greek government and its creditors. This uncertainty coupled with growing concerns about a possible hard landing for the Chinese economy, not helped by extreme volatility in its domestic stock market, all weighed on investors' minds.

The prospect of rate rises in the US combined with a fully valued equity market left investors struggling to spot the next market leader in terms of performance. The Japanese economy that had been showing signs of progress lost momentum with weak manufacturing output. Much of the rest of Asia continued to struggle, as manufacturing demand remained weak. Commodity dependent economies in Latin America and Australia faltered in the wake of falling demand from China, which itself continues to make the difficult adjustment from an infrastructure spending, to consumer driven economy.

After a period of very strong returns, bond markets retreated from the highs seen early in the quarter. During April, Switzerland made history by becoming the first government in history to sell ten-year bonds at a negative interest rate. However, by the quarter end, most bond markets had responded to the fall in US treasuries, a response to better than expected economic news.

The July to September period proved to be particularly challenging for global equities and despite a slight recovery towards the quarter end, delivered the worse quarterly returns since 2011 down over 8% in dollar terms. The apparent trigger for these steep falls was the decision by the Chinese authorities to devalue the Renminbi. This heightened fears already present, that the Chinese economy was in difficulty and possibly heading for a hard landing.

Commodities and commodity related stocks all fell in response to the news. Bonds were the main beneficiary of market nervousness offering a safe haven status. The weakening economic growth story, zero inflation and deferred monetary tightening in the US all contributed to positive returns to bonds globally, including in the UK which along with the Eurozone was experiencing negative headline inflation rates. Within European bond markets spreads narrowed once again as the Greek debt situation appeared to have stabilised in the short term.

UK Property had a strong quarter and was the best performing asset class over twelve months, with moderate signs of rental growth underpinning the yield contraction, which had driven the positive returns in the recent past.



After a difficult summer and early autumn, global markets enjoyed a strong final quarter of the calendar year. Recovering all the lost ground that had occurred during the August sell off from equity markets ending the quarter up 9% in sterling terms. Despite this rally into the year-end, investor fears that were the catalyst of the August falls remained in the background and had not been resolved.

The Chinese economy continued to be a concern for investors and even after the December's 0.25% rise in the US the trajectory of future rate hikes remained a concern for investors at the turn of the year. Over the calendar year 2015, Japanese and European equities along with UK property were the strongest asset classes, with emerging markets and developed Asian equity the worst. There was a high degree of dispersion between stock markets. For example, despite the strength seen in some areas, the markets in the commodity dependent economies of Latin America dropped by more than a quarter over the year. High yield markets had a very difficult final quarter with defaults rising in commodity related areas, which were increasingly struggling to cope with the deteriorating pricing environment.

In 2016, the final quarter of the financial year, global markets suffered another severe setback with falls of 20% or more from peak levels occurring by mid-February. Once again anxiety over the Chinese economy weighed heavily, with growing concerns about the future management of the Renminbi added to the mix of slowing growth and the health of the banking system.

January also witnessed another slump in oil prices with dramatic falls. So called safe haven assets from bonds to the Japanese Yen and even Gold enjoyed strong returns as investors sold riskier assets. However, in a now all too familiar roller coaster pattern, equity markets sharply reversed and by the quarter end had in the main, except for Japan, recovered all their losses. Sterling markets delivered positive returns helped in part by a weakening currency.

The catalyst for this recovery was yet more central bank intervention coming from Europe, an economic stimulus package aimed at domestic demand in China and a softening in rhetoric from the Federal Reserve, which seemed to reduce both the number of predicted rate rises and delay the timing of any further moves. The resultant easing of pressure on the US dollar helped oil and other commodity prices, which in turn eased the pressure on emerging markets.

As the financial year came to a close and despite the strong rally seen in equity markets, bonds and gold held onto their early quarter gains indicating that at least in some investor minds the ability of central banks to underpin assets prices might be coming towards an end.

## **Market Returns**

Financial market returns for 2015-16 were noticeably weaker than the previous year, while remaining diverse and volatile in nature. Developed markets provided mixed returns with US equity close to flat in dollar terms, while Japan and European equities were both down over 10%. The poor performance of emerging markets continued with shares down over 7% during the period. UK equities struggled for much of the period and ended down 3.9%, which in part reflected the large weighting of oil and other commodities in the UK equity market.

During the year sterling fell against most major currencies, 3% against the dollar, almost 9% against the Japanese Yen and over 9% against the euro. For the unhedged sterling based investor, only US equities delivered a positive return up 3.6%. Despite the Japanese Yen gaining almost 9% against sterling, Japanese equities still fell 3% in sterling terms as a sluggish economy and concerns over the effectiveness of central bank policy worried investors.

In contrast to many equity markets bond markets enjoyed another positive year. The slow down in the Chinese economy and falling commodity prices continued to dampen the increase in interest rate expectations. The eventual 0.25% rise in US rates had long been factored into markets and expectations of further moves receded further into the future. In the UK the 'All Government Bond' index rose 3.2% as economic conditions remained nervous and the Bank of England remained quiet on rate changes. In contrast to recent years index linked gilts enjoyed only modest returns up 1.7% over the year.

The UK property market continued its strong run of performance. Rental growth returned to the market as investor demand spread beyond central London offices. The IPD property index returned 12.6% over the year and is now the best performance asset class over the last three years

## **Economic and Market Outlook**

The level of volatility in the final quarter of the financial year reinforced the view that investors remain nervous, any bad news emanating from China, Europe or the commodity markets increases risk aversion with investors turning to safe haven assets. The outlook for earnings remains challenging.

In the short term, nervousness over a possible 'Brexit' will affect the UK markets and in particular sterling. Away from Europe, China's process of rebalancing from a primarily industrial economy to a more mixed service lead economy will continue to be both complex to manage and widely watched by the rest of the developed world. Over capacity and stubbornly high levels of debt remain problematic to the Chinese authorities as they continue to transform the economy. Despite the slowing rate of growth in recent years the sheer scale of the Chinese economy demands attention from investors globally and every policy move and data point will continue to be closely watched and interpreted.

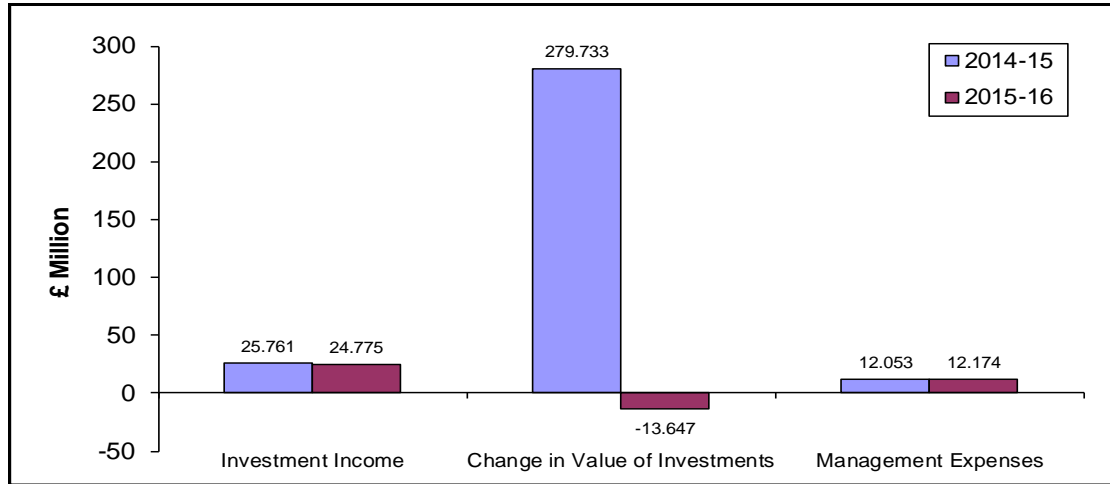
Investors are having to cope with negative yields on sovereign bonds becoming more and more common place. In Europe significant amounts of sovereign debt is trading at negative yields and the ECB now charges banks to hold their money overnight. Economies are low in growth with low inflation and periods of high volatility in equity, bond and commodity markets seem likely to be around for the foreseeable future.

## Analysis of Investments at 31 March 2016

Holdings	Pooled Investment Vehicles Market Value	Segregated Holdings Market Value	Total Market Value	% of Market
	£'000	£'000	£'000	%
<b>Bonds</b>				
Index Linked Gilts	89,893		89,893	4.1
Overseas Fixed Interest Securities	45,082		45,082	2.0
Global Bonds	304,827		304,827	13.9
<b>Total Bonds</b>	<b>439,802</b>		<b>439,802</b>	<b>20.0</b>
<b>UK Equities</b>				
Basic Materials		5,051	5,051	0.2
Consumer Goods		41,278	41,278	1.9
Consumer Services		42,020	42,020	1.9
Financials		42,338	42,338	1.9
Health Care		20,730	20,730	0.9
Industrials		25,501	25,501	1.2
Oil and Gas		20,652	20,652	0.9
Technology		6,865	6,865	0.3
Telecommunications		14,240	14,240	0.6
Utilities		5,469	5,469	0.2
Pooled	151,190		151,190	7.0
<b>Total UK Equities</b>	<b>151,190</b>	<b>224,144</b>	<b>375,334</b>	<b>17.0</b>
<b>Overseas Equities</b>				
Europe	70,438	72,221	142,659	6.5
North America	83,062	158,196	241,258	11.1
Japan	20,996	36,278	57,274	2.6
Other Asia	24,186	7,721	31,907	1.4
Other International	28,807	9,270	38,077	1.7
RAFI	214,302		214,302	9.7
<b>Total Overseas Equities</b>	<b>441,791</b>	<b>283,686</b>	<b>725,477</b>	<b>33.0</b>
Absolute Return	210,166		210,166	9.5
Private Equity	65,996		65,996	3.0
Infrastructure	52,978		52,978	2.4
Money Market Investments	14,172		14,172	0.6
Unit Trusts	17,782		17,782	0.8
Debt Opportunity	47,371		47,371	2.2
Timberlands	6,948		6,948	0.3
Cash held by Investment Manager		1,926	1,926	0.1
Foreign Exchange	2,188		2,188	0.1
Property Unit Trusts	241,309		241,309	11.0
<b>Total Alternatives</b>	<b>658,910</b>	<b>1,926</b>	<b>660,836</b>	<b>30.0</b>
<b>Total</b>	<b>1,691,693</b>	<b>509,756</b>	<b>2,201,449</b>	<b>100.0</b>

## Investment Performance

The chart below shows the comparative investment returns between 2014-15 and 2015-16. The change in the value of the Fund's investments includes realised and unrealised gains and losses during the year.

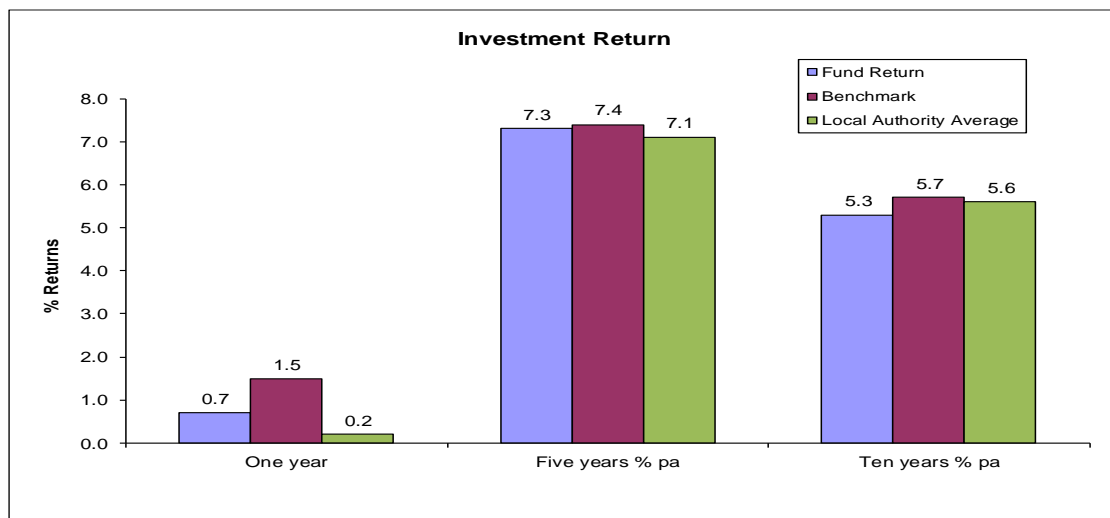


The Fund's assets increased from £2,198 million to £2,213 million during 2015-16, representing an investment return of 0.7% gross of fees. The Fund's benchmark is based on the weighted average of the market index returns for the markets in which it invests. The Fund underperformed the benchmark by 0.8% but outperformed the local authority average by 0.5%.

The Fund just underperformed compared with its benchmark over the longer term, by 0.1% per year for the five year benchmark and by 0.4% per year for the ten year benchmark, which is an improved position from the previous year.

The Fund's investment return compared with its benchmark index and local authority average over one, five and ten years is shown below:

## Fund Investment returns



## Long-term Investment Performance

The Fund's investment returns (shown below) compare the Fund's own benchmark with the average local authority Pension Fund (as collated by State Street's performance measurement service). In addition, the Fund's returns are compared with the movement in retail prices over this period.

Long-term performance (year ended 31 March)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	%	%	%	%	%	%	%	%	%	%
<b>Fund return</b>	<b>8.0</b>	<b>-2.5</b>	<b>-22.2</b>	<b>32.6</b>	<b>8.1</b>	<b>2.0</b>	<b>13.6</b>	<b>5.6</b>	<b>15.4</b>	<b>0.7</b>
Fund benchmark	7.7	-3.6	-21.3	37.6	8.5	3.8	12.1	6.3	13.9	1.5
Relative return	0.3	0.9	-1.1	-5.0	-0.4	-1.8	+1.5	-0.7	+1.5	-0.8
<b>WM average</b>	<b>7.0</b>	<b>-2.8</b>	<b>-19.9</b>	<b>35.2</b>	<b>8.2</b>	<b>2.6</b>	<b>13.8</b>	<b>6.4</b>	<b>13.2</b>	<b>0.5</b>
WM ranking (percentile)	20 <sup>th</sup>	36 <sup>th</sup>	72 <sup>nd</sup>	73 <sup>rd</sup>	47 <sup>th</sup>	76 <sup>th</sup>	62 <sup>nd</sup>	69 <sup>th</sup>	16 <sup>th</sup>	30 <sup>th</sup>
<b>Retail prices</b>	<b>4.4</b>	<b>3.4</b>	<b>-0.8</b>	<b>4.0</b>	<b>4.6</b>	<b>3.0</b>	<b>2.7</b>	<b>1.8</b>	<b>0.3</b>	<b>0.8</b>

The Fund's rolling investment return over one, three, five and ten years is shown below.

Long-term performance (annualised)				
	1 Year	3 Year	5 Year	10 Year
	%	p.a. %	p.a. %	p.a. %
<b>Fund return</b>	<b>0.7</b>	<b>7.0</b>	<b>7.3</b>	<b>5.3</b>
Fund benchmark	1.5	7.1	7.4	5.7
Relative return	-0.8	-0.1	-0.1	-0.4
<b>WM local authority average</b>	<b>0.2</b>	<b>6.5</b>	<b>7.1</b>	<b>5.6</b>
WM local authority ranking (percentile)	30 <sup>th</sup>	26 <sup>th</sup>	43 <sup>rd</sup>	64 <sup>th</sup>
<b>Retail prices</b>	<b>0.8</b>	<b>1.0</b>	<b>1.7</b>	<b>2.4</b>

2015-16 was a difficult year in terms of investment returns for many Pension Funds due to the volatility of the equity markets. Over one year the Suffolk Fund's investment return was in the top third of local authority funds (30<sup>th</sup> percentile ranking), with an improving position over five and ten years.

Over the longer term the Fund's investment return is substantially above the increase of retail prices, which is an important factor as retail price index has a direct impact on the movement of the Fund's pension liabilities.

## Manager Performance

The table below shows the investment returns by the Fund's investment managers relative to their benchmarks over one, three and five years (where available) and their absolute returns for the year.

Investment Manager Performance					
Share of Fund 31 Mar 16	Manager	2015-16 Absolute Return	2015-16 Relative Return	3 Year Relative Return	5 Year Relative Return
%		%	%	% p.a.	% p.a.
9.0	BlackRock	-0.2	+3.8	+2.4	+1.2
0.3	BlueCrest	-2.3	-7.5	-3.1	-
0.3	Brookfield	1.3	-6.2	-	-
33.0	Legal & General	-3.7	-0.1	-0.2	-0.2
1.6	KKR	+19.9	+11.0	+11.2	-
2.2	M&G	3.4	-4.2	-1.3	-
15.2	Newton	2.6	+3.8	+1.8	+1.6
0.9	Partners	+26.2	+16.8	+3.1	-
5.8	Pyrford	1.8	-3.6	-2.6	-
11.2	Schroders	10.0	-0.6	+0.4	+0.3
3.4	Winton	-3.3	-8.4	+0.8	-

### Note:

Legal and General manages a passive index-tracking mandate, which is not expected to outperform the benchmark. However, the manager's performance may under or outperform from time to time compared with the benchmark index for technical reasons.

The private equity mandate held by Pantheon and Wilshire are not reported separately and so have not been included in the table.

The bond mandates with Blackrock and M&G have not been included as they have been invested for less than a year and do not have meaningful figures to report.

The investment objectives of the Fund's investment managers are to outperform relative to their benchmark index, typically the index for the market they are invested in or on an absolute return cash plus basis.

The investment returns produced by the managers can be highly volatile, so performance is assessed by the Pension Fund Committee based on their medium term track record, typically over three or five years. Over three and five years, Newton and Blackrock have achieved a good level of outperformance and Schroders has achieved a modest level.

## **Governance Report**

### **Governance of the Suffolk Pension Fund**

All LGPS Funds in England and Wales are required to produce a Governance Policy Statement, revise it following any material change in their delegation arrangements and publish it.

Each authority is required to:

- (a) Keep the statement under review;
- (b) Make appropriate revisions following a material change in respect of any matters; and
- (c) If revisions are made -
  - i) Publish the statement as revised, and
  - ii) Send a copy of it to the Secretary of State.

The Statement is required to set out:

- (d) Whether the administering authority delegates their function or part of their function in relation to maintaining a Pension Fund to a committee or an officer of the Council;
- (e) Where this is the case, details of:
  - i) The frequency of any committee meetings
  - ii) The terms of reference, structure and operational procedures in relation to the use of delegated powers
  - iii) Whether the committee includes representatives of employing authorities or scheme members, and if so, whether those representatives have voting rights.
- (f) The extent to which a delegation complies with the guidance given by the Secretary of State and if it doesn't comply the reasons why.

The Pension Fund Governance Policy Statement sets out how the County Council's statutory responsibilities for the LGPS will be carried out and is published on the Suffolk Pension Fund website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)). The Suffolk Pension Fund Committee carries out the County Council's responsibilities for the management of the Pension Fund.

### **Pension Fund Committee**

The Pension Fund Committee's key responsibilities are:

The effective and prudent management of the Suffolk Pension Fund.

- a) The approval of the Fund's investment strategy and the appointment of the investment managers.
- b) The approval of the funding strategy following the triennial actuarial valuation, and the determination of the employers' contributions to the Fund.

## Delegations to the Director of Resource Management

The Director of Resource Management, the County Council's responsible financial officer under section 151 of the Local Government Act 1972, is responsible for all decisions concerning the Pension Fund within the scope of the policies that have been approved by the Pension Fund Committee.

## Key Management Personnel disclosure

The posts of Director of Resource Management and Senior Pensions Specialist are deemed to be key management personnel in regards to the Pension Fund. The members of the Pension Fund Committee also have a directing role in relation to the Pension Fund. The financial value of short-term benefits (pay and associated costs recharged to the Pension Fund) and post employment pension benefits for officers and for members of the Pension Fund Committee are as below:

	Officers	Committee Members
	£'000	£'000
Short Term Benefits	132	-
Post Employment	785	13

## Membership of the Committee

During 2015-16 the Pension Fund Committee consisted of seven county councillors, who were appointed by the County Council, reflecting the political balance on the County Council as a result of the May 2013 County Council elections. In addition, the Committee included two district council representatives, who were nominated by the Suffolk District Council leaders, and a scheme member representative, who was nominated by UNISON.

The attendance of the Pension Fund committee members for the six committee meetings held during 2015-16 are as below:

Councillor	Meetings attended
Cllr Peter Bellfield *	1
Cllr Andrew Reid	6
Cllr Michael Bond	5
Cllr Peter Byatt *	2
Cllr John Field	6
Cllr Bill Knowles	5
Cllr Bert Poole	4
Cllr Carol Bull	4
Cllr Jenny Antill	5
Mr Steve Warner	5

\*Non attendance due to ill health



Pension Fund committee members are encouraged to send a substitute for any committee meeting which they are unable to attend. The substitute is fully briefed by a Pension Fund officer to enable them to participate in the meeting.

All members of the Pension Fund Committee have voting rights.

Committee members must declare any conflicts of interest at each committee meeting which are recorded on the minutes. In addition, all members have to complete a register of interest declaration form which is available for public inspection. A review of the register is undertaken by internal audit as part of their governance auditing programme and the results are reported to the Audit Committee.

## **Committee Training**

The Pension Fund Committee recognises the importance of ensuring that those who are responsible for financial management and decision making with regards to the pension scheme are equipped with the necessary knowledge and skills. The committee has made the Director of Resource Management responsible for ensuring that appropriate training is undertaken by members and officers with responsibilities relating to the Pension Fund.

The Committee has adopted the CIPFA Pensions Knowledge and Skills Framework as the basis for assessing its training and development needs. All new committee members are given training on the operation of the Fund and their responsibilities.

In addition, the committee approves a formal two year training plan which is designed to cover the Committee's responsibilities. This is reviewed annually and updated to include new topics of interest and any additional training requirements identified.

As part of the training plan the Committee has received presentations during the year from the fund's investment managers and advisers:

- Committee training day:
  - Overview of the Government's plans for the LGPS Funds to pool their assets.
  - Global equity overview, risks, portfolio construction, currency risk and hedging.
  - Infrastructure assets and finding suitable assets to invest in.
  - Overview of alternative asset classes which the Fund does not currently invest in.
  - Overview of Winton's strategy and trend analysis.
  - Passive overseas equities, market caps, RAFI, currency risk and hedging.
- Global custody, securities lending, performance reporting and benchmarking.
- Proxy voting and environmental, social and governance engagement.
- Further training on pooling implications for the Suffolk Pension Fund.
- Overview of collective investment vehicles.
- Pension Fund administration and benefits paid to scheme members.
- Currency risk and currency hedging.

This is supplemented by external training provided by local government organisations and investment seminars organised by investment managers and industry experts. Committee members and officers have access to the on-line training and reference material contained in the CIPFA Pensions Knowledge and Skills 'tool kit'.

### **Work of the Pension Fund Committee**

The Pension Fund Committee has a business plan which sets out its performance management framework and its priorities for service development. The Pension Fund Committee met on six occasions during 2015-16.

The Committee monitored the investment performance of the Fund and all its managers on a quarterly basis, receiving a combined investment report with collaboration from Hymans Robertson LLP and Mark Stevens, the Fund's Investment advisors and officers of the Pension Fund. The report includes commentaries on the performance of the managers and the investment strategies employed, a review based on the quarterly investment manager's meetings and an overview of the economic outlook. The annual report on investment performance is produced and presented by State Street, the Fund's performance advisors.

The Committee monitored the actuarial position of the Fund on a quarterly basis during 2015-16 with the receipt of the funding valuation report produced by Hymans Robertson LLP. The estimated funding level of the Fund has decreased slightly from 79.1% at the March 2013 valuation to 78.5% at March 2016.

During the year the Committee received advice from Hymans Robertson LLP reviewing the investment strategy of the Fund and recommending minor changes to the strategy to further enhance the portfolio and returns whilst maintaining a low risk approach to investments.

The main suggestions considered by the Committee were:

- Allocation of a further commitment to one of the existing private equity managers.
- Implementation of a rebalancing methodology.
- Termination of the Bluecrest mandate

The Committee made a decision to work with a number of other Pension Funds (Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire and West Sussex) to form the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pooling group in response to the Government's requirements for LGPS Funds to work together to put forward plans to "pool investments to significantly reduce costs, while maintaining investment performance".

The Pension Fund Committee also approved the initial proposals submitted to Government in February as part of the ACCESS pooling group. A copy of the submission and further developments of the ACCESS pooling group can be found on the ACCESS website ([WWW.accesspool.org](http://WWW.accesspool.org))

The Committee updated and approved the following documents:

- Statement of Investment Principles
- Governance Policy Statement
- Conflicts of Interest Policy

- Breaches Policy
- Treasury Management Strategy
- Risk Register

### **Pension Board**

The Pension Board's key responsibilities are:

- 1) Assist the Council as scheme manager
  - a) To secure compliance with the Local Government Pension Scheme (LGPS) Regulations and any other legislation relating to the governance and administration of the LGPS;
  - b) To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
  - c) In such other matters as the LGPS Regulations may specify.
- 2) Secure the effective and efficient governance and administration of the Suffolk Pension Fund.

### **Membership of the Board**

The function of the Suffolk Pension Board is to assist Suffolk County Council as administering authority of the Suffolk Pension Fund in ensuring the effective and efficient governance and administration of the Suffolk Pension Fund in line with legislative requirements.

The Suffolk Pension Board consists of six members, three Pension Fund employer representatives (one each representing the County Council, other local government employers and other employers) and three Pension Fund member representatives (one each representing current active members, retired members and trade unions).

The attendance of the Pension Board members for the three meetings held during 2015-16 are as follows:

<b>Member</b>	<b>Representing</b>	<b>Meetings attended</b>
Cllr Richard Smith	Suffolk County Council	3
David Rowe	Active Scheme Members	3
Homira Javadi	Other Local Government	2
Eric Prince	Retired Members	3
Kate Harrison	Other Employers	2
Suzanne Williams	Unions	1

## **Board Training**

The Pension Board recognises the importance of complying with the Pensions Regulator's Code of Practice with regards to the demonstrable knowledge and understanding of the LGPS that is expected whilst in addition having due regards to the guidance issued by the Scheme Advisory Board.

In addition, the Board has approved a formal two year training plan which is designed to cover the Board's responsibilities. This is to be reviewed annually and updated to include new topics of interest and any additional training requirements identified.

As part of the training plan the Board has received Training as follows:

- An overview of the legal framework, governance and background of the Suffolk Pension Fund covering investment and administration.
- A detailed review of the legal framework covering the LGPS, roles and responsibilities.
- Overview of asset allocation.
- Overview of the scheme administration and benefits and policies and discretions adopted by the Fund.
- Detailed review of the role of the actuary and the work undertaken as part of the triennial valuation exercise including consulting and agreeing employer contribution rates.

## **Work of the Pension Board**

The Pension Board held its first meeting on 24 July 2015 appointing the chairman, Cllr Richard Smith and the Vice Chairman, David Rowe. The Pension Board adopted the Rules of Procedure, and agreed a forward work programme for the year ahead.

The Board has received and reviewed:

- Pension Fund Annual Report and Accounts 2014-15
- Fund investment performance
- Breaches Policy
- Asset allocation
- Investment management expenses

The Board regularly reviewed the complaints and compliments received by the pension administration team.

## **Risk Management**

The long term risk in relation to the Pension Fund is that its assets fall short of its liabilities and that there would be insufficient assets to pay the pensions to its members. Investment objectives have been set by the Pension Fund Committee with the aim of maximising long term investment returns within an agreed risk tolerance level to mitigate the risk.

Investment risk and performance is regularly monitored and reviewed by the Council's Officers. The Pension Fund Committee reviews investment performance on a quarterly basis with the assistance of its investment advisers, Hymans Robertson LLP and Mark Stevens.

The Pension Fund Committee maintains a risk register for the Pension Fund, which is available on its website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)). All Pension Fund risks are subject to regular monitoring in regards to the likelihood of occurrence and potential impact on the Fund. Third party risks such as payments of contributions are monitored by Suffolk County Council.

Assurance over the systems operated by the Fund's investment managers and custodians is maintained by obtaining relevant documentation about their internal control environment such as ISAE340 reports, prepared in accordance with the guidance from the Audit and Assurance Faculty of the ICAEW.

A formal review of the robustness of the Pension Fund's accounting systems is undertaken by the Fund's external auditors, Ernst & Young LLP, as part of the annual audit.

### **Systems and internal control**

The Council's statement of accounts, including the accounts of the Pension Fund, is subject to external audit by Ernst & Young LLP who produce an audit opinion on the Council's accounts. The auditors produce a separate opinion on the Pension Fund financial statements and an opinion that the Pension Fund annual report is consistent with the Pension Fund accounts.

The Pension Fund is also subject to an internal review by the Council's internal auditors on the robustness of the Pension Fund's systems, procedures and controls. A report summarising the outcomes of the internal audit reviews conducted during the year and their overall opinion of the effectiveness of controls was presented to the Pension Fund Committee.

The Head of Audit Services has provided the opinion that the internal control environment provides substantial assurance that the Pension Fund's financial and administrative systems are effective.

### **Pension Fund Risk Register**

The Committee has adopted a formal framework for the identification and management of the risks that the Fund is exposed to. The risk register has been reviewed and updated in line with the guidance issued and reflects best practice in the identification, evaluation and control of risks in order to ensure that key risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

Each of the risks within the key areas has been identified and assessed in terms of its impact on the Fund as a whole, on the Fund employers, and on the reputation of the Pension Fund Committee, Pension Board and Suffolk County Council as the administering authority, along with the probability of the risk occurring.

The top Pension Fund risks (medium and high risk) are shown overleaf. The key risk is that investment returns are not generated resulting in assets falling short of the liabilities. Investment objectives have been set with the aim of maximising asset returns within an acceptable risk tolerance.

Risk	Impact	Probability	Risk Score	Existing risk control measures
<p><b>Investment:</b> Failure of investment markets in generating investment returns.</p> <p><b>Impact:</b> increase in employer contribution rates</p>	4	3	12	<p>Diversification between asset classes minimises the impact of a single asset class underperforming.</p> <p>Regular reporting and monitoring arrangements for investment performance by the Fund and its managers are in place.</p>
<p><b>Actuarial:</b> Failure of investment strategy to produce long-term returns assumed in the Funding Strategy.</p> <p><b>Impact:</b> increase in employer contribution rates</p>	4	3	12	<p>The investment strategy is fully reviewed at least every 3 years by the Pension Fund Committee in line with the results of the triennial valuation.</p> <p>A high level review is undertaken annually to assess whether the objectives of the strategy still meet with the Fund's current objectives.</p>
<p><b>Actuarial:</b> Scheme members living longer than assumed in actuarial assumptions.</p> <p><b>Impact:</b> increase in the liability strain leading to an increase in employer contribution rates</p>	3	3	9	<p>Life expectancy assumptions are reviewed at each triennial valuation.</p> <p>Setting mortality assumptions with some allowance for future increases in life expectancy.</p>
<p><b>Operational:</b> Failure of payroll and pension IT administration systems.</p> <p><b>Impact:</b> benefits are not paid correctly and/or on time</p>	3	3	9	<p>Suffolk County Council has a disaster recovery plan which includes key tasks within the Pension Fund function.</p>
<p><b>Regulatory:</b> Changes to regulations or legislation not being adhered to.</p> <p><b>Impact:</b> increase in the cost of the scheme or administrative time to correct.</p>	3	3	9	<p>The Pension Fund responds to all consultation proposals issued by the Department of Communities and Local Government.</p> <p>Pension Fund officers attend conferences and seminars to ensure the consequences of legislative changes are understood and implemented.</p>

Note: The Risk Score is determined by multiplying the scores for the possible impact and the assessed likelihood together. Depending on the value of the risk score, the risk is assessed as low (1-4), medium (5-9), high (10-15) or very high risk (16-25). The risks are managed in accordance with the County Council's arrangements for managing risks, including appropriate monitoring and mitigation measures.

Note 16 in the Pension Fund statement of accounts includes a statement of the nature and extent of risks associated with the Fund's investments. These are analysed over the following categories:

- a) Credit risk
- b) Liquidity risk
- c) Market risk
- d) Interest rate risk
- e) Currency risk
- f) Price risk
- g) Custody
- h) Investment management
- i) Sensitivity of funding position to market conditions and market performance

The most significant risks associated with the Fund's investments are considered to be market risk (the risk that the value of the Fund's investments will fluctuate due to changes in market sentiment) and price risk (the risk that the funding level will fluctuate due to changes in market conditions and market performance). Both of these risks are included in the Fund's risk register and subject to appropriate management and monitoring arrangements.

# Corporate Social Responsibility and Voting Report

## Environmental, Social and Governance Issues

The Pension Fund is required to disclose in its statement of investment principles to what extent that it takes account of environmental, social or ethical considerations in the selection, realisation or disposal of investments. The Pension Fund Committee considers that the primary responsibility of the Committee is to ensure that the long-term return from its investments is sufficient to meet the Fund's liabilities and that the selection of investments should be undertaken to achieve the best financial return for the Fund, subject to an appropriate level of risk. It has not placed any requirements on the Fund's investment managers in the selection or retention of investments by reference to environmental, social or ethical criteria. All investments that are made for the Fund comply with the legal and regulatory requirements that apply to the local government pension scheme.

## Voting Policy

The Pension Fund seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of the companies that it invests in. The Fund's equity holdings give the Fund the right to vote on the resolutions at company general meetings. The Pension Fund Committee has a voting policy which covers its holdings in UK and overseas companies. Voting is carried out on the Fund's behalf by our governance and voting advisers, Pension Investments Research Consultants (PIRC). The Fund's voting guidelines are published on the Suffolk Pension Fund website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)).

The general principles followed in our voting guidelines are:-

- We will vote in favour of proposals at annual and extraordinary general meetings which comply with good practice on corporate governance. The definition of good practice is based on the guidelines in the UK Corporate Governance Code.
- We will vote against proposals which breach the Code and where the company is unable to provide a satisfactory explanation of its policy.
- We will in general abstain on proposals which do not relate to issues contained in the good practice guidance in the Code.

## Voting activity in 2015-16

The Fund received recommendations for 2,923 resolutions at 195 meetings, supporting 2,193 resolutions (75%) and abstaining on 105 occasions (4%). The Fund voted against the proposal on 556 occasions (19%), a slight increase on the 17% opposing votes exercised in the previous year. The remaining resolutions (2%) did not result in a vote or were withheld agenda items.

The Fund's UK voting record is analysed over the page. Full details of the voting by the Fund are contained within the reports to the Pension Fund Committee which are published on the Pension Fund website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)).



	For		Oppose		Abstain		Total
	No.	%	No.	%	No.	%	
Annual Report	62	83	13	17	0	0	75
Remuneration Report	16	21	34	44	27	35	77
Articles of Association	16	94	0	0	1	6	17
Auditors Appointment	69	88	9	11	1	1	79
Directors	683	93	51	7	3	0	737
Dividend	59	98	1	2	0	0	60
Executive Pay Schemes	1	11	8	89	0	0	9

## Report by Pension Investment Research Consultants (PIRC)

### UK Voting

Once again, the topic of remuneration was the most contentious at Companies' AGMs during the year. Most of the Companies were subject to a single non-binding resolution on the Remuneration Report, which focuses on actual amounts paid to directors during the year. The forward-looking binding vote on the Remuneration policy was rarely put to the vote as most companies had their policy approved at their previous AGM. The remuneration policy, once approved, only needs to be approved on a three-year basis, unless changes are made by the Remuneration Committee to the rules of the policy.

Overall, Suffolk voted against 34 Remuneration reports during the year and abstained on 27 of them. The invested Company which received the highest level of contestation on its remuneration during the year was Intermediate Capital Group, with 32.8% of oppose votes from shareholders, including Suffolk. The variable pay of its CEO was 13 times his base salary; these excessive payments were complex and poorly disclosed by the Company.

Many other major listed companies received significant votes against their remuneration from their shareholders, including Suffolk. at HSBC's AGM, the remuneration report received 22% of oppose votes from shareholders. This was an increase from last year's 20.3%. This shows that the Company did not address shareholder concerns in relation to the new fixed pay allowance awarded to Executives, which circumvents the spirit of the CRD IV regulations (Capital Requirements Directive).

Other FTSE 100 companies, such as Dixons Carphone plc, AstraZeneca plc or Carnival plc, also saw shareholders express concerns about the Directors pay levels as respectively 25.4%, 15.2% and 14% of shareholders voted against their Remuneration report. The case of Carnival plc was particularly interesting as the CEO's variable pay included awards not based on performance and represented 300% of his salary in total. The CEO's overall pay level over the last five years was not commensurate with Company's TSR (total shareholder return) performance during the same period. In addition to this, concerns were raised about other remuneration practices such as the use of an aircraft by the CEO, increases in Non-Executive Directors fees and payment of a salary to the Chairman.

Local Authorities were involved in the filing of the “Strategic Resilience for 2035 and Beyond” shareholder resolution at BP plc as part of their participation in the ‘Aiming for A’ investor coalition. The resolution asks for further information to be provided on operational emissions management; asset portfolio resilience to the International Energy Agency’s scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change. To give the company time to consider these issues in reporting on fundamental business strategy, it was asked that these elements be included in routine annual reporting from 2016. The Company supported this resolution and Suffolk voted in favour.

## Overseas Voting

Board independence was again an issue of concern in the US, with 63% of companies held by Suffolk having insufficient independent representation on the Board. Suffolk also voted against the appointment of directors in combined Chair & CEO roles (53% of Suffolk’s holdings), which is a common practice amongst many US companies but not meeting best practice in governance particularly where the level of independent representation on boards is weak or lacking. At Express Scripts Holding Company, EMC Corporation, and Abbott Laboratories, Suffolk supported shareholder resolutions calling for the combined Chair/CEO roles to be split or for the adoption of a policy for the Chair of the Board to be independent. These proposals were well supported by shareholders with all proposals receiving a minimum 30% of votes in favour.

Pay structures and long-term incentive plans also attracted oppose votes, particularly where disclosure was insufficient for compensation to be judged adequately against performance or where significant discretion was given to the Compensation Committee to determine final pay outs. Suffolk opposed 84% of say-on-pay votes during the reporting period, with 13% of companies not giving shareholders the opportunity to vote (on pay) during the period. A company of note, Discovery Communications Inc., did not provide shareholders the opportunity to vote on pay despite awarding CEO David Zaslav a total fiscal 2015 compensation package of \$156m, the highest pay package in the S&P500 for the reporting period. Suffolk contributed to a significant oppose vote at Microsoft Corporation, where for the second consecutive year 27% of shareholders opposed the annual say-on-pay vote.

Shareholder resolutions were again a big feature at US annual meetings, and Suffolk was supportive of calls for greater transparency of reporting in respect of political donations and lobbying activities (Western Union, Alphabet, Express Scripts Holding, Citigroup) and in favour of proxy access for shareholders (Apple, EBay, Citigroup). Proxy access proposals were particularly well supported by shareholders during the reporting period, and Suffolk contributing to a 59% vote in favour of proxy access at EBay, and an 87% vote in favour at Citigroup. Other popular shareholder proposals which featured heavily during the reporting period were proposals to introduce written consent, which Suffolk opposed, and limiting accelerated vesting of equity upon a change-of control, which Suffolk supported.

## Administration Report

### Introduction to the Fund

The Local Government Pension Scheme (LGPS) provides pension benefits for certain employees within local government. It is governed by statute and the statutory responsibility for regulating the scheme lies with the Minister of State for the Department for Communities and Local Government.

The Suffolk LGPS Pension Fund is administered by Suffolk County Council with the statutory responsibilities for the scheme fulfilled by delegating the necessary powers to the Pension Fund Committee.

The Scheme is open to all County Council employees (except teachers and fire fighters who have their own scheme), employees of the Suffolk district councils and employees of certain other public bodies (known as scheduled bodies) within Suffolk. Parish and Town Councils may decide by designation to allow their employees to join the Pension Fund. The regulations also permit the Pension Fund Committee to admit to the Fund certain other bodies which provide public services.

All local government employees automatically become members of the scheme unless they choose to opt out.

### How the Fund Works

The LGPS is a funded scheme. This means the scheme is financed by contributions from the Fund's employers and their employees and by income from the Fund's investments. The employer's contribution rates are set as part of the actuarial valuation exercise which is carried out every three years by the Fund's Actuary. The next statutory actuarial valuation commenced as at 31 March 2016 and any changes in employer contribution rates will take effect from 1 April 2017.

### Costs of Membership

Employee contributions are banded on a members actual pensionable pay rather than the full time equivalent which had previously been used.

The pay banding table which was used during 2015-16 is shown below and the bands are increased each April in line with changes in the cost of living.

Actual Pensionable Pay	Contribution Rate
£0 - £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%
Over £151,801	12.5%

Members have the option to join on a 50/50 basis which will entitle members to pay half the contribution detailed previously overleaf in exchange for half the pension benefit. These members do retain full benefits in the event of ill health or death.

### **Benefits of the Pension Fund**

The majority of benefits that are payable are set by regulations, although there are certain instances where discretion is given to employing bodies in the Fund. Each employer has a discretion policy detailing their decisions in respect of these instances.

All pensions payable from the Fund are defined as 'official pensions' for the purpose of the Pensions (increase) Act.

#### **The core scheme benefits are:**

- The ability to take a tax-free lump sum by commutation of pension. For service in the scheme prior to 1 April 2008 there is an automatic tax free lump sum of three times the annual Pension to 31 March 2008.
- Life assurance of three times the member's yearly pay from the day they join the scheme.
- Pensions for spouses, civilly registered partners and qualifying co-habiting partners. Eligible children are also entitled to a pension.
- An entitlement paid early if a member has to stop work due to permanent ill health.
- Pensions increases in line with inflation (measured by the Consumer Price Index).
- Pensions are payable from age 55, including flexible retirement

### **Pension administration**

The Pension Administration team carries out a range of pension benefit calculations and administrative functions:

- Maintaining an accurate database of scheme members, deferred members and pensioners;
- Calculating service credits from incoming transfer values and notifying scheme members accordingly;
- Calculating and paying outgoing transfer values to other pension schemes and providers;
- Calculating and notifying amounts of deferred pension benefits when a member leaves before normal retirement age;
- Calculating and paying pension benefits when a member retires;
- Assessing the impact of, and implementing amending legislation when received and also communicating the effect of those changes to members, deferred members, pensioners and scheme employers;
- Providing estimates of benefits, information on entitlements and implementing pension sharing orders on divorce;
- Paying pensioners monthly;
- Calculating and paying dependent pensions and lump sums when a member, deferred member or pensioner dies.

## Key Performance Indicators:

Number and trend of high profile cases:

Case Type	Total Completed	Peak Period
Pension Estimates – retirements and divorce	2,086	January
Pensions Retirements	1,367	October
Pensions preserved benefits	2,044	August
Pensions transfers in	249	October
Pensions transfers out	344	March
Pensions deaths	424	June, October & March

Percentage completed on time against targets:

Service Level Agreement	Percentage completed within SLA
Notification of retirement benefits and payment of lump sum to be made within 10 working days of receipt of all information necessary. Payment of pension to be included in the next available monthly run.	98%
Pay death grant / balance of pension/pay within 10 working days of receipt of all necessary documentation. Pay Spouse Benefit on first available pay run.	97%

## Employer Performance

The Administration Strategy requires each employer to monitor performance against specific tasks and report to the pension administration team on a quarterly basis. During 2015-16 the Administration Strategy has been updated following consultation with scheme employers and approved by the Pension Fund Committee.

The tables below show the performance of the employers in the Fund:

### Fund administration

Function/Task	Performance Target	Achievement %
Payment of additional fund payments in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement	Within 30 working days of receipt of invoice from the Suffolk Pension fund / within timescales specified in each case	100

## Liaison and Communication

Function/Task	Performance Target	Achievement %
Remit and provide details of total employer/employee contributions	5th working day of month after deduction	97
Respond to enquiries from administering authority	10 working days from receipt of enquiry	100
Provide year end information required by the Suffolk Pension Fund, in a format agreed with the Suffolk Pension Fund	By 21st April following the year end	92
Distribute any information provided by Suffolk Pension Fund to scheme members/potential scheme members	Within 15 days of its receipt	100
Notification to Suffolk Pension Fund of material changes to workforce/assumption related areas	No later than 10 working days after material change/formal employer agreement on assumption related areas	100
Provide new/prospective members with scheme information and new joiner forms	5 working days of commencement of employment or change in contractual conditions	100

## Employer Administration

Function/Task	Performance Target	Achievement %
Make all necessary decisions in relation to new scheme members in the LGPS (whether full or part time, pensionable pay, appropriate contribution rate band, etc)	10 working days of scheme member joining	100
Provide administering authority with scheme member details on appropriate form/via electronic interface	10 working days of scheme member joining/from month end of joining	100
Arrange for the correct deduction of employee contributions from a scheme members pensionable pay on becoming a scheme member	Immediately on joining the scheme, opting in or change in circumstances	100
Ensure correct employee contribution rate is applied and arrange for reassessment of employee contribution rate in line with employer's policy	Immediately upon commencing scheme membership, review as per policy	100

<b>Function/Task</b>	<b>Performance Target</b>	<b>Achievement %</b>
Ensure correct rate of employer contribution is applied	Immediately following confirmation from the administering authority of appropriate employer contribution rate	<b>100</b>
Ensure correct deduction of pension contributions during any period of child related leave, trade dispute or other forms of leave of absence from duty	Immediately, following receipt of election from scheme member to make the necessary pension contributions	<b>100</b>
Commence/amend/cease deductions of additional regular contributions	Commence/amend in month following election to pay contributions or notification received from administering authority, cease immediately following receipt of election from scheme member	<b>100</b>
Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)	Commence deduction of AVCs in month following the month of election	<b>100</b>
	Pay over contributions to the AVC provider(s) by the 19 <sup>th</sup> of the month following the month of election	<b>100</b>
Refund an employee's contributions when employee opts out of the pension scheme within 3 months of joining	Month following month of opt out	<b>100</b>
Cease deduction of contributions where a scheme member opts to leave the scheme	The month following the month of election, or such later date specified by the scheme member	<b>100</b>
Provide administering authority with details of all material changes in employee's circumstances (e.g. marital or civil partnership status), contractual changes to a scheme members hours and/or weeks via appropriate form/electronic interface	10 working days of change/notification of change	<b>100</b>
Leave of absence with permission (maternity / paternity / secondment) without pay etc. (communications with employee and confirmation to Pension Fund)	Within 10 working days of notice from employee / HR / payroll	<b>100</b>

Function/Task	Performance Target	Achievement %
Determine reason for leaving and provide notification to administering authority of scheme leavers	By the end of the month the member left	99
Provide advance basic information relating to members retiring	Within 5 days of receipt of resignation/notification	100
Determine reason for retirement and provide notification to administering authority of retiree	Within 10 working days of notification of intention to retire	100
Provide final pay information for each scheme member who leaves/retire/dies and forward to Suffolk Pension Fund on appropriate form/via electronic interface	Within 10 working days following date of leaving/retirement/death	99
Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment with Suffolk Pension Fund	Within one month of commencing participation in the scheme or date of resignation of existing medical adviser	100
Appoint person for stage 1 of the pension dispute process and provide full details to the administering authority	Within 30 working days following the resignation of the current "appointed person"	100

### Financial Performance

A review is carried out on the timings of the payment of pension contributions to the fund by the employers. The administration strategy requires these to be received by the Pension Fund within 5 working days of the month in which the contributions were deducted. The table below summarises the timeliness of receipts for the 2015-16 financial year:

	2015-16		
	Emp.	Contribs.	
	%	£'000	%
On Time	96	101,807	98
Up to 1 week late	1	709	1
Over 1 week late	3	639	1
<b>Total</b>		<b>103,155</b>	



## **Communications Policy**

The Fund's Communication Policy sets out how it communicates with employers, scheme members and prospective scheme members and has been approved by the Pension Fund Committee.

The Suffolk Pension Fund has met the requirements set out in the communications policy. A copy of this document is available on the Pension Fund website ([www.suffolkpensionfund.org](http://www.suffolkpensionfund.org)).

The Pension Fund Annual Report and Accounts is the formal mechanism for reporting on the performance of the Fund to its stakeholders and is published on the Pension Fund website.

The Pension Fund Committee invites all the scheme employers to an annual meeting to receive presentations on the activities of the Fund during the year and on any developments relating to the LGPS. The annual meeting for 2014-15 was held on 1 October 2015.

Scheme information has been provided to members, representatives and employers at all appropriate times during the year.

Employers are provided with all necessary information when they join the scheme including an employer's guide. Employer liaison meetings are held twice a year and are an opportunity to effectively communicate important information. All employers are supported and helped through any issues affecting them and pensions administration staff visit various employers throughout the year attending workshops and meeting members. Newsletters to employers are issued on a regular basis

The Pension Fund Committee consults with the employers whenever any significant changes in the Pension Fund's statement of investment principles or funding strategy are under consideration.

The scheme is promoted to prospective members, with new employees being issued with a guide to the LGPS for members and directed to the relevant area of the Pension Fund website. Information on the scheme is also contained within individuals' contracts of employment explaining their rights with regards to joining the scheme.

Active and deferred members of the pension scheme are provided with an annual benefits statement estimating their pension benefits for retirement.

Members of the administration team regularly attend regional and national conferences and training days ensuring that the Suffolk Pension Fund and its members are well represented ensuring that the team is knowledgeable in advance of impending changes.

The Pension Fund Committee and the Pension Board receives appropriate training and information relating to the administration of the scheme.

## **Internal Dispute Resolution Procedure (IDRP)**

If a member or their representative has a complaint against the administration of the Pension Fund or wishes to appeal against a decision which has affected them, they

can invoke the Pension Fund's Internal Disputes Resolution Procedure. There are 3 stages to this process.

The first stage ensures a nominated person will look at the case with the requirement that this individual has had no previous involvement in the case. The nominated person will review the complaint and notify the person of their decision.

If the person raising the complaint is dissatisfied with the first stage decision they can apply for a second stage review of the decision, which is undertaken by the Head of Legal Services at Suffolk County Council as the person nominated by the Pension Fund Committee to hear such disputes. If the person is still dissatisfied, they can take their case to the Pensions Ombudsman for a further review.

In 2015-16 there were 5 IDRPs cases from a total of 8,681 cases processed.

## Employers in the Fund

There are 174 active employers in the Fund and 21 employers who do not have active members but have deferred pension members and/or pensioners.

	Active	Ceased	Total
<b>Scheduled Bodies</b>	103	1	<b>104</b>
<b>Resolution Bodies</b>	33	-	<b>33</b>
<b>Admitted Bodies</b>	38	20	<b>58</b>
<b>Total</b>	<b>174</b>	<b>21</b>	<b>195</b>

A list of the active employers in the Fund as at 31 March 2016 are as follows:

### Scheduled Bodies

Scheduled bodies are local authorities, district and borough councils and other similar bodies such as colleges, academies and free schools whose staff are automatically entitled to be members of the Fund

#### Local Authority

Babergh District Council	St Edmundsbury Borough Council
Forest Heath District Council	Suffolk Coastal District Council
Ipswich Borough Council	Suffolk County Council
Mid Suffolk District Council	Waveney District Council

#### Other

Association of Inshore Fisheries and Conservation Authorities (AIFCA)	The Police and Crime Commissioner for Suffolk
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#### Colleges

Lowestoft 6th Form College	University Campus Suffolk Ltd
Lowestoft College	West Suffolk College
Suffolk New College	

#### Free Schools

Churchill Special Free School	Seckford Foundation Free Schools Trust
IES Breckland	Stour Valley Community School

#### Academies

Bungay High School	Kessingland C of E Primary Academy
Copleston High School	Priory School
Debenham High School	Sir John Leman School
East Bergholt High School	St Albans Catholic High School
Elveden Cof E Primary Academy	St Louis Catholic Academy
Farlingaye High School	St Mary's C of E Academy
Forest Academy	Stone Lodge Academy
Hadleigh High School	Stradbroke High School
Hartismere School	Suffolk New Academy.
Holbrook Academy	The Ashley School Academy
Ipswich Academy	Thomas Mills High School
Kedington Primary Academy	Thomas Wolsey School
Kesgrave High School	

<b>Academies Enterprise Trust</b> Felixstowe Academy	Langer Primary Academy
<b>Academy Transformation Trust</b> Great Heath Primary Academy Westbourne Academy	Mildenhall College Academy
<b>Active Learning Trust</b> Chantry Academy Grove Primary School Gusford Primary School Hillside Primary School Pakefield Primary School	Red Oak Primary School Reydon Primary School Sidegate Primary School Westwood Primary School
<b>Avocet Academy Trust</b> Easton Primary School East Point Academy	Leiston Primary School Wickham Market Primary School
<b>Bright Tribe Academy Trust</b> Alde Valley Academy Castle Hill Infants School	Castle Hill Junior School Cliff Lane Primary School
<b>Bury St Edmunds Academy Trust</b> County Upper School Horringer Court School	Tollgate Primary School Westley School
<b>Castle Partnership Academy Trust</b> Burton End Primary Academy Castle Manor Academy	Place Farm Primary Academy
<b>Evolution Academy Trust</b> Elm Tree Community Primary School	The Dell Primary School
<b>Ipswich Primary Academy Trust</b> St Helens Primary School The Oaks Community Primary School	Whitton Community Primary School
<b>Ormiston Academies Trust</b> Ormiston Denes Academy Ormiston Endeavour Academy	Ormiston Sudbury Academy Stoke High School - Ormiston Academy
<b>REAch2 Academy Trust</b> Beccles Primary Academy Gunton Primary Academy Newmarket Primary Academy Meadow Primary Academy	Northfield St Nicholas Primary Academy Sprites Primary Academy St Margaret's Primary Academy
<b>Samuel Ward Academy Trust</b> Coupals Primary Academy Glemsford Primary Academy Newmarket Academy	Samuel Ward Academy Thomas Gainsborough School Westfield Primary Academy

## **St Edmundsbury and Ipswich Diocese**

Sproughton CEVC Primary  
St Mary's Hadleigh

St Mary's Woodbridge  
Tudor Primary School

## **Thedwastre**

Great Barton Primary Academy  
Rattlesden Primary Academy

Thurston Primary Academy  
Woolpit Primary School

## **Resolution Bodies**

Resolution bodies are bodies, usually town and parish councils who are entitled to be members but have a choice so therefore need to formally pass a resolution designating staff to be eligible to join the Fund.

Beccles Town Council  
Boxford Parish Council  
Bury St Edmunds Town Council  
Concertus Design & Property  
Felixstowe Town Council  
Framlingham Town Council  
Great Cornard Parish Council  
Glemsford Parish Council  
Hadleigh Town Council  
Haverhill Town Council  
Kesgrave Town Council  
Kessingland Parish Council  
Lakenheath Parish Council  
Leavenheath Parish Council  
Leiston Town Council  
Long Melford Parish Council  
Martlesham Parish Council

Melton Parish Council  
Mildenhall Parish Council  
Nayland & Wissington Parish Council  
Newmarket Town Council  
Onehouse Parish Council  
Opus  
Pinewood Parish Council  
Saxmundham Town Council  
Southwold Town Council  
Stowmarket Town Council  
Sudbury Town Council  
Thurston Parish Council  
Verse  
Vertas  
Woodbridge Town Council  
Woolpit Parish Council

## **Admitted Bodies**

Admitted bodies are voluntary and charitable organisations or private contractors undertaking a local authority function.

Abbecroft Leisure  
Anglia Community Leisure Trust  
Ass. Colleges in the Eastern Region  
Care Quality Commission  
Care UK  
Caterlink – Chantry  
Caterlink – Kesgrave  
Churchill Contract Services  
Compass – Copleston  
Compass – Farlingaye  
Compass - Felixstowe  
Edwards and Blake – Pakefield

Edwards and Blake – St Albans  
Flagship Housing Group Ltd  
Hadleigh Market Feoffment Charity  
Havebury Housing Partnership  
Housing 21  
Kier MG  
Leading Lives  
LLC Support Services  
Marina Theatre Trust  
Norland Managed Services Ltd  
Nuffield Health  
Papworth Trust

## Admitted Bodies (continued)

Realise Futures	Suffolk Libraries IPS
Seckford Foundation	Suffolk Norse Ltd
Sentinel Leisure Trust	Suffolk Norse Transport
South Suffolk Leisure	The Partnership in Care Ltd
Sports & Leisure Management Ltd	The Voluntary Network
Suffolk Ass. of Local Councils	Thorpe Woodlands
Suffolk Coastal Leisure Com Ass Ltd	Waveney Norse

## Membership

Each area of membership has increased year on year with an overall membership increase of 20% during the last five years.

Membership Summary	2011-12	2012-13	2013-14	2014-15	2015-16
Members	17,779	18,155	18,658	18,871	20,129
Pensioners	12,321	12,856	13,347	14,023	14,647
Deferred	16,040	16,651	17,629	19,097	20,872
<b>Total</b>	<b>46,140</b>	<b>47,662</b>	<b>49,634</b>	<b>51,991</b>	<b>55,648</b>

# Pension Fund Accounts

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## ACTUARIAL STATEMENT FOR 2015-16

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). 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;
- 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;
- 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 below the theoretical rate required 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 75% 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 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,767 million, were sufficient to meet 79% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £468 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 26 March 2014.

# Pension Fund Accounts

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## 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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/Pension increases	2.50%	-

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 2010 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 as follows:

	Males	Females
Current Pensioners	22.4 years	24.4 years
Future Pensioners*	24.3 years	26.9 years

\*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Suffolk County Council, the Administering Authority to the Fund.

## Experience over the period since April 2013

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been only partially offset by strong asset returns. The result is a likely increased deficit amount, although the funding level is likely to be similar to the last formal valuation

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



## Peter Summers FFA

For and on behalf of Hymans Robertson LLP  
14 April 2016



# Pension Fund Accounts

## Fund Account

2014-2015 £ million	Fund Account	Notes	2015-2016 £ million
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
	<b>Contributions and benefits</b>		
	Contributions receivable:		
	From employers		
70.095	Normal	8	72.144
8.525	Deficit funding	8	9.409
5.471	Other	8	1.788
	From members		
19.806	Normal	8	19.814
	Transfers In		
5.561	Individual transfers in from other schemes		3.477
0.000	Other Income		0.001
	Benefits payable:		
-67.192	Pensions	8	-70.339
-16.155	Commutations of pensions and lump sum retirement benefits	8	-14.368
-1.888	Lump sum death benefits	8	-1.663
	Payments to and on account of leavers:		
-0.032	Refunds of Contributions		-0.131
-3.913	Individual transfers out to other schemes		-4.332
<b>20.278</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>15.800</b>
<b>-12.053</b>	<b>Management Expenses <sup>(1)</sup></b>	9	<b>-12.174</b>
	<b>Returns on investments</b>		
	Investment income		
16.489	Dividends from equities		13.844
8.362	Income from pooled investment vehicles - Property		6.865
	Income from pooled investment vehicles - Private Equity		0.883
1.450	Income from Other Managed Funds		3.051
0.007	Income from Unit Trusts		0.000
0.090	Interest on Cash Deposits		0.117
0.035	Other		0.151
-0.672	Taxes on Income		-0.136
278.118	Change in market value of investments		-13.670
1.615	Impairment of Investments <sup>(2)</sup>		0.023
<b>305.494</b>	<b>Net returns on investments</b>		<b>11.128</b>
313.719	Net increase, or (decrease), in the fund during the year		14.754
1,884.722	Opening net assets of the scheme		2,198.441
<b>2,198.441</b>	<b>Closing net assets of the scheme</b>		<b>2,213.195</b>

### Notes:

(1) 2014 - 2015 figures have been reordered to include all expenses in the Management Expenses line.

(2) Receipt of MF Global, impairment of investment written off in 2011 - 2012.

# Pension Fund Accounts

## Net Asset Statement

31 March 2015 £ million		Notes	31 March 2016 £ million
	<b>Net asset statement</b>		
	<b>Investment assets</b>		
	Equities:		
211.372	UK companies	10,11,12,16	224.142
291.288	Overseas companies		283.686
	Pooled Investment Vehicles		
24.056	Unit trusts	10,11,12,16	17.782
1,062.206	Unit linked insurance policies	10,11,12,16	727.955
212.702	Property unit trust	10,11,12,16	241.309
384.987	Other Managed Funds	10,11,12,16	702.461
	Other Investment Balance		
3.716	Cash [held by the investment managers]	11	1.926
2.245	Forward Foreign Exchange Contracts	11,14	2.188
<b>2,192.572</b>	<b>Total investments</b>		<b>2,201.449</b>
	<b>Current assets</b>		
10.524	Debtors	19	13.020
3.114	Cash Deposits	15a	6.082
0.036	Cash at Bank	15a	0.066
<b>13.674</b>			<b>19.168</b>
	<b>Current liabilities</b>		
-7.805	Creditors	20	-7.422
<b>-7.805</b>			<b>-7.422</b>
<u>5.869</u>	<b>Net current assets</b>		<u>11.746</u>
<u>2,198.441</u>	<b>Net assets</b>		<u>2,213.195</u>

# Pension Fund Accounts

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## 1. Description of the Fund

The Suffolk Pension Fund is administered by Suffolk County Council. It is a contributory defined benefit scheme established by the Superannuation Act 1972 and governed by the Public Service Pensions Act 2013.

The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pensions Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).

The Fund provides retirement benefits for employees who are members of the Local Government Pension Scheme (LGPS).

Organisations participating in the Suffolk Pension Fund include:

- Scheduled bodies - local authorities, district and borough councils and other similar bodies such as academies whose staff are automatically entitled to be members of the Fund
- Admitted bodies - voluntary and charitable bodies or private contractors undertaking a local authority function
- Resolution bodies - town and parish councils who formally pass a resolution designating staff to be eligible to join the LGPS.

There are 174 employer organisations with active members within the Scheme. Teachers, Firefighters and NHS staff have their own pension schemes and are not included in this Fund.

The Fund has the following number of members and pensioners:

31 March 2015		31 March 2016	
<b>Number of Employees in the Scheme</b>			
9,714	County Council	9,759	
9,157	Other Employers	10,370	
<b>18,871</b>	<b>Total</b>	<b>20,129</b>	
<b>Number of Pensioners</b>			
7,866	County Council	8,175	
6,157	Other Employers	6,472	
<b>14,023</b>	<b>Total</b>	<b>14,647</b>	
<b>Number of Deferred Pensioners</b>			
12,229	County Council	12,856	
6,868	Other Employers	8,016	
<b>19,097</b>	<b>Total</b>	<b>20,872</b>	

### Funding

Benefits are funded by contributions and investment returns. Employers contributions were set based on the triennial actuarial funding valuation in March 2013. Employees contributions are paid in line with the LGPS Regulations 2013.

### Benefits

Benefits earned prior to 1 April 2014 pension benefits are based on final pensionable pay and length of

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# Pension Fund Accounts

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service. From 1 April 2014, the scheme became a career average scheme with members accruing benefits based on their current annual pensionable pay at an accrual rate of 1/49<sup>th</sup> per annum.

## 2. Events after the Balance Sheet Date

### Results of the European Union Referendum

Following the United Kingdom's vote to leave the European Union (EU) in the EU referendum on 23 June 2016 there has been an increased level of volatility in the financial markets and macroeconomic uncertainty in the UK. The immediate volatility is expected to continue into the medium term.

There is likely to be uncertainty for a number of months while the UK renegotiates its relationship with the EU and other nations. For the purpose of these financial statements, the Referendum is considered a non-adjusting event.

There has been no event between 31 March 2015 and the date when these accounts were authorised that requires any adjustments to these accounts.

## 3. Significant Changes to the Fund

On 23 March 2015 the Pension Fund Committee made a decision to disinvest the Legal & General Corporate Bond and 15 year Gilt holdings and transfer the value of these to the M&G Alpha Opportunities Fund (£175 million) and the Blackrock Fixed Income Global Opportunities Fund (£125 million). This was completed during June 2015.

On 3 June 2015 the committee made a decision to invest £100 million with Pantheon Ventures to continue the Fund's investment in private equity. The commitment will be spread over a number of investment funds which will also give the Pension Fund exposure to investments from the 2014 vintage onwards.

On 30 November 2015 the committee made a decision to disinvest from Bluecrest Capital Management. On 1 December 2015 Bluecrest announced that they were becoming a 'Private Investment Partnership' closing their business to third party investors and concentrating solely on the management of assets for its partners and employees. This announcement superseded the agreed divestment timescale, therefore lengthening the timescale for the full divestment and repayment of the Fund's investment.

On 24 February 2016 the committee made a decision to invest the receipts from the Bluecrest divestment with Winton Global Investment Management in the Futures Fund. £32 million was invested with Winton Global Investment in relation to this decision in March 2016.

## 4. Basis of Preparation of Pension Fund Accounts

The Statement of Accounts summarises the Fund's transactions for the 2015 - 2016 financial year and its position as at 31 March 2016.

These accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in United Kingdom 2015 - 2016', which is based upon International Financial Reporting Standards (IFRS). The Code also incorporates elements of the 2015 Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes'.

The accounts do not take into account 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 26) basis, is disclosed in Note 18 of these accounts.

# Pension Fund Accounts

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## 5. Summary of Significant Accounting Policies

### 5.1 Fund Account - Revenue Recognition

#### Contribution Income

Normal contributions from members and employers are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employers' deficit reduction 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 classified as a current financial asset.

#### Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfers in/out of the scheme are accounted for when they have been received/paid, which is when the member's 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.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

#### Investment Income

Investment income may include withholding tax which is disclosed as a separate item (taxes on income) on the face of the Fund Account. Investment income arising from the underlying investments of Pooled Investment Vehicles is reinvested in the vehicle and reflected in the unit price.

#### Dividend Income

Dividend income is recognised on the date the shares are quoted 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.

#### Distributions from Pooled funds

Distributions from Pooled Funds are recognised at the date of issue and any amount not received by the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

#### Income from Cash and Other Investments

This income is accounted for on an accruals basis.

#### Movement in the Market Value of Investments

Movement in the net market value of investments is recognised as a realised or unrealised, gain or loss, during the year.

### 5.2 Fund Account - Expenditure

#### 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.

#### Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and is exempt from UK income tax on interest received and capital gains tax on proceeds of investments sold.

Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense.

# Pension Fund Accounts

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## Management Expenses

### i) Administration Expenses

Administration expenses are accounted for on an accruals basis. Suffolk County Council staff costs are charged to the Pension Fund based on time spent.

### ii) Oversight and Governance Expenses

All oversight and governance expenses are accounted for on an accruals basis. Suffolk County Council staff costs are charged to the Pension Fund based on time spent.

### iii) Investment Expenses

All investment expenses are accounted for on an accrual basis. Investment management fees and performance fees are agreed in the respective mandates governing their appointment. These fees are based on the market value of the investments under management and therefore increase or decrease as the value of the investments change.

Transaction costs and custody fees are included in investment expenses.

## 5.3 Net Asset Statement

### Financial Assets

Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. A financial asset is recognised on the date the Fund becomes party to the contractual acquisition of the asset. Any gains or losses arising from changes in the fair value from this date are recognised by the Fund.

The value of investments has been determined as follows:

### Market Quoted Investments

Managed Funds are valued by the bid market price on 31 March 2016.

### Unquoted Investments

Unquoted Securities include Pooled Investments in Property, Infrastructure, Debt Opportunities, Private Equity and Timberlands. The fair value of investments for which market quotations are not readily available are determined as follows:

Investments in Unquoted Property and Infrastructure Pooled Funds are valued at the net asset value or a single price advised by the fund manager.

Investments in Private Equity and Unquoted Limited Partnerships are valued based on the Fund's share of the net asset using the latest financial statements published by the respective fund manager in accordance with guidelines set out by the British Venture Capital Association, and adjusted for capital calls and distributions received from that date to 31 March 2016.

### Quoted Pooled Investment Vehicles

Pooled Investment Vehicles are valued at the closing bid price or at the closing single price, as available. The change in market value of accumulation funds includes income which is reinvested in the Fund net of applicable withholding tax.

### Foreign Currency Transactions

Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate as at 31 March 2016.

### Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from investment activities and are not held for speculative purposes.

# Pension Fund Accounts

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Derivative contract assets are valued at bid price and liabilities are valued at offer price. Changes in the fair value are included in the change in market value.

Forward Foreign Exchange Contracts outstanding at the year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31 March.

## Cash and Cash Equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. Bank balances and cash held by the Pension Fund at 31 March are therefore clearly cash equivalent sums. For short term investments there are no strict criteria to follow relating to the nature and maturity of these items.

The Pension Fund holds short term investments in Money Market Funds for the purpose of obtaining a gain or return and its policy is that fixed term deposits of any length should be classified as an investment and not a cash equivalent on the Net Asset Statement.

## Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Pension Fund Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Pension Fund Accounts are adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period – the Pension Fund Accounts are not adjusted to reflect such events, but where a category of events would have material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.
- Events taking place after the date of authorisation for issue are not reflected in the Pension Fund Accounts.

## Impairments

Assets are assessed at each year end to determine whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised in the Fund Account.

## 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.

## Contingent Liabilities and Contractual Commitments

A contingent liability arises where an event has taken place that gives the Pension Fund a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that a payment will be required or the amount of the obligation cannot be measured with reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of a payment is remote. See Note 24.

## Contingent Assets

A contingent asset arises where an event has taken place that gives the Pension Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund.

# Pension Fund Accounts

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Contingent assets are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of a receipt is remote.

## **Additional Voluntary Contributions**

The Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVC's are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVC's are not included in the accounts in accordance with Section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 21).

## **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 requirements of IAS 19 and relevant actuarial codes.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement (Note 18).

## **6. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 5, the Pension Fund has to make certain judgements about complex transactions or those involving uncertainty about future events.

The main critical judgements that the Pension Fund has to take into account are:

### **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 guidelines set out by the British Venture Capital Association. The value of unquoted Private Equities held in Pantheon and Wilshire at 31 March 2016 was £65.885 million (£68.982 million at 31 March 2015).

### **Infrastructure, Debt Opportunity and Timberlands**

In addition to Private Equity, the Pension Fund also has holdings in Unquoted Infrastructure of £52.978 million (£47.520 million at 31 March 2015) and Debt Opportunity of £47.371 million (£38.740 at 31 March 2015). The Timberlands holding is £6.948 million, (£7.154 million at 31 March 2015). These holding are valued by the investment manager using a probable realisation value and are based on judgement and a high degree of estimation.

### **Pension Fund Actuarial 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. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17 Funding Position. This estimate is subject to significant variances based on changes to the underlying assumptions.

## **7. Assumptions made about the Future and other Sources of Estimation Uncertainty**

The Pension Fund Accounts contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:



# Pension Fund Accounts

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## Actuarial Present Value of Promised Retirement Benefits

Estimation of the net liability to pay pensions 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, Hymans Robertson LLP, is engaged to provide the Fund with expert advice about the assumptions to be applied.

## Private Equity

Private Equity investments are valued at fair value in accordance with IFRS and British Venture Capital Association guidelines. Both Pantheon and Wilshire have established procedures to report fair value on a consistent, transparent and prudent basis. These investments are illiquid and are not publicly listed and as such there is a high degree of estimation involved in the valuation.

The Private Equity investments at 31 March 2016 are £36.639 million with Pantheon and £29.246 million with Wilshire. There is a risk that these investments may be under or overstated in the accounts.

## Infrastructure

Infrastructure investments are valued through a fair market value process designed in accordance with IFRS. These investments are not publicly listed and as such there is a high degree of estimation involved in the valuation.

The Infrastructure investments held with Partners and Kohlberg Kravis Roberts at 31 March 2016 are £19.365 million and £33.613 million respectively. There is a risk that these investments may be under or overstated in the accounts.

## Debt Opportunity

The Debt Opportunity investment is valued by using probable realisation valuation by either a Director of the investment or a third party consultant. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

The Debt Opportunity investment held with M&G at 31 March 2016 is £47.371 million. There is a risk that this investment may be under or overstated in the accounts.

## Timberlands

Timberlands is a limited liability partnership investment in large scale high quality timber assets. The fair value is determined on at least an annual basis with a valuation review performed on a quarterly basis to assess whether there is evidence of a significant change in the investment fundamentals that warrant a change in the fair value. The manager may utilise independent valuations to confirm the reasonableness of internally prepared valuations.

Fair values for Timberlands will be based on comparable purchase and sale transactions, or other accepted valuation techniques that include the discounted cash flow and multiple of earnings approach. Separate appraisals for timber are obtained from independent qualified appraisers at least once every three years or more frequently as required.

The Timberlands investment with Brookfield at 31 March 2016 is £6.948 million. There is a risk that this investment may be under or overstated in the accounts.

# Pension Fund Accounts

## 8. Contributions Received and Benefits Paid during the Year

2014 - 2015				2015 - 2016		
Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million		Employers' Contributions £ million	Employees' Contributions £ million	Benefits Paid £ million
38.797	9.332	-41.108	Suffolk County Council	37.451	9.172	-41.406
37.713	8.793	-39.456	Other Scheduled and Resolution Bodies	40.751	9.433	-41.180
7.581	1.681	-4.671	Admitted Bodies	5.139	1.209	-3.784
<b>84.091</b>	<b>19.806</b>	<b>-85.235</b>	<b>Total</b>	<b>83.341</b>	<b>19.814</b>	<b>-86.370</b>

Included within employer normal contributions of £83.341 million shown in the Fund account, is an amount for deficit funding of £11.479 million paid within the employer's percentage (£9.870 million in 2014 - 2015). The deficit funding identified separately on the Fund account of £9.409 million (2014 - 2015 £8.525 million) refers to those employers funding their deficit by means of lump sum payments.

Employer contributions are made up of two elements:

- the estimated cost of future benefits being accrued, the 'future service rate'; plus
- an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, the 'past service adjustment'.

If there is a surplus there may be a contribution reduction or if there is a deficit there may be a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the next three year period. 2015 - 2016 was the second year in the three year period following the 31 March 2013 valuation for the contribution rates set by the actuary to reflect (a) and (b) above.

A list of employers and their contribution rates as at 31 March 2013 is in the Funding Strategy Statement available on the Suffolk County Council Pension Fund website at [www.suffolkpensionfund.org](http://www.suffolkpensionfund.org).

## 9. Management Expenses

2014 - 2015 £ million		2015 - 2016 £ million
10.553	Investment Management Expenses	10.680
1.000	Administration Expenses	0.980
0.500	Oversight and Governance Costs	0.514
<b>12.053</b>		<b>12.174</b>

Management expenses are categorised into investment management expenses, administration expenses and oversight and governance costs in accordance with the CIPFA guidance to Accounting for Local Government Pension Scheme Management Costs.

Management expenses includes costs that are incurred in association with the management of the Pension Fund assets and financial instruments whether directly invoiced to the fund or deducted from the fund assets. This includes management fees, performance fees and broker commission transaction costs as overleaf:

## Pension Fund Accounts

2014 - 2015 £ million		2015 - 2016 £ million
6.305	Investment Management Fees and Expenses	8.532
3.723	Performance Fees	1.377
0.474	Transaction Costs	0.739
0.051	Custodian Fees	0.032
<u>10.553</u>		<u>10.680</u>

Administration expenses includes costs associated with members, pensioners and scheme employers. This would include all activities associated with pension administration - staff costs, IT, membership fees and subscriptions.

Oversight and governance costs includes costs incurred in the monitoring of investments, investment advisory services, independent advisors, support to the Pension Fund Committee and Pension Board, voting services, costs associated with the production of statutory and non-statutory reporting, legal services, actuarial services, audit services and accountancy services.

External audit fees for 2015 - 2016 were £0.025 million, (£0.025 million 2014 - 2015).

### 10. Analysis of the Market Value of Investments by Investment Manager

31 March 2015		31 March 2016	
Market Value £ million	Percentage of Assets %	Market Value £ million	Percentage of Assets %
198.357	9.07%	331.034	15.03%
39.084	1.79%	7.417	0.34%
8.096	0.37%	6.948	0.32%
0.111	0.01%	0.111	0.01%
36.774	1.68%	33.785	1.53%
1,062.206	48.58%	727.956	33.06%
38.740	1.77%	219.368	9.96%
326.350	14.92%	335.863	15.25%
30.802	1.41%	36.773	1.68%
12.116	0.55%	19.503	0.89%
126.610	5.79%	128.837	5.85%
224.549	10.27%	246.249	11.18%
38.188	1.75%	29.564	1.54%
44.628	2.04%	73.927	3.36%
<u>2,186.611</u>	<u>100.00%</u>	<u>2,197.335</u>	<u>100.00%</u>

Blackrock Investment Management and M&G Investments were awarded the active bond mandate which was funded through disinvesting from the passive bond mandate held by Legal and General Investment Management.

The mandate with Bluecrest Capital Management has been terminated, the funds are being reinvested into Winton Global Investment Management as they are received.

The Infrastructure mandates with Partners Group and Kohlberg Kravis Roberts, and the Private Equity mandates with Pantheon Ventures and Wilshire Associates continue to be funded as investment opportunities are identified by the investment managers.

# Pension Fund Accounts

## 11. Reconciliation of Movements in Investments and Derivatives

	Opening Market Value 01 April 2014 £ million	Purchases £ million	Sales £ million	Change in Market Value £ million	Closing Market Value 31 March 2015 £ million
<b>Quoted</b>					
UK Companies	324.263	167.766	-294.256	13.599	211.372
Overseas Companies	249.804	94.596	-104.840	51.728	291.288
Derivatives - Forward Foreign Exchange contracts	0.000	149.280	-149.384	2.349	2.245
<b>Pooled Investment Vehicles:</b>					
Other Managed Funds	192.915	188.115	-175.289	16.739	222.480
Unit trusts	12.418	11.843	-0.395	0.190	24.056
Unit linked insurance policies	765.835	465.156	-303.477	134.692	1,062.206
<b>Unquoted</b>					
<b>Pooled Investment Vehicles:</b>					
Other Managed Funds	134.128	26.092	-24.160	26.447	162.507
Property	186.982	29.303	-28.475	24.892	212.702
<b>Total of Investments</b>	<b>1,866.345</b>	<b>1,132.151</b>	<b>-1,080.276</b>	<b>270.636</b>	<b>2,188.856</b>
	Opening Market Value 01 April 2014 £ million	Movement in Cash Balance £ million	Impairment of Investments £ million	Change in Market Value £ million	Closing Market Value 31 March 2015 £ million
<b>Other Investment Balances:</b>					
Cash held by investment managers	4.022	-2.438	1.615	0.517	3.716
<b>Net Investments</b>	<b>4.022</b>	<b>-2.438</b>	<b>1.615</b>	<b>0.517</b>	<b>3.716</b>

The change in market value of £271.153 million (£270.636 million and £0.517 million) is £6.965 million lower than the change in market value on the Fund Account of £278.118 million. The difference is caused by indirect management fees and broker commission costs of £7.032 million less the change of market value of the Foreign exchange holding with Newton, (£0.067 million).

The Pooled Investment Vehicles are managed by fund managers registered in the UK.

Transaction costs, such as commissions, stamp duty and other transaction fees are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year total £0.474 million.

## Pension Fund Accounts

	Opening Market Value 01 April 2015 £ million	Purchases £ million	Sales £ million	Change in Market Value £ million	Closing Market Value 31 March 2016 £ million
<b>Quoted</b>					
UK Companies	211.371	101.383	-82.170	-6.442	224.142
Overseas Companies	291.288	57.812	-66.333	0.919	283.686
Derivatives - Forward Foreign Exchange contracts	2.245	105.395	-105.224	-0.228	2.188
<b>Pooled Investment Vehicles:</b>					
Other Managed Funds	222.480	510.301	-197.530	-6.083	529.168
Unit trusts	24.056	7.631	-15.006	1.101	17.782
Unit linked insurance policies	1,062.207	9.947	-316.403	-27.796	727.955
<b>Unquoted</b>					
<b>Pooled Investment Vehicles:</b>					
Other Managed Funds	162.507	29.851	-22.770	3.705	173.293
Property	212.702	20.311	-6.958	15.254	241.309
<b>Total of Investments</b>	<b>2,188.856</b>	<b>842.631</b>	<b>-812.394</b>	<b>-19.570</b>	<b>2,199.523</b>
	<b>Closing Market Value 31 March 2016 £ million</b>	<b>Movement in Cash Balance £ million</b>	<b>Impairment of Investments £ million</b>	<b>Change in Market Value £ million</b>	<b>Closing Market Value 31 March 2015 £ million</b>
<b>Other Investment Balances:</b>					
Cash held by investment managers	3.716	-1.557	0.023	-0.256	1.926
<b>Net Investments</b>	<b>3.716</b>	<b>-1.557</b>	<b>0.023</b>	<b>-0.256</b>	<b>1.926</b>

The change in market value of £19.826 million (£19.570 million and £0.256 million) is £6.964 million lower than the change in market value on the Fund Account of £13.670 million. The difference is caused by indirect management fees of £5.930 million and the foreign exchange fluctuations of the market value of the holdings held in currencies other than sterling.

The Pooled Investment Vehicles are managed by fund managers registered in the UK.

Transaction costs, such as commissions, stamp duty and other transaction fees are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year total £0.739 million (£0.474 million in 2014 - 2015).

# Pension Fund Accounts

## 12. Analysis of Investments (excluding Derivatives)

Market Value 31 March 2015 £ million    £ million			Market Value 31 March 2016 £ million    £ million	
<b>Equities</b>				
	211.372	UK Companies		224.142
	291.288	Overseas Companies		283.686
<b>Pooled Investment Vehicles - Quoted</b>				
	24.056	Unit Trusts		17.782
	1,062.206	Unit Linked Insurance Policies		727.955
<b>Other Managed Funds</b>				
		Fixed Income	304.827	
210.322		Absolute Returns	210.166	
12.158		Money Market Funds	14.175	
<u>222.480</u>		Total Quoted Other Managed Funds	<u>529.168</u>	
<b>Pooled Investment Vehicles - Unquoted</b>				
<b>Other Managed Funds</b>				
38.740		Debt Opportunity	47.371	
47.520		Infrastructure	52.978	
69.093		Private Equity	65.996	
7.154		Timberlands	6.948	
<u>162.507</u>		Total Unquoted Other Managed Funds	<u>173.292</u>	
	384.987	Total Other Managed Funds		702.460
	212.702	Property		241.309
	<u><u>2,186.611</u></u>	<b>Total</b>		<u><u>2,197.335</u></u>

The table above breaks down the Pooled Investment Vehicles and further analyses the Other Managed Funds. These investments are either quoted (they are traded on an exchange and have a visible market valuation) or unquoted (stocks that are not traded on an exchange and are difficult to value).

## 13. Holdings Above 5% of the Fund

This is a summary of the individual holdings within the Fund which exceed 5% of the total net assets available to pay benefits as at the balance sheet date.

Market Value 31 March 2015 £ million	Percentage of the Fund at 31 March 2015	Holding	Manager	Market Value 31 March 2016 £ million	Percentage of the Fund at 31 March 2016
219.949	10.03%	FTSE RAFI AW 3000 Eq Ind	Legal and General	214.302	9.73%
N/A		N/A Alpha Opportunities Fund	M&G	171.996	7.81%
157.077	7.16%	UK Equity Index	Legal and General	151.190	6.87%
N/A		N/A Fixed Income Global Opportunity Fund	Blackrock	132.831	6.03%
126.610	5.77%	Pyrford Global Total Return Mutual Fund	Pyrford	128.837	5.85%
262.418	11.97%	Corporate Bond Index	Legal and General	N/A	N/A

## Pension Fund Accounts

The table below summarises the individual holdings within the Fund which exceed 5% of any class or type of security at the balance sheet date based on the holdings analysis for 2015 – 2016

Market Value of Asset Class 31 March 2015 £ million	Market Value of Securities 31 March 2015 £ million	Percentage of the Asset Class 31 March 2015 %	Holdings by Asset Type	Market Value of Asset Class 31 March 2016 £ million	Market Value of Securities 31 March 2016 £ million	Percentage of the Asset Class 31 March 2016 %
211.372			<b>UK Equities</b>	224.142		
	11.401	5.39%	Royal Dutch Shell PLC		15.294	6.82%
	14.061	6.65%	British American Tobacco		11.371	5.07%
	14.312	6.77%	Prudential		N/A	N/A
<b>211.372</b>	<b>39.774</b>	<b>18.81%</b>		<b>224.142</b>	<b>26.665</b>	<b>11.89%</b>
24.056			<b>Pooled Investment - Unit trusts</b>	17.782		
	12.226	50.83%	BlackRock Fd Mgrs BIEF UK Smaller Co Fund		13.360	75.14%
	11.830	49.17%	Schroder Offshore Cash Fund		4.421	24.86%
<b>24.056</b>	<b>24.056</b>	<b>100.00%</b>		<b>17.782</b>	<b>17.781</b>	<b>100.00%</b>
1,062.206			<b>Pooled Investment - Unit linked insurance policies</b>	727.955		
	219.949	20.71%	FTSE RAFI AW 3000 Eq Ind		214.302	29.44%
	157.077	14.79%	UK Equity Index		151.190	20.77%
	91.353	8.60%	L&G Over 5 Year Linked Gilts Index		89.893	12.35%
	81.556	7.68%	North America Equity Index GBP hedged		83.062	11.41%
	83.116	7.82%	L&G European Equity Index Hedged		70.438	9.68%
	N/A	N/A	L&G Emerging Markets Passive Govt Bond		45.082	6.19%
	262.418	24.71%	L&G Investment Grade Corporate Bond		N/A	N/A
<b>1,062.206</b>	<b>895.469</b>	<b>84.31%</b>		<b>727.955</b>	<b>653.967</b>	<b>89.84%</b>
212.702			<b>Property unit trust</b>	241.309		
	24.121	11.34%	BlackRock Asset Management Ltd		25.550	10.59%
	23.221	10.92%	Legal And General Managed Property		25.469	10.55%
	23.483	11.04%	Schroder UK Property Fund		25.274	10.47%
	21.818	10.26%	Standard Life Assurance		23.917	9.91%
	15.652	7.36%	Mayfair Capital Property Units		22.278	9.23%
	12.376	5.82%	Threadneedle Property Unit Trust		20.896	8.66%
	17.109	8.04%	Real Income Fund A Units		18.233	7.56%
	17.194	8.08%	Lothbury Prop Property Fund		18.207	7.54%
	11.764	5.53%	IPIF Feeder Unit Trust		16.712	6.93%
	14.369	6.76%	Hermes Property Unit Trust		15.627	6.48%
<b>212.702</b>	<b>181.107</b>	<b>85.15%</b>		<b>241.309</b>	<b>212.163</b>	<b>87.92%</b>
384.987			<b>Other Managed Funds</b>	702.461		
	N/A	N/A	M & G Alpha Opportunities Fund		171.996	24.48%
	N/A	N/A	Blackrock Fixed Income Global Opportunity Fund		132.831	18.91%
	126.610	32.89%	Pyrford Global Total Return Mutual Fund		128.837	18.34%
	44.628	11.59%	Winton Futures Fund Class D Mutual Fund		73.927	10.52%
	38.740	10.06%	MG Debt Opportunities		47.371	6.74%
	30.801	8.00%	Pantheon		36.638	5.22%
	38.181	9.92%	KKR		N/A	N/A
	39.084	10.15%	AllBlue Limited		N/A	N/A
	35.432	9.20%	Wilshire		N/A	N/A
<b>384.987</b>	<b>353.476</b>	<b>91.82%</b>		<b>702.461</b>	<b>591.600</b>	<b>84.21%</b>
			<b>Securities/Asset types with no holdings over 5%</b>			
291.288	0.000	0.00%	<b>Overseas companies</b>	283.686	0.000	0.00%
3.716	0.000	0.00%	<b>Cash [held by the investment managers]</b>	1.926	0.000	0.00%
2.245	0.000	0.00%	<b>Forward Foreign Exchange</b>	2.188	0.000	0.00%
<b>297.249</b>	<b>0.000</b>	<b>0.00%</b>		<b>287.800</b>	<b>0.000</b>	<b>0.00%</b>
<b>2,192.572</b>	<b>1,493.882</b>	<b>66.13%</b>	<b>Total</b>	<b>2,201.449</b>	<b>1,502.176</b>	<b>68.24%</b>

N/A denotes that the holding is lower than 5% in the relevant year.

# Pension Fund Accounts

## 14. Analysis of Derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposure to reduce risk in the Pension Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and the various investment managers.

The pension fund's investment managers are permitted to use derivatives in the management of their mandates, subject to the restrictions set out in the individual manager's investment management agreement. The investment managers will make use of currency hedging for the purpose of reducing exchange rate risk in the investments held in their mandates. Kohlberg Kravis Roberts holds a currency hedge for this purpose which equates to £2.188 million on the Suffolk Pension Fund's holdings (£2.281 million as at 31 March 2015)

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the fund hedges a proportion of the Euro and Yen exposure within the portfolios managed by Legal and General Investment Management. £91.383 million is invested in currency hedged funds (£108.583 million as at 31 March 2015). The pooled funds are one step removed from direct ownership of the assets.

The Open Forward Currency contracts as at 31 March 2015 are as follows:

Settlement	Currency Bought	Local Value million	Currency Sold	Local Value million	Asset Value £ million	Liability Value £ million
Up to six months	USD	13.761	JPY	1,614.839	0.194	
	JPY	1,614.839	USD	13.631	-	0.106
	USD	14.170	JPY	1,719.629	-	0.125
				<b>Total</b>	<b>0.194</b>	<b>-</b>
Net Forward Currency contracts as at 31 March 2015						<b>0.037</b>

There were no Open Forward Currency contracts as at 31 March 2016.

## 15a. Financial Instruments – Classification

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenditure, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading, excluding statutory creditors (prepayments from employers, transfer values, lump sum benefit payments, payroll adjustments) and statutory debtors (employer and employee contributions, VAT, transfer values and capital cost of retirement).

31 March 2015			31 March 2016		
Designated as Fair Value through Profit & Loss £ million	Loans and Receivables £ million	Financial Liabilities at Amortised Cost £ million	Designated as Fair Value through Profit & Loss £ million	Loans and Receivables £ million	Financial Liabilities at Amortised Cost £ million
<b>Financial Assets</b>			<b>Financial Assets</b>		
502.660			507.828		
24.056			17.782		
1,062.206			727.955		
212.702			241.309		
384.987			702.461		
2.245	3.716		2.188	1.926	
	5.584			5.325	
	3.150			6.148	
<b>2,188.856</b>	<b>12.450</b>	<b>0.000</b>	<b>2,199.523</b>	<b>13.399</b>	<b>0.000</b>
			<b>Financial Liabilities</b>		
		-5.035			-5.471
<b>0.000</b>	<b>0.000</b>	<b>-5.035</b>	<b>0.000</b>	<b>0.000</b>	<b>-5.471</b>
<b>2,188.856</b>	<b>12.450</b>	<b>-5.035</b>	<b>2,199.523</b>	<b>13.399</b>	<b>-5.471</b>

The debtor figure of £5.325 million overleaf (£5.584 million at 31 March 2015) excludes statutory debtors of £7.695 million (£4.940 million at 31 March 2015).



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The creditor figure of £5.471 million overleaf (£5.035 million at 31 March 2015) excludes statutory creditors of £1.951 million (£2.770 million at 31 March 2015).

No financial assets were reclassified during the accounting period.

### 15b. Net Gains and Losses on Financial Instruments

31 March 2015		31 March 2016	
£ million	Financial Assets	£ million	
270.636	Fair Value through Profit and Loss	-19.570	
0.517	Loans and Receivables	-0.256	
	<b>Financial Liabilities</b>		
0.000	Fair Value through Profit and Loss	0.000	
<b>271.153</b>	<b>Total</b>	<b>-19.826</b>	

### 15c. Fair Value of Financial Instruments and Liabilities

The carrying values of financial assets and liabilities are all carried at fair value.

### 15d. Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid price. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

These instruments would include unquoted investments such as private equity, infrastructure, debt opportunity and timberlands, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The table overleaf provides an analysis of the financial assets and liabilities of the Pension Fund grouped into level 1 to 3, based on the level at which the fair value is observable.

## Pension Fund Accounts

Values at 31 March 2015	Quoted Market Price Level 1 £ million	Using Observable Inputs Level 2 £ million	With Significant Unobservable Inputs Level 3 £ million	Total £ million
<b>Financial Assets</b>				
Fair Value through Profit and Loss	1,819.496	214.947	154.413	2,188.856
Loans and Receivables	12.450			12.450
<b>Total Financial Assets</b>	<b>1,831.946</b>	<b>214.947</b>	<b>154.413</b>	<b>2,201.306</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Amortised Cost	-5.035			-5.035
<b>Total Financial Assets</b>	<b>-5.035</b>	<b>0.000</b>	<b>0.000</b>	<b>-5.035</b>
<b>Net Financial Assets</b>	<b>1,826.911</b>	<b>214.947</b>	<b>154.413</b>	<b>2,196.271</b>

Values at 31 March 2016	Quoted Market Price Level 1 £ million	Using Observable Inputs Level 2 £ million	With Significant Unobservable Inputs Level 3 £ million	Total £ million
<b>Financial Assets</b>				
Fair Value through Profit and Loss	1,790.136	243.497	165.889	2,199.523
Loans and Receivables	13.399			13.399
<b>Total Financial Assets</b>	<b>1,803.535</b>	<b>243.497</b>	<b>165.889</b>	<b>2,212.922</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Amortised Cost	-5.471			-5.471
<b>Total Financial Assets</b>	<b>-5.471</b>	<b>0.000</b>	<b>0.000</b>	<b>-5.471</b>
<b>Net Financial Assets</b>	<b>1,798.064</b>	<b>243.497</b>	<b>165.889</b>	<b>2,207.451</b>

### 16. Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities of benefits payable to members. The aim therefore, 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 gains across the whole fund portfolio.

This risk is minimised through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. The liquidity risk is managed by ensuring there is sufficient liquidity to meet the fund's forecast cash flows, which forms part of the Pension Fund's overall risk management policy.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks and are reviewed regularly to reflect changes in activity and market conditions.

The key risks that have been identified are:

- A. Credit risk
- B. Liquidity risk
- C. Market risk
- D. Interest Rate Risk
- E. Currency Risk

# Pension Fund Accounts

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- F. Price Risk
- G. Custody
- H. Investment Management
- I. Sensitivity of funding position to market conditions and investment performance

## A. Credit risk

Credit risk, is the risk that one party to a financial instrument will cause a financial loss to another party by failing to meet its obligations.

The Fund is exposed to credit risk in its operational activities through securities lending, forward currency contracts and treasury management activities. Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

The Fund monitors the monthly receipt of contributions from employers. The Funding Strategy Statement requires safeguards to be in place for all new admission agreements to protect the Fund from an employer default, primarily through a guarantee from a tax-backed scheme employer for any new employer in the Fund. An analysis of debtor balances at 31 March 2016 is provided in Note 19.

The securities lending programme is undertaken on behalf of the Fund by the custodian HSBC and is managed through a securities lending agreement. The arrangements to manage risks in the securities lending programme are set out in Note 23.

Forward currency contracts are undertaken by the fund managers within the terms set out in their investment management agreements. All parties entering into forward contracts on behalf of the Fund are Financial Services Authority (FSA) regulated and meet the requirements of the LGPS investment regulations. Further details of forward foreign exchange contracts are provided in Note 14.

The Fund's bank account is held with Lloyds Bank Plc, which is also banker to Suffolk County Council the Administering Authority for the Pension Fund. The bank held a Long-Term rating of 'A+' and a Short Term Rating 'F1' with Fitch as at March 2016.

Pension Fund cash that is held pending its allocation to the Fund's investment managers is held with Lloyds Bank Plc and also placed with institutions on the Pension Fund Committee's approved counter-party list. The management of cash was carried out by the Council's Treasury Management team in accordance with the cash management strategy approved by the Pension Fund Committee and set out in its statement of investment principles. The Pension Fund Committee invests only in money market funds with a 'AAA MR1+' rating. The Fund has had no occasion of default or uncollectable deposits.

The Fund's cash within the custody system is held in the bank account of the custodian, HSBC Holdings Plc, or placed on deposit at the instruction of the individual managers.

At 31 March 2016, £6.148 million was with Lloyds (£3.150 million at March 2015). Cash held within the custody system amounted to £13.650 million at 31 March 2016 (£8.931 million at March 2015) and Blackrock held £0.525 million in their money market fund, (£3.227 million at March 2015).

## B. Liquidity risk

Liquidity risk is the risk that the Fund will have insufficient liquid assets (cash) to meet its investment or benefit obligations as they fall due. The Pension Fund takes steps to ensure it has adequate cash resources to meet its commitments.

The Pension Fund holds sufficient working capital to ensure that it has cash available to meet benefit and transfer payments and cash drawdown requirements in respect of certain investment transactions. Within mandates it is the responsibility of the individual managers to ensure that they have sufficient funds available to meet the transactions they enter into on behalf of the Fund. These responsibilities are detailed within the investment management agreements. At an investment level a large proportion of the Fund's investments are held in instruments that can be realised at short notice if a cash flow need arose. Certain investments, particularly property, private equity, debt opportunity, timberlands and infrastructure funds are considerably less liquid but these make up a far smaller proportion of the overall portfolio, £414.601 million, 19% (£375.209 million, 17% at March 2015).

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### C. Market risk

Market risk is the risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market sentiment. Market risk reflects interest rate, currency and other price risk.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches, to ensure a risk adjusted balance between categories. The Fund takes formal advice from its independent investment advisers (Hymans Robertson LLP and Mark Stevens) and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles that is available at [www.suffolkpensionfund.org](http://www.suffolkpensionfund.org). Investment risk and strategy are regularly reviewed by the Pension Fund Committee.

### D. Interest Rate Risk

Interest rate risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund's exposure to interest rate movements from its holdings in cash and cash equivalents (which includes the custodian money market fund and cash held by the investment managers) are as below:

31 March 2015	31 March 2016
£ million	£ million
3.150 Cash held for Deposit	6.148
15.874 Cash and Cash Equivalent	16.101
<b>19.024 Total</b>	<b>22.249</b>

The Pension Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis below, assumes that all other variables remain constant and shows the effect in the year of a +/- 100 BPS change in interest rates on the cash available to pay benefits.

Asset Type	Value as at	Change	Change
	31 March 2015	+ 100 BP's	- 100 BP's
	£ million	£ million	£ million
Cash held for Deposit	3.150	0.032	-0.032
Cash and Cash Equivalent	15.874	0.159	-0.159
<b>Total Assets</b>	<b>19.024</b>	<b>0.191</b>	<b>-0.191</b>

Asset Type	Value as at	Change	Change
	31 March 2016	+ 100 BP's	- 100 BP's
	£ million	£ million	£ million
Cash held for Deposit	6.148	0.061	-0.061
Cash and Cash Equivalent	16.101	0.161	-0.161
<b>Total Assets</b>	<b>22.249</b>	<b>0.222</b>	<b>-0.222</b>

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### E. Currency Risk

Currency risk is the extent to which the Pension Fund is exposed to fluctuations in exchange rates and the impact these fluctuations have on the sterling valuation of assets denominated in foreign currency. To partly mitigate this risk the Fund has some currency hedging in place. This is undertaken partly by investment in the currency-hedged Funds managed by its index-tracking manager, Legal & General Investment Management. An analysis of historical data and expected investment return movements by State Street Investment Analytics has resulted in a potential market movement currency risk index for each asset type as follows:

Asset Type	Value as at 31 March 2015 £ million	Change %	Value on Increase £ million	Value on Decrease £ million
Overseas Equities	291.288	3.63	301.861	280.713
Overseas Index Linked	288.063	3.38	297.801	278.327
Alternative Investments	115.562	3.12	119.168	111.956
<b>Total overseas assets</b>	<b>694.913</b>		<b>718.830</b>	<b>670.996</b>

Asset Type	Value as at 31 March 2016 £ million	Change %	Value on Increase £ million	Value on Decrease £ million
Overseas Equities	283.686	6.85	303.118	264.254
Overseas Index Linked	486.872	5.90	515.597	458.147
Alternative Investments	118.407	6.38	125.961	110.852
<b>Total overseas assets</b>	<b>888.965</b>		<b>944.676</b>	<b>833.253</b>

### F. Price Risk

Price risk is the risk of volatility in the valuation of the assets held by the Fund. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The Local Government investment regulations contain prescribed limits to avoid over-concentration in specific areas. The Fund complies with all the restrictions contained in the investment regulations.

An analysis of historical data and expected investment return movements by State Street Investment Analytics has resulted in a potential market movement price risk index for each asset type. If the market price of the Fund's investments increase or decrease in line with the potential market movements then the change in the value of the net assets would be as follows:

Asset Type	Value as at 31 March 2015 £ million	Change %	Value on Increase £ million	Value on Decrease £ million
UK Equities	211.372	10.66	233.904	188.840
Overseas Equities	291.288	8.67	316.543	266.033
Index Linked	1,062.206	9.77	1,165.984	958.428
Cash	5.961	0.02	5.962	5.960
Property	212.702	2.68	218.402	207.002
Alternatives	409.043	3.54	423.523	394.563
<b>Total Assets</b>	<b>2,192.572</b>		<b>2,364.318</b>	<b>2,020.826</b>

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<b>Asset Type</b>	<b>Value as at 31 March 2016 £ million</b>	<b>Change %</b>	<b>Value on Increase £ million</b>	<b>Value on Decrease £ million</b>
UK Equities	224.142	10.82	248.395	199.890
Overseas Equities	283.686	10.00	312.054	255.317
Bonds	304.827	8.58	330.981	278.673
Index Linked	727.955	9.53	797.330	658.581
Cash	4.114	0.01	4.114	4.114
Property	241.309	2.05	246.256	236.363
Alternatives	415.416	3.72	430.869	399.962
<b>Total Assets</b>	<b>2,201.449</b>		<b>2,369.999</b>	<b>2,032.900</b>

### G. Custody

The Fund appointed HSBC Holdings Plc as its global custodian with responsibility for safeguarding the assets of the Fund. HSBC Holdings Plc is an established custodian bank with more than \$7 trillion of assets under custody. They were appointed as the Fund's custodian from 1 October 2014 following a national framework tendering process. Monthly reconciliations are performed between the underlying records of the custodian and the appointed investment managers.

### H. Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS investment regulations. Managers' report performance on a quarterly basis and this is monitored and reported to the Pension Fund Committee. The Fund makes use of a third party performance measurement service (State Street Investment Analytics). All managers have regular review meetings and discussions with the chair and vice chair of the Pension Fund Committee, officers and the independent financial adviser Mark Stevens.

### I. Sensitivity of Funding position to market conditions and investment performance

When preparing the formal valuation, the actuary takes the assets of the Fund at the market value on the valuation date. Volatility in investment performance as a result of market risk factors can have an immediate effect on the funding level and deficit. This is particularly relevant because the Fund has invested predominantly in riskier (and historically higher return) assets such as equities and equity-like investments (e.g. property trusts). A rise or fall in the level of equity prices can have a direct impact on the financial position of the Fund.

Less obvious is the effect of anticipated investment performance on the Fund's liability to pay future pension benefits. Here the returns available on government bonds (gilts) are important, as the discount rate that is used to place a value on liabilities is the gilt yield at the valuation date plus a margin of 1.6% per annum. Effectively if the gilt yield rises the discount rate will increase and all other things being equal the value placed on liabilities will fall. If the Fund was invested entirely in gilts rather than potentially higher returning assets the discount rate would be lower as no margin for the expected out performance of the Fund's investments over gilts could be assumed.

The table overleaf has been prepared by the actuary and shows how the funding level (top) and deficit (bottom) would vary if the investment conditions at 31 March 2016 had been different. The level of the FTSE 100 index is used as a proxy for investment performance and the Fixed Interest Gilt yield as the proxy measure for the valuation of the Fund's liabilities. The shaded box is the actual position at 31 March 2016.

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Bond Interest Gilts yield (% p.a.)	2.38%	68% (£842m)	75% (£671m)	81% (£500m)	88% (£329m)	94% (£158m)
	2.18%	66% (£934m)	72% (£763m)	<b>79%</b> (£592m)	85% (£421m)	91% (£250m)
	1.98%	64% (£1,032m)	70% (£861m)	76% (£690m)	82% (£518m)	88% (£347m)
FTSE 100 Index		4,940	5,557	6,175	6,792	7,410

The examples shown are not exhaustive and should not be taken as the limits of how extreme future investment conditions may be. There are other factors not related to market risk that will also impact on the funding position at a given date including but not limited to longevity, member profile, pay awards etc. The risks are covered in more detail in the formal actuarial valuation report which is available at: <http://www.suffolkpensionfund.org>

### 17. Funding Position

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period.

An actuarial valuation is a type of appraisal which requires making economic and demographic assumptions in order to estimate future liabilities of pensions payable. The assumptions are typically based on a mix of statistical studies and experienced judgement. Hymans Robertson LLP provides the Fund's Actuarial appraisal.

The key elements of the funding policy are:

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment.
- To ensure that employer contribution rates are as stable as possible.
- To minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risks and returns.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pensions obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading increases in rates over a period of time. This is usually over three years but in some cases the period can be extended.

Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

When an employer's funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from that employer to meet the shortfall.

#### Formal Valuation

The last formal three-yearly actuarial valuation was carried out as at 31 March 2013. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2014. The valuation was based on:

- Meeting the requirements of the Local Government Pension Regulations.
- 100% funding of future liabilities for service completed to 31 March 2013.
- The 'projected unit method' of actuarial valuation.

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## Financial Assumptions

Financial assumptions typically try to forecast when benefits will come into payment, what form these will take and how much the benefits will cost the Fund in the future. The financial assumptions included in the valuation are as follows:

- Projected investment returns of 4.6% per year. (Asset Outperformance Assumption (AOA) of 1.6%)
- Projected increase in future salaries of 4.3% a year. (CPI plus 1.8%)
- Projected pension increases of 2.5% a year. (CPI)

## Funding Position

The actuary uses the market value of the Fund's assets as stated in the audited accounts of March 2013. The actuarial assessment of the value of the fund's assets was £1,767 million as at 31 March 2013 and the liabilities, £2,235 million.

The valuation showed that the Fund's assets covered 79.1% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £468 million.

## Common Contribution Rate

The common contribution rate is a theoretical figure and does not represent the rate which any one employer is actually required to pay and nor is it the average of the actual employers rates. In practice each employer that participates in the Fund has its own underlying funding position and circumstances giving rise to its own contribution rate requirement.

The common contribution rate payable is the average future service rate for Fund employers plus the past service adjustment; an additional amount to recover the deficit and bring the funding level back to 100% over 20 years.

The actuary states that the employer's common contribution rate should be 28.4% of pensionable pay for the three years starting 1 April 2014.

The next formal valuation is as at 31 March 2016.

## 18. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

### Interim Valuation

An interim valuation was carried out as at 31 March 2016. The valuation was included on the actuary's Navigator report which is based on long term financial assumptions for the Suffolk Pension Fund and contains the following assumptions:

Increases in future salaries of 4.2% a year  
Projected investment returns of 3.8% per year

The actuarial value of the Fund's assets was £2,166 million and the liabilities £2,758 million at 31 March 2016 (£2,168 million and £2,674 million at 31 March 2015).

The valuation showed that the Fund's assets covered 78.5% of its liabilities at the valuation date and the deficit was £592 million (£506 million at March 2015).

### International Accounting Standard 26 (IAS 26)

CIPFA's Code of Practice on Local Authority Accounting 2015 - 2016 requires administering authorities of the LGPS funds that prepare Pension Fund Accounts to disclose what IAS 26 refers to as the actuarial present

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## Pension Fund Accounts

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value of promised retirement benefits. This is similar to the interim valuation but the assumptions used are in line with IAS 19 rather than assumptions tailored to the Suffolk Pension Fund.

The following assumptions have been used for the IAS 26 calculation:

- Pension increases of 2.2% a year (2.4% 2014 - 2015).
- Increases in future salaries of 4.2% a year (4.3% 2014 - 2015)
- Projected investment returns of 3.5% per year (3.2% 2014 - 2015)

The IAS 26 calculation shows that the present value of promised retirement benefits amount to £2,965 million as at 31 March 2016 (£3,158 million as at 31 March 2015).

### 19. Current Debtors

The current debtors can be analysed as below:

31 March 2015 £ million		31 March 2016 £ million
	<u>Debtors</u>	
3.744	Employers Contributions	5.984
1.018	Employee Contributions	1.549
3.038	Investment Assets	4.188
2.724	Sundry Debtors	1.299
<u>10.524</u>		<u>13.020</u>

The investment assets as at 31 March 2016 includes £0.934 million of spot foreign exchange sales awaiting settlement and £3.254 million of recoverable tax and income not yet received.

Debtors can be further analysed into sectors as below:

31 March 2015 £ million		31 March 2016 £ million
	<u>Analysis of Debtors</u>	
0.181	Central Government Bodies	0.152
5.333	Other Local Authorities	6.294
5.010	Other entities and individuals	6.571
0.000	NHS	0.003
<u>10.524</u>		<u>13.020</u>

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### 20. Current Creditors

The current creditors can be analysed as below:

31 March 2015 £ million		31 March 2016 £ million
	<u>Creditors</u>	
-4.957	Investment Expenses	-4.835
-0.056	Administration Expenses	-0.284
-0.112	Transfer Values In Adjustment	-0.080
-1.433	Lump Sum Benefits	-0.995
-1.247	Sundry Creditors	-1.228
<u>-7.805</u>	<b>Total</b>	<u>-7.422</u>

The investment expenses as at 31 March 2016 includes £1.143 million of purchases and £0.933 million of spot foreign exchange purchases awaiting settlement and an allowance of £2.756 million for investment management fees and £0.003 million of irrecoverable tax not yet paid.

Creditors can be further analysed into sectors as below:

31 March 2015 £ million		31 March 2016 £ million
	<u>Analysis of Creditors</u>	
-0.002	Central Government Bodies	0.000
-0.945	Other Local Authorities	-0.052
-0.002	NHS Bodies	-0.001
-6.856	Other entities and individuals	-7.369
<u>-7.805</u>		<u>-7.422</u>

### 21. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 5 (2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), additional voluntary contributions have been excluded from the Fund Account and Net Asset Statement. These contributions are held by the providers and therefore do not form part of the Fund's investments.

A total of £0.093 million was paid over to the providers Clerical Medical, Standard Life and Equitable Life in 2015 – 2016, (£0.104 million 2014 – 2015).

### 22. Related Party Transactions

Related party transactions requiring disclosure in accordance with IAS 24 are as follows:

The Suffolk Pension Fund is administered by Suffolk County Council and consequently there is a strong relationship between the Council and the Pension Fund.

Suffolk County Council is the largest single employer of members of the Pension Fund and contributed £37.451 million to the Fund in 2015 - 2016 (£38.797 million in 2014 - 2015). In addition the council incurred

## Pension Fund Accounts

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costs of £0.948 million (£0.945 million in 2014 - 2015) in relation to the administration of the Fund, audit, legal and committee services. These have all been reimbursed by the Fund.

Under legislation introduced in 2003 - 2004 councillors were entitled to join the Scheme, this was rescinded in April 2014 when the Government laid down regulations barring councillors joining the scheme. Any councillor who is in the scheme as a result of joining before 1 April 2014 will cease to be a member at the end of the current term of office that they are serving. Three members of the committee, including two councillors, are Scheme members within the Pension Fund, but are not currently receiving benefits from the Scheme. Each member of the Pension Fund committee is required to declare their interests at each meeting.

Four members of the Pension Board are scheme members within the Pension Fund, with one also receiving benefits from the scheme. Each member of the Pension Board is required to declare their interests at each meeting.

Part of the Pension Fund cash holdings are invested by the Treasury Management operations of Suffolk County Council through the Treasury Management Policy approved by the Pension Fund Committee. During the year ending 31 March 2016 the Fund had an average investment balance of £7.305 million (£10.174 million in 2014 - 2015) earning interest of £0.036 million (£0.068 million in 2014 - 2015) from these investments.

### Key Management Personnel

No senior officer responsible for the administration of the Fund has entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

Paragraph 3.9.4.3 of the Code exempts Local Authorities from the key management personnel disclosure requirements of IAS 24. The disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements that apply to the Suffolk Pension Fund. The disclosures required can be found in the main accounts of Suffolk County Council.

Disclosure of senior officers' remuneration is made in Note 24 of the Statement of Accounts of the Administering Authority (Suffolk County Council). This disclosure includes the Director of Resource Management who has responsibility under S151 of the Local Government Act 1972 for the proper financial administration of the Fund and performs the role of Fund Administrator.

## 23. Stock Lending

The Fund has an arrangement with its custodian HSBC to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Lending is limited to a maximum of 25% of the total value. Collateralised lending generated income of £0.054 million in 2015 - 2016 (£0.016 million in 2014 - 2015). This is included within 'other' investment income in the Fund Account. The stock lending levels and income raised for the Fund are minimal due to the relatively small holding of non-pooled equities owned by the Fund.

At 31 March 2016, £3.022 million (£0.687 million at 31 March 2015) worth of stock was on loan, for which the Fund was in receipt of £3.180 million worth of collateral (£0.727 million at 31 March 2015). This is a minimal share of the Fund holdings representing less than 1% of investment holdings in both 2015 - 2016 and 2014 - 2015. The figure out on loan as at 31 March does not reflect the amount that has been out on loan during the year.

## 24. Contingent Liabilities and Contractual Commitments

### Contractual Commitments

In 2003 the Fund has made contractual commitments to private equity funds managed by Wilshire and Pantheon. Commitments are made in the underlying currency of the funds (Euros and Dollars respectively) and are therefore subject to volatility (risk) arising from exchange rate fluctuation. This volatility will impact

## Pension Fund Accounts

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both on the value of unfunded commitments in sterling terms and the valuation of the funded interest and monies received as distributions.

At 31 March 2016 the unfunded commitment (monies to be drawn in future periods) was £10.088 million. The commitments are paid over the investment timeframe of the underlying partnerships. The current value of the funded commitment net of distributions in these funds at 31 March 2016 is included in the net asset statement.

In 2011 - 2012 the Pension Fund made contractual commitments to infrastructure investments managed by Partners Group and Kohlberg, Kravis, Roberts. Draw downs on the commitments have been made and the outstanding amounts to 31 March 2016 are £23.341 million and £2.963 million respectively.

In 2015 - 2016 the Pension Fund made contractual commitments to private equity investments managed by Pantheon. Some draw downs on the commitments have been made and the outstanding amounts to 31 March 2016 are £94.898 million.

# Suffolk Pension Fund

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Suffolk County Council Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess consistency of the financial statements within the pension fund annual report.

Below are the results and conclusions on the significant areas of the audit process.

<b>Status of the audit</b>	<p>We have substantially completed our audit of the financial statements of Suffolk Pension Fund for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in Appendix C:</p> <ul style="list-style-type: none"> <li>• review of the final version of the financial statements and completion of audit review and closing procedures</li> <li>• completion of subsequent events review</li> <li>• receipt of the signed management representation letter</li> </ul> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p>
<b>Audit differences</b>	<p>There are no unadjusted or adjusted audit differences.</p> <p>During the course of our audit we identified a small number of minor disclosure issues for which management amended the financial statements. None of these are considered significant enough to warrant reporting to Members.</p>
<b>Scope and materiality</b>	<p>In our audit plan presented at the Pensions Committee on 24 February 2016 and at the 16 March 2016 Suffolk County Council Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £21.984m. This was based on interim results. We have reassessed this based on the actual results for the financial year and we have increased this amount to £22.132m due to net assets being higher at the year end. The basis of our assessment is 1% of net assets, which has remained consistent with prior years.</p> <p>The threshold for reporting audit differences which impact the financial statements has not changed from £1.1m.</p> <p>We also identified related party transactions as area where misstatement at a level lower than our overall materiality level might influence the reader. For this area we developed an audit strategy specific to the area. We carried out our work in accordance with our Audit Plan.</p>
<b>Significant audit risks</b>	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none"> <li>• Risk of management override.</li> <li>• Risk of fraud in revenue recognition.</li> </ul> <p>The 'addressing audit risks' section of this report sets out how we have</p>



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gained audit assurance over those issues.

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**Other reporting issues** We have no other matters we wish to report

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**Control observations** We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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We would like to take this opportunity to thank the Pension Fund's staff for their assistance during the course of our work.

Tessa Gilbert  
Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### **The Fund's responsibilities**

The Fund is responsible for preparing and publishing its Statement of Accounts.

The Fund is also responsible for preparing and publishing its Pension Fund Annual Report; incorporating its Statement of Accounts.

### **Purpose of our work**

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements
- Report on whether information in the Annual Report is consistent with the financial statements

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Fund. It is not intended to be and should not be used by anyone other than the specified party.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewed accounting estimates for evidence of management bias; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>Our planned procedures in relation to this risk are complete. We have identified no findings that would indicate there is a risk of material misstatement due to fraud or error.</p>

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>At EY, we identify that the risk of fraud in revenue recognition at a pension fund is applicable to contribution income and investment income. Our audit approach has therefore been split between these two forms of revenue.</p>	<ul style="list-style-type: none"> <li>• Performed a detailed analytical review of contributions received compared to our expectations based upon member numbers for each employer and contribution rates, which are provided by the actuary</li> <li>• Reviewed the ratio of member to employer contributions on a monthly basis to ensure there are no unexplained variances</li> <li>• Reviewed the timeliness of the payment of contributions to the scheme, including ensuring that contributions relate to the correct financial year</li> </ul> <p>Investment Income</p> <p>We will:</p> <ul style="list-style-type: none"> <li>• Obtained third party confirmations and agree investment income to the confirmations</li> <li>• Reviewed and tested investment reconciliations performed between investment manager and custodian reports</li> </ul>	<p>Our planned procedures in relation to this risk are complete. We have not identified any areas where revenue is misstated due to improper recognition.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of Fund's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We have no matters we wish to report.

## **Control themes and observations**

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix D. We are not requesting any specific representations over and above the standard ones.

## Appendix A – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan presented to the Pensions Committee on 24 February 2016 and at the 16 March 2016 Suffolk County Council Audit Committee.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan presented at the Pensions Committee on 24 February 2016 and at the 16 March 2016 Suffolk County Council Audit Committee.

## Appendix B – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
<b>Total Audit Fee - Code work</b>	25,026	25,026

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix C – Draft audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUFFOLK PENSION FUND

#### Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Suffolk Pension Fund in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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.

#### Respective responsibilities of the Director of Resource Management and auditor

As explained more fully in the Statement of the Director of Resource Management's Responsibilities set out on page iv, the Director of Resource Management is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resource Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 2015/16 Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.



**Opinion on other matters**

In our opinion, the information given in the 2015/16 Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tessa Gilbert (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Reading

## Appendix D – Management representation letter

Geoff Dobson  
Director of Resource Management  
Suffolk County Council  
Constantine House  
Ipswich  
Suffolk IP1 2BX

Dear Geoff,

### **Suffolk Pension Fund – 2015/16 financial year Request for a letter of representation**

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Suffolk Pension Fund and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Pension Fund.

I have set out in appendix A what I would expect the letter of representation to include.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated on the proposed audit opinion date, on formal headed paper.

Yours faithfully

Tessa Gilbert  
Executive Director  
Ernst & Young LLP  
United Kingdom

## Appendix A – expected contents of letter of representation

[To be prepared on the Pension Fund’s letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Suffolk Pension Fund (“the Pension Fund”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.
2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.
3. We acknowledge, as members of management of the Pension Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Pension Fund, we believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

#### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all known actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Pension Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of the Suffolk Pension Fund Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such

parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme years or subsequently.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **G. Advisory Reports**

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements and schedule of contributions/payment schedule.

#### **H. Independence**

1. We confirm that no trustee of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

#### **I. Derivative Financial Instruments**

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the Pension Fund Committee of the limitations in their use imposed by The Occupational Pension Scheme (Investment) Regulations 2005; namely that they contribute to a reduction in scheme risk, facilitate efficient portfolio management, and that any such investment has been made so as to avoid excessive risk exposure to a single counterparty and to other derivative operations. The Pension Fund's statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.
2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the trustees at the scheme year end and the terms and conditions relating thereto.
3. The trustees have duly considered and deemed as appropriate the assumptions and

methodologies used in the valuation of ‘over the counter’ derivative financial instruments which the Pension Fund is holding, and these have been communicated to you.

**J. Actuarial valuation**

1. The latest report of the actuary Hymans Robertson as at 31 March 2013 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his/her report.

**K. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. In respect of accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - We confirm that the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - We confirm the significant assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

**L. Investment managers’ control reports ISAE 3402**

1. The latest reports available do not cover the whole of the 2015/16 audit year. We confirm we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours faithfully,

\_\_\_\_\_  
(Director of Resource Management)

\_\_\_\_\_  
(Chairman of the Audit Committee)

## Appendix E – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Suffolk Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations.
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have not identified any material instances of non-compliance with laws and regulations.
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	Annual Audit Letter/Audit Results Report
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	Audit Plan Audit Results Report



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## Suffolk Pension Board

<b>Report Title:</b>	Compliments and Complaints
<b>Meeting Date:</b>	6 <sup>th</sup> October 2016
<b>Chairman:</b>	Councillor Richard Smith MVO
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
<b>Author:</b>	Stuart Potter, Operations Manager Tel. 01473 260295

### Brief summary of report

1. This report provides the Pension Board with the number of compliments and complaints received by the Pension Administration team since the previous board meeting on 11<sup>th</sup> July 2016.

### Action recommended

- |  |
|--|
| 2. To consider the information provided and determine any further action |
|--|

### Reason for recommendation

3. The board requested to receive information about the number of compliments and complaints received.

### Alternative options

4. There are no alternative options.

### Main body of report

5. At the Pension Board Meeting on 24 July 2015, the Board requested to receive information about the number of compliments and complaints received by the Pensions Administration team.
6. Updates have been provided at each Board Meeting since this date.
7. Since the last update to the Board on 11<sup>th</sup> July 2016 there have been 5 compliments received by members of the team. These are cases where the individuals have gone out of their way to thank us for something, rather than the regular words of 'thanks' received daily as part of the day to day communications with customers.
8. During this time there have been 9 complaints. One of these was in relation to an incorrect date being provided when a deferred pension could be paid without reduction, and another was in respect of a Pensioner querying the level of income tax deducted from the pension, which was deducted in accordance with HM Revenue and Customs instructions. The remaining 7 complaints were in respect of the time taken to respond to queries. This has been caused by the additional work needed to complete the statutory triennial valuation work by deadline.
9. There have been no new IDR (Internal Dispute Resolution Process) complaints since the last Board meeting.

10. We have recently received judgments in respect of the two previous cases that had progressed through the IDR process and the individuals were unhappy with the outcome and requested these to be reviewed by the Pensions Ombudsman.
11. In the first case, the Ombudsman instructed us to make an award of £500 in respect of the distress and inconvenience caused by administrative errors. The Ombudsman acknowledged these errors were recognised in the IDR responses. The errors that happened during this process were addressed as soon as they were identified and appropriate action taken to avoid repetition.
12. In the second case, the Ombudsman considered a members request for a refund of pension contributions, not in accordance with the Regulations of the scheme. The Ombudsman supported the fact the regulations were clear and did not allow a refund, and that there is no discretion for exceptional circumstances. The Ombudsman also recognised the very thorough response issued to the member under stage 2 of the IDR process and concluded the complaint was not upheld.
13. Both of these cases and the outcomes of these judgements have been discussed in an administrative team meeting to help team members further understand the importance of getting it right. This is in addition to the remedial action taken at the time when the errors in the first case were identified.

<b>Sources of further information</b>
---------------------------------------

- |         |
|---------|
| a) None |
|---------|

## **Suffolk Pension Board, 6 October 2016**

### **Information Bulletin**

The Information Bulletin is a document that is made available to the public with the published agenda papers. It can include update information requested by the Board as well as information that a service considers should be made known to the Board.

This Information Bulletin covers the following items:

- 1. Annual Benefit Statements**
- 2. Actuarial Valuation Results**
- 3. Board Insurance**

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#### **1. Annual Benefit Statements**

The Pension Fund is required to send out annual benefit statements to all active and deferred members of the Fund by 31 August (a new requirement introduced by the Pensions Regulator). These statements set out for each individual, the pension entitlements that they have built up in the Fund and a projection of retirement benefits that would be payable at their normal retirement age.

The Board will be pleased to note that these statements were all sent out on time and were despatched before 31 August 2016.

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#### **2. Actuarial Valuation Results**

The initial results of the March 2016 Triennial valuation were reported to the Pension Fund Committee on 22 September 2016. The Funding level of the Suffolk Pension Fund had increased to 91%, a significant increase since the March 2013 valuation (79%). The main reason for this was increased investment returns being achieved, coupled with lower pay increases.

The Actuary will present the results to the Annual Employers Meeting on 7 October 2016. The draft Funding Strategy Statement along with individual employer

contribution rates will be sent to employers for consultation during October. The Board will review the process of the valuation at its meeting in March 2017.

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### **3. Insurance**

At the Board's meeting on 11 July 2016 the question of insurance was raised.

Appendix 1 shows a briefing which has been received from AON on Board insurance, including an offer of taking out specific insurance for Board members.

This has been shared with the Council's insurers and insurance brokers to ascertain what cover, if any, is already provided. This will be reported orally at the Board meeting.

Further information about the cover provided by the AON insurance policy has been requested, along with an indication of indicative rates.

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For further information on any of these information items please contact: Paul Finbow Senior Pensions Specialist; Email: paul.finbow@suffolk.gov.uk, Telephone: 01473 265288.

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## APPENDIX 1



# The need for Pension Board liability insurance

Local Pension Boards are established under the Public Services Pensions Act 2013 and have been established in order to assist the Administering Authority of a Local Government Pension Scheme to:

- Comply with:
  - The LGPS Regulations 2015
  - Any other legislation relating to the governance and administration of the Scheme
  - Any requirements imposed by the Pensions Regulator
- Ensure effective and efficient governance and administration

However, according to the legal opinion obtained by the LGA from James Goudie QC, the Pension Board itself is not a council committee and therefore there is uncertainty as to whether members of the board are officials who fall within the scope of the councils own indemnity provisions.



[For more information](#)

### Insurance of Local Pension Boards

Since the implementation of the Public Service Pensions Act 2013, Aon clients have queried the extent of insurance cover for members of the Pension Boards, and Aon have been in discussion with different insurers to ascertain whether current Officials Indemnity or liability policies can be extended to include such insurance. Many policies contain exclusions relating specifically to claims arising out of a breach of fiduciary duty, responsibility or obligation in connection with any employee benefit or pension plan, and there is some reluctance to extend the scope of cover.

Furthermore any claim under an Officials Indemnity policy is subject to the applicable deductible, but the Authority may be unable to indemnify the individual, leaving the board member personally liable for costs within the deductible. Deductibles for Administering Authorities typically range from £50,000 to £250,000.

To fulfil requirements for certainty of insurance cover, Aon have developed in conjunction with a leading insurer a pension liability policy specifically designed to provide protection to Local Pensions Boards and the personal liability of individual Pension Board members in the event of claims or investigations against them.

What is covered?	Extent of protection
<p><b>Loss</b> – Insurers will pay for loss suffered as a result of claims made during the policy period for wrongful acts, such as breach of trust, breach of duty, breach of statutory provision, maladministration, neglect, administrative error or wrongful omission, misstatement, misleading statement or any other act committed or allegedly committed by an Insured in connection with their role as members of a Pension Board.</p> <p><b>Investigation expenses</b> – investigations instituted during the policy period.</p> <p><b>Mitigation expenses</b> – Expenses incurred in taking action to prevent, limit or mitigate exposure to an actual or potential claim.</p>	<p><b>Damages</b> – i.e. judgements settlements and awards for which members are legally liable.</p> <p><b>Defence costs</b> – legal costs and expenses incurred in defending claims brought against them.</p> <p><b>Investigation expenses</b> – legal costs and expenses incurred in relation to an investigation connected with the Pension Scheme.</p>

Extensions of cover include:	
<ul style="list-style-type: none"> <li>• Public Relations Expenses (sub limited)*</li> <li>• Civil Fines and Penalties to the extent permitted in law</li> <li>• Emergency Costs (sub limited)*</li> <li>• Extradition Proceedings Costs</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of Documents (sub limited)*</li> <li>• Prosecution Costs (sub limited)*</li> <li>• Third party provider pursuit costs</li> </ul>

The policy is issued on a “claims made” basis meaning that only claims notified during the policy period are covered.

\*Sub limits may vary based on the overall limit purchased. Sub limits form part of and are not in addition to the Limit of Liability.

Limit, deductible and cost	Key underwriting information
<p><b>Cost of cover is dependent on a number of factors including:</b></p> <ul style="list-style-type: none"> <li>• Limit of Indemnity required (Limits up to 10m are available)</li> <li>• Size of the Pension Scheme assets</li> <li>• Number of members of the Pension Scheme</li> <li>• No deductible is payable by any individual insured</li> </ul>	<p><b>Quotations can be provided based on:</b></p> <ul style="list-style-type: none"> <li>• Latest Pension Scheme accounts</li> <li>• Terms of reference for the Pension Board</li> <li>• Details of the members of the Pension Board</li> <li>• Details of training schedule for board members either undertaken or proposed</li> <li>• Subject to no known claims or circumstance</li> </ul>

For full details of policy wording terms and conditions please contact your usual representative or Deborah Ball [deborah.ball@aon.co.uk](mailto:deborah.ball@aon.co.uk)

**About Aon**

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## Suffolk Pension Board

<b>Report Title:</b>	Training Plan
<b>Meeting Date:</b>	6 October 2016
<b>Chairman:</b>	Councillor Richard Smith MVO
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
<b>Author:</b>	Paul Finbow, Senior Pensions Specialist Tel. 01473 265288

### Brief summary of report

1. This report outlines suggested areas of training for Board members to gain the necessary knowledge and understanding to fulfil their Board role.

### Action recommended

- |  |
|--|
| <ol style="list-style-type: none"> <li>2. The Board is asked to consider and agree the content of the training programme for the coming year.</li> </ol> |
|--|

### Reason for recommendation

3. To comply with the Pensions Regulators requirements, members of the Pension Board must be able to demonstrate that they have the required knowledge and understanding of LGPS issues.

### Alternative options

4. There are no alternative options.

### Main body of report

5. At the Pension Board Meeting on 28 September 2015, the Board considered its need for training and agreed a one-year training programme.
6. Appendix 1 shows a record of training that has been undertaken by members of the Suffolk Pension Board since July 2015. This training was developed with the Knowledge and Skills Framework issued by CIPFA for local pension board members.
7. A reminder of the Framework and, in particular, the specific areas of knowledge the Board should attain is provided in Appendix 2.
8. It has been agreed that should Board members wish to attend pre Pension Fund Committee training, then they are welcome to do so, but that they should let Committee Services (Ann McPherson) know in advance of the meeting.
9. The Board will have its own pre Board training session, starting at 10 am before each Board meeting.
10. Topics that could be considered for inclusion in this year's plan (drawn from the framework) are:

- a) Awareness of the work of the Scheme Advisory Board and its sub Committees.
  - b) The Fund's arrangements for additional voluntary contributions and the providers.
  - c) Awareness of procurement policies / procedures in appointing third party providers / managers.
  - d) Understanding of role of different asset classes.
  - e) Understanding of different markets / investment vehicles
  - f) Types of employers in the Fund and their risk characteristics.
  - g) Ill Health retirement strain costs.
11. A further half or whole day training session will be scheduled for later in 2016 once the Employer vacancy has been filled.
  12. Training will be delivered before the start of the December 2016, March 2017 and October 2017 meetings.
  13. The Board meeting in July will be held on 19 July at 2pm. The Pension Fund Committee will meet in the morning and the performance provider will present investment return analysis to both the Committee and the Board. No training will be provided to the Board on that day.
  14. The Board is requested to consider the list of potential topics and priorities these into the years training programme.

**Sources of further information**

- a) Local Government Pension Scheme (LGPS) - Guidance on the creation and operation of Local Pension Boards in England and Wales
- b) The Pensions Regulator Code of practice no. 14 Governance and administration of public service pension schemes
- c) CIPFA Knowledge and Skills Framework for Local Pension Board members

# APPENDIX 1

## Pension Board Training Log

Date	Description of training undertaken	Delivered by	Richard Smith	Homira Javadi	Kate harrison	David Rowe	Eric Prince	Suzanne Williams
	Unison Training for Perspective Board Members	Unison						✓
24/07/2015	An overview of the Legal framework, Governance and background of the Suffolk Pension Fund covering both investment and administration.	Paul Finbow, Corporate Finance Specialist	✓	✓	✓	✓	✓	
14/09/2015	A detailed review of the legal framework covering LGPS scemes and the particular roles and responsibilities, particularly focussing on the Pension Board. An overview of the importance of Asset alloaction was also included.	John Raisin, Chair of Merseyside Pension Board	✓	✓	✓	✓	✓	
28/09/2015	An overview of the Scheme administration and benefits, and policies adopted by the Suffolk Fund including discretions.	Lynn Wright, Strategic Payroll and Pensions Manager	✓		✓	✓	✓	
12/11/2015	Unison Annual LGPS Seminar	Unison arranged Event				✓		
16/12/2015	A detailed understanding of the factors taken into account by the Actuary in undertaking a triennial valuation and agreeing employer contribution rates	Peter Summers, Hymans Robertson	✓	✓		✓	✓	✓
04/05/2016	Risk Mangement Approaches	Julius Oyebade	✓			✓	✓	✓
15/06/2016	LGPS Pension Board Seminar	PLSA				✓		
29/06/2016	Local Pension Boards – One Year On Seminar	CIPFA					✓	
10/08/2016	Asset Pool Seminar	Scheme Advisory Board						✓



## 4. Local Pension Boards: A Technical Knowledge and Skills Framework

<b>Pensions legislation</b>	<p>A general understanding of the pensions legislative framework in the UK.</p> <p>An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.</p> <p>A regularly updated appreciation of the latest changes to the scheme rules.</p>
<b>Pensions governance</b>	<p>Knowledge of the role of the administering authority in relation to the LGPS.</p> <p>An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p> <p>Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.</p> <p>Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.</p> <p>Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p> <p>Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.</p> <p>A detailed knowledge of the duties and responsibilities of pension board members.</p> <p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p> <p>Knowledge of consultation, communication and involvement options relevant to the stakeholders.</p> <p>Knowledge of how pension fund management risk is monitored and managed.</p> <p>Understanding of how conflicts of interest are identified and managed.</p> <p>Understanding of how breaches in law are reported.</p>

<b>Pensions administration</b>	<p>An understanding of best practice in pensions administration, eg performance and cost measures.</p> <p>Understanding of the required and adopted scheme policies and procedures relating to:</p> <ul style="list-style-type: none"> <li>■ member data maintenance and record-keeping processes</li> <li>■ internal dispute resolution</li> <li>■ contributions collection</li> <li>■ scheme communications and materials.</li> </ul> <p>Knowledge of how discretionary powers operate.</p> <p>Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.</p> <p>An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.</p>
<b>Pensions accounting and auditing standards</b>	<p>Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.</p> <p>Understanding of the role of both internal and external audit in the governance and assurance process.</p> <p>An understanding of the role played by third party assurance providers.</p>
<b>Pensions services procurement and relationship management</b>	<p>Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <p>Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p> <p>An understanding of how the pension fund monitors and manages the performance of their outsourced providers.</p>
<b>Investment performance and risk management</b>	<p>Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Awareness of the Myners principles of performance management and the approach adopted by the administering authority.</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>

<b>Financial markets and products knowledge</b>	<p>Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).</p> <p>Understanding of the role of these asset classes in long-term pension fund investing.</p> <p>Understanding of the primary importance of the investment strategy decision.</p> <p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <p>An understanding of the limits placed by regulation on the investment activities of local government pension funds.</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.</p>
<b>Actuarial methods, standards and practices</b>	<p>A general understanding of the role of the fund actuary.</p> <p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>Awareness of the importance of monitoring early and ill health retirement strain costs.</p> <p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p> <p>A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.</p> <p>A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.</p>





## **Suffolk Pension Board Forward Work Programme**

### **Purpose**

The purpose of this forward work programme is to support the Pension Board in promoting and strengthening corporate governance across the Council.

### **Terms of reference**

The terms of reference of the Pension Board are:

- a) to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS
- b) to secure compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator
- c) to secure the effective and efficient governance and administration of the LGPS for the Suffolk Pension Fund.
- d) in such other matters as the LGPS regulations may specify
- e) to provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest

<b>Meeting date (see Note)</b>	<b>Added to Work Programme</b>	<b>Subject</b>	<b>Short description</b>	<b>How is it anticipated the Board will deal with this issue?</b>
<b>Monday, 12 December 2016</b>	Added 4 May 2016	Complaints and Compliments	To receive a report on the complaints and compliments received by the Fund	Written Report
	Added 11 July 2016	Administration Update	To receive a report on the performance of the Pensions Administration team and the returns from Employers	Written Report
	<b>Added 6 October 2016</b>	<b>Administration Expenses</b>	<b>To receive a report on the anticipated administration and investment management costs of the Fund</b>	<b>Written Report</b>
	Added 11 July 2016	Pension Board Risks	To formulate a list of risks associated with the Board	Board Discussion
	Added 4 May 2016	Forward Work Programme	To approve the Forward Work Programme for the Suffolk Pension Board.	Written Report
<b>Thursday, 9 March 2017</b>	Added 4 May 2016	Complaints and Compliments	To receive a report on the complaints and compliments received by the Fund	Written Report

<b>Meeting date (see Note)</b>	<b>Added to Work Programme</b>	<b>Subject</b>	<b>Short description</b>	<b>How is it anticipated the Board will deal with this issue?</b>
Thursday, 9 March 2017	Added 6 October 2016	Member Self Service	To receive a report on the implementation of the Member Self Service module	Written Report
	Added 6 October 2016	Pooling: Update on Costs	To receive a report on the likely costs associated with pooling that will be paid by the Suffolk Pension Fund	Written Report
	Added 6 October 2016	Review of Scheme Policies	To discuss the Fund's policy documents to ensure they are fit for purpose	Board Discussion
	Added 11 July 2016	Actuarial Valuation process	To receive a report on the completion of the 2016 Actuarial valuation.	Written Report
	Added 4 May 2016	Forward Work Programme	To approve the Forward Work Programme for the Suffolk Pension Board.	Written Report

**Note:** Additions and amendments to previous Forward Agenda are marked in bold.

If you have any questions or queries, please contact Paul Finbow. Email: [paul.finbow@suffolk.gov.uk](mailto:paul.finbow@suffolk.gov.uk), Telephone: 01473 265288.

Revised – October 2016

