Suffolk Pension Fund
Annual Report and Accounts
2017-18

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Pension Fund Committee Chairman's Report

As Chairman of the Suffolk Pension Fund Committee, I am pleased to introduce the Pension Fund's Annual Report and Accounts for 2017-18. The value of the Suffolk Pension Fund was £2.762 billion at 31 March 2018, which was an increase of £114m in the year. The Fund administers the local government pension scheme in Suffolk on behalf of 262 separate employers and just over 60,000 scheme members.

The Pension Fund Committee is responsible for managing the Fund, with the assistance of council officers, external advisors and professional investment managers. Council elections brought some changes to the Pension Fund Committee and I would like to extend my thanks to all the members of the Committee for their service to the Pension Fund during the year.

The Fund achieved an investment return of 4% in 2017-18, which was 0.8% lower than the benchmark return for the mix of asset classes in which the Fund invests. These returns are in line with the actuary's assumptions for future investment returns. The estimated funding level is 92.2% as at 31 March 2018. Over three years the annual return has been 7.6% per annum, and over ten years 7.0%.

The 2016-17 financial year produced very strong investment returns, particularly from overseas investments, with the devaluation of sterling following the Brexit vote significantly increasing the value of the Fund's overseas assets. The Committee considered measures at its March 17 meeting to protect some of the currency and equity gains it had achieved. These were implemented in April 2017. At its meeting in December 2017, the Committee made a further decision to decrease the equity exposure of the Fund by reducing its equity investment allocation to 42% (from 46.5%) thereby reducing the market volatility risk the Fund is exposed to. This was implemented in December just before the equity markets fell in January 2018.

The pooling of assets through ACCESS (A Collaboration of Central, Eastern and Southern Shires) with other Pension Funds has continued in its development. The combined assets under management at 31 March 2018 was £43 billion. A Joint Committee was formally established, which I chair, to oversee the governance and the work of the pool, and the operator.

After a competitive tendering process, Link Financial Services was appointed as the FCA regulated operator and work has commenced in creating the sub-funds to pool assets with the other funds in the pool. The physical pooling of assets will commence during 2018.

A collaborative tendering exercise was carried out during the year with the other ACCESS Pension Funds that invest in index tracking funds to appoint a sole investment manager to oversee these mandates. UBS were appointed and approximately £11 billion of assets were transitioned during January and February 2018 with significant management fee savings secured.

Councillor Andrew Reid

Chairman of the Pension Fund Committee *May 2018*

Pension Board Chairman's Report

It is a pleasure to introduce the Suffolk Pension Board's annual report, which is incorporated within the Suffolk Pension Fund annual report and accounts for 2017-18.

The Board was established in 2015 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. This means making sure the Fund is compliant with all relevant legislation with the aim to safeguard the interest of all Pension Fund members and associated employer organisations.

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

The Board continues to engage with the employers of the Fund organising the annual Employers' meeting in September in conjunction with the Pension Fund Committee. This year the meeting covered the work of the Pension Board and the Pension Fund Committee. The actuary covered the funding position and the current conditions and developments which could affect the 2019 triennial valuation and in addition presented a very useful session on interpreting the pension accounting requirements for employers accounts. There was also a session on the self-service module for members and an overview of employers responsibilities regarding ill health retirements. The event received plenty of positive feedback and had its best-ever attendance.

The Board continues to focus on the monitoring and holding to account the administration function of the Fund. With growing membership and ever-increasing complexity, scheme administration relies very heavily on the diligence and experience of the Pension Fund officers to ensure that members receive meaningful information and accurate benefits at the appropriate time. The Pension Fund continues to deliver these and to improve communications with members with further developments of the member self service module which allows members to have instant access to their records, enabling them to update their personal data, run pension projections and access their annual benefit statements.

As part of its governance responsibilities the Board also monitors the compliance of the employers to meet their obligations for returning data and paying over the pension contributions on time which contributes to the effective administration of the scheme.

The Board has received at each meeting, an update on the progress of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool which will have a significant impact on resources of the Fund in future years.

The next annual employers meeting will be held on 21 September 2018.

Richard Smith MVO

Chairman of the Suffolk Pension Board *May 2018*

Report from the Head of Finance

Foreword to Annual Report and Accounts

I am delighted to be introducing my first annual report and accounts after taking over the S151 responsibility from Geoff Dobson who retired on 31 May 2017. This has been a challenging year for the Fund with the volatility of the investment markets and the ongoing work to establish the ACCESS asset pool.

The Suffolk 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 2018, the governance arrangements for administering the scheme and the work carried out by the Pension Fund Committee, Pension Fund Board and the Pension Fund officers throughout the year.

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).

Business Plan

The Committee approves a business plan at the start of each financial year. This provides a mechanism for the Committee to ensure that its responsibilities for the Fund are carried out effectively. They key actions for 2017-18 are as below:

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 during 2016-17. The actuarial deficit was £216 million at March 2016 (£468 million – March 2013) and the assets represented 91.1% of its liabilities at that date. The Funding Strategy that was approved in February 2017, following the 2016 actuarial valuation sets 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.

The statement is developed on the basis of prudence, stability and affordability as the Pension Fund Committee recognises 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 and resources. The approach taken has tried to stabilise the contributions to mitigate any adverse impact that an increase to the contribution rate might have, by phasing in additional contributions over time where necessary.

The next actuarial valuation will be undertaken as at March 2019 and the results of the valuation will determine the employer contributions that are required for the three years starting April 2020.

The estimated funding level at March 2018 was 92.2% and the actuarial deficit at that date was £241 million. Higher investment returns compared with expected asset returns used in the financial assumptions in the valuation have had a positive effect on the current valuation although this has been in part offset by lower gilt yields and higher inflation which has increased the deficit.

Investment Strategy

The Fund's investment objectives are set out in its investment strategy statement to achieve the objectives of the funding strategy statement as part of the triennial valuation exercise. 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 2018, 42% of the Fund is to be invested in equities, with the balance in bonds (26%), property (10%), a number of funds in alternative investments (21.5%) and a small holding in cash and money markets of 0.5%.

Investment Performance of the Pension Fund

The Suffolk Pension Fund had an investment return of 4% in 2017-18, with the asset value increasing by £114 million. The Local Authority average based on 59 funds (out of the 89 Funds in England and Wales) was 4.5% with the lowest returning 1.0% and the highest 9.0% (each fund will have a different asset mix dependent on its appetite for risk and funding level). The Suffolk Fund's investment strategy is diversified across a number of asset classes and regions which provides the Fund with diversification benefits and limits the Fund's exposure to the volatility of the markets and improves its risk return characteristics.

The Pension Fund Committee 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 a mandate specific absolute return. On the basis of this comparison, the Fund underperformed its target benchmark investment return by 0.8% in 2017-18.

Over the past five years the Fund's return was 8.7% per year, which is the same as the benchmark and significantly above the rate of inflation. Over the longer term the Fund's investment has returned 7.0% per year over the ten years to March 2018.

The Pension Fund assesses the performance of its managers over a full business cycle, so one year's outperformance or underperformance is not considered significant in isolation.

Administration

The Pension Board focuses on the governance and administration of the Fund to ensure that it is managed and administered effectively, engaging with the employers and receiving reports on the performance of the administration team.

The Pension Fund has a dedicated website page for communication with scheme members and employers on issues affecting the scheme (www.suffolkpensionfund.org) and a member self service module to enable members to have instant access to their pension records (https://pensions.suffolk.gov.uk).

The annual benefit statements for active and deferred members were produced and sent out by the statutory deadline of 31 August.

Audit

The Pension Fund accounts are included within the County Council's Statement of Accounts for 2017-18, 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.

Louise Aynsley

Head of Finance *May 2018*

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, during 2017-18 that officer was the Head of Finance;
- 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 25 July 2018 on behalf of Suffolk County Council and have been authorised for issue.

Councillor Joanna Spicer

Chairman of the Audit Committee *25 July 2018*

The Responsibilities of the Head of Finance (Section 151 Officer)

The Head of Finance 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 2018, and the income and expenditure (spending) for the year to that date.

In preparing this Statement of Accounts, the Head of Finance 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 Head of Finance 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 2018 and its income and expenditure for the year to that date.

Louise Aynsley

Head of Finance (Section 151 Officer) *25 July 2018*

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

Opinion on the pension fund financial statements
I have examined the pension fund financial statements for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 28.

In my opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Suffolk Pension Fund for the year ended 31 March 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Respective responsibilities of the Head of Finance (Section 151 Officer) and auditor
As explained more fully in the 'Responsibilities of the Head of Finance (Section 151 Officer)', the Head of Finance (Section 151 Officer) is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

My responsibility is to report to you my opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Suffolk Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

I also read the other information contained in the pension fund annual report and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of:

- Pension Board Chairman's Report
- Head of Finance Report
- Management Structure
- Management Report
- Investment Report
- Governance Report
- Corporate Social Responsibility and Voting Report
- Administration Report
- Employers in the Fund
- ACCESS

I conducted my work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. My report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Mark Hodgson (*Audit Partner)* *25 July 2018*
Ernst & Young LLP (Local Auditor)
Cambridge

ACTUARIAL STATEMENT FOR 2017-18

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

Description of Funding Policy

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

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- 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 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 a better than 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 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,213 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £216 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to 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	21.9 years	24.4 years
Future Pensioners*	23.9 years	26.4 years

*Aged 45 at 2016 Valuation

Copies of the 2016 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 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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

Peter Summers FFA
For and on behalf of Hymans Robertson LLP
18 April 2018

Management Structure

Pension Fund Committee

Cllr. Andrew Reid (Chairman)	Cllr. Robert Lindsay
Cllr. Karen Soons (Vice-Chair from March 18)	Cllr. Jack Abbott
Cllr. Alexander Nicoll (Vice-Chair to March 18)	Cllr. Colin Kreidewolf
Cllr. Russ Rainger	Cllr. Chris Punt
Cllr. David Roach	Steve Warner (Unison)

Pension Board

Cllr. Richard Smith (Chairman)	Marie McCleary
David Rowe (Vice-Chairman)	Eric Prince
Homira Javadi	Suzanne Williams

Suffolk County Council

Louise Aynsley	Head of Finance
Paul Finbow	Senior Pensions Specialist (Head of Pensions)
Sharon Tan	Technical Pensions Specialist (Invest & Accts)
Andy Chapman	Technical Pensions Specialist (Administration)
Stuart Potter	Operations Manager (Administration)

Investment Managers

Blackrock Investment Management	Pantheon Ventures
Brookfield Asset Management	Partners Group
Kohlberg, Kravis, Roberts	Pyrford International
Legal & General Investment Management	Schroder Investment Management
(divested January/February 2018)	UBS Group
M&G Investments	Wilshire Associates
Newton Investment Management	Winton Capital Management

Pension Fund Advisers

Auditors	Ernst & Young LLP
Actuary	Hymans Robertson LLP
Investment Consultancy Services	Hymans Robertson LLP
Independent Investment Adviser	Mr Mark Stevens
Performance Measurement	HSBC and PIRC
Investment Custodians	HSBC
Banking Services	Lloyds Banking Group Plc
Legal Advisers	Squire Patton Boggs
Voting Advisers	Pension Investment Research Consultants

Management Report

Summary of the Financial Position

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

Financial Summary	2013-14 £'000	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000
Contributions	90,795	103,897	103,155	108,698	108,619
Other Income	3,855	5,561	3,478	2,474	4,056
	94,650	**109,458**	**106,633**	**111,172**	**112,675**
Benefits Payable	-76,898	-85,235	-86,370	-86,783	-91,567
Other Expenditure	-3,541	-3,945	-4,463	-4,314	-4,920
	-80,439	**-89,180**	**-90,833**	**-91,097**	**-96,487**
Net additions / withdrawals(-) from dealings with members	**14,211**	**20,278**	**15,800**	**20,075**	**16,188**
Management Expenses	-9,112	-12,053	-12,174	-15,654	-16,416
Investment Income (net of tax)	28,435	25,761	24,775	32,550	35,415
Change in Market Value of Investments	84,219	279,733	-13,647	398,499	78,629
Net Returns on Investments	**103,542**	**293,441**	**-1,046**	**415,395**	**97,628**
Change in Fund during the year	**117,753**	**313,719**	**14,754**	**435,470**	**113,816**
Net Assets at 31 March	**1,884,722**	**2,198,441**	**2,213,195**	**2,648,665**	**2,762,481**

Membership

The overall membership has increased year on year with an overall membership increase of 18% during the last five years.

Membership Summary	2013-14	2014-15	2015-16	2016-17	2017-18
Members	18,658	18,871	20,129	19,954	19,950
Pensioners	13,347	14,023	14,647	15,074	15,661
Deferred Members	17,629	19,097	20,872	23,438	25,038
Total	**49,634**	**51,991**	**55,648**	**58,466**	**60,649**

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 0.6% of the value of the Fund at 31 March 2018, 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 £0.762 million in 2017-18 to £16.416 million, the majority of which can be attributed 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 and pay 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.

	2016-17	2017-18
Administration Expenses	**£'000**	**£'000**
Suffolk County Council	762	769
Heywood pension administration system	265	256
Subscriptions and other costs	41	56
Total Administration Expenses	**1,068**	**1,081**

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.

	2016-17	2017-18
Investment Management Expenses	**£'000**	**£'000**
BlackRock	2,302	2,738
Brookfield	164	152
KKR	402	357
Legal & General	990	789
M&G	4,165	2,522
Newton	1,309	1,217
Pantheon	891	1,252
Partners	496	2,250
Pyrford	604	677
Schroders	753	898
UBS	0	37
Wilshire	372	338
Winton	754	737
Transaction Costs	734	769
Custodian (HSBC)	41	44
Custodian (State Street Bank and Trust)	-9	0
Total Investment Management Expenses	**13,968**	**14,788**

Notes:
1. The increase in the Blackrock expenses can be attributed in an increase in the Bond investment of £177m.
2. The decrease in M&G expenses relates to the reduction in the debt opportunity holding which began distributing funds back to the Fund during 2016-17 which incurred performance fees based on the outcomes of the investments (see performance table overleaf).
3. Partners costs have increased due to the additional investment in the Partners 2015 Fund, which incurs back charging of management fees.
4. The Legal & General index tracking funds were transferred to UBS in the last quarter of the financial year as part of the pooling of assets, with significant savings achieved.

Included in the Investment management expenses overleaf 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 figures 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 is as below:

	2016-17	2017-18
Investment Management Expenses	**£'000**	**£'000**
BlackRock	1,164	699
KKR	176	-23
M&G	2,729	500
Pantheon	-	1
Partners	-17	30
Winton	-	25
Total Investment Management Expenses	**4,052**	**1,232**

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 Fund. 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 Suffolk’s share of costs incurred for advice and guidance in relation to the setting up of the ACCESS pool and appointing the operator Link.

Oversight and Governance Expenses	2016-17 £'000	2017-18 £'000
Suffolk County Council	167	161
Pension Fund Committee	9	7
Pension Board	3	3
Actuarial Services	144	62
Audit Fees	37	37
Legal Fees	8	5
Performance Analysis	34	54
Proxy Voting Service	10	10
Investment Advice	111	106
Asset Pooling	80	94
Subscriptions and membership fees	14	18
Total Oversight and Governance Expenses	**617**	**557**

Investment Income

The following table shows the sources of Investment Income earned by the Fund in 2017-18:

Investment Income	UK	Non-UK	Global
	£'m	£'m	£'m
Equities	7.347	-	7.718
Property	9.058		
Alternatives	4.371	6.538	
Cash & Cash Equivalent	0.056	-	-
Other	-	-	0.390
Total Income	20.832	6.538	8.108

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

Alternatives include private equity, illiquid debt, absolute returns 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.

Investment Report

Investment Powers

Within the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 the Government has placed a 5% restriction on the investments of the Suffolk Pension Fund into entities connected with Suffolk County Council. The Pension Fund currently has no investments in entities connected to Suffolk County Council and is therefore below the 5% statutory limit included in the regulations.

Investment Strategy Statement

The Fund's investment objectives and asset allocation are incorporated into its Investment Strategy Statement, which is published on the Suffolk Pension Fund website (www.suffolkpensionfund.org).

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.

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 a 74% allocation to 'growth' assets (equities and alternatives) in order to meet the long term funding assumptions set out in the 2016 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 26% allocation to bonds is designed to help manage overall levels of funding volatility.

The Committee monitors the investment allocation relative to the agreed asset allocation benchmark and the maximum investment limits.

The strategic benchmark and the actual asset allocation of the Fund at March 2018 are shown overleaf along with the maximum investment limits set for each asset class.

Asset Allocation			
	Actual Allocation March 2018	Long-term Allocation	Maximum Limit
	%	%	%
UK Equities	15.2	14.5	25.0
Overseas Equities	27.1	27.5	40.0
Total Equities	**42.3**	**42.0**	**65.0**
Global Bonds	24.5	22.0	35.0
UK Index-linked Gilts	4.0	4.0	8.0
Total Bonds	**28.5**	**26.0**	**43.0**
Private equity	3.7	4.0	8.0
Property	10.1	10.0	15.0
Absolute return	9.8	10.0	15.0
Illiquid Debt	1.7	2.0	5.0
Infrastructure	2.5	5.0	15.0
Timber	0.3	0.5	1.0
Total Alternatives	**28.1**	**31.5**	**59.0**
Cash & Cash Equivalents	1.1	0.5	5.0
Total	**100.0**	**100.0**	

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

Asset Classification	UK	Non-UK	Global
	£'m	£'m	£'m
Equities	419.047	456.350	291.739
Bonds	110.484		676.532
Property	277.478		
Alternatives	46.610	86.261	363.898
Cash & Cash Equivalent	26.914	-0.113	
Total Assets	**880.533**	**542.498**	**1,332.169**

Investment Management Arrangements

The Fund's investment management arrangements at March 2018 are shown below.

Fund Manager Allocation			
Investment Manager	**Asset class**	**Actual allocation March 2018**	**Long-term allocation**
		%	%
BlackRock	UK equities and Bonds	22.1	20.0
Brookfield	Timber	0.3	0.5
Kohlberg, Kravis, Roberts (KKR)	Infrastructure	1.0	1.0
M&G Investments	Bonds, Illiquid Debt and Infrastructure	12.8	14.0
Newton	Global equities	12.1	12.0
Pantheon	Private equity	3.0	3.0
Partners Group	Infrastructure	1.2	2.0
Pyrford	Absolute return	6.0	6.0
Schroder	Property	10.3	10.0
UBS	Equities and Bonds	26.3	26.0
Wilshire	Private equity	0.9	1.0
Winton	Absolute Return	3.9	4.0
Internal Cash	Cash	0.1	0.5
Total		100.0	100.0

Notes

- Commitments with Partners, Pantheon, the Debt Solution Fund and Infracapital commitments made to M&G are 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, the older commitment to Pantheon and the Debt Opportunity investment with M&G are in the process of realising the underlying investments and returning cash to the Pension Fund.
- KKR and the 2012 Partners investments have sold some of their investments earlier than expected as opportunities to realised the assets have arisen.

Market Review

Market review: Year to 31 March 2018

Global equity markets produced positive returns over the twelve months to 31 March 2018. The majority of developed markets produced double-digit returns when measured in local currency. However the partial recovery in sterling from post 'Brexit' lows reduced returns for UK investors. Overall Japanese and emerging market equities produced the highest returns driven by relatively good valuations and the maturing capital goods cycle.

Global bond markets produced low but positive returns in local currency, however the appreciation of sterling particularly against the US dollar, translated into a 5% loss for UK based investors. UK gilts delivered low positive returns despite the Bank of England raising interest rates during year, the first such move for almost a decade. The yield on 10 year Gilts edged up very slightly over the period. Index linked Gilts after a number of strong years, produced low positive returns as fears over imported inflation reduced slightly on the recovery of sterling.

The previous financial year had a continued period of extremely healthy investment returns particularly in equity markets. Hopes that a Trump presidency would lead to increased expenditure on infrastructure and economically stimulating tax cuts had driven markets higher since the turn of the year. Pacific Rim and Emerging Markets were particularly strong. However, as the new financial year began, the "Trump trade" rally was beginning to lose momentum as investors started to worry about lack of progress in terms of implementation and the extent to which the campaign rhetoric was meeting the reality of a sceptical Congress.

The UK's departure from the EU was officially instigated a few days prior to the new financial year by invoking article 50 of the EU treaty, putting in place a two-year deadline for exiting. Despite all the uncertainly since the 'Brexit' vote in the previous July the UK economy was continuing to grow, albeit at a moderate pace of 1.9%. As the year progressed economic data for the UK was becoming more mixed, particularly consumer confidence, which appeared to be weakening as pressure built on incomes that were failing to match inflation. Continental Europe in contrast was experiencing accelerating economic momentum. The Purchasing Managers' Index (PMI) figures across the continent were strong and getting stronger and even the cautious German consumer was showing signs of a spending recovery. Japan was delivering steady economic growth, continued corporate governance reforms and an equity market which now appeared cheap in international terms.

The second quarter saw further modest gains to equity markets. European markets continued to perform strongly driven by better than expected economic performance and by positive reaction to the French Presidential election. In contrast the decision by Prime Minster May to hold an election to strengthen her position, in part over 'Brexit' negotiating, rebounded disastrously and if anything appeared to have weakened Britain's position. Global growth accelerated over the summer with overall output growing at the fastest rate since the initial recovery phase from the financial crisis.

Financial markets in the third quarter of the year continued to follow a similar pattern with equities making further upward progress and bonds losing ground. Sterling had stopped falling and now began to strengthen gradually against the US dollar, although remaining close to the recent lows against the euro. The continued strength of global equity markets was all the more remarkable given geopolitical uncertainties surrounding developments on the Korean Peninsula, Catalonia and apparent policy paralysis in Washington, where the much heralded Trump tax reforms had made little progress over the summer. However synchronised global economic growth and subdued inflation provided just enough impetus to keep stock markets buoyant, if stretched in valuation terms.

The calendar year ended with more positive returns driven in part by a growing optimism that the recent positive economic momentum seen across the globe was likely to continue into the New Year. Even the UK equity market performed strongly despite the Bank of England raising interest rates for the first time in a decade. Even more surprising, was the fall in Gilt yields, closing the year at 1.23% the same level as twelve months previously. Driven by strong global demand and a slightly weakened dollar, commodity prices ended the year very strongly. Industrial metals recorded gains of 27% over twelve months and Brent crude had recovered to $70/barrel, a rise of 50% over the previous eighteen months.

After a strong January, the first quarter of 2018 saw steep falls in markets and the return of volatility, as fears over potential inflationary pressures, exacerbated by fears over a trade war between the US and China combined with stretched valuations. The UK equity market experienced sharp falls partly as response to on going nervousness over 'Brexit', but equally because the continuing recovery of sterling acted as a drag on profits from the overseas earners that dominate the FTSE 100. However despite the return of volatility in equities and some heavy falls most markets were beginning to show some recovery as the financial year ended.

Global Economy Highlights

- The US economy continued to deliver solid growth and the labour market remained strong. The Federal Reserve raised rates three times over the period with further hikes indicated for the coming year. Inflation continued to edge higher and a potential US China trade war became a concern for investors. Recent fiscal loosening has given a boost to both corporate and household income, however equity valuations remain stretched even after recent falls.

- The Bank of England reversed the post 'Brexit' cut in UK rates. In the Eurozone the ECB responded to continuing strong economic growth by announcing that their asset purchase programme would be reduced by 50% to €30bn per month.

- China and the emerging markets performed strongly as synchronised global growth and a recovery in commodity prices outweighed concerns over a US China trade war. The relative weakness in the dollar also proved a positive for companies with US dollar denominated debt.

- European growth accelerated over the year with both Germany and France delivering the fastest economic growth since 2011. PMI figures remained positive over the period and inflation remained subdued, while unemployment fell. Opposition to the labour reforms of President Macron and the unresolved Italian election will continue to concern investors.

- The UK economy continued to grow albeit slowly, with consumers beginning to feel the squeeze in real wage growth. Uncertainty over the final 'Brexit' terms and the political uncertainty of a minority government added to investor nervousness. The UK equity market continued to be driven by the high exposure to overseas revenues and the prospects for sterling, while being supported by a healthy dividend yield and modest valuation when compared to many other global markets.

Equities

- The performance of global equities was modest in sterling terms. Double-digit returns in local currency translated into 3.1% for sterling based investors. After rising every month of the financial year until January, February witnessed sharp falls across markets as fears of inflation and accelerated monetary tightening combined with a concern over historically high valuations levels across a number of markets.

- The strongest sectors, relative to the 'All World' Index, were Information Technology (+15.8%) Consumer Discretionary (+4.9%) and Financials (+4.3%) the weakest sectors were Telecommunications (-10.5%) and Consumer Staples (-6.2%).

Bonds

- Overseas bonds delivered low positive returns in local currency of 1.5%. This translated into -5.0% for un-hedged UK investors as a result of the recovery in sterling during the period. Central bank monetary tightening continued with rate rises in the US and UK and reductions in bond purchases from the ECB and Japanese central banks announced.

- Gilts produced positive but moderate returns of 2.2%. Index linked bonds after a number of strong years returned less than 1%, as inflation fears driven by the post Brexit decline of sterling eased.

Property

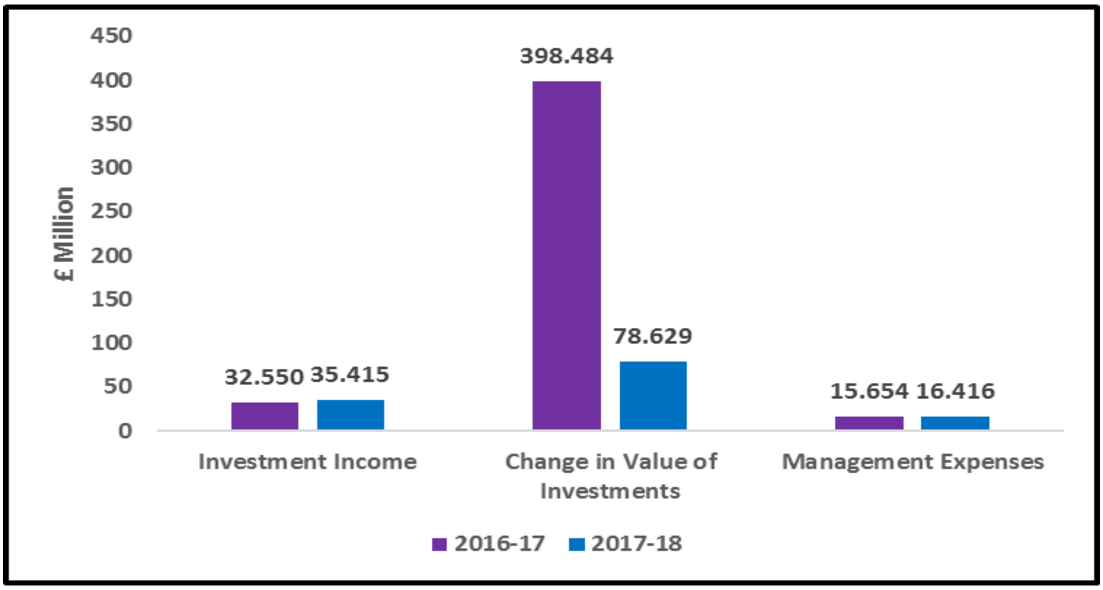
- UK Property defied many market expectations and delivered strong returns up 11.3%. The best performing sector was industrial driven by capital growth, particularly in the southeast. Office and prime retail properties delivered high single digit returns with income the largest element. The market remains characterised by a flight to quality approach from investors with inflation-linked income from certain sectors remaining attractive in comparison to Government bond yields.

Analysis of Investments at 31 March 2018

Holdings	Pooled Investment Vehicles Market Value	Segregated Holdings Market Value	Total Market Value	% of Market
	£'000	£'000	£'000	%
Bonds				
Index Linked Gilts	110,484		110,484	4.0
Global Bonds	676,532		676,532	24.6
Total Bonds	**787,016**		**787,016**	**28.6**
UK Equities				
Basic Materials		15,191	15,191	0.6
Consumer Goods		35,020	35,020	1.3
Consumer Services		74,920	74,920	2.7
Financials		43,099	43,099	1.6
Health Care		8,884	8,884	0.3
Industrials		22,419	22,419	0.8
Oil and Gas		23,843	23,843	0.9
Technology		8,828	8,828	0.3
Telecommunications		8,376	8,376	0.3
Utilities		0	0	0
Pooled	178,467	0	178,467	6.5
Total UK Equities	**178,467**	**240,580**	**419,047**	**15.2**
Overseas Equities				
Europe	80,127	89,487	169,614	6.2
North America	79,461	144,826	224,287	8.1
Japan	24,694	33,220	57,914	2.1
Other Asia	24,846	20,363	45,209	1.6
Other International	32,249	3,843	36,092	1.3
RAFI	214,973		214,973	7.8
Total Overseas Equities	**456,350**	**291,739**	**748,089**	**27.2**
Absolute Return	272,959		272,959	9.9
Private Equity	101,528		101,528	3.7
Infrastructure	67,598		67,598	2.5
Money Market Investments	21,052		21,052	0.8
Illiquid Debt	46,610		46,610	1.7
Timberlands	8,074		8,074	0.3
Cash held by Investment Manager		5,862	5,862	0.2
Foreign Exchange	-113		-113	0.0
Property Unit Trusts	277,478		277,478	10.1
Total Alternatives	**795,185**	**5,862**	**801,048**	**29.1**
Total	**2,217,019**	**538,181**	**2,755,200**	**100.0**

Investment Performance

The chart below shows the comparative investment returns between 2016-17 and 2017-18. The change in the value of the Fund's investments includes realised and unrealised gains and losses during the year.

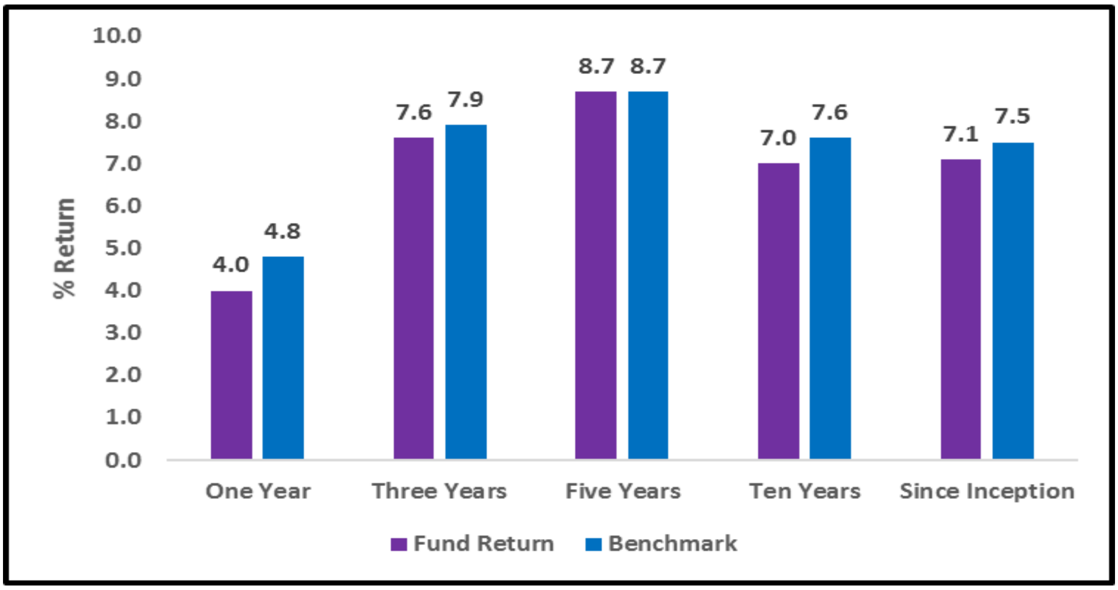


The Fund's assets increased from £2,649 million to £2,762 million during 2017-18, representing an investment return of 4.0% gross of fees. The Fund's benchmark is based on the weighted average of the market index returns for the markets in which it invests in or a mandate specific absolute return. The Fund underperformed the benchmark by 0.8%.

The Fund performed at benchmark over the longer term for the five year benchmark but underperformed by 0.6% per year for the ten year benchmark.

The Fund's investment return compared with its benchmark index over one, three, five and ten years and since inception is shown below:

Fund Investment returns



Long-term Investment Performance

The Fund's investment returns over the previous ten year are shown below compared to the Fund's own benchmark. In addition, the Fund's returns are compared with the movement in retail prices over this period.

Long-term performance (year ended 31 March)										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	%	%	%	%	%	%	%	%	%	%
Retail prices	**-0.4**	**4.4**	**5.3**	**3.6**	**3.3**	**2.5**	**0.9**	**1.6**	**3.1**	**3.3**
Fund return	**-22.2**	**32.6**	**8.1**	**2.0**	**13.6**	**5.6**	**15.4**	**0.7**	**19.0**	**4.0**
Fund benchmark	-21.3	37.6	8.5	3.8	12.1	6.3	13.9	1.5	17.9	4.8
Relative return	-1.1	-5.0	-0.4	-1.8	1.5	-0.7	1.5	-0.8	1.1	-0.8

Over the longer term the Fund's investment return is substantially above the increase in retail prices, which is an important factor as retail price increases 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 18	**Manager**	**2017-18 Absolute Return**	**2017-18 Relative Return**	**3 Year Relative Return**	**5 Year Relative Return**
%		**%**	**%**	**% p.a.**	**% p.a.**
8.1	Blackrock Equities	2.2	+0.9	+2.1	+2.0
14.0	Blackrock Bonds	2.6	-2.8		
0.3	Brookfield	3.6	-4.4	+2.0	
1.0	KKR	12.1	+4.1	+15.9	+14.4
12.8	M&G	4.4	-1.5		
12.1	Newton	3.2	+0.8	-0.8	-0.2
1.2	Partners	11.9	+3.9	+11.0	+5.0
3.0	Pantheon	13.2	+10.6		
6.0	Pyrford	-2.4	-7.8	-2.8	-2.0
10.3	Schroders	7.7	-3.3	0.0	+0.4
26.3	UBS				
0.9	Wilshire	22.6	+20.0		
3.9	Winton	3.4	-2.0	-6.1	-1.4

Note:

UBS received the various passive index-tracking investments during January and February and so there is no meaningful performance to report for 2017-18.

The private equity mandates held by Wilshire and Pantheon were previously reported combined which is why long term data in not available.

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 five years, Blackrock, KKR and Partners 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). 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:

a) The effective and prudent management of the Suffolk Pension Fund.

b) The approval of the Fund's investment strategy and the appointment of the investment managers.

c) The approval of the funding strategy following the triennial actuarial valuation, and the determination of the employers' contributions to the Fund.

Delegations to the Head of Finance

During 2017-18, the Head of Finance, 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.

Membership of the Committee

During 2017-18 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 2017 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 five committee meetings held during 2017-18 are as below:

Councillor	Meetings attended
Cllr Andrew Reid	5
Cllr Karen Soons	4
Cllr Alexander Nicholl	2
Cllr Russ Rainger	4
Cllr David Roach	3
Cllr Jack Abbott	5
Cllr Robert Lindsay	5
Cllr Colin Kreidewolf	5
Cllr Chris Punt	3
Mr Steve Warner	4

Suffolk County Council 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 in 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. During 2017-18, the Head of Finance was 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:
    - Infrastructure
    - Property
    - Private Equity
    - Passive Investments
    - Bonds
    - Roundtable discussion involving equity investments
- Statement of Accounts
- What it means to be a long term investor
- Importance of asset allocation
- Index tracking
- Environmental, social and governance considerations

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 priorities for service development. 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 advisers 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 for 2016-17 was produced and presented by HSBC, the Fund's performance advisers.

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

- Further commitment to infrastructure
- Reduction of equity exposure
- Asset allocation review

The Committee monitored the actuarial position of the Fund on a quarterly basis with the receipt of the funding valuation report produced by Hymans Robertson LLP.

The Committee received regular updates on the progress of the pooling of assets throughout the year, approving the appointment of Link Financial Services as the FCA registered operator and approval to transfer its index tracking investment, mandates to UBS, the ACCESS supplier.

The Committee updated and approved the following documents:

- Investment Strategy Statement
- Governance Policy
- Voting Policy
- Treasury Management Strategy
- Risk Register
- Communication Policy

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).

Due to inclement weather the March meeting was postponed until April so there was only three meetings held in 2017-18. The attendance of the Pension Board members for the meetings held are as follows:

Member	Representing	Meetings attended
Cllr Richard Smith	Suffolk County Council	3
David Rowe	Active Scheme Members	3
Homira Javadi	Other Local Government	2
Eric Prince	Retired Members	3
Marie McCleary	Other Employers	3
Suzanne Williams	Unions	2

Board Training

The Pension Board recognises the importance of complying with the Pensions Regulator's Code of Practice in 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:

- Statement of Accounts
- Funding the Pension Scheme
- Employers cost options for ill health retirements
- Index tracking
- ACCESS Pooling

Work of the Pension Board

The Pension Board reappointed the Chairman, Cllr Richard Smith and the Vice Chairman, David Rowe who have both previously held the posts for two years. The Pension Board agreed a forward work programme for the year ahead.

The Board has received and reviewed:

- Pension Fund Annual Report and Accounts 2016-17
- Fund investment performance for 2016-17
- Procedure for assessing members applications for ill health retirement.
- Process for dealing with a member's death, ensuring that correct payments are made from the Fund.
- Securities lending arrangements of the Fund.
- How members can contribute more to earn extra pension benefits
- Employer's manual
- Risk Register
- Regular updates on the progress of the pooling of assets
- Regular updates on the performance of the administration team and complaints and compliments received.
- Regular updates on recent developments with the Fund

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 achieving 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 and Pension Board each maintains a risk register for the Pension Fund, which is available on its website (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.

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. The Head of Audit Services has provided the opinion that the internal control environment provides sufficient assurance that the Pension Fund financial and administrative systems have adequate controls and effective systems in operation.

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 below. The key risk is that required investment returns are not generated, resulting in assets falling short of the liabilities. Investment objectives have been set with the aim of achieving asset returns within an acceptable risk tolerance.

Risk	Impact	Prob-ability	Risk Score	Existing risk control measures
Investment: Failure of investment markets in generating investment returns. **Impact**: increase in employer contribution rates	4	3	12	Diversification between asset classes minimises the impact of a single asset class underperforming. Regular reporting and monitoring arrangements for investment performance by the Fund and its managers are in place.

Risk	Impact	Prob-ability	Risk Score	Existing risk control measures
Actuarial: Failure of investment strategy to produce long-term returns assumed in the Funding Strategy. **Impact**: increase in employer contribution rates	4	3	12	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. A high level review is undertaken annually to assess whether the objectives of the strategy still meet with the Fund's current objectives.
Actuarial: Assumptions used in the triennial valuation are different to experience **Impact**: increase in the liability strain leading to an increase in employer contribution rates	3	3	9	Additional work is commissioned to validate the assumptions used. Setting mortality assumptions with some allowance for future increases in life expectancy.
Operational: Failure of payroll and pension IT administration systems. **Impact**: benefits are not paid correctly and/or on time	3	3	9	Suffolk County Council has a disaster recovery plan which includes key tasks within the Pension Fund function.
Actuarial: Fall in risk free returns on Government bonds leading to a rise in the value placed on liabilities. **Impact**: increase in the liability strain leading to an increase in employers contribution rates	3	3	9	Regular reporting on the funding position Toleration of risk in the expectation of higher real returns from riskier assets
Investment: Failure in investment performance **Impact**: negative affect on the Pension Fund valuation leading to an increase in employers contribution rates	3	3	9	Regular meetings with investment managers to discuss performance Regular reporting of performance against benchmarks Diversification of investment managers and asset classes

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 18 in the Pension Fund statement of accounts includes a statement of the nature and extent of risks associated with the Fund's investments. 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 investment strategy statement 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 its 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).

The general principles followed in the voting guidelines are:-

- 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.
- Will vote against proposals which breach the Code and where the company is unable to provide a satisfactory explanation of its policy.
- Will in general abstain on proposals which do not relate to issues contained in the good practice guidance in the Code.

Voting activity in 2017-18

The Fund voted on 2,297 resolutions at 121 meetings, supporting 1,343 resolutions (71%) and abstaining on 48 occasions (3%). The Fund voted against the proposal on 412 occasions (22%) a similar level to the previous year. The remaining resolutions (4%) did not result in a vote or were withheld agenda items.

The details of the voting by the Fund are available on the Suffolk Pension Fund website. (www.suffolkpensionfund.org).

Report by Pension Investment Research Consultants (PIRC)

UK Voting

As in previous years, 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. Most UK companies will have their policy approved at their 2017 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 19 Remuneration reports during the year and abstained on 13. The portfolio Company which received the highest oppose vote on its remuneration report during the year was Astrazeneca Plc, with 39.7% of oppose votes from shareholders, including Suffolk. The CEO's LTIP awards granted during the year were equivalent to 498.75% of salary which is considered excessive. The CEO received £6,910,000 (580% of salary) being LTIP rewards and cash equivalent of the dividends accrued on shares deferred under the annual bonus awarded in respect of 2012. These excessive payments were not commensurate with the company's performance.

Another FTSE 100 company, Sky Plc, received an oppose vote of 28.77% on its remuneration report which Suffolk had also opposed. The CEO's total realised variable pay in the year under review was considered highly excessive at 1454% of salary. This was particularly of concern given that the performance targets attached to both the LTIP and the Annual bonus paid during the year were not disclosed, contrary to standard practice. It is also noted that £11,796,000 was paid to the CEO under the LTIP alone.

Despite remuneration being generally the most contentious topic at Company AGMs, some companies showed progress during the year. For instance, BP received the largest level of opposition in 2015/16 on its Remuneration report. The level of pay of the CEO and other Executives was met with considerable shareholder disapproval (61% of vote cast including abstentions). This year, the same resolution received opposition from only 3.6% of its shareholders, representing a huge shift in shareholder sentiment reflecting that shareholders' concerns were, at least partly, addressed. This can be explained by three main factors.

- First of all, the Company had better financial results compared to last year, with profits for the year being $115 million instead of a loss of $6.5 billion in 2015. Also, total shareholder return increased by approximately 55% over the year. Last year's vote against the Executive Directors' remuneration was a combination of an increase in the CEO's pay level with significant losses during the year. Shareholders felt compelled not to support the remuneration report given these circumstances.
- Second, the pay of the CEO for 2016/17, although still at £11,558,000, decreased by 41% compared to the previous year, which is significant.
- Third, the company held a remuneration policy vote during the year, where various positive changes were proposed. Two major changes were the removal of the matching share awards, effectively simplifying the remuneration structure, and the reduction of the maximum opportunity under the long-term incentive plan. Other changes such as the use of more challenging bonus vesting scales and higher bonus deferral requirements were also welcomed.

Ascential Plc is one of two companies with female representation ratio exceeding 50%. They are also the first companies in the FTSE 350 with more female directors than male ones. Ascential's Board consists of seven directors of whom four are women. With women forming 57.1% of the Board, the Company has the highest female representation in the entire FTSE 350. The November 2016 Hampton-Alexander Review has highlighted Ascential as a Company that is "leading the way".

US Voting

Board independence was again an issue of concern in the US with Suffolk having opposed or abstained on re-election of 34% of directors elected at US companies during the year. Auditor tenure has also become a more significant issue with Suffolk having voted to oppose the re-election of 88% of auditors due to having a tenure of over ten years. Auditor rotation is seen as a positive change, especially at US companies where some audit firms have tenures exceeding a century. Remuneration was also an issue at ConocoPhillips where 67.4% of shareholders, including Suffolk, opposed changes to the Executive Compensation plan where the Company failed to provide the fees it paid to its external compensation consultant during the year under review. Also, the award of options had no performance conditions attached.

European voting

Remuneration was also an issue in Europe where Vivendi SA received more than 20% oppose votes for elements of compensation due or granted to its Management Board members. The major concern here, as with many European companies, was the lack of disclosure of performance targets for variable remuneration. This lack of disclosure compromises the ability of shareholders to assess whether or not variable remuneration is appropriately tied to performance.

Asia, Japan and Rest of the World

Teva Pharmaceutical, an Israel company, included in "the rest of the World" was of concern due to proposed compensation for the Chairman of the Board, which was considered excessive and not adequately justified. The CEO's terms of office and employment were also of concern as he is entitled to an annual cash bonus with an annual target amount set at 140% of his annual base salary and an annual maximum amount set at 200% of his annual base salary. 20% of this annual cash bonus is based on an evaluation of overall performance, and based on the discretion of the Compensation Committee. He is also entitled to an annual equity award with one third of such an award being granted in the form of options to purchase Teva shares, one third in performance share units and one third in RSUs (Restricted Stock Units). His total remuneration was considered excessive as the equity award exceeds 200% of his base salary.

Governance concerns highlighted in Japan focussed on the re-election of Senior Directors (Presidents and Chairmen). Opposition was often recommended based on the fact that the boards of directors comprised of less than three outside directors, which is considered to be the minimum acceptable threshold for boards with Kansayaku (corporate auditors) structures or with an Audit and Supervisory Committee structure. Similarly lack of sufficient independent representation on boards in other Asian countries was common, too. Another concern was the continued non-disclosure of the statutory auditor tenure, which rendered their independence assessment impossible.

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 Ministry of Housing, 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 and former NHS staff 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 last valuation exercise was carried out during 2016-17, and following consultation with the employers in the Fund, the new contribution rates were approved by the Pension Fund Committee and took effect from 1 April 2017.

The next valuation exercise will be carried out during 2019-20 and will, following employer consultation and Pension Fund Committee approval, set the employer contribution rates for 3 years commencing in April 2020.

Costs of Membership

Employee contributions are banded on a members actual pensionable pay rather than the full time equivalent which had previously been used in the scheme until March 2014.

The pay banding table which was used during 2017-18 is shown overleaf. The contribution rates and / or pay bands are reviewed periodically to maintain the average contribution from employees at 6.5% and to ensure the long term costs of the scheme are affordable.

Actual Pensionable Pay	Contribution Rate
£0 - £13,700	5.5%
£13,701 - £21,400	5.8%
£21,401 - £34,700	6.5%
£34,701 - £43,900	6.8%
£43,901 - £61,300	8.5%
£61,301 - £86,800	9.9%
£86,801 - £102,200	10.5%
£102,201 - £153,300	11.4%
Over £153,301	12.5%

Members have the option to join on a 50/50 basis which will entitle members to pay half the contribution detailed above, 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	Percentage completed within SLA
Provision of a transfer quote within 10 working days	289	98%
Issue pension estimates	696	97%
Notifying retiring members their options	1,488	99%
Payment of retirement lump sum	1,031	99%
Notification of survivor benefits	428	99%
Payment of outstanding deceased pension benefits and death grant	507	99%

Employer Performance

The Administration Strategy sets out the quality and performance standards expected of the employers in the Fund as well as those of the administration team, seeking to promote good working relationships, improve efficiency and the quality of data.

A review is carried out on the timings of the payment of pension contributions to the fund by the employers and reported quarterly to the Pension Board. 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 2017-18 financial year:

	2017-18		
	Emp.	**Contribs.**	
	%	**£'000**	**%**
On Time	90.0	103,387	95.0
Up to 1 week late	5.0	3,678	3.5
Over 1 week late	5.0	1,554	1.5
Total		**108,619**	

Employers are required to provide the Pension Fund with their annual end of year returns by 21 April each year. The team engages with the scheme employers providing templates, guidance on the requirements, issuing deadline reminders and provide scheme employers with a starting point list of members.

The table below summarises the receipt of annual returns in relation to the percentage received on time or late. The administration team have contacted all employers who were late, to understand the reasons for this, and encourage prompt submission of this data to allow the follow on work to be completed within the tight deadlines the administration team have to comply with.

	Employer Returns
	%
On Time	84.0
Up to 1 week late	10.0
Over 1 week late	6.0
Total	**100.0**

The Administration team will continue to work with the Scheme employers who failed to achieve the deadline to prevent issues that were encountered this year arising next year when timely submission of the return data is essential to the triennial valuation exercise.

Member Self Service

During 2016-2017 the Suffolk Pension Fund implemented a Member Self Service system. This system enables members of the LGPS to have access to their pension records and allows members to view and update certain information. In addition, members can also run as many personal pension projections as they require with instant results. The number of registered users continues to grow.

Annual benefits statements will be available through self service enabling members access to their statements as they require and saving the administrative cost of printing, packing and posting in excess of 44,000 statements annually.

Internal Dispute Resolution Procedure (IDRP)

If a member or their representative has a complaint again 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 (IDRP). There are 3 stages to this process.

The first stage ensures a nominated person from the scheme employer 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 person nominated by the Head of Legal Services at Suffolk County Council to hear such disputes. If the person is still dissatisfied, they can take their case to the Pensions Ombudsman for a further review.

In 2017-18 there were 6 IDRP cases from a total of 9,821 cases processed.

Employers in the Fund

There are 262 active employers in the Fund and 23 employers who do not have active members but have deferred pension members and/or pensioners.

	Active	Ceased	Total
Scheduled Bodies	174	2	**176**
Resolution Bodies	43	3	**46**
Admitted Bodies	45	18	**63**
Total	**262**	**23**	**285**

A list of the active employers in the Fund as at 31 March 2018 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
Forest Heath District Council
Ipswich Borough Council
Mid Suffolk District Council
St Edmundsbury Borough Council
Suffolk Coastal District Council
Suffolk County Council
Waveney District Council

Other

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

Colleges

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

Free Schools

Everitt Academy
IES Breckland
Seckford Foundation Free Schools Trust

Academies

Bungay High School
Copleston High School
Debenham High School
Elveden Cof E Primary Academy
Farlingaye High School
Forest Academy
Holbrook Academy
Kesgrave High School
Kessingland C of E Primary Academy
St Albans Catholic High School
Sir John Leman School
St Mary's C of E Academy
Stone Lodge Academy
Stradbroke High School
The Ashley School Academy
The Priory School
Thomas Mills High School

Academies Enterprise Trust

Felixstowe Academy
Langer Primary Academy

Academy Transformation Trust

Beck Row Primary
Great Heath Primary Academy
Mildenhall College Academy
Westbourne Academy

Active Learning Trust

Albert Pye Primary
Chantry Academy
Grove Primary School
Gusford Primary School
Hillside Primary School
Pakefield Primary School
Ravensmere Infant School
Red Oak Primary School
Reydon Primary School
Sidegate Primary School
Westwood Primary School

Avocet Academy Trust

Aldeburgh Primary
Easton Primary School
Leiston Primary School
Wickham Market Primary School

ASSET Education (Previously Ipswich Primary Academy Trust)

Bungay Primary
Egdar Sewter
Holton St Peter
Iiketshall
St Helens Primary School
The Oaks Primary School
Wenhaston
Whitton Community Primary School

Bright Tribe Academy Trust

Alde Valley Academy
Castle Hill Infants School
Castle Hill Junior School
Cliff Lane Primary School

Bury St Edmunds Academy Trust

County Upper School
Horringer Court School
Tollgate Primary School
Westley School

Diocese of Ely

St Christophers CE Primary

Eastern Academy Trust

The Glade Community Primary School
West Row Academy

Evolution Academy Trust

Elm Tree Community Primary School
Poplars Community Primary School
The Dell Primary School

Gippeswick Community Ed Trust

Rose Hill Primary School

Hartismere Family of Schools

Benjamin Britten High School
Hartismere School

Inspiration Trust

East Point Academy

John Milton Academy Trust

Bacton Community Primary School
Cedars Park Primary
Mendlesham Community Primary
Stowupland High School

Olive Academy Trust
Olive AP Academy (Kingsfield PRU)

Ormiston Academies Trust
Ormiston Denes Academy
Ormiston Endeavour Academy
Ormiston Sudbury Academy
Stoke High School - Ormiston Academy
Thomas Wolsey Academy

Orwell Multi Academy Trust
Halifax Primary School
Handford Hall Primary School
Springfield Infant School
Willows Primary

Our Lady of Walsingham
St Felix-Haverhill
St Louis Catholic Academy
St Mary's Catholic Primary(Ipswich)

Paradigm Trust
Ipswich Academy
Murrayfield Primary School
Pipers Vale Community Primary School

Raedwald Trust
Alderwood PRU
First Base Ipswich PRU
Parkside Pupil Referral Unit
St Christophers PRU
Westbridge Pupil Referral Unit

REAch2 Academy Trust
Beccles Primary Academy
Gunton Primary Academy
Martlesham Primary Academy
Meadow/Phoenix St Peter Primary Academy
Northfield St Nicholas Primary Academy
Sprites Primary Academy
St Margaret's Primary Academy

Samuel Ward Academy Trust
Burton End Academy
Castle Manor Academy
Clements Primary
Coupals Primary Academy
Glemsford Primary Academy
Houldsworth Valley Primary
Kedington Primary
Laureate Primary
Newmarket Academy
Place Farm Academy
Samuel Ward Academy
Sybil Andrews
The Churchill Free School
Thomas Gainsborough School
Wells Hall Primary
Westfield Primary Academy
Wickhambrook
Woodhall(Sudbury)

South Suffolk AT
Claydon High School
East Bergholt High
Hadleigh High School

St Edmundsbury and Ipswich Diocese
Bramfield Church of England Primary
Brampton C of E
Chelmondiston C of E
Nacton C of E Primary
Ringsfield C of E Primary
Sproughton CEVC Primary

Eyke
Hartest C of E Primary
Hintlesham & Chattisham
Long Melford CE School
Mellis
St Marys Hadleigh
St Marys Woodbridge
Stoke by Nayland
Tudor Primary

Stour Valley Edu Trust

Clare Community Primary
Stour Valley Community School

St Johns The Baptist

St Benet's Catholic(Beccles)
St Edmunds Catholic(Bungay)
St Mary's Catholic(Lowestoft)

The Consortium MAT

Barnby & North Cove
Henley Primary
Mendham
Middleton
Southwold Primary
St Edmunds Primary-Hoxne
Yoxford

The Tilian Partnership

Bardwell CEVC Primary
Gislingham CEVC
Ixworth CEVCP
Old Newton CEVC
Palgrave CEVC
Rougham CEVCP

Thedwastre

Great Barton Primary Academy
Rattlesden Primary Academy
Thurston Primary Academy
Woolpit Primary School

Waveney Valley AT

Roman Hill Primary

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.

Barningham Parish Council
Beccles Town Council
Botesdale Parish Council
Box ford Parish Council
Bramford Parish Council
Bury St Edmunds Town Council
Felixstowe Town Council
Framlingham Town Council
Glemsford Parish Council
Great Cornard Parish Council
Great Waldingfield Council
Hadleigh Town Council
Haverhill Town Council
IPSERV
Kesgrave Town Council
Martlesham Parish Council
Melton Parish Council
Mildenhall Parish Council
Nayland and Wissington Parish Council
Newmarket Town Council
Onehouse Parish Council
Pinewood Parish Council
Red Lodge Parish Council
Redgrave Parish Council
Rickinghall Parish Council
Saxmundham Town Council
Schools Choice Limited
Southwold Town Council
Stowmarket Town Council
Sudbury Town Council

Kessingland Parish Council
Lakenheath Parish Council
Leavenheath Parish Council
Leiston cum Sizewell Town Council
Long Melford Parish Council
Lowestoft Town Council
Market Weston Parish Council
Thurston Parish Council
Ufford 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.

Abbeycroft Leisure
ACER (Ass Colleges Eastern Region)
Anglia Community Leisure
Care Quality Commission
CARE UK
Caterlink-Bungay
Caterlink-Gusford
Caterlink-Kesgrave
Churchill Contract Services
Churchill CS-Hadleigh
Compass-Farlingaye
Compass-Felixstowe
Concertus
Edwards & Blake-Leiston
Edwards & Blake-Pakefield
Edwards & Blake-Copleston
Elior Ltd-Chantry Academy
European Electronique
Flagship Housing Group
Hadleigh Markey Feoffment Charity
Housing 21
Kier MG Ltd
Leading Lives
LLC Support Services
Marina Theatre Trust
Norland Managed Services
Nuffield Health
Opus People Solutions Ltd
Papworth Trust
Places for People
Realise Futures
SALC(Suffolk Assoc. for Local Councils)
Seckford Foundation
Sentinel Leisure Services
South Suffolk Leisure-Sudbury
South Suffolk Leisure-East Bergholt
South Suffolk Leisure-Holbrook
Sports & Leisure Management Ltd
Suffolk Libraries IPS
Suffolk Norse Ltd
Suffolk Norse Transport
The Havebury Housing Partnership Ltd
The Partnership in Care Ltd
Thorpe Woodlands A C T
Waveney Norse Ltd

ACCESS

In 2015-16 the Committee made a decision to work with a number of other Pension Funds (Cambridge, 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'. It is the Government's expectation that the asset pools are formed in order for assets to begin being transferred from individual LGPS Funds from 1 April 2018.

Collectively the ACCESS pool has significant scale with assets of £43 billion, managed on behalf of 3,000 employers and 900,000 members. Individually the participating Funds have a strong performance history and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise.

The Suffolk Pension Fund Committee considered the Inter Authority Agreement (IAA), which changes the decision making process and therefore the constitution, to allow the chairman (or his representative) to make decisions on behalf of the Committee in relation to the operation of the ACCESS pool. The Committee recommended the IAA for approval by Suffolk County Council. The IAA was approved on 16 March 2017 and incorporated into the Pension Fund governance policy.

The Committee (JC) formally met for the first time on 31 July 2017. The Committee is made up of one elected councillor from each of the constituent councils and Cllr Andrew Reid chair of the Suffolk Pension Fund Committee was elected as Chair. The JC oversees the governance and the work of the pool and the operator.

ACCESS appointed Link Fund Solutions Ltd to provide the pool operator services. This appointment was the culmination of a procurement process involving each of the ACCESS Funds and co-ordinated by procurement specialist at Kent County Council who are the host authority.

The ACCESS operator, Link Fund Solutions Ltd, will be responsible for establishing and operating an Authorised Contractual Scheme (ACS) along with creation of investment sub-funds and the appointment of investment managers to those sub-funds.

The Suffolk Pension Fund Committee made the decision to take part in a passive framework tender exercise and appoint the single passive provider determined by ACCESS. This exercise took place during the summer of 2017 and resulted in the appointment of UBS Group. The assets were transferred on an asset by asset class basis during January and February 2018 and will result in significant savings in management fees on an ongoing basis.

The ACCESS pool is required to submit regular progress reports to the Ministry of Housing, Communities and Local Government (MHCLG), the latest submission was 4 May 2018 which sets out the progress made by ACCESS to meet the Governments investment reform agenda.

With the procurement phase completed, the implementation phase of the project is underway and progressing well. Link Fund Solutions Ltd is preparing documentation for the Financial Conduct Authority (FCA) authorisation of an umbrella ACS and first submission in June 2018.

A key element of the governance arrangements focuses on the robust management of the operator and the operator contract, to ensure it is held to account by the administering authorities participating in ACCESS via the JC. The pooling arrangements have been set up to ensure each administering local authority may exercise proper democratic accountability and continue to meet its fiduciary responsibilities. Both the Suffolk Pension Fund Committee and Board receive an update on the progress of ACCESS at each meeting.

Fund Account

2016 - 2017 £ million	Fund Account	Notes	2017 - 2018 £ million
	Dealings with members, employers and others directly involved in the scheme		
	Contributions and benefits		
	Contributions receivable:		
	From employers		
75.637	Normal	9	78.581
10.490	Deficit funding	9	7.267
2.497	Other	9	2.276
	From members		
20.074	Normal	9	20.495
	Transfers In		
2.474	Individual transfers in from other schemes		4.056
	Benefits payable:		
-72.365	Pensions	9	-75.385
-13.052	Commutations of pensions and lump sum retirement benefits	9	-14.461
-1.366	Lump sum death benefits	9	-1.721
	Payments to and on account of leavers:		
-0.162	Refunds of Contributions		-0.282
-3.878	Individual transfers out to other schemes		-4.638
-0.274	Group Transfers out to other Schemes		0.000
20.075	**Net additions (withdrawals) from dealings with members**		**16.188**
-15.654	Management Expenses	10	-16.416
4.421	**Net additions (withdrawals) including management expenses**		**-0.228**
	Returns on investments		
	Investment income		
14.777	Dividends from equities		15.065
8.097	Income from pooled investment vehicles - Property		9.058
0.636	Income from pooled investment vehicles - Private Equity		1.689
8.212	Income from Other Managed Funds		9.416
0.045	Interest on Cash Deposits		0.056
0.924	Other		0.194
-0.141	Taxes on Income		-0.063
398.484	Change in market value of investments		78.629
0.015	Impairment of Investments (1)		0.000
431.049	**Net returns on investments**		**114.044**
435.470	Net increase, or (decrease), in the fund during the year		113.816
2,213.195	Opening net assets of the scheme		2,648.665
2,648.665	**Closing net assets of the scheme**		**2,762.481**

Notes:

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

Net Asset Statement

2016-17 £ million	Net asset statement	Notes	2017-18 £ million
	Investment assets		
	Equities:		
268.998	UK companies	12,13	240.580
353.603	Overseas companies	12,13	291.739
	Pooled Investment Vehicles		
16.244	Unit trusts	12,13	17.169
903.687	Unit linked insurance policies	12,13	728.132
258.117	Property unit trust	12,13	277.478
837.661	Other Managed Funds	12,13	1,194.353
	Other Investment Balance		
2.919	Cash [held by the investment managers]	12	5.862
1.341	Forward Foreign Exchange Contracts	12	-0.113
2,642.570	**Total investments**		**2,755.200**
	Current assets		
14.784	Debtors	21	12.950
8.550	Cash Desposits	18d	2.235
0.103	Cash at Bank	18d	0.042
23.437	**Total current assets**		**15.227**
	Current liabilities		
-17.342	Creditors	22	-7.946
-17.342	**Total current liabilities**		**-7.946**
6.095	**Net current assets**		**7.281**
2,648.665	**Net assets**		**2,762.481**

Notes to the Accounts

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 2016
- 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 262 employer organisations with active members within the Scheme as at 31 March 2018, an increase of 52 from the previous year. Teachers, Firefighters and NHS staff have their own pension schemes and are not included in the Fund.

The Fund has the following number of members and pensioners:

31 March 2017		31 March 2018
	Number of Employees in the Scheme	
8,928	County Council	8,177
11,026	Other Employers	11,773
19,954	**Total**	**19,950**
	Number of Pensioners	
8,430	County Council	8,721
6,644	Other Employers	6,940
15,074	**Total**	**15,661**
	Number of Deferred Pensioners	
13,936	County Council	14,397
9,502	Other Employers	10,641
23,438	**Total**	**25,038**

Funding

Benefits are funded by contributions and investment earnings. Employers contributions are set based on the triennial actuarial funding valuation which was last carried out as at 31 March 2016. Employees contributions are paid in line with the LGPS Regulations 2013.

Benefits

Benefits earned prior to 1 April 2014 are based on final pensionable pay and length of 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 1/49th per annum.

2. Events after the Balance Sheet Date

There has been no event between 31 March 2018 and the date when these accounts were authorised that requires any adjustments to these accounts.

3. Significant Changes to the Fund

On 22 March 2017 the Pension Fund Committee made a decision to rebalance some of the equity holdings where strong returns from the previous year had contributed to them becoming overweight to the asset allocation. This resulted in a reduction in equities of £95 million which was reinvested into the bond mandates (£77 million) and the absolute return mandate (£18 million). This was completed during April 2017.

On 19 July 2017 the Pension Fund Committee made a commitment to the Partners Group Direct Infrastructure 2015 Fund of €55 million (equivalent to just over £50 million). This will be funded through calls for capital over time when investment opportunities are identified by the investment manager.

At the meeting on 21 September 2017 the Pension Fund Committee agreed to move its passive investments from Legal &General Investment Management to UBS Group, the provider appointed through the use of the National Framework. This was transferred on an asset class basis during January and February 2018.

On 6 December 2017 the committee made a decision to de-risk the Pension Fund holdings and reduce the equity allocation to 42%. The proceeds (£223 million) were invested into the Bond mandates (£195 million) and to top up the hedge fund holding (£28 million). This was completed during December 2017.

4. Basis of Preparation of Pension Fund Accounts

The Statement of Accounts summarises the Fund’s transactions for the 2017 - 2018 financial year and its position as at 31 March 2018.

These accounts have been prepared in accordance with the ‘Code of Practice on Local Authority Accounting in United Kingdom 2017 - 2018’, 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 20 of these accounts.

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 funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

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 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.

Income from cash and other investments are accounted for on an accruals basis.

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.

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 a current liability.

Taxation
The Fund is a registered public service pension 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.

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 Management 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 management 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 using the bid market price on 31 March 2018.

Property
Property is valued using the latest available Net Asset Value (NAV) or where a NAV is not available, assumptions based on the probable realisation value.

Unquoted Pooled Investment Vehicles
Unquoted Securities include pooled investments in Infrastructure, Illiquid Debt, Private Equity and Timberlands. Market quotations are not readily available. The value is based on the Fund's share of the net asset using the latest financial statements received from the respective fund manager and adjusted for capital calls and distributions received from that date to 31 March 2018.

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 2018.

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

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.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts.

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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2009/3093) but are disclosed as a note.

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.

6. Accounting Standards Issued, Not Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2017 – 2018 requires the disclosure of information relating to the expected impact of changes that will be required by a new standard that has been introduced but not yet adopted and applies to the adoption of the following disclosures as amended in the 2018 - 2019 code.

IFRS 9 - classification and measurement of financial assets after initial recognition

The code requires implementation of the above disclosure from 1 April 2018. These changes are not considered to have a material effect on the Pension Fund accounts of 2017 - 2018.

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7. 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 judgement that the Pension Fund must consider is the 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 19 Funding Position. This estimate is subject to significant variances based on changes to the underlying assumptions.

8. 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 and there is a risk that these investments may be under or overstated in the accounts. An analysis of the potential market movement range for these holdings is set out in Note 17f.

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:

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 unquoted Private Equity investments at 31 March 2018 are £54.514 million with Pantheon and £23.435 million with Wilshire.

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, KKR and M&G at 31 March 2018 are £31.117 million, £28.753 million and £7.728 million respectively.

Illiquid Debt
Illiquid Debt is valued by a valuation agent who will use an independent pricing source to value most loans at market value or a probable realisation valuation method if market quotations are not readily available. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Illiquid Debt is held with M&G and includes the Debt Opportunity investments, the Illiquid Credit Opportunity Fund and the Debt Solutions Fund totalling £46.610 million as at 31 March 2018.

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 at 31 March 2018 is £8.074 million.

9. Contributions Received and Benefits Paid during the Year

2016-2017				2017-2018		
Employers' Contributions £ million	**Employees' Contributions £ million**	**Benefits Paid £ million**		**Employers' Contributions £ million**	**Employees' Contributions £ million**	**Benefits Paid £ million**
39.233	9.079	-42.886	Suffolk County Council	35.566	8.640	-45.216
44.001	9.678	-40.475	Other Scheduled and Resolution Bodies	49.131	10.815	-42.552
5.390	1.317	-3.422	Admitted Bodies	3.427	1.040	-3.799
88.624	**20.074**	**-86.783**	**Total**	**88.124**	**20.495**	**-91.567**

Included within employer normal contributions of £78.581 million shown in the Fund account, is an amount for deficit funding of £7.057 million paid within the employers' percentage (£13.595 million in 2016 - 2017). The deficit funding identified separately on the Fund account of £7.267 million (£10.490 million in 2016-17) refers to those employers funding their deficit by means of lump sum payments.
Employer contributions are made up of two elements:
a) the estimated cost of future benefits being accrued, the 'primary rate'; plus
b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, the 'secondary rate'.

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. 2017 - 2018 was the first year in the three year period following the 31 March 2016 valuation for the contribution rates set by the actuary to reflect a and b above.

A list of employers and their contribution rates is in the 2016 Valuation Report that accompanies the Funding Strategy Statement. These reports are available on the Suffolk Pension Fund website at www.suffolkpensionfund.org.

10. Management Expenses

2016 - 2017 £ million		2017 - 2018 £ million
13.968	Investment Management Expenses	14.778
1.068	Administration Expenses	1.081
0.618	Oversight and Governance Costs	0.557
15.654		16.416

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

Administration expenses includes costs associated with members, pensioners and scheme employers. This includes 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 charged by Ernst & Young for 2017 - 2018 were £0.025 million, (£0.025 million 2016 - 2017). Ernst & Young are intending to charge an additional £0.006 million to respond to IAS 19 assurance requests for 2017 - 18 reports. This will be charged to the employers who have requested assurance.

Investment 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 below:

2016 - 2017 £ million		2017 - 2018 £ million
9.150	Investment Management Fees and Expenses	12.733
4.052	Performance Fees	1.232
0.734	Transaction Costs	0.769
0.032	Custodian Fees	0.044
13.968		14.778

11. Analysis of the Market Value of Investments by Investment Manager

31 March 2017 Market Value £ million	31 March 2017 Percentage of Assets %		31 March 2018 Market Value £ million	31 March 2018 Percentage of Assets %
435.930	**16.52%**	BlackRock Investment Management	608.442	**22.14%**
0.754	**0.03%**	Bluecrest Capital Management	0.352	**0.01%**
8.306	**0.31%**	Brookfield Asset Management	8.074	**0.29%**
0.137	**0.01%**	Cambridge Research & Innovation Limited	0.238	**0.01%**
29.579	**1.12%**	Kohlberg Kravis Roberts	29.139	**1.06%**
903.687	**34.24%**	Legal and General Investment Management	0.000	**0.00%**
242.686	**9.20%**	M&G Investments	350.131	**12.73%**
418.346	**15.86%**	Newton Investment Management	333.484	**12.13%**
61.110	**2.32%**	Pantheon Ventures	82.469	**3.00%**
28.618	**1.08%**	Partners Group	31.116	**1.13%**
140.494	**5.33%**	Pyrford International	164.729	**5.99%**
262.645	**9.96%**	Schroder Property Investment Management	281.832	**10.25%**
0.000	**0.00%**	UBS Group	728.132	**26.49%**
28.421	**1.08%**	Wilshire Associates	23.435	**0.85%**
77.597	**2.94%**	Winton Global Investment Management	107.878	**3.92%**
2,638.310	**100.00%**		**2,749.451**	**100.00%**

Blackrock Investment Management received an additional £177m and M&G Investments an additional £95m investment into their respective active bond mandate which was funded through disinvesting from the equity mandates.

The mandate with Legal and General Investment Management was disinvested during January and February 2018 and reinvested with UBS Group.

The infrastructure mandates with Partners Group, the private equity mandate with Pantheon Ventures Investments, and the debt solutions fund and infracapital fund with M&G Investments have been funded as investment opportunities are identified by the investment managers.

The mandate with Bluecrest Capital Management was terminated in November 2015.

12. Reconciliation of Movements in Investments and Derivatives

	Opening Market Value 01 April 2016 £ million	Purchases £ million	Sales £ million	Change in Market Value £ million	Closing Market Value 31 March 2017 £ million
UK Companies	224.142	91.121	-86.086	39.821	268.998
Overseas Companies	283.686	82.885	-81.734	68.766	353.603
Derivatives - Forward Foreign Exchange contracts	2.188	14.319	-14.699	-0.467	1.341
Pooled Investment Vehicles:					
Other Managed Funds	536.572	315.185	-230.911	29.720	650.566
Unit trusts	17.782	-	-4.432	2.894	16.244
Unit linked insurance policies	727.955	47.184	-70.398	198.946	903.687
Unquoted Pooled Investment Vehicles:					
Other Managed Funds	165.889	47.108	-66.564	40.662	187.095
Property	241.309	21.362	-12.913	8.359	258.117
Total of Investments	**2,199.523**	**619.164**	**-567.737**	**388.701**	**2,639.651**

	Opening Market Value 01 April 2016 £ million	Movement in Cash Balance £ million	Impairment of Investments £ million	Change in Market Value £ million	Closing Market Value 31 March 2017 £ million
Other Investment Balances:					
Cash held by investment managers	1.926	0.298	0.015	0.680	2.919
Net Investments	**1.926**	**0.298**	**0.015**	**0.680**	**2.919**

The change in market value of £389.381 million (£388.701 million and £0.680 million) is £9.103 million lower than the change in market value on the Fund Account of £398.484 million. The difference is caused by indirect management fees and expenses of £8.636 million and the foreign exchange fluctuations of the market value of the holdings held in currencies other than sterling of £0.466 million.

Transaction costs, such as commissions, stamp duty and other transaction fees are included in the cost of purchases and sale proceeds and are included in management fees and expenses. Transaction costs incurred during the year total £0.734 million (£0.739 million in 2015 - 2016).

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

	Opening Market Value 01 April 2017 £ million	Purchases £ million	Sales £ million	Change in Market Value £ million	Closing Market Value 31 March 2018 £ million
UK Companies	268.998	85.188	-109.220	-4.386	240.580
Overseas Companies	353.603	103.262	-173.891	8.765	291.739
Derivatives - Forward Foreign Exchange contracts	1.341	0.023	-1.477	0.000	-0.113
Pooled Investment Vehicles:					
Other Managed Funds	650.566	1,060.873	-727.270	9.715	993.884
Unit trusts	16.244	-	-2.055	2.980	17.169
Unit linked insurance policies	903.687	755.269	-956.310	25.486	728.132
Unquoted					
Pooled Investment Vehicles:					
Other Managed Funds	187.095	45.069	-48.907	17.212	200.469
Property	258.117	21.995	-13.643	11.009	277.478
Total of Investments	**2,639.651**	**2,071.679**	**-2,032.773**	**70.781**	**2,749.338**

	Opening Market Value 01 April 2017 £ million	Movement in Cash Balance £ million	Impairment of Investments £ million	Change in Market Value £ million	Closing Market Value 31 March 2018 £ million
Other Investment Balances:					
Cash held by investment managers	2.919	4.859	-	-1.916	5.862
Net Investments	**2.919**	**4.859**	**-**	**-1.916**	**5.862**

The change in market value of £68.865 million (£70.781 million less £1.916 million) is £9.764 million lower than the change in market value on the Fund Account of £78.629 million. The difference is caused by indirect management fees and expenses and investment transaction costs.

Transaction costs, such as commissions, stamp duty and other transaction fees are included in the cost of purchases and sale proceeds and are included in management fees and expenses. Transaction costs incurred during the year total £0.769 million (£0.734 million in 2016 - 2017).

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

13. Analysis of Investments (excluding Cash and Derivatives)

Market Value 31 March 2017 £ million	Market Value 31 March 2017 £ million		Market Value 31 March 2018 £ million	Market Value 31 March 2018 £ million
		Equities		
	268.998	UK Companies		240.580
	353.603	Overseas Companies		291.739
		Pooled Investment Vehicles - Quoted		
	16.244	Unit Trusts		17.169
	903.687	Unit Linked Insurance Policies		728.132
		Other Managed Funds		
376.740		Fixed Income	676.532	
218.846		Absolute Returns	272.959	
38.048		Money Market Funds	21.052	
16.932		Private Equity	23.341	
650.566		Total Quoted Other managed Funds	993.884	
		Pooled Investment Vehicles - Unquoted		
		Other Managed Funds		
49.263		Illiquid Debt	46.610	
58.123		Infrastructure	67.598	
71.403		Private Equity	78.187	
8.306		Timberlands	8.074	
187.095		Total Unquoted Other Managed Funds	200.469	
	837.661	Total Other Managed Funds		1,194.353
	258.117	Property		277.478
	2,638.310	**Total**		**2,749.451**

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).

14. 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 2017 £ million	Percentage of the Fund 31 March 2017	Asset Type	Manager
275.619	10.43%	FTSE RAFI AW 3000 Eq Ind	Legal and General
202.925	7.68%	UK Equity Index	Legal and General
189.827	7.18%	Alpha Opportunities Fund	M&G
186.912	7.07%	Fixed Income Global Opportunity Fund	Blackrock
140.494	5.32%	Pyrford Global Total Return Mutual Fund	Pyrford

Market Value 31 March 2018 £ million	Percentage of the Fund 31 March 2018	Asset Type	Manager
384.766	13.99%	Fixed Income Global Opportunity Fund	Blackrock
291.766	10.61%	Alpha Opportunities Fund	M&G
214.973	7.72%	UBS Life All World Equity (RAFI)	UBS
164.729	5.99%	Pyrford Global Total Return Mutual Fund	Pyrford
161.298	5.87%	UBS Life UK Equity Tracker	UBS

The mandate with Legal and General Investment Management was disinvested during January and February 2018 and reinvested with UBS Group.

15. Analysis of Derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset.

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. KKR holds a currency hedge for this purpose which equates to (£0.113 million) in the Suffolk Pension Fund's holdings, £1.341 million as at 31 March 2017.

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 passive index tracking portfolios. This has been managed by UBS Group from January 2018 having previously been managed by Legal & General Investment Management. £104.821 million is invested in currency hedged funds as at 31 March 2018, £140.275 million as at 31 March 2017.

16a. 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 2017				31 March 2018		
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**
			Financial Assets			
622.601			Equities	532.319		
16.244			Pooled Investments - Unit Trusts	17.169		
903.687			Pooled Investments - Unit Linked Insurance	728.132		
258.117			Pooled Investments - Property	277.478		
837.661			Pooled Investments - Other Managed Funds	1,194.353		
1.341	2.919		Other Investment Balances	-0.113	5.862	
	8.070		Debtors		7.286	
	8.653		Cash		2.277	
2,639.651	19.642	0.000		2,749.338	15.425	0.000
			Financial Liabilities			
		-14.875	Creditors			-4.658
0.000	0.000	-14.875		0.000	0.000	-4.658
2,639.651	19.642	-14.875		2,749.338	15.425	-4.658

The debtor figure of £7.286 million above (£8.070 million at 31 March 2017) excludes statutory debtors of £5.664 million (£6.714 million at 31 March 2017).

The creditor figure of £4.658 million above (£14.875 million at 31 March 2017) excludes statutory creditors of £3.288 million (£2.467 million at 31 March 2017).

No financial assets were reclassified during the accounting period.

16b. Net Gains and Losses on Financial Instruments

31 March 2017 £ million		31 March 2018 £ million
	Financial Assets	
388.701	Fair value through profit and loss	70.781
0.68	Loans and receivables	-1.916
	Financial Liabilities	
0.000	Fair value through profit and loss	0.000
389.381	**Total**	**68.865**

16c. Fair Value of Financial Instruments and Liabilities

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

17a. Fair Value Hierarchy

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 Property, Private Equity, Infrastructure, Illiquid Debt and Timberlands, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

17.b Fair Value - Basis of valuation

The basis of valuation for each class of investment asset is set out below:

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuations
Market Quoted Equities Unit Trusts Money Market Funds Absolute Returns	Level 1	Published bid market price	N/A	N/A
Unit Linked Life Assurance Policies	Level 2	Valuation technique with quoted prices of a similar asset	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place.
Fixed Income	Level 2	The prices are published reflecting the NAV at each dealing point but are not exchange traded	Price of recent transactions for identical instrument	Significant change in economic circumstances or time lapse since the transaction took place.
Forward Foreign Exchange derivatives	Level 2	Market exchange rates at the year end	Price of recent transactions for identical instrument	Risk of an exchange rate changing between the transaction date and the subsequent settlement date volatility of the exchange rates during the hedge period

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuations
Property	Level 3	Assets are priced based on valuations received from the Managers which are determined in accordance with the last known NAV and adjusted for subsequent capital calls and distributions and other relevant information provided by the real estate fund.	Pricing inputs are unobservable and includes situations where there is little market activity Estimated rental growth Covenant strength for existing tenancies Discount rate Land/Building valuation surveys	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices and volumes of sales and purchases
Illiquid Debt	Level 3	The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation.	These techniques may include a number of assumptions relating to variables such as credit risk and interest rates.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis.
Infrastructure	Level 3	The valuation of the investment assets is determined in accordance with generally accepted valuation principles in compliance with article 5(3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital.	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar properties	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows and fair value adjustments
Private Equity	Level 3	The valuation of the investment are carried at fair value as determined in good faith by the General Partner in accordance with the terms of the Partnership Agreement and US GAAP.	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis.

Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable inputs	Key Sensitivities affecting the Valuations
Timberlands	Level 3	Valuation technique is based on accepted valuation techniques that include discounted cash flow and multiple earnings.	Management's cash flow projections Estimates of growth expectations and profitability Profit margin expectations Adjustments to current prices for similar assets Valuation techniques	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Funds reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis.

17.c Valuation of Financial Instruments Carried at Fair Value

Values at 31 March 2017	Quoted Market Price Level 1 £ million	Using Observable Inputs Level 2 £ million	With Significant Unobservable Inputs Level 3 £ million	Total £ million
Financial Assets				
Fair value through profit and loss	912.672	1,281.767	445.212	2,639.651
Loans and receivables	19.642			19.642
Total Financial Assets	**932.314**	**1,281.767**	**445.212**	**2,659.293**
Financial Liabilities				
Fair value through profit and loss				
Financial Liabilites at amortised cost	-14.875			-14.875
Total Financial Liabilities	**-14.875**	**0.000**	**0.000**	**-14.875**
Net Financial Assets	**917.439**	**1,281.767**	**445.212**	**2,644.418**

Values at 31 March 2018	Quoted Market Price Level 1 £ million	Using Observable Inputs Level 2 £ million	With Significant Unobservable Inputs Level 3 £ million	Total £ million
Financial Assets				
Fair value through profit and loss	866.840	1,404.551	477.947	2,749.338
Loans and receivables	15.425			15.425
Total Financial Assets	**882.265**	**1,404.551**	**477.947**	**2,764.763**
Financial Liabilities				
Fair value through profit and loss				
Financial Liabilites at amortised cost	-4.658			-4.658
Total Financial Liabilities	**-4.658**	**0.000**	**0.000**	**-4.658**
Net Financial Assets	**877.606**	**1,404.551**	**477.947**	**2,760.105**

17.d Transfers between hierarchy levels 1 and 2

There has been no transfers of investment assets between the hierarchy levels.

17.e Reconciliation of Fair Value measurements within Level 3

Assets	Opening Market Value 01 April 2016 £ million	Purchases £ million	Sales £ million	Realised Gains/(Losses) £ million	Unrealised Gains/(Losses) £ million	Closing Market Value 31 March 2017 £ million
Quoted						
Property	241.309	21.362	-12.913	3.32	5.039	258.117
Illiquid Debt	47.371	25.000	-32.660	0.002	9.550	49.263
Infrastructure	52.978	8.855	-18.494	7.883	6.901	58.123
Private Equity	58.592	13.254	-15.410	6.292	8.675	71.403
Timberlands	6.948	-	-	-	1.358	8.306
Total of Investments	**407.198**	**68.471**	**-79.477**	**17.497**	**31.524**	**445.212**

Assets	Opening Market Value 01 April 2017 £ million	Purchases £ million	Sales £ million	Realised Gains/(Losses) £ million	Unrealised Gains/(Losses) £ million	Closing Market Value 31 March 2018 £ million
Quoted						
Property	258.117	21.995	-13.643	2.589	8.420	277.478
Illiquid Debt	49.263	8.916	-15.521	9.648	-5.696	46.610
Infrastructure	58.123	20.716	-14.916	1.846	1.828	67.597
Private Equity	71.403	15.437	-18.471	13.557	-3.738	78.188
Timberlands	8.306	-	-	-	-0.232	8.074
Total of Investments	**445.212**	**67.064**	**-62.551**	**27.640**	**0.582**	**477.947**

17.f Sensitivity of assets values at Level 3

An analysis of historical data and expected investment return movements by Hymans Robertson has determined a potential market movement range for the value of the holdings classified as level 3 as set out below:

	Market Value 31 March 2017 £ million	Valuation Range	Value on Increase £ million	Value on Decrease £ million
Property	258.117	14.2%	294.769	221.464
Illiquid Debt	49.263	7.0%	52.711	45.815
Infrastructure	58.123	20.4%	69.980	46.266
Private Equity	71.403	28.5%	91.753	51.053
Timberlands	8.306	20.4%	10.000	6.611
Total of Investments	**445.212**		**519.213**	**371.209**

	Market Value 31 March 2018 £ million	Valuation Range	Value on Increase £ million	Value on Decrease £ million
Property	277.478	14.3%	317.157	237.799
Illiquid Debt	46.610	6.7%	49.733	43.487
Infrastructure	67.598	20.1%	81.185	54.010
Private Equity	78.187	28.3%	100.314	56.060
Timberlands	8.074	20.1%	9.697	6.451
Total of Investments	**477.947**		**558.086**	**397.807**

18. 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
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 2018 is provided in Note 21.

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 27.

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 15.

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 2018.

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 2018, £2.277 million was with Lloyds (£8.653 million at March 2017). Cash deposited in HSBC money markets amounted to £15.741 million at 31 March 2018 (£22.420 million at March 2017), Blackrock held £2.388 million in their money market fund, (£11.137 million at March 2017) and Schroders held £2.923 million in their money market fund, (£4.491 million at March 2017).

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, unquoted private equity, illiquid debt, timberlands and infrastructure funds are considerably less liquid, but these make up a far smaller proportion of the overall portfolio, £477.947 million, 17% (£462.144 million, 18% at March 2017).

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 set 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 Investment Strategy Statement that is available at 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 investments in fixed interest securities and cash and cash equivalents (which includes the custodian money market fund and cash held by the investment managers) are as below:

31 March 2017 £ million		31 March 2018 £ million
8.653	Cash held for Deposit	2.277
40.967	Cash and Cash Equivalent	26.914
49.620	**Total**	**29.191**

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 (equivalent to 1%) is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis overleaf, 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 31 March 2017 £ million	Change + 100 BP's £ million	Change - 100 BP's £ million
Cash held for Deposit	8.653	0.087	-0.087
Cash and Cash Equivalent	40.967	0.410	-0.410
Total Assets	**49.620**	**0.497**	**-0.497**

Asset Type	Value as at 31 March 2018 £ million	Change + 100 BP's £ million	Change - 100 BP's £ million
Cash held for Deposit	2.277	0.023	-0.023
Cash and Cash Equivalent	26.914	0.269	-0.269
Total Assets	**29.191**	**0.292**	**-0.292**

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, UBS Group.

The one year expected standard deviation for an individual currency as at 31 March 2018 is 10% (as provided by Hymans Robertson). This is based on the assumption that there is no diversification with other assets and that all other variables, in particular interest rates remain constant.

The foreign exchange rate movement exposure to the strengthening or weakening of sterling against the various currencies in which the fund holds investments are as follows:

Asset Type	Value as at 31 March 2017 £ million	Potential Market Movement £ million	Value on Increase £ million	Value on Decrease £ million
Overseas Equities	353.603	35.360	388.964	318.243
Overseas Index Linked	591.074	59.107	650.181	531.967
Alternative Investments	154.627	15.463	170.090	139.165
Total overseas assets	**1,099.304**	**109.930**	**1,209.235**	**989.375**

Asset Type	Value as at 31 March 2018 £ million	Potential Market Movement £ million	Value on Increase £ million	Value on Decrease £ million
Overseas Equities	291.739	29.174	320.913	262.565
Overseas Index Linked	456.350	45.635	501.985	410.715
Alternative Investments	145.893	14.589	160.482	131.304
Total overseas assets	**893.982**	**89.398**	**983.380**	**804.584**

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.

An analysis of historical data and expected investment return movements by Hymans Robertson LLP 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 2017 £ million	Change %	Value on Increase £ million	Value on Decrease £ million
UK Equities	268.998	15.80	311.500	226.497
Overseas Equities	353.603	18.40	418.666	288.540
Fixed Income	376.740	2.90	387.665	365.814
Unit Linked	903.687	16.44	1,052.253	755.121
Cash & FFX	4.260	0.00	4.260	4.260
Money Markets	38.048	2.90	39.152	36.945
Unit Trusts	16.244	15.80	18.811	13.678
Property	258.117	14.20	294.769	221.464
Alternatives	422.873	16.40	492.208	353.537
Total Assets	**2,642.570**		**3,019.284**	**2,265.856**

Asset Type	Value as at 31 March 2018 £ million	Change %	Value on Increase £ million	Value on Decrease £ million
UK Equities	240.580	16.80	280.998	200.163
Overseas Equities	291.739	17.90	343.960	239.518
Fixed Income	676.532	2.80	695.475	657.589
Index Linked	728.132	16.11	845.435	610.830
Cash & FFX	5.749	0.50	5.778	5.720
Money Markets	21.052	2.80	21.641	20.462
Unit Trusts	17.169	16.80	20.053	14.284
Property	277.478	14.30	317.157	237.799
Alternatives	496.769	16.50	578.736	414.802
Total Assets	**2,755.200**		**3,109.232**	**2,401.167**

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 Pension Fund Committee. The Fund makes use of a third party performance measurement service provided by HSBC. All managers have regular review meetings and discussions with members 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 1.8% 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 below has been prepared by the Fund Actuary and shows how the funding level (top) and deficit (bottom) would vary if the investment conditions at 31 March 2018 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 Fund's liabilities. The shaded box is the actual position at 31 March 2018.

Movement in Bond Interest Gilts yield (% p.a.)	+ 0.2%	80.3% (£543m)	87.3% (£349m)	94.4% (£153m)	101.4% £41m	108.5% £236m
	+ 0.0%	77.4% (£625m)	84.4% (£430m)	**92.2%** (£241m)	98.5% (£40m)	105.6% £155m
	- 0.2%	74.2% (£714m)	81.2% (£519m)	88.3% (£323m)	95.3% (£129m)	102.4% £66m
Movement in FTSE 100 Index		- 20%	- 10%	0	+ 10%	+ 20%

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: www.suffolkpensionfund.org

19. Funding Position

In line with Regulation 62 of 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 number of 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 triennial actuarial valuation was carried out as at 31 March 2016. The valuation report sets out the rates of the employer's contributions for the three years starting 1 April 2017. 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 2016.
- The 'projected unit method' of actuarial valuation.

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 4.0% per year.
- Projected increase in future salaries of 2.4% a year.
- Projected pension increases of 2.1% a year.

Funding Position
The actuary uses the market value of the Fund's assets as stated in the audited accounts of March 2016. The actuarial assessment of the value of the fund's assets was £2,213 million as at 31 March 2016 and the liabilities, £2,429 million.

The valuation showed that the Fund's assets covered 91% of its liabilities at the valuation date, and the deficit based on the actuarial valuation was £216 million.

Contribution Rates
The contribution objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon. The time horizon and the likelihood parameters vary by employer according to each employer's characteristics.

The whole fund primary rate (payroll weighted average of the underlying individual employer rates) is 22.5% of pensionable pay for the three years starting 1 April 2017.

The average employee contribution rate is 6.1% of pensionable pay.

The next formal valuation is as at 31 March 2019.

20. 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 2018. The valuation was included in 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 2.6% a year
Projected investment returns of 3.5% per year

The actuarial value of the Fund’s assets was £2,762 million and the liabilities £3,003 million at 31 March 2018 (£2,213 million and £2,429 million at 31 March 2016 as at the last valuation).

The valuation showed that the Fund’s assets covered 92.2% of its liabilities at the valuation date and the deficit was £241 million (£237 million at March 2017).

International Accounting Standard 26 (IAS 26)
CIPFA’s Code of Practice on Local Authority Accounting 2017 - 2018 requires administering authorities of the LGPS funds that prepare Pension Fund Accounts to disclose what IAS 26 refers to as the actuarial present 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 2.4% a year (2.4% 2016 - 2017)
- Increases in future salaries of 2.7% a year (2.7% 2016 - 2017)
- Discount rate of 2.7% per year (2.6% 2016 - 2017)

The IAS 26 calculation shows that the present value of promised retirement benefits amount to £3,529 million as at 31 March 2018 (£3,456 million as at 31 March 2017).

21. Current Debtors

The current debtors can be analysed as below:

31 March 2017 £ million		31 March 2018 £ million
	Debtors	
5.277	Employers Contributions	5.485
1.251	Employee Contributions	1.356
6.010	Investment Assets	3.895
2.246	Sundry Debtors	1.983
0.000	Asset Pooling	0.231
14.784		**12.950**

The investment assets as at 31 March 2018 includes £0.308 million of purchases awaiting settlement, £3.587 million of recoverable tax and income not yet received.

Debtors can be further analysed into sectors as below:

31 March 2017 £ million		31 March 2018 £ million
	Analysis of Debtors	
0.187	Central Government Bodies	0.445
6.109	Other Local Authorities	5.764
8.482	Other entities and individuals	6.726
0.006	NHS	0.015
14.784		**12.950**

22. Current Creditors

The current creditors can be analysed as below:

31 March 2017 £ million		31 March 2018 £ million
	Creditors	
-13.802	Investment Expenses	-4.489
-0.322	Administration Expenses	-0.097
-0.419	Transfer Values In Adjustment	-0.574
-0.167	Lump Sum Benefits	-0.980
-2.632	Sundry creditors	-1.806
-17.342		**-7.946**

The investment expenses as at 31 March 2018 includes £2.466 million of purchases awaiting settlement, an allowance of £2.017 million for investment management fees and expenses and £0.006 million of irrecoverable tax not yet paid.

Creditors can be further analysed into sectors as below:

31 March 2017 £ million		31 March 2018 £ million
	Analysis of Creditors	
-0.104	Central Government Bodies	0.000
-0.985	Other Local Authorities	-0.937
-0.006	NHS Bodies	-0.015
-16.247	Other entities and individuals	-6.994
-17.342		**-7.946**

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, 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 £0.116 million was paid over to the providers Clerical Medical, Standard Life and Equitable Life in 2017 – 2018, (£0.105 million 2016 – 2017).

24. 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 £35.566 million to the Fund in 2017 - 2018 (£39.233 million in 2016 - 2017). In addition the council incurred costs of £0.955 million (£0.933 million in 2016 - 2017) 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 now be a deferred member as their eligibility for active membership was removed when they were re-elected.

Three members of the Committee, including two councillors, are scheme members within the Pension Fund. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

Five members of the Pension Board are scheme members within the Pension Fund, with two 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 2018 the Fund had an average investment balance of

£10.900 million (£12.855 million in 2016 - 2017) earning interest of £0.035 million (£0.042 million in 2016 - 2017) from these investments.

25. Key Management Personnel

No senior officer responsible for the administration of the Pension Fund provides any goods or services to the Fund other than those covered by their contract of employment with the Council.

The key management personnel of the Fund are the S151 Officer, Senior Pensions Specialist and Technical Pensions Specialist. The total remuneration payable to the key management personnel by the Suffolk Pension Fund was £0.125 million in 2017 - 2018 (£0.139 million in 2016 - 2017).

These costs are charged to the Pension Fund as governance and oversight costs, Note 10 and are included in the related parties Note 24.

26. Agency Services

In response to the Government's requirement for the LGPS to pool their assets with other Pension Funds, the Suffolk Pension Fund joined ACCESS (A Collaboration of Central, Eastern and Southern Shires) alongside Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Norfolk, Northamptonshire and West Sussex.

The Suffolk Pension Fund pays some of the costs of the ACCESS pool on behalf of the other members of the scheme. The amounts paid are not included in the Fund Account. These costs are charged equally by the host authority between all eleven members of the scheme.

The costs charged are as below:

2016 - 2017 £ million		2017 - 2018 £ million
0.830	Payments on behalf of the ACCESS pool	0.608
0.830		**0.608**

27. 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 £0.066 million in 2017 - 2018 (£0.049 million in 2016 - 2017). 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 2018, £33.609 million (£27.752 million at 31 March 2017) worth of stock was on loan, for which the Fund was in receipt of £35.482 million worth of collateral (£29.269 million at 31 March 2017). This is a minimal share of the Fund holdings representing less than 1% of total investment holdings in both 2017 - 2018 and 2016 - 2017. The figure out on loan as at 31 March does not necessarily reflect the amount that has been out on loan during the year.

28. 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 US Dollars respectively) and are therefore subject to volatility (risk) arising from exchange rate fluctuation. This volatility will impact both the value of unfunded commitments in sterling terms and the valuation of the funded interest and monies received as distributions. At 31 March 2018 the unfunded commitment (monies to be drawn in future periods) was £9.177 million. The commitments are paid over the investment timeframe of the underlying partnerships.
In 2011 - 2012 a contractual commitment was made to an infrastructure investment (Partners Group Global Infrastructure 2012) managed by Partners Group, the outstanding amount as at 31 March 2018 is £14.114 million.

In 2011 a contractual commitment of £39 million was made to KKR Global Infrastructure Investors. The amount outstanding at 31 March 2018 was £0.852 million.

In 2015 - 2016 contractual commitments were made to private equity investments managed by Pantheon. Some draw downs on the commitments have been made and the outstanding amounts to 31 March 2018 are £69.952 million.

In 2016 - 2017 the Pension Fund made additional contractual commitments to M & G, of £60 million in the Greenfield infrastructure fund and £25 million in the Debt Solutions investment. Some draw downs on the commitments have been made. The outstanding amount for the Greenfield infrastructure fund is £53.742 million and for Debt Solutions investment £16.253 million.

During 2017 - 2018 a contractual commitment was made to an infrastructure investment (Partners Group Global Infrastructure 2015) managed by Partners Group, the outstanding amount as at 31 March 2018 is £40.160 million.

Asset Class	2017 - 2018		
	Commitment £ million	Drawn £ million	Outstanding £ million
Private Equity			
Wilshire (2003-2008)	66.521	61.870	4.651
Pantheon (2003-2010)	42.780	38.314	4.466
Pantheon (2015)	106.021	36.068	69.952
Total Private Equity	**215.322**	**136.252**	**79.069**
Infrastructure			
KKR (2012)	39.004	38.153	0.852
Partners (2012)	47.298	33.185	14.114
Partners (2016)	48.174	8.014	40.160
M&G (2016)	60.000	6.258	53.742
Total Infrastructure	**194.476**	**85.610**	**108.868**
Illiquid Debt			
Debt Finance Solutions	25.000	8.747	16.253
Total Illiquid Debt	**25.000**	**8.747**	**16.253**