



Cornwall  
Pension  
Fund

**Annual Report**  
2020-21

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**The Cornwall Pension Fund is administered by Cornwall Council.**



# Cornwall Pension Fund Annual Report 2020-21

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# Chair's statement



This is a joint statement from outgoing Chair, Cllr Derek Holley, and incoming Chair, Cllr Jayne Kirkham.

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liabilities.

We would like to take this opportunity to once again thank all the members who have served on the Committee during the past year. An up-to-date list of Members of the Committee is shown on page 10. We would particularly like to express our thanks to the Employee and Employer representatives who ensure that all stakeholders in the Fund are appropriately represented on the Committee. We would also like to thank the members of the Local Pension Board who help to ensure the scheme complies with governance and administration requirements. The Pension Board Annual Report can be found on page 17.

Our sincere thanks go also to the officers who run the administration and investment sides of the Fund on your behalf. The numerous and often short-notice government changes received have substantially increased the workload of these officers, who continue to administer the Fund on an extremely cost-effective basis. This was evidenced when the Fund last took part in the CIPFA Admin Benchmarking exercise, where of the Funds that participated, the total net cost per member for administering the Cornwall Pension Fund was £17.34, compared to the group average cost of £21.34. Due to the on ongoing COVID pandemic, the year posed some unique challenges to officers who have managed admirably throughout, ensuring that the Fund continued to be managed effectively and professionally, and that our Fund members continued to receive an excellent service.

## **The Annual Report**

This Annual Report is designed to give readers a clear understanding of how the Cornwall Pension Fund is managed on behalf of Stakeholders, and is set out in several sections as detailed below:

## **Governance of the Fund**

This section details how the Fund is run. It gives information on the governance structures in place, the role of the Committee, the role of the Local Pension Board, and the role of officers. It also details training that has been delivered over the year to ensure that the Fund continues to be managed by individuals with sufficient knowledge and skills to ensure good stewardship of the Fund.

## **Performance of the Fund**

This section provides information on the performance of the Fund's assets during the year and contains an update from the Fund's Investment consultant, Mercer.

## **Brunel Asset Pooling**

An update on the Brunel Pension Partnership and the transition of the Fund's assets into the Pool.

## **Responsible Investment**

This section sets out the Fund's responsible investment beliefs and climate change commitments, and the work the Fund has been doing in order to ensure that we achieve our aspiration to be at the forefront of responsible investment best practice. It also details some of the great work that the Fund has been doing in partnership with the Brunel Pool to forge better futures by investing for a world worth living in.

## **Financial Statements**

The annual accounts of the Fund.

## **Regulatory Statements**

The section contains a number of important regulatory statements. As detailed below:

**Funding Strategy Statement:** A summary of the Fund's approach to funding its liabilities.

**Governance Compliance Statement:** A statement setting out our compliance with best practice governance principles.

**Investment Strategy Statement:** Documents how the investment strategy for the Fund is determined and implemented. Also includes the Fund's Responsible Investment Policy. This policy sets out the Committee's approach to responsible investment and details the actions the Committee, officers, Brunel Pension Partnership, and other external providers take on behalf of the Fund's members and other stakeholders, to enhance long-term risk adjusted returns and protect the Fund from ESG and reputational risks.

**Communication Policy Statement:** Provides an overview of how we communicate and how we intend to measure whether our communications are successful.

# Chair's statement

## Review of the Year

Following the significant fall in asset values due to COVID-19, the Fund staged a strong recovery during year, with a Fund valuation at the 31 March 2021 of £2,222m, which was up from £1,914m at the 31 March 2020. Further information on the Fund's investment performance and a market commentary can be found in the update from the Fund's investment consultant Mercer on page 20.

The Fund also saw an improvement in its funding level over the year, with the level increasing from 95.3% at the 31 March 2020, to 96.1% at the 31 March 2021. This represented a further improvement in the funding level since the last formal valuation was completed on the 31 March 2019, at which time the funding level was 90.0%.

The Committee attended a number of training events during the year, details of which can be found on page 14. These training sessions are designed to ensure that the Committee comply with the knowledge and skills framework and ensures that this knowledge is then utilised in the decision-making process.

This year there was a strong focus on responsible investment best practice and how this best practice can be implemented by the Fund. This culminated in the Fund becoming a signatory to the Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Owner Commitment, in the first wave of signatories to this new commitment when it launched in March 2021. Further information on this can be found in the Responsible Investment section of this report. The Fund also supports and applies the UK Stewardship Code 2020 definition of stewardship: "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." The Fund continues to work closely with the other member funds in the Brunel Pension Partnership and our jointly owned investment company (Brunel Ltd) towards our mutual commitment to building a financial system which is fit for a low carbon future.

Although the Fund is a long-term investor, it had previously been agreed with the Committee that an annual desktop review of the Fund's investment strategy would be carried out to ensure the strategy remained fit for purpose. Given market conditions had changed significantly, after one of the worst economic crises following the COVID pandemic, the officers and Committee requested that the Fund's investment consultant, Mercer, conduct a deep dive review of the Fund's Investment Strategy.

The changes to the asset allocation as a result of the 2020 review are below. Further information can be

found in the Fund's Investment Strategy Statement, which starts on page 115.

- Reducing Hedge Fund allocation from 7.5% to 0%
- Increasing Diversified Growth allocation from 5% to 7.5%
- 5% allocation to Social Impact

The Fund is also proud to announce that it won LGPS Fund of the Year (Under £2.5 billion) at the 2020 LAPF Investment Awards, and was also shortlisted for the Best Approach to Sustainable Investing at those same awards. This is a reflection of the great work the Fund has been doing, especially in evolving its policies on responsible investment and climate change and in furthering its aspiration to be at the forefront of responsible investment best practice.

During the year, the Fund utilised the LGPS National Framework to run a tender for the Fund's investment consultant contract. The tender consisted of a two-stage process, for which we had a number of high-quality submissions. Mercer, the incumbent consultant, were successfully reappointed for another term. Mercer particularly impressed us with their exceptional responsible investment credentials. The breadth and depth of knowledge, and experience of the team they have in place really shone through, and the Committee felt they were best placed to help the Fund achieve its ambition to be at the forefront of Responsible Investment best practice.

During the year, the Fund commissioned Mercer to produce climate change scenario modelling, to model the different potential impacts, different climate change scenarios would have on the Fund, and also to conduct carbon analysis on the existing investments. This carbon analysis was produced to help officers and the Committee better understand the current trajectory of the carbon intensity of the portfolio and will be used in the future to measure the Fund's performance against meeting its carbon intensity improvement objective.

During the course of the year, as part of the implementation of the Fund's investment strategy, Responsible Investment Policy, and the further implementation of pooling, there were a number of new investments, and transitions of assets into the Brunel Pool. The Fund sold down its remaining frontier markets holding with HSBC, bringing the Fund in-line with its strategic allocation which contains no strategic allocation to frontier markets. The property portfolios previously managed In-House and by Aberdeen Standard both moved across to Brunel who will now manage the portfolios on behalf of the Fund. The Fund's Newton portfolio moved across to Brunel and will sit in Brunel's Global Core Equity portfolio. Newton are the only manager in this portfolio, so will continue to manage the fund, with oversight from Brunel. The

# Chair's statement

Fund also invested an additional £15m in its Tactical Asset Allocation Portfolio. Finally, the Fund disinvested £272m from its Newton Global Equity holding and invested the proceeds in the Brunel Global Sustainable Equity Fund.

The Global Sustainable Equities Fund is a listed equity portfolio in which ESG considerations are at the forefront of the investment process, and where the managers positively pursue companies that will provide a benefit to society. This was part of the move toward the Fund's new strategic allocation, agreed as part of the revised investment strategy in January 2020, which contains a 13% allocation to Global Sustainable Equity.

It should be noted that each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives.

There are a number of significant pieces of work which will take place over the coming 12 months and beyond including:

- Reviewing and building upon the Fund's current Responsible Investment Policy, including making a Net-Zero Asset Owner Commitment
- Consulting with the scheme members on their views in relation to responsible investment and feeding these into the aforementioned review of the Responsible Investment Policy
- Becoming a signatory to the UK Stewardship Code 2020 and submitting an Annual Stewardship Report to the Financial Reporting Council for assessment
- Implementing the outcomes of the Scheme Advisory Board's Good Governance Project.
- Managing the remedy for the McCloud case and the substantial administration workload this will require.
- Implementing any required changes as a result of the national LGPS cost control mechanism.

Further detail on the Funds work programme can be found in the Fund's 2021-24 [Business Plan](#).

So to conclude: the world of pensions never sits still; however, the Committee will ensure that we deliver the best outcomes within our control for the members and the employers of the Cornwall Pension Fund.

## **Cllr Derek Holley**

Outgoing Chair, Cornwall Pensions Committee

## **Cllr Jayne Kirkham**

Incoming Chair, Cornwall Pensions Committee

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

## **Opinion**

The pension fund financial statements of Cornwall Pension Fund (the 'pension fund') administered by Cornwall Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

## **Pension Fund Annual Report – Pension fund financial statements**

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

## **The audited financial statements and our report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report date 21 December 2021

## **Chief Operating Officer's responsibilities for the pension fund financial statements in the Pension Fund Annual Report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Operating Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

## **Auditor's responsibility**

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

## **Use of our report**

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

## **Paul Dossett,**

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

London

21 December 2021



## Governance and management of the Fund

**The Council, on 20 May 2014, continued to support the agreement that the Pensions Committee will:**

- exercise the functions of the Council as administering authority for the Local Government Pension Scheme (LGPS) in Cornwall; and
- establish a scheme of delegation to officers.

The Pensions Committee's principal aim is to carry out the functions of Cornwall Council as the Scheme Manager and Administering Authority for the Cornwall Pension Fund in accordance with the LGPS regulations and any other relevant legislation.

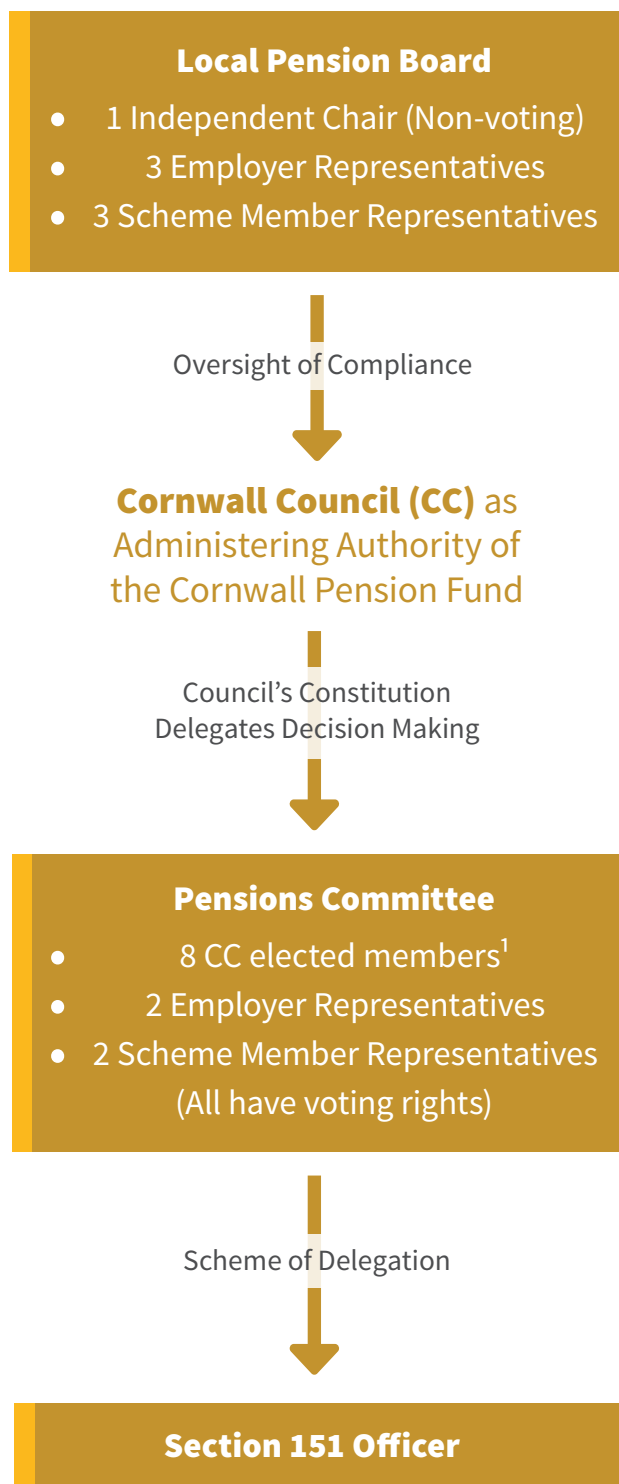
The Chief Operating Officer is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council, including Pension Fund matters. The Committee delegates a number of functions to the Section 151 Officer. These can be found in the Fund's Governance Policy Statement which is on the Fund's website and in the Annual Report, which can also be found on the website.

In its role as the administering authority, Cornwall Council owes fiduciary duties to the employers and members of the Cornwall Pension Fund and must not compromise this with its own particular interests. Consequently, this fiduciary duty is a delegated responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

**In addition to the Pensions Committee, a Local Pension Board ("LPB") is in place to assist in:**

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- secure the effective and efficient governance and administration of the LGPS for the Cornwall Pension Fund

**This structure is illustrated below:**



<sup>1</sup> Reducing from 10 to 8 following local elections in May 2021.



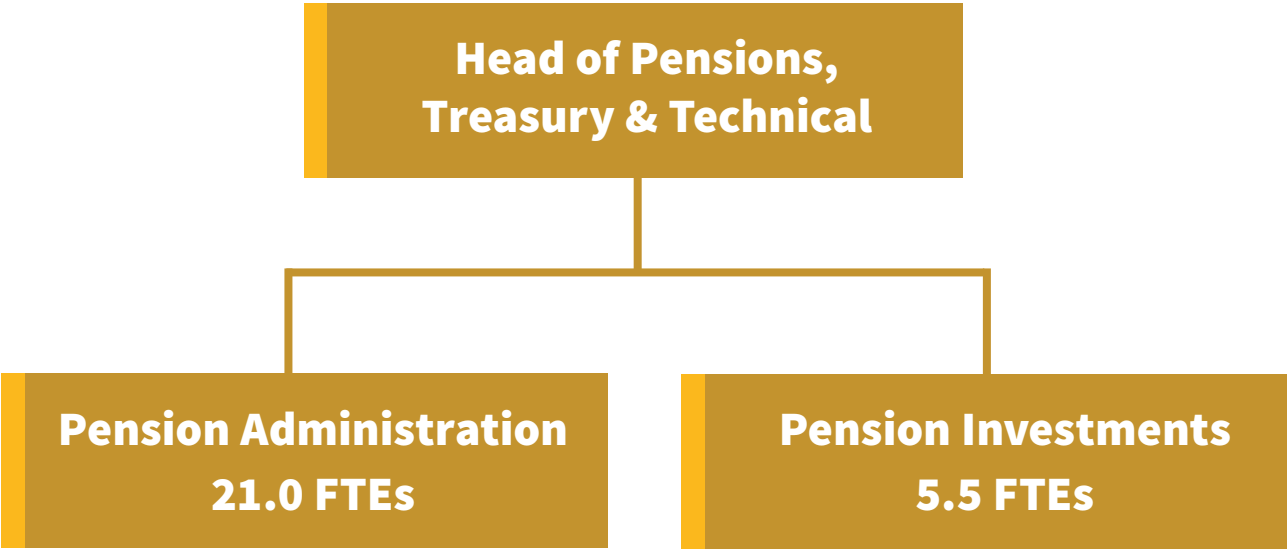
# Governance

## The Pension Fund Team

**Pensions is managed by the Head of Pensions, Treasury & Technical, who is supported by two sections:**

- **The Pension Administration Section** which is responsible for the day to day administration of pension benefits and is headed by the Pension Benefits Manager. The team delivers a pensions service to approximately 55,500 scheme members and 162 contributing employer records. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The team also implements and maintains the pension software systems, reconciles employer records, and a pensioner payroll service for approximately 16,300 pensioners, survivors and dependents.
- **The Pension Investment Section** which is responsible for accounting, investment and governance matters is headed by the Pension Investment Manager. The section is responsible for day to day accounting, production of the Annual Accounts and production of the Annual Report. Additionally, the section is responsible for all investment matters of the Fund, including implementing the Fund’s responsible investment approach, monitoring and managing of the fund managers and the approximately £2.2bn of assets (as at 31 March 2021). The Pension Investment Section is also responsible for overseeing the pooling of the Fund’s assets, with the nine other LGPS administering authorities, into the Brunel Pension Partnership.

**The structure as at March 2021 is illustrated below:**



Officers, the Pensions Committee and the Local Pension Board are supported by a range of specialist consultants, suppliers and fund managers. The Fund’s retained investment consultant is Mercer, Independent Advisor is John Finch, actuary is Hymans Robertson, LGPS Pool is Brunel and custodian is State Street.

# Governance

## Committee membership and attendance

During the year ended 31 March 2021, there were four meetings of the Pensions Committee.

| Member attendance at Committee meetings during 2020-21 | Committee meetings attended |
|--|-----------------------------|
| Cllr Derek Holley (Chair)                              | 4                           |
| Cllr Pete Mitchell (Vice Chair)                        | 4                           |
| Cllr John Crago (Left Committee in July 2020)          | 0                           |
| Cllr John Fitter (Joined Committee in November 2020)   | 1                           |
| Cllr Tom French (Left Committee in November 2020)      | 1                           |
| Cllr David Harris                                      | 4                           |
| Cllr John Herd (Joined Committee in July 2020)         | 3                           |
| Cllr Sue James   | 4                           |
| Cllr Joanna Kenny                                      | 3                           |
| Cllr Jayne Kirkham                                     | 4                           |
| Cllr Oliver Monk                                       | 4                           |
| Cllr John Wood   | 3                           |
| <b>Member nominated representatives</b>                |                             |
| Andy Stott   | 3                           |
| Nick Olgard  | 0                           |
| <b>Employers' representatives</b>                      |                             |
| Chris Wilson   | 3                           |

| Attendance at Local Pensions Board meetings during 2020-21 | Local Pensions Board meetings attended |
|--|--|
| Mark Spilsbury (Chair)                                     | 3                                      |
| Nigel Carr (Resigned in March 2021)                        | 0                                      |
| Ian Smart  | 3                                      |
| Peter Rugg   | 3                                      |
| Emma Coombe  | 1                                      |
| Katie Dasgaard   | 2                                      |
| Amanda Trowill   | 3                                      |

| List of key parties             |                            |
|---------------------------------|----------------------------|
| Auditor                         | Grant Thornton             |
| Bankers                         | Natwest                    |
| Consultant Actuary              | Hymans Robertson           |
| Strategic Investment Consultant | Mercer                     |
| Custodian of Assets             | State Street               |
| Performance Measurement         | State Street               |
| AVC Providers                   | Utmost<br>Standard Life    |
| Asset Pool Operator             | Brunel Pension Partnership |
| Independent Advisor             | John Finch                 |

| Fund employers on 31 March 2021 | Active     | Ceased    | Total      |
|---------------------------------|------------|-----------|------------|
| Cornwall Council                | 1          | -         | 1          |
| Council of the Isles of Scilly  | 1          | -         | 1          |
| Designated bodies               | 58         | 5         | 63         |
| Scheduled bodies                | 47         | 6         | 53         |
| Admitted bodies                 | 55         | 50        | 105        |
| <b>Total</b>                    | <b>162</b> | <b>61</b> | <b>223</b> |

## Scheme membership

On the 31 March 2021, there were 162 employer records in the Fund with active members (156 the previous year).

During the year, the number of employees in the Scheme decreased by 302 (1.6%) to 18,104. The number of pensioners receiving benefits increased by 927 (6.0%) to 16,256.

The number of ill-health early retirements was 23 (20 in the previous year), which equates to 1.27 per 1,000 active members.

At the 31 March 2021, the average age of our active members was 46 years and 318 days; deferred members 48 years and 190 days; pensioner members 70 years and 178 days; and dependant pensioner members 72 years and 191 days.

## Key staffing indicators

The table below shows the number of staff over the last five years in the Pensions Administration Team however, these staff administer both the Local Government Pension Scheme and the Fire Fighters Pension Schemes.

|                                     | 2017          | 2018          | 2019          | 2020          | 2021          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Contributors                        |               |               |               |               |               |
| Cornwall Council                    | 7,426         | 7,021         | 6,810         | 6,881         | 6,816         |
| Academies                           | 5,542         | 6,732         | 7,386         | 7,709         | 7,730         |
| Other Bodies                        | 4,247         | 4,081         | 3,888         | 3,816         | 3,558         |
| <b>Total Number of Contributors</b> | <b>17,215</b> | <b>17,834</b> | <b>18,084</b> | <b>18,406</b> | <b>18,104</b> |
| Pensioners                          |               |               |               |               |               |
| Receiving Benefits                  | 12,906        | 13,602        | 14,460        | 15,329        | 16,256        |
| Deferred Benefits                   | 20,306        | 21,014        | 21,060        | 20,785        | 21,118        |
| <b>Total Number of Pensioners</b>   | <b>33,212</b> | <b>34,616</b> | <b>35,520</b> | <b>36,114</b> | <b>37,374</b> |

|                  | 2017         | 2018         | 2019         | 2020         | 2021         |
|------------------|--------------|--------------|--------------|--------------|--------------|
| FTE staff        | 20.5         | 20.5         | 20.6         | 20.6         | 21.0         |
| Total membership | 50,427       | 52,450       | 53,604       | 54,520       | 55,478       |
| <b>Ratio</b>     | <b>2,460</b> | <b>2,559</b> | <b>2,602</b> | <b>2,647</b> | <b>2,642</b> |

## Committee

### The Scheme of Delegation

Cornwall Council has set up a Pensions Committee to exercise its functions as the Administering Authority for the Local Government Pension Scheme in Cornwall. This responsibility includes managing the investments of the Fund.

The Pensions Committee has agreed to delegate certain of its responsibilities for managing the Fund's investments to the Section 151 Officer. This Scheme of Delegation sets out the limits of that delegation.

The Committee has also delegated day-to-day management of the Fund's investments to professional investment managers. Legally binding agreements govern the relationship between Cornwall Council and the investment managers.

Irrespective of whether or not the Committee decides to delegate a function to an officer, it is essential that those making a decision receive proper advice from suitably qualified people or organisations (usually the Section 151 Officer or the Fund's investment consultants and advisers).

Nothing in this Scheme of Delegation can override the responsibility of Members and Officers to comply with Cornwall Council's Constitution, Financial Regulations, or Standing Orders.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations provide the legal framework governing investments by the Pension Fund. Any decisions or actions taken by the Committee, Members or officers must comply with these regulations.

### Role of the Committee

The Pensions Committee exercises the functions of Cornwall Council as administering authority for the Local Government Pension Scheme in Cornwall. The Pensions Committee comprises voting members representing Cornwall Council, the employers and the employees. The Committee is supported by professional advisers and officers who principally oversee how the Scheme is run and how the assets of the Fund are managed. A large part of the work involves monitoring how the fund managers perform and the investments which they are responsible for.

One requirement in managing the Fund and reducing any risk, as far as possible, is to make sure the assets are spread over different asset classes, in different countries and between fund managers. We need to get the balance right between the desire for improved returns and the possible 'risk' of those returns dropping due to investment conditions. In addition,

the Committee acknowledges the responsibility as a major shareholder. The task of exercising voting rights is delegated to fund managers who report back to the Committee on the actions taken at the next meeting. The Committee will also consider pension issues as they arise.

### Delegation to Officers – Section 151 Officer

At its meeting on 16 March 2017, the Committee agreed a Scheme of Delegation to the Section 151 Officer.

This is included in the Governance Policy Statement included later in this Report but can be summarised as follows:

#### **The Committee retains responsibility for the following items:**

- The Fund's investment strategy
- The Investment Strategy Statement, including the Funds position on asset pooling
- Approval of all policies
- Approval of the Annual Business Plan
- Approval of Annual Report and Accounts
- Acceptance of the triennial valuation report produced by the Fund Actuary
- Appointment of AVC providers

#### **The Committee delegates to the Section 151 Officer responsibility for the following items:**

- Managing and monitoring the investment managers, consultants and custodian
- Managing the Fund's cash assets directly held by the Administering Authority
- Transferring assets between the Administering Authority, the investment managers and custodian
- Accounting for all investment transactions
- Within limits, authorising expenditure from the Fund
- Paying the fees of the investment managers and the custodian
- When necessary, exercising the Fund's voting rights after consulting the Chairman and Vice Chairman
- Admitting organisations into the Pension Scheme after consulting the Chairman and Vice Chairman

# Governance

## Regulatory framework

### The Annual Report

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a document known as “the pension fund annual report”. From 1 April 2014, this report must contain information about the fund on the following:

- The management and financial performance during the year;
- The authority’s investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level;
- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- The current version of the Investment Strategy Statement;
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

### The Scheme and benefits available

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. The Department for Housing, Communities and Local Government is responsible for the ongoing maintenance of the LGPS.

The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014 which changed the future benefit structure from final salary to Career Average Revaluated Earnings (CARE). However, any benefits earned prior to April 2014 continue to be based upon a member’s final pensionable salary at the date of leaving employment. Pensions and entitlements are fully protected in law.

Membership of the LGPS is open to all employees of local authorities and academies except teachers, fire-fighters and police, who have their own separate schemes. Other employers such as colleges, town and parish council and private sector companies awarded various public sector service contracts also participate in the scheme. The Scheme is open to all employees under age 75, whether they work full-time or part-time. Academies and Cornwall Council automatically enrol

all employees into the Fund, as long as they have a contract of employment of more than three months duration. Employees with a contract of employment for less than three months may join the LGPS upon application. All members of the scheme can choose to opt-out at any time. Employees contribute between 5.5% and 12.5% depending upon their rate of actual pensionable pay in accordance with a pay band contained in the Regulations. In exchange for this contribution rate, employees earn a pension of 1/49th of their pensionable pay for that year. This amount is then added to their pension account and at the end of every scheme year, this amount is increased to take into account the cost of living. This process happens each year until retirement when all the revalued pension accounts are added together to produce a total pension. Employees also have the option to contribute at half the normal percentage rate and then earn a pension at the rate of 1/98th of their career average pay but, still retain the same death in service and ill-health provisions as an employee paying the normal percentage rate. Pensionable pay includes basic pay plus any overtime and bonuses for benefits earned under CARE. Other valuable benefits of membership include death lump sum payments, dependant’s pensions, flexible and ill-health retirement options.

Employers contribute at a rate set by the fund actuary and the rates applicable to 31 March 2021 are shown at the end of this report. Further information regarding the various benefits offered can be found on the Cornwall Pension Fund website at [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

Our employers are going through the process of re-enrolment in accordance with their statutory duties under the Automatic Enrolment legislation and are therefore enrolling all of their eligible employees into the LGPS. This again has helped to maintain our active membership over the year and therefore assisted in maintaining a positive cash flow.

The majority of local authority schools have now converted to academy status. Those remaining schools that decide to convert are electing to join an existing academy trust instead of becoming a new separate academy employer in the Fund.

Last year there was only one school conversion to academy status, and they have subsequently joined an existing academy and therefore there were no new academies joining the Fund. The trend of existing academies merging to form multi academy trusts has continued, which reduces the number of separate employers we have in the Fund, but still maintains the same overall membership numbers.

There were 8 new employer records admitted to the Cornwall Pension Fund during the year, all of which were Admitted Bodies.



## The Regulations relating to the Fund's Assets

The regulations relating to the management and investment of the Fund's assets are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Under these regulations, we have to consider the different types of investments and their suitability.

The Fund must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

The Funds investment strategy must include:

- a requirement to invest fund money in a wide variety of investments;
- the Funds assessment of the suitability of particular investments and types of investments;
- the Funds approach to risk, including the ways in which risks are to be assessed and managed;
- the Funds approach to pooling investments, including the use of collective investment vehicles and shared services;
- the Funds policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- the Funds policy on the exercise of the rights (including voting rights) attaching to investments.

The Funds investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The Funds investment strategy may not permit more than 5% of the total value of all investments to be invested in entities which are connected with the Administering Authority.

The Fund must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

The Fund must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

The Fund must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

The Pension Act 1995 applies to occupational pension schemes, from 6 April 1997.

The local authority scheme, while described as an occupational pension scheme, is required to meet further standards. Local authorities are expected to follow examples of good practice, in particular to do with releasing information to pension scheme members.

## Regulation changes

The Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 came into force on 23 September 2020. These regulations introduced increased flexibility when dealing with exiting employers and the ability for Administering Authorities to review employer contributions between valuations.

## Risk management

The Fund's governance arrangements ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels. The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisors and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal Fund documents relating to risk management and control are:

- Risk Management Policy
- Breaches Policy
- Communications Policy Statement
- Funding Strategy Statement
- Governance Policy Statement
- Governance Compliance Statement
- Pension Administration Strategy
- Cash Management Strategy
- Investment Strategy Statement
- Conflicts of Interest Policy

Copies of these documents are available from the Fund and are published on the Fund website at: [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

In addition, a detailed Risk Register is maintained. The detailed Risk Register matches high level risks, under each of the three areas of activity (Governance, Funding & Investment and Administration & Communication), to the Fund's high level objectives. Each of the detailed risks is then given an impact score and a likelihood score before any controls are applied. These are then combined to give an overall pre-control risk score, which is assigned a Red – Amber – Green (RAG) rating. Changes to the level of risk are reported at each Committee and Pension Board meeting.

These documents are all subject to regular scrutiny by Pensions Committee, Pension Board and officers. They provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually.

As well as the above Fund documents relating to risk management and control, A Local Pension Board ("LPB") is also in place to assist in:

# Governance

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- secure the effective and efficient governance and administration of the LGPS for the Cornwall Pension Fund

## Knowledge and skills

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

Both the Pensions Committee and the Local Pension Board have training strategies in place, to ensure that

the Cornwall Pension Fund is overseen by individuals who have the appropriate levels of knowledge and skills. The strategies reflect the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

## Activity in Year

During the year, the following training was provided to both the Pensions Committee and the Local Pension Board. With the ongoing disruption caused by the pandemic, the Fund has endeavoured to deliver all planned training as effectively as possible, using technological solutions where face-to-face training was not possible. Further detail with regards to the Local Pension Board and the Board members' progress against their training strategy, can be found in the Local Pension Board Annual Report 2020-21, which starts on page 17.

Training delivered during the year:

| Month  | Title of Session                          | Topics Covered   |
|--------|---|--|
| Jul-20 | Economic and Markets                      | Economic trends, market trends, key themes, and inflation  |
| Sep-20 | Regulation update and Hot Topics          | Covering McCloud judgment, Goodwin case, cost management valuations, exit payment cap, management of employer risk regulations and the Good Governance Project                 |
| Nov-20 | Brunel Investor Day 1                     | Macro outlook, investment returns and themes, return dispersion and performance concentration, focus on the future, and Private Markets  |
| Nov-20 | Brunel Investor Day 2                     | Climate change (Net Zero), modern human slavery, diversity and inclusion, and transparency & reporting (outcomes and carbon metrics)   |
| Dec-20 | Infrastructure and portfolio construction | Covering the infrastructure life-cycle, interpreting performance reports and drivers, and how responsible investment is integrated into private markets portfolio construction |
| Mar-21 | Market background and actuarial update    | Covering the integrated approach, growth assets, assumptions and inflation, plus an update from the Fund actuary, Hymans Robertson   |

The agreed training plan for next year is as follows:

| Title of session                               | Timescale   | Audience   |
|--|-------------|--|
| Pensions Committee Pre-Meeting Training        | Quarterly   | Pensions Committee, Local Pension Board              |
| Local Pension Board Pre-Meeting Training       | Quarterly   | Local Pension Board, Pensions Committee              |
| PLSA Local Authority Conference                | Q1          | Pensions Committee, Local Pension Board and Officers |
| New Committee Member Induction                 | Q1          | Pensions Committee                                   |
| Responsible Investment Training Day            | Q2          | Pensions Committee, Local Pension Board and Officers |
| Brunel Pension Partnership Training Day        | Q3          | Pensions Committee, Local Pension Board and Officers |
| Cornwall Pension Fund Investments Training Day | Q4          | Pensions Committee, Local Pension Board and Officers |
| CIPFA Pensions Audit and Accounting Working    | Q4          | Officers   |
| Local Pension Board Seminar                    | Q4          | Local Pension Board and Officers                     |
| New Member Training                            | As required | Pensions Committee, Local Pension Board              |

# Governance

## Work programme and future

The start of a new scheme year continued to bring unprecedented challenges caused by the coronavirus pandemic. The majority of the pensions administration team continued to primarily work from home as opposed to being in the office each day, however, numerous new working initiatives were introduced to improve efficiency in this working environment. The Pensions Regulator issued a considerable amount of guidance to the pensions industry, which essentially required us, as administrators, to prioritise pension payments, new retirees and death payments, which we have continued to implement.

As feared the coronavirus pandemic did cause our employers significant problems with providing us with the statutory data required, including the year-end information relating to the contributions paid and pay received by their employees, during the 2019/2020 scheme year. This information is required in order to produce the annual benefit statements and pension savings statements within statutory timescales. It does appear that the Pensions Regulator is going to take a proportionate and risk-based approach towards any enforcement action for any reported breaches during these exceptional times.

We continue to work towards the implementation of the member self-service facility with the Council's Information Services department, which will allow our membership to view their own membership data held on our administration system. Final User Acceptance Testing is underway and we hope to be able to roll this out to our scheme membership in the very near future, thereby enabling us to permit the membership access to their own data.

We await the amended LGPS regulations to implement the remedy for the McCloud court case, which determined that the transitional protections granted, for those in the scheme and within ten years of their normal pension age at April 2012, when they were moved to the new Career Average Revalued Earnings (CARE) scheme from April 2014, were illegal on the grounds of age discrimination. These protections meant that the benefits awarded at leaving were the higher of all service being treated as final salary, compared to the combined value of the final salary and CARE schemes. This will result in a significant amount of additional administrative work as the transitional protections have been extended to all members of the scheme at April 2012. We will be required to review all these member records, including those that have left the scheme since April 2014 who were not covered by the original protections, to ensure that the benefits they were awarded were in accordance with the protections.

Unfortunately, the plan to undertake mortality screening of our overseas pensioners last year had to

be postponed due to the coronavirus pandemic. This exercise is performed monthly for our UK pensioners, but the same mortality data is not readily available to check our overseas pensioners. This therefore requires a special exercise which we undertake every two years, as this is an area of high risk of fraud where someone fails to notify us of a death and then continues to receive the pension payment. We currently have around 250 overseas pensioners. This has now been postponed until 2022.

With regards to the Fund's investments - Brunel Pensions Partnership Limited was formed in October 2017 and received authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. The substantial programme of transitioning the Fund's investment assets into Brunel managed portfolios is now in its final year. By the end of 2021/22, it is anticipated that all Cornwall Pension Fund's investment assets, excluding legacy private market commitments (Infrastructure, Private Equity and Private Debt), will be in portfolios managed by Brunel. These asset transitions must be managed efficiently and effectively, to minimise cost and risk to the Fund. The Fund and its advisors will be working closely with Brunel throughout this process. The freeing up of resources within the LGPS Funds in the Partnership and Brunel, due to the transitions being completed, will allow the Partnership more time to continue building upon its industry leading Responsible Investment credentials. Further information on Brunel's activities can be found on their website [www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)

The continuing uncertainty and pervasiveness of the global COVID-19 pandemic and the potential impacts it has on the Fund's investments will continue to be monitored closely. In March 2021, the Fund completed an annual review of its investment strategy with Mercer (The Fund's investment consultant). This was felt particularly prudent given the aforementioned issue and also other changes which have happened globally, such as the Brexit Trade Deal and the change in the US presidency, which have all taken place since the last review of the Investment Strategy in January 2020. The updated strategic asset allocation can be seen on page 118.

The Fund also commissioned Hymans Robertson (the Fund's actuary) to review in more detail how the Fund's liabilities (future payments out, either to, or on behalf of its members) had changed since the formal valuation was carried out using the 31 March 2019 dataset. This was to provide a more detailed indication of how the funding level had changed since the last review, and also helped feed into the annual investment strategy review, to ensure the return target for the Fund's investments was still appropriate to meet its objective of being fully funded.

# Governance

The Fund will also be implementing an ongoing employer covenant review process, which will enable the Fund to monitor the financial health of the employers during the valuation cycle. This will provide an upfront indication of where there might be difficulties in collecting contributions/deficits due, thus helping to identify and minimise risks to the Fund.

The Cornwall Pension Fund published its Responsible Investment Policy in March 2020, and over the course of 2020, managed to fulfil a number of the Responsible Investment commitments which were included in the 2020-23 Business Plan. 2020 finished on a high note, with the Fund investing £272 million in the Brunel Global Active Sustainable Equities portfolio, winning the LGPS Fund of the Year (under £2.5 billion) award at the LAPF Investments Awards, and being shortlisted for the Best Approach to Sustainable Investing award at the same Awards.

The Fund is committed to building upon last year's successes and below are some of the tasks which the Fund hopes to complete over the course of 2021:

- Reviewing and building upon the Fund's current Responsible Investment Policy
- Implementation of the IIGCC Net Zero Investor Framework, to which the Fund is a signatory
- Consulting with the scheme members on their views in relation to responsible investment and feeding these into the aforementioned review of the Responsible Investment Policy
- Submitting a Task Force on Climate-Related Financial Disclosures report
- Becoming a signatory to the UK Stewardship Code 2020 and submitting an Annual Stewardship Report to the Financial Reporting Council for assessment
- To continue to build relationships and increase external engagement on responsible investment, both as a Fund and through the Brunel Partnership
- The remedy for the McCloud case and the substantial administration workload this will require
- Implementing any required changes as a result of the national LGPS cost control mechanism
- Changes to LGPS Regulations to account for the Exit Cap Regulations
- Implementation of new working arrangements to account for Covid-19
- Amending Funding Strategy Statement to account for changes in LGPS Regulations allowing for greater flexibility in employer contributions and exits payments.

In 2019, Hymans Robertson were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. The SAB

commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. The Fund will be putting a work programme in place based on the requirements which will be set out from this review, to ensure that the Fund is compliant with the requirements and that the Fund maintains its best practice governance standards.

The Cornwall Council local elections are scheduled to take place in May 2021, the number of Councillors to be elected has reduced from 123 at the previous election to 87. The Pensions Committee membership will see a reduction of 2 elected member positions, reducing its total membership to 12 (8 elected members, 2 scheme member representatives and 2 employer representatives).

The elections could potentially result in a significant turnover of the membership of the Pensions Committee. Officers and the Fund's advisors have prepared a detailed training programme, to ensure that any new members will be quickly brought up to speed. It should also be noted that the scheme member and employer representative positions on the Pensions Committee are not up for election, so this combined with officers, advisors, and the Pension Board will ensure there is continuity.

Full details on the work programme can be found in the Fund's 2021-24: [Business Plan 2021-24](#)

## LGPS Data Quality

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they consider to be good practice for measuring the presence of member data. Specific targets were set for data TPR deemed as 'common' and Aquila Heywood has assisted customers in the collection and qualification of this data. TPR also outlined 'scheme-specific' data but did not set prescriptive targets as the data is deemed to be scheme-specific. The guidance did target Pension Scheme Trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets.

Pass rates for the Cornwall Pension Fund are as follows, placing it in the highest benchmark for both categories:

- Local Government Pension Scheme Common Data Quality – 99.4%
- Local Government Pension Scheme Scheme-specific Data Quality – 98.6%



## National Fraud Initiative exercise

The Fund is required to participate in the National Fraud Initiative exercise which takes place every two years. This exercise is governed by the Cabinet Office and all public sector bodies are required to participate as it provides an opportunity to mitigate any possible overpayment of benefits, which in our case relates to continued pension payments to any pensioners or dependants that have died. We are currently working through the 2020 return and investigating any matches that have been identified by this exercise. In an attempt to mitigate the risk of these overpayments, the Fund also uses a specialist external company to check our pensioner data every month and report on any deaths they discover.

## Cornwall Local Pension Board

### Local Pension Board Annual Report 2020/21 - Chairman's Statement

Welcome to the Local Pension Board (the Board) Annual Report for the financial year ending 31 March 2021. The Board has continued in its important role of assisting the Administering Authority with ensuring its compliance with regulations and best practice.

This has been another challenging year for the Fund with increased scheme complexity and increasing scrutiny from the Pensions Regulator and the Scheme Advisory Board. The Fund has also had to deal with the impact of the COVID 19 pandemic, which has necessitated a high degree of home working by the officers of the Fund. It is a credit to these officers that the Fund has functioned very effectively during these challenging times, with the continued provision of a high-quality service to all of the members of the Cornwall Local Government Pension Fund.

The role of the Local Pension Board and the work programme for 2020/21 is summarised below. Key assurances that the Board was able to obtain during the year included:

- Assurance that the Fund had a very high level of compliance with the Pensions Regulator Code of Practice number 14, which sets out all of the requirements determined by the Regulator to ensure the effective administration of all aspects of the Fund.
- Assurance that all of the key risks of the Fund, set out in the risk register which is examined by the Board at every meeting, were being routinely managed, with adequate actions being taken to reduce risks where possible.
- Assurance that the Member Self Service project was being actively taken forward, with the vast majority of the preparation work being undertaken in 2020/21,

in anticipation of a full roll out to active members of the fund during 2021/22.

Further detail of the work of the Board can be found in the Work Programme section of this report, and it is pleasing to be able to report that the Board has not identified any significant concerns relating to the Cornwall Pension Fund or its administration for the year 2020/21.

During the year the Board met virtually on three occasions, the May 2020 meeting having been cancelled due to the COVID pandemic. Details of the membership of the Board are set out below, and at the end of 2020/21 there was one change to the membership, with Nigel Carr leaving the Board in March 2021.

I would like to thank all of the members of the Board for the invaluable input they have provided, and for the time they have put into their personal training and development, to ensure the continued effectiveness of the Board.

I would also like to thank the Pensions Committee, who have a good working relationship with the Board, and have extended an open invitation to the Board for all Committee meetings and training events, and also the officers for their effective management of the Cornwall Local Government Pension Fund, and for the excellent support they have provided to the Board over the course of the year.

Finally, the Board places a great importance on being open and transparent. The papers and minutes of meetings for the Board can be found on the Fund's website using the below link.

<https://democracy.cornwall.gov.uk/mgCommitteeDetails.aspx?ID=1149>

**Mark Spilsbury**  
Independent Chair

## Role of Local Pension Board

As required by Regulation 106 of the Local Government Pension Scheme Regulations 2013, the Cornwall Pension Fund has established a local pension board, the role of which is to;

- assist Cornwall Council (CC) as Scheme Manager –
  - to secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator - in such other matters as the LGPS regulations may specify.
- secure the effective and efficient governance and administration of the LGPS for the Cornwall Pension Fund.

# Governance

- provide the Scheme Manager with such information as it requires in order to ensure that any member of the LPB or person to be appointed to the LPB does not have a conflict of interest.

The Pension Board does not carry out a delegated decision making function on behalf of the Administering Authority. Instead the Pension Board will carry out an oversight function to ensure that such decisions are properly compliant with regulations, guidance and internal policies.

## Details of membership

The Board is made up of equal numbers of Employer and Employee representatives, each having one vote, plus an independent non-voting Chair.

- Mark Spilsbury – (Independent Chair)
- Emma Coombe (Employer Representative) – Group Accountant at Kernow Learning MAT
- Ian Smart (Employer Representative) – Director of Business and Finance at Torpoint Community College
- Katie Dalsgaard (Employee/Scheme Member Representative) – Senior Economic Growth Officer at Cornwall Council
- Peter Rugg (Employee/Scheme Member Representative) – Retired member
- Amanda Trowill (Employee/Scheme Representative) – Payroll Manager/Accountant at Truro and Penwith College

The terms of reference for the Local Pension Board state that there should be a minimum of 2 meetings per year, however the Board aims for 4 meetings a year, to ensure a timely review of the decisions made by the Fund's governance.

## Work Programme

One of the key pieces of work which the Board reviewed this year was compliance against the Pensions Regulator Code of Practice number 14 and guidance from the Scheme Advisory Board. This review was completed using a checklist of requirements which is completed by officers and reported to the Board.

One of the key standing items which the Board reviews at each meeting, are the decisions that were made at the preceding Pensions Committee meeting, noting any updates that have happened since that meeting. This has ensured that the Board is kept up to date with the key decisions made by the Administering Authority.

The Board has a detailed work programme, which is taken as a standing item to each meeting, to enable oversight of the process. Below are some of the key standing items which the Board reviews, to assist the Scheme Manager in being compliant with the regulations:

- Reviews decisions made at Pensions Committee
- Reviews developments with Brunel Pensions Partnership
- Reviews the Risk Register and Breaches Log
- Administration update (including KPI monitoring)
- Cornwall Pension Fund's Statement of Accounts and Annual Report
- Review of the Fund's Business Plan
- Board's Training Plan

## Training

The Board has a duty to monitor its training needs, to ensure that each member has the knowledge required to exercise their responsibilities. To that end, the Board has adopted the CIPFA Knowledge and Skills Framework and is following an agreed Training Plan. The Training Plan makes clear reference to the Public Sector Pensions Act 2013 and the requirement for each member of the Board to have a certain level of knowledge and understanding. Workshops, seminars and formal training events are offered to provide members with the knowledge to perform their duties for the Board. Targeted training sessions are also run before each Pension Board meeting.

The requirement for Board members to be trained is a fundamental part of the legislation and has been an area of focus this year. The Board member's progress against the training requirements are reported and reviewed by the Board every quarter. The target for Board members is 25 credits over a rolling 2 year period. The position of the Board at the end of the year is shown below.

There has been a drive this year by all members of the Board to continue to develop their knowledge and understanding in the key required areas. With the training plan which is in place for next year, it is anticipated that all existing members of the Board will attain the required 25 credits over a rolling 2 year period.

| Board Member    | Active credits |
|-----------------|----------------|
| Mark Spilsbury  | 23             |
| Emma Coombe     | 14             |
| Ian Smart       | 19             |
| Katie Dalsgaard | 11             |
| Peter Rugg      | 15             |
| Amanda Trowill  | 15             |

## Conflicts of Interest

Managing conflicts of interest is vital to good governance in every pension fund.

The Fund recently agreed a new Conflicts of Interest Policy, which applies to the Pensions Committee, Local Pension Board, Officers, and advisors to the Fund. The policy sets out a number of steps to ensure that any perceived or actual conflict of interest is managed. The policy can be viewed here: [Conflicts of Interest Policy](#)

Brunel Pension Partnership publish a COI summary, which includes a specific section on Stewardship conflicts of interest. The summary can be viewed here: [COI summary](#)

### Declaration of interests

When Members are elected to the Pensions Committee or Local Pension Board, they are required to fill out a declaration of interests form within 28 days of election, which is published on the website. Members are then required to update the form to declare any new conflicts of interest, should they arise, as soon as reasonably practical. In addition, members are also expected to declare if they have an interest in any items on an agenda at the beginning of every meeting, under the 'Declarations of Interest' item. Members are expected to say whether they have a non-registerable interest or a disclosable pecuniary interest and give the reason why, so it can be minuted.

With regards to Fund Officers: Officers are also required to declare any conflicts of interest on an annual basis, with a requirement to declare any new conflicts of interest, should they arise, as soon as reasonably practical.

### Managing conflicts of interest

During the year, there were no potential or actual conflicts identified which needed managing.

Our Conflicts of Interest Policy sets out the steps we would take should a conflict of interest arise that required managing. Some examples of ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

## Stewardship Conflict of Interest

With manager selection being the responsibility of Brunel, and voting the responsibility of the partnership's engagement and voting services provider, Hermes EOS; there is extremely limited scope for stewardship related conflicts of interest to occur at the Cornwall Pension Fund level. In addition, the Fund's Pensions Committee has a fiduciary duty to act in the best interest of Fund members, so the personal opinions or interests of Committee members will not factor into decision making. Should a stewardship related conflict of interest be identified, it would be managed as per the process set out above, and in the Fund's Conflicts of Interest Policy.

With there being more scope for potential stewardship related conflicts of interest at Brunel, Brunel also publish their own Conflicts of Interest Policy. The Policy contains details on how Brunel manages conflicts of interest, and also provides examples of potential stewardship related conflicts which could arise. These can be viewed here: [Brunel COI Summary](#)

Brunel's policy on conflicts may be best understood by considering its impact in practice. In Brunel's [Annual Stewardship and Outcomes Report](#), they will provide case studies to provide further explanation on where potential conflicts of interest have been managed to ensure they act in the best interest of their clients.

## Administering Authority Policies

The officers of the Fund are employed by the administering authority of the Fund (Cornwall Council) and as such, corporate policies, including the following policies, apply to officers in terms of day-to-day working practices.

### Carbon Neutral Cornwall

On 22 January 2019 Cornwall Council declared a climate emergency. Following this the Council prepared a report outlining how to reduce carbon emissions towards becoming carbon neutral by 2030. In July 2019, the Cabinet approved the ambitious plan. Please see further details here: [Climate Emergency - Cornwall Council](#)

### Equality and Diversity

The Council has published its own corporate Equality and Diversity framework in order to help it deliver its challenging and ambitious improvement programme. Please see further details here: [Equality and Diversity - Cornwall Council](#)

# Performance of the Fund

## An update from the Fund's investment consultant - Mercer

I am pleased to provide an update from an investment perspective on the activities of the Cornwall Pension Fund (CPF) during 2020/21. As the Fund's Investment Consultant I provide advice to the Fund on investment strategy and the management of various investment risks.

### Investment Strategy Statement (ISS)

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS. It is appended to this report and sets out the funding and investment objectives for the Fund. The specific investment objective is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out below on an on-going basis:

- 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 (NB this will also minimise the costs to be borne by Council Tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

This report demonstrates progress made towards these long term objectives during 2020/21, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

### Market Commentary

The period started with lockdowns across most large developed countries which led to an unprecedented collapse in quarterly GDP growth in Q2 2020. China, on the other hand, saw a strong rebound in GDP growth as it began to reopen its economy following its lockdown earlier in the year. This mitigated the overall negative impact on global GDP growth to some extent. Late in the quarter, the sharp rebound previously seen in China became more global as western countries slowly

started to reopen their economies. With economies largely open again, global GDP rebounded at record pace over Q3 2020.

Q4 2020 saw COVID-19 infections rising again sharply across western countries, leading to a gradual return of restrictions. The impact on quarterly GDP growth was less pronounced this time because GDP was at a lower level already than before the COVID-19 shock, whilst at the same time consumers and businesses were better prepared to function somewhat amid these restrictions. At the same time, the start of vaccines being rolled out late in the quarter led to optimism that fuller and more sustainable reopening's could be achieved in 2021.

The first quarter of 2021 began with lockdowns in numerous countries, including the UK, as much of the world faced another wave of Covid-19. Nevertheless, gradual vaccine rollout in developed countries drove economic recovery optimism. Political risk declined as Joe Biden was sworn in as US President, despite the incident on Capitol Hill on 6 January, and the UK completed its transition out of the EU without major incident. Economic data continued to point towards a global recovery but with wide regional dispersions.

On a year-on-year basis to 31 March 2021, risk assets had exceptionally high returns as shown in the performance section. This has a lot to do with the base effect as we are currently comparing valuations just after four consecutive quarters of a bull run to valuations in the immediate aftermath of the worst market downturn since the Global Financial Crisis. The strong bull market in risk assets over the last year in anticipation of a strong vaccine-led rebound had a large impact as well.

During Q2 2020, equity markets reversed much but not all of the losses suffered during the Covid-19 shock in March 2020, in spite of record downgrades of earnings forecast for 2020. Over the third quarter of 2020 the equity rebound continued for most markets, led primarily by large cap companies achieving secular growth, as western economies tentatively reopened whilst accommodative fiscal and monetary policy remained in place. Over the fourth quarter, the vaccine announcements revealing better than expected efficacy and faster than expected deployment, alongside a reduction in political uncertainty, boosted market sentiment. Markets positioned for a full economic reopening in 2021 with small caps and value stocks leading markets higher. The first quarter of 2021 was marked by higher volatility. Streams of retail investor activity in January led to short squeezes, followed by a sharp rise in bond yields in the back end of the quarter placing pressure on equity markets. In spite of this, equities ended the quarter with strong returns supported by ongoing stimulus as investors looked towards the anticipated economic recovery and rebound in corporate earnings.



# Performance of the Fund

The COVID-19 crisis led to swift and unprecedented fiscal and monetary policy responses to support economies and markets across the globe, starting at the end of Q1 2020. This led to a government bond rally over the year as nominal yields fell to the lowest level in history for many countries, including the UK. The UK 10-year gilt yield, reached an all-time low just above 0% in August before partially retracing to just above 0.2% by the end of 2020. In Q1 2021, UK gilt yields rose sharply in line with global yields as investors priced in the strong recovery and increasing inflation risk. The UK 10-year gilt yield ended the quarter at 0.85%, having recovered all of the lost ground in 2020.

A consultation on the future of RPI, launched in March 2020, led to the decision to converge RPI to CPIH from 2030 without any spread adjustment being applied to compensate index-linked gilt holders (and other recipients of RPI-linked payments). In spite of the consultation outcome being deemed unfavourable for holders of index-linked gilts, the decision had been widely anticipated and the reduction in long-dated breakeven inflation rates implied in index-linked gilts was modest over the year. Moreover, inflation expectations rose sharply in 2021 which benefited index-linked gilts only to some degree due to the high duration component of the asset class.

After a sharp increase in credit spreads during the worst of the COVID-19 market shock in March 2020, credit spreads tightened subsequently as market optimism returned, bolstered by government support. Credit spreads ended the year at slightly lower levels than in late 2019 and remained broadly unchanged over Q1 2021. This led to strong returns for UK credit, as demand for spread assets remained strong over the year and outperformance of credit relative to government bonds on a duration-adjusted basis.

The recovery of UK real estate markets from the shock of Covid-19 slowed during Q4 2020 with the emergence of a 'second wave' of the pandemic, a second lockdown, and a potential Brexit cliff-edge at year-end. Despite this, real estate performance was broadly resilient. With the UK remaining in lockdown, sentiment has been subdued in early 2021, but as the vaccination programme gathers pace optimism about the path to recovery is returning.

Over the 12-month period to 31 March 2021, Sterling appreciated by 11.3% against the US Dollar from \$1.24 to \$1.32. Sterling appreciated by 13.9% against the Yen from ¥133.86 to ¥152.46. Sterling appreciated against the Euro by 3.9% from €1.13 to €1.17 over the same period.

## Cornwall Pension Fund Investment Performance 2020/21

This report is produced by Mercer Limited ("Mercer") to assess the performance and risks of the investment managers of the Cornwall Pension Fund (the "Fund"), and of the Fund as a whole.

### Fund performance

The Fund returned 15.4% in 2020/21 which is above the expected absolute return assumption of 4.1% p.a. as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). The Fund returns were above the Total Fund benchmark by 1.4%. Over three years to 31 March 2021, the Fund achieved a return of 6.6% p.a. compared with a Total Fund benchmark of +7.9% p.a.

The **Equity portfolio** consists of Global, Emerging and Sustainable allocations. Over the year to 31 March 2021, the total Equity assets returned 36.9%. This was mainly due to strong absolute performance generated by all of the underlying equity funds in the portfolio. Despite the turbulent start to the year in early April 2020, as the COVID-19 pandemic continued to hurt global markets, equity markets have since recovered sharply, reaching all-time highs. During the year the Fund completed the transition of all equity allocations to Brunel.

The **Multi Asset Credit (MAC)** holding with Insight Investment Management outperformed its benchmark by 9.1%; producing a positive absolute return of 14.3%.

The **Alternatives portfolio** consists of different asset classes such as Diversified Growth (DGF), Infrastructure, Hedge Funds, Private Equity and Private Credit. Over the year, Alternatives produced a positive return of 10.8%, outperforming its benchmark of 5.2% p.a. by 5.6%. The outperformance was due to positive relative returns generated by almost all of the invested funds with the exception of Aberdeen Standard (Private Equity), ETFs Environmental Technology Fund (Private Equity) and Golub's Capital Partners Fund (Private Credit).

Over the year, the **Property portfolio** outperformed its benchmark by 0.9%, generating a positive absolute return of 2.7%. Over the three year period, Property outperformed its benchmark by 1.4% p.a., generating positive absolute return of 3.6% p.a.

The **DGF portfolio** consists of a single allocation, the Invesco Balanced Risk 8 Fund, which makes up around 11.3% of the total assets as at 31 March 2021. Over the 1 year period, the Fund outperformed its benchmark by 18.8%, and over the 3 year period underperformed its benchmark by 0.9% p.a.

Over the course of the year as shown below, the **Tactical Asset Allocation Portfolio ("TAAP")** had exposure to Developed Equity, Emerging Market Equity,

# Performance of the Fund

Listed Infrastructure, Listed Real Estate, Commodities, Emerging Market Debt and Credit. It returned 13.9% over the year, underperforming its benchmark by 6.9%.

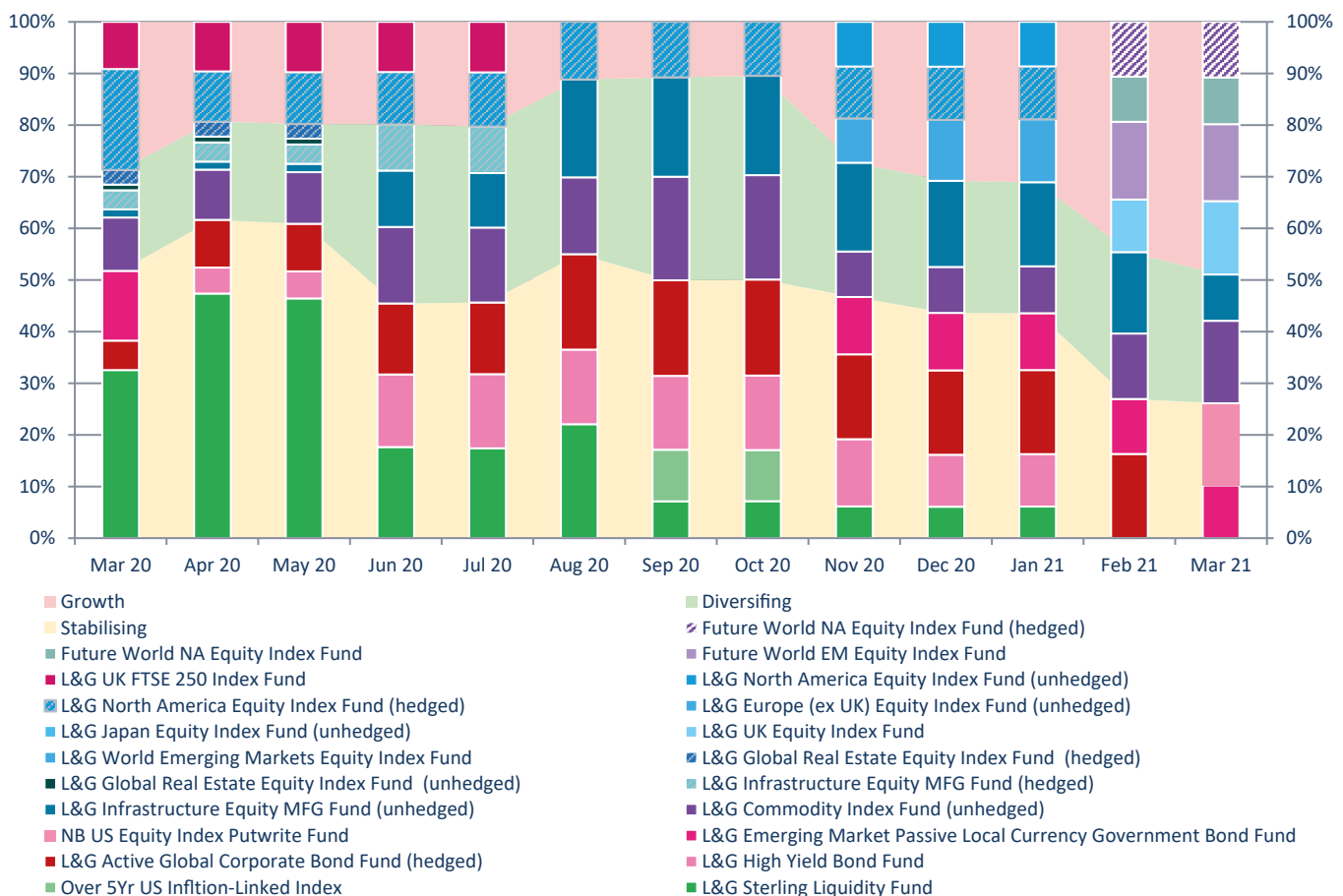
The chart below demonstrates the diversified nature of the holdings within the TAA Portfolio. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group from March 2020 to March 2021.

The **Infrastructure** portfolio consists of Infracapital, Federated Hermes, and the Brunel Infrastructure Portfolio. Both Hermes and Brunel produced positive absolute and relative returns over the year. Over the year the fund committed monies to Brunel's second cycle infrastructure portfolio.

The **Private Equity portfolio** consists of Aberdeen Standard's mandate, Wilshire's mandate, Environmental Technologies, and Brunel's second cycle portfolio (although this investment only made its first capital drawdown late in the year). Wilshire was the top performer, producing 1.4% over the year. Both Aberdeen Standard Life and the Environmental Technologies fund produced negative returns over the year.

The **Private Credit** portfolio consists of the Golub Capital Partners International Fund and Arcmont Senior Loan Fund. Arcmont produced positive absolute and relative returns over the year, outperforming its benchmark by 1.8%. Although a -5.5% 12-month performance figure is being quoted for Golub, the actual performance, in USD terms, was +5.0%. The Golub fund is USD denominated, whereas the Fund's custodian, State Street, report performance in GBP. The difference in reported performance is therefore due to the currency movement over the year.

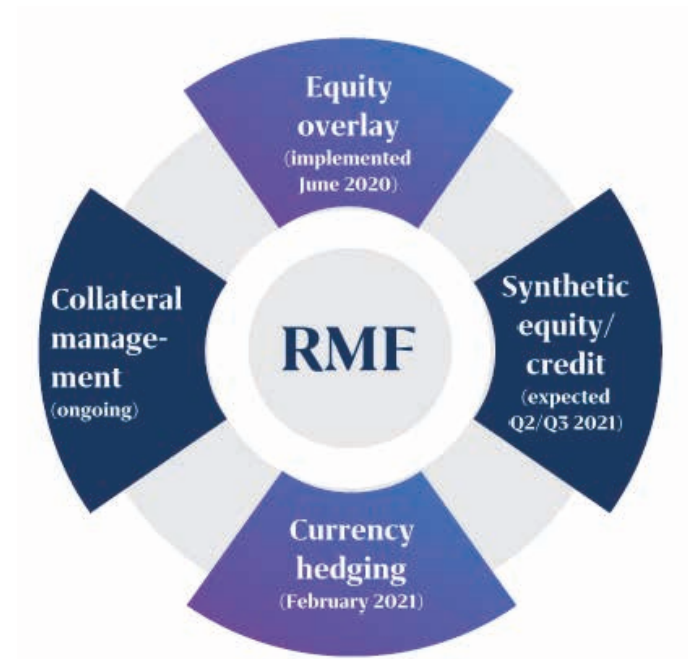
The **Risk Management Framework** consists of an equity overlay and currency hedging mandate managed by Blackrock. As at 31 March 2021 the strategy was 3.6% overweight relative to its strategic allocation.



# Performance of the Fund

The diagram below illustrates the individual components of the framework, including the introduction of new strategies for risk mitigation/minimisation.

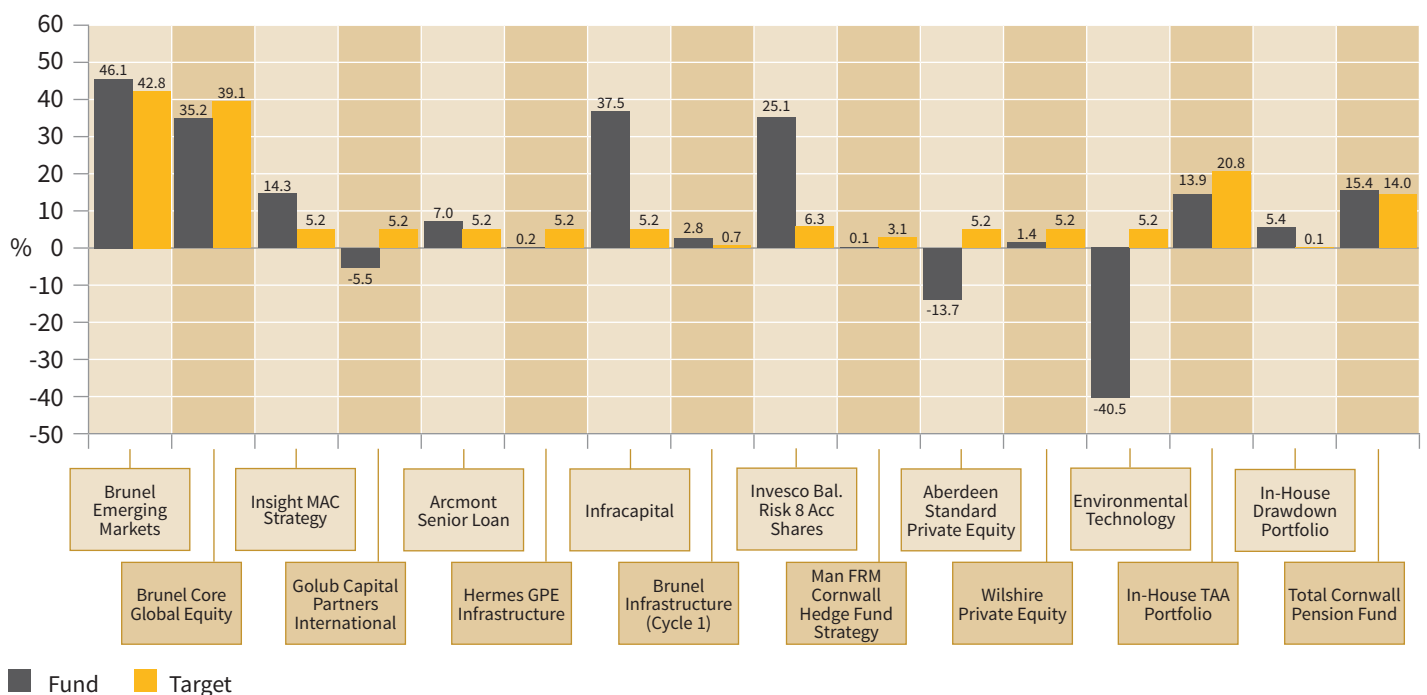
The Fund made a number of other changes to its investment strategy (further details are provided later in this section) and the implementation of these changes has now begun.



## Manager Performance Summary

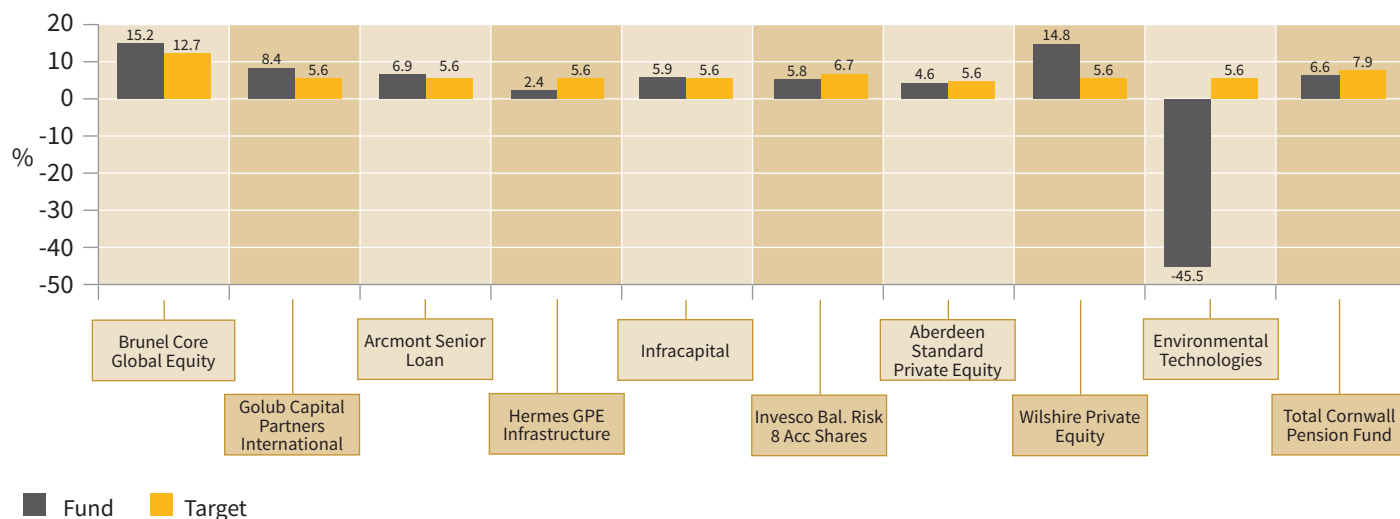
The following charts below summarise the performance for 12 months, 3 year and 5 year against the target for each of the Fund's asset classes and managers together with the total Fund.

**Performance chart - 12 Month to 31 March 2021**



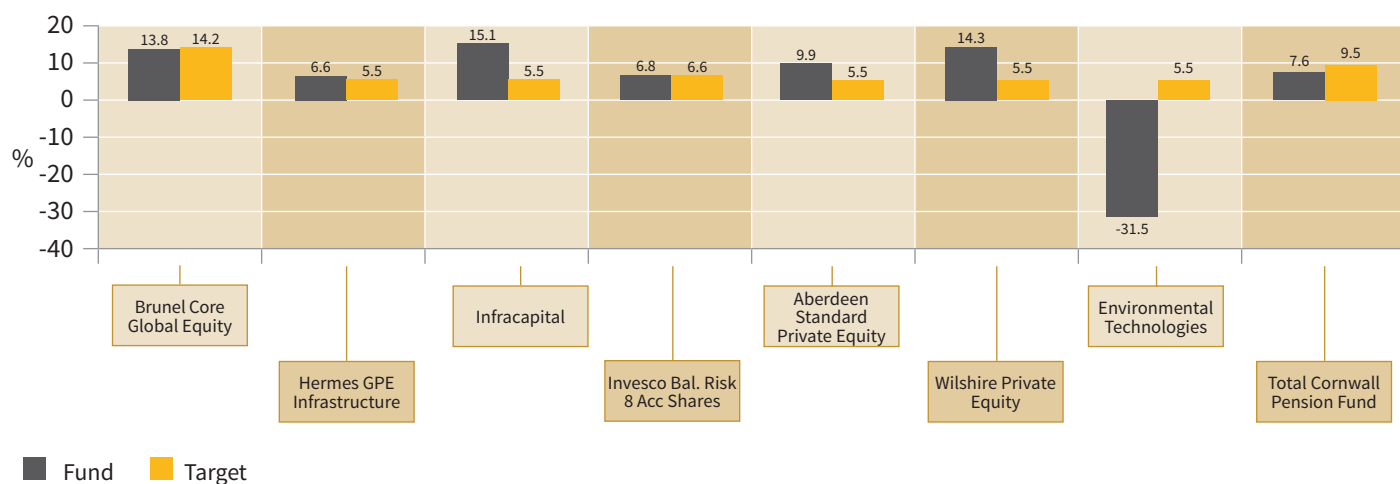
# Performance of the Fund

## Performance chart - 3 Years to 31 March 2021



Brunel Core Global Equity figures are shown as the underlying fund manager has remained.

## Performance chart - 5 Years to 31 March 2021



Brunel Core Global Equity figures are shown as the underlying fund manager has remained.



# Performance of the Fund

## Investment Strategy

Although the Fund is a long-term investor, it had previously been agreed that an annual “light touch” review of the Fund’s investment strategy would be carried out. However, given market conditions changed significantly during the year, after one of the worst economic crises following the COVID pandemic, it was requested that Mercer conduct an in-depth review of the Investment Strategy.

This review produced a number of recommendations. The new strategy is shown in the table below, and shows the change from the previous strategy:

|                                   | Old Strategic Allocation | New Strategic Allocation | Change   |
|-----------------------------------|--------------------------|--------------------------|----------|
| Developed Market Equity           | 23.0%                    | 23.0%                    | ↔        |
| Split into: Developed Core Equity | 10.0%                    | 10.0%                    | n/a      |
| Global Sustainable Equity         | 13.0%                    | 13.0%                    | n/a      |
| Emerging market equity            | 8.0%                     | 8.0%                     | ↔        |
| Diversified growth                | 5.0%                     | 7.5%                     | ↑        |
| Tactical Asset Allocation         | 8.0%                     | 8.0%                     | ↔        |
| <b>Growth Assets</b>              | <b>44.0%</b>             | <b>46.5%</b>             | <b>↑</b> |
| Hedge Funds                       | 7.5%                     | -                        | ↓        |
| Social Impact Portfolio           | -                        | 5.0%                     | ↑        |
| Property                          | 7.5%                     | 7.5%                     | ↔        |
| Private equity                    | 5.0%                     | 5.0%                     | ↔        |
| Infrastructure                    | 12.0%                    | 12.0%                    | ↔        |
| Private Credit                    | 6.0%                     | 6.0%                     | ↔        |
| <b>Alternative Assets</b>         | <b>38.0%</b>             | <b>35.5%</b>             | <b>↓</b> |
| Multi Asset Credit                | 5.0%                     | 5.0%                     | ↔        |
| Risk Management Framework         | 13.0%                    | 13.0%                    | ↔        |

The following table shows the strategic asset allocation compared to the actual asset allocations as at 31 March 2021. It is expected that a number of asset classes will be underweight or overweight for an interim period until the portfolio is fully constructed.

| Asset Class                          | 2020 Strategic Allocation (%) | Actual Allocation at 31 Mar 2021 (%) |
|--------------------------------------|-------------------------------|--------------------------------------|
| <b>Developed Market Equity</b>       | 23                            | 25.7                                 |
| - Developed Core Equity              | 10                            | 12.2                                 |
| - Global Sustainable Equity          | 13                            | 13.5                                 |
| Emerging Market Equity               | 8                             | 9.1                                  |
| Diversified Growth                   | 7.5                           | 11.3                                 |
| Tactical Asset Allocation            | 8                             | 6.1                                  |
| Social Impact Portfolio <sup>1</sup> | 5                             | 0                                    |
| Hedge Funds                          | 0                             | 5.6                                  |
| Property                             | 7.5                           | 6.4                                  |
| Private Equity                       | 5                             | 2.3                                  |
| Infrastructure                       | 12                            | 5.9                                  |
| Private Credit                       | 6                             | 3.2                                  |
| Multi-Asset Credit                   | 5                             | 4.1                                  |
| Risk Management Framework            | 13                            | 16.6                                 |
| Cash <sup>2</sup>                    | 0                             | 3.4                                  |

<sup>1</sup> Manager selection process for Social Impact Portfolio is ongoing.

<sup>2</sup> Cash and others consist of Fund cash, residuals, Brunel cash, and In-House Drawdown portfolio.

# Performance of the Fund

## LGPS Code of Transparency

In 2017, the LGPS Scheme Advisory Board introduced a Code of Transparency for asset managers, to encourage transparent reporting of costs. The Code is voluntary but is being widely adopted across the LGPS including within the developing pools. The Scheme Advisory Board is monitoring and reporting on those managers that have committed to the Code, and it is pleasing to note that the majority of the Fund's major managers (by assets under management) have signed up:

Aberdeen Standard Investments

MAN Group

Invesco

Federated Hermes

M&G (Infracapital)

Insight Investment

Blackrock

Newton

## United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to Sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. It is pleasing to report that the majority of the Fund's major managers (by assets under management) are UNPRI signatories.

Aberdeen Standard Investments:

MAN Group

Invesco

Federated Hermes

M&G (Infracapital)

Insight Investment

Wilshire Associates Incorporated

Blackrock

Newton

## Private Markets Portfolio

Private Markets Portfolio as at 31 March 2021

| Investment                          | Number of Funds |
|-------------------------------------|-----------------|
| <b>Property Open Ended Holdings</b> | <b>19</b>       |
| Brunel UK Property                  | 18              |
| Brunel International Property       | 1               |
| <b>Infrastructure</b>               | <b>10</b>       |
| Infracapital                        | 2               |
| Federated Hermes                    | 1               |
| Brunel                              | 2               |
| <b>Private Equity</b>               | <b>10</b>       |
| Aberdeen Standard                   | 3               |
| Wilshire                            | 6               |
| Environmental Technologies          | 1               |
| Brunel                              | 1               |
| <b>Private Credit</b>               | <b>2</b>        |
| Golub Capital Partners              | 1               |
| Arcmont Senior Loan                 | 1               |
| Brunel                              | 1               |



**Kieran Harkin**

Head of LGPS Investment – Mercer

# Performance of the Fund

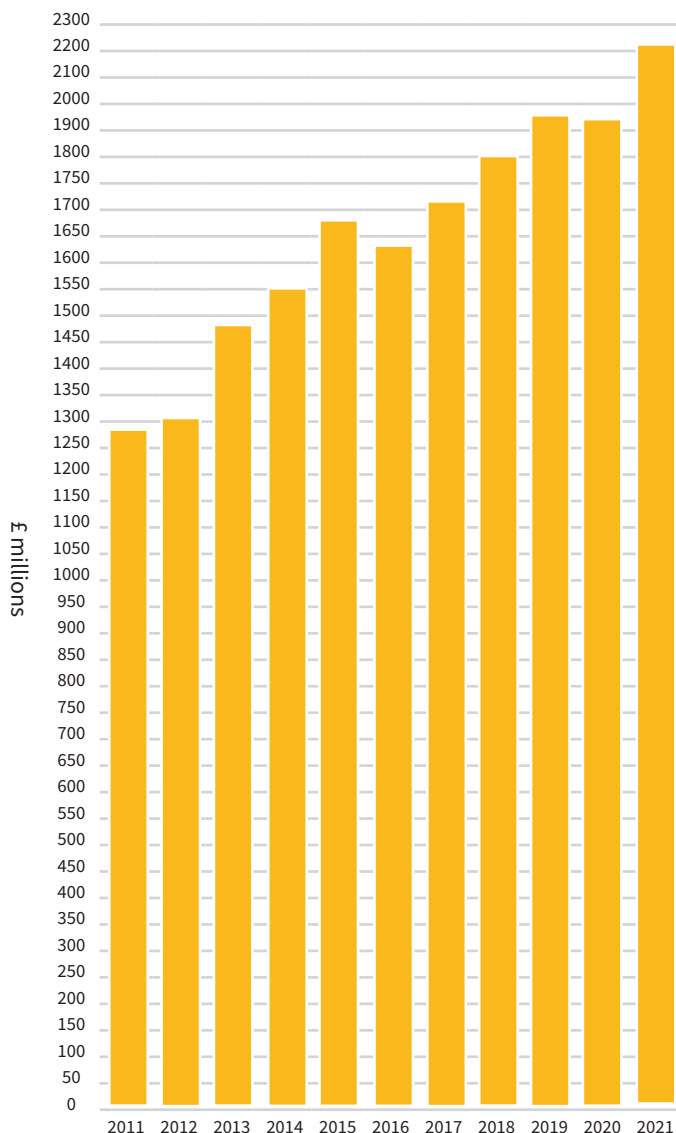
## Market values

The market value of the Fund's investments, cash and other assets, on the 31 March 2021 was £2,222 million, compared with a value of £1,914 million on the 31 March 2020.

|                             | % of the Fund |       |
|-----------------------------|---------------|-------|
|                             | 2016          | 2021  |
| Unit Trust Bonds            | 15.4          | 0.0   |
| Overseas equities           | 30.7          | 35.0  |
| Private equities            | 3.8           | 2.3   |
| Property unit trusts        | 7.3           | 6.4   |
| Diversified growth fund     | 12.3          | 11.4  |
| Private debt                | 0.0           | 3.2   |
| Liability driven investment | 16.1          | 0.0   |
| Risk Management Framework   | 0.0           | 16.6  |
| Multi Asset Credit          | 0.0           | 4.2   |
| Other investments           | 11.9          | 20.0  |
| Cash                        | 2.5           | 0.9   |
|                             | 100.0         | 100.0 |

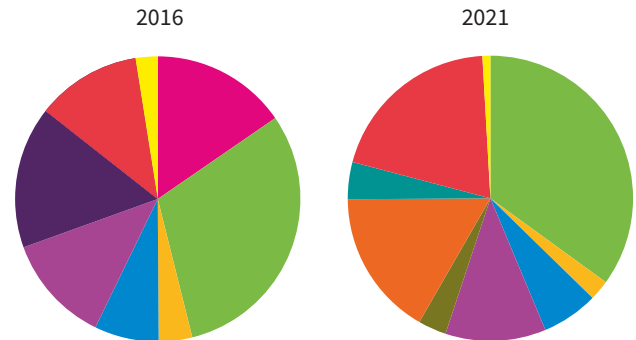
N.B. Other investments includes hedge funds, infrastructure funds and unitised insurance funds.

The chart below shows the movement of market values (including cash and other assets) since 2011.



Market values from 31 March 2011 to 31 March 2021

## How the Fund's assets have been invested



## Income on the Fund

A meaningful assessment of future income must take account of how much we can expect income to increase with inflation and how far the growth in capital can increase the money available to pay out the Fund's liabilities.

During 2020-21, the income created by the Fund's investments, net of tax, was £10.786m and represented a return of 0.50% on the average market value. The return achieved in 2019-20 was 1.18%. This does not represent all dividend income for the Fund. Other income is generated by the Fund's investments but the holdings are in accumulation share classes, which are held for capital growth. The income is held back and reflected in the unit price.

# Performance of the Fund

## Tables on equity and property fund holdings

| <b>Pooled equity funds on 31 March 2021</b> | <b>£m</b>      |
|---|----------------|
| Brunel Global Sustainable Equities          | 298.634        |
| Brunel Core Global Equities                 | 270.901        |
| Brunel Emerging Market Equities             | 202.728        |
| <b>Total pooled equity funds</b>            | <b>772.263</b> |

| <b>Largest 10 Brunel Global Sustainable Equities holdings on 31 March 2021</b> | <b>%</b> |
|--|----------|
| Marketaxess Holdings Inc   | 3.2%     |
| Mastercard Inc - A   | 2.9%     |
| Ansys Inc  | 2.6%     |
| Adyen NV   | 2.5%     |
| Workday Inc - Class A  | 2.3%     |
| Microsoft Corp   | 2.0%     |
| Tradeweb Markets Inc - Class A   | 1.9%     |
| Masimo Corp  | 1.8%     |
| Alphabet Inc - CL A  | 1.8%     |
| Ecolab Inc   | 1.8%     |

| <b>Largest 10 Brunel Core Global Equities holdings on 31 March 2021</b> | <b>%</b> |
|---|----------|
| Microsoft Corp  | 5.2%     |
| Apple Inc   | 4.6%     |
| Alphabet Inc - CL A   | 4.5%     |
| Amazon.com Inc  | 4.0%     |
| Citigroup Inc   | 3.2%     |
| Goldman Sachs Group Inc   | 3.1%     |
| Samsung SDI Co Ltd  | 2.8%     |
| Sony Corp   | 2.7%     |
| Applied Materials Inc   | 2.6%     |
| AIA Group Ltd   | 2.6%     |

| <b>Largest 10 Brunel Emerging Market Equities holdings on 31 March 2021</b> | <b>%</b> |
|---|----------|
| Taiwan Semiconductor Manufacturing  | 7.2%     |
| Tencent Holdings Ltd  | 6.5%     |
| Samsung Electronics Co Ltd  | 4.1%     |
| Alibaba Group Holdings - SP ADR   | 3.2%     |
| Ishares MSCI India ETF  | 2.5%     |
| Sberbank PJSC - Sponsored ADR   | 2.1%     |
| Alibaba Group Holdings Ltd  | 1.8%     |
| AIA Group Ltd   | 1.8%     |
| Naspers Ltd - N SHS   | 1.5%     |
| Infosys Ltd - SP ADR  | 1.5%     |

| <b>Property unit trusts on 31 March 2021</b> | <b>£m</b>      | <b>%</b>      |
|--|----------------|---------------|
| Schroder UK Real Estate Fund                 | 27.775         | 19.8%         |
| CBRE UK Property PAIF                        | 25.725         | 18.3%         |
| UBS Triton Property Fund (Jersey)            | 23.271         | 16.6%         |
| Industrial Property Investment Fund          | 16.691         | 11.9%         |
| DV4 Limited                                  | 8.828          | 6.3%          |
| PP Property Finance PCC                      | 7.184          | 5.1%          |
| Bridges Property Alternatives Fund IV        | 6.032          | 4.3%          |
| Ardstone UK Regional Office Fund             | 5.725          | 4.1%          |
| Fiera Real Estate Long Income Fund           | 5.564          | 4.0%          |
| Ostara Japan Fund 3                          | 5.389          | 3.8%          |
| UBS Triton Property Unit Trust               | 4.383          | 3.1%          |
| Curlew Student Trust                         | 1.637          | 1.2%          |
| Nuveen UK Shopping Centre Fund               | 1.413          | 1.0%          |
| Fiera Real Estate Opportunity Fund IV        | 0.295          | 0.2%          |
| M&G Real Estate Debt Fund III LP             | 0.239          | 0.2%          |
| FRXL Co-Investment LP                        | 0.114          | 0.1%          |
| M&G Real Estate Debt Fund II LP              | 0.082          | 0.1%          |
| RREEF UK Property Ventures Fund No.3         | 0.068          | 0.0%          |
| FRXL Co-Investment 2 LP                      | 0.044          | 0.0%          |
| <b>Total Property Unit Trusts</b>            | <b>140.459</b> | <b>100.0%</b> |



# Performance of the Fund

## An analysis of fund assets and investment income

| Fund assets, by class, on 31 March 2021 | UK<br>£m       | Non-UK<br>£m   | Global<br>£m     | Total<br>£m      |
|---|----------------|----------------|------------------|------------------|
| Equities                                | -              | 202.728        | 569.535          | 772.263          |
| Alternatives                            | 615.688        | 129.171        | 671.548          | 1,416.407        |
| Cash and cash equivalents               | 19.660         | 2.209          | -                | 21.869           |
| <b>Total</b>                            | <b>635.348</b> | <b>334.108</b> | <b>1,241.083</b> | <b>2,210.539</b> |

N.B. Global includes an amount of UK

| Fund investment income, by class, during 2020-21   | UK<br>£m     | Non-UK<br>£m | Global<br>£m | Total<br>£m   |
|--|--------------|--------------|--------------|---------------|
| Private equities, infrastructure and private debt  | 0.984        | 1.641        | 2.175        | 4.800         |
| Pooled Property Funds                              | 3.585        | -            | -            | 3.585         |
| Gain on foreign currency transactions when trading | -            | 0.236        | -            | 0.236         |
| Interest on cash deposits                          | -            | -            | 0.460        | 0.460         |
| Other <sup>1</sup>                                 | -            | -            | 1.705        | 1.705         |
| <b>Total</b>                                       | <b>4.569</b> | <b>1.877</b> | <b>4.340</b> | <b>10.786</b> |

<sup>1</sup> Income from underlying Multi-Asset Credit investments.

## Financial Performance

| Transactions with Scheme Members        | 2020/21<br>Original<br>Estimate<br>£' 000 | 2020/21<br>Actuals<br>£' 000 | 2020/21<br>Variance<br>£' 000 | 2021/22<br>Estimate<br>£' 000 | 2022/23<br>Estimate<br>£' 000 | 2023/24<br>Estimate<br>£' 000 |
|---|---|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Income</b>                           |   |                              |                               |                               |                               |                               |
| Employees' contributions                | 17,950                                    | 18,832                       | 882                           | 18,100                        | 18,350                        | 18,500                        |
| Employers' contributions                | 71,000                                    | 77,078                       | 6,078                         | 71,200                        | 72,000                        | 72,500                        |
| Transfers In                            | 4,000                                     | 6,093                        | 2,093                         | 4,000                         | 4,000                         | 4,000                         |
|   | <b>92,950</b>                             | <b>102,003</b>               | <b>9,053</b>                  | <b>93,300</b>                 | <b>94,350</b>                 | <b>95,000</b>                 |
| <b>Expenditure</b>                      |   |                              |                               |                               |                               |                               |
| Transfers out                           | 4,000                                     | 4,180                        | 180                           | 4,000                         | 4,000                         | 4,000                         |
| Benefits paid - Pensioners              | 59,500                                    | 61,416                       | 1,916                         | 62,250                        | 63,500                        | 65,000                        |
| Benefits paid - Widows and Dependants   | 5,000                                     | 5,065                        | 65                            | 5,300                         | 5,400                         | 5,500                         |
| Benefits paid - Lump sums               | 12,250                                    | 14,039                       | 1,789                         | 14,000                        | 13,000                        | 13,200                        |
| Benefits paid - Death benefits          | 1,600                                     | 1,490                        | (110)                         | 1,600                         | 1,700                         | 1,800                         |
| <b>Total Expenditure</b>                | <b>82,350</b>                             | <b>86,190</b>                | <b>3,840</b>                  | <b>87,150</b>                 | <b>87,600</b>                 | <b>89,500</b>                 |
| <b>Net dealings with Scheme Members</b> | <b>10,600</b>                             | <b>15,813</b>                | <b>5,213</b>                  | <b>6,150</b>                  | <b>6,750</b>                  | <b>5,500</b>                  |

| Expenditure   | 2020/21<br>Original<br>Estimate<br>£' 000 | 2020/21<br>Actuals<br>£' 000 | 2020/21<br>Variance<br>£' 000 | 2021/22<br>Estimate<br>£' 000 | 2022/23<br>Estimate<br>£' 000 | 2023/24<br>Estimate<br>£' 000 |
|---|---|------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Brunel Service Charge (Including Custodian Charges) | 980                                       | 923                          | (57)                          | 918                           | 944                           | 986                           |
| Fund Advisers Fees and Costs                        | 270                                       | 213                          | (57)                          | 300                           | 310                           | 290                           |
| Fund Actuary's Costs                                | 150                                       | 136                          | (14)                          | 220                           | 260                           | 240                           |
| Legal fees, subscriptions and other costs           | 100                                       | 97                           | (3)                           | 100                           | 100                           | 100                           |
|   | <b>1,500</b>                              | <b>1,369</b>                 | <b>(131)</b>                  | <b>1,538</b>                  | <b>1,614</b>                  | <b>1,616</b>                  |

# Performance of the Fund

| <b>Fund Manager Fees</b>     | <b>2020/21</b>            | <b>2019/20</b>            | <b>2018/19</b>            | <b>2017/18</b>            | <b>2016/17</b>            |
|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                              | <b>Actuals<br/>£' 000</b> | <b>Actuals<br/>£' 000</b> | <b>Actuals<br/>£' 000</b> | <b>Actuals<br/>£' 000</b> | <b>Actuals<br/>£' 000</b> |
| Management Fees <sup>1</sup> | 12,517                    | 11,077                    | 9,730                     | 8,743                     | 7,462                     |
| Performance Fees             | 482                       | 873                       | 356                       | 1,473                     | 119                       |
| Transaction Costs            | 1,723                     | 3,164                     | 2,779                     | 6,806                     | 3,702                     |
| Other Costs <sup>2</sup>     | 1,076                     | 2,404                     | 2,737                     | 2,048                     | 991                       |
| <b>Total Manager Fees</b>    | <b>15,798</b>             | <b>17,518</b>             | <b>15,602</b>             | <b>19,070</b>             | <b>12,274</b>             |

<sup>1</sup> Management Fees include the Brunel service charge

<sup>2</sup> Other Costs are investment management expenses incurred which do not fall into the other subheadings

| <b>Operating Expenses</b>       | <b>2020/21<br/>Original<br/>Estimate<br/>£' 000</b> | <b>2020/21<br/>Actuals<br/>£' 000</b> | <b>2020/21<br/>Variance<br/>£' 000</b> | <b>2021/22<br/>Estimate<br/>£' 000</b> | <b>2022/23<br/>Estimate<br/>£' 000</b> | <b>2023/24<br/>Estimate<br/>£' 000</b> |
|---------------------------------|---|---------------------------------------|--|--|--|--|
| Strategy and Investments        | 385   | 278                                   | (107)                                  | 410                                    | 413                                    | 409                                    |
| Pensions Administration Section | 1,002   | 913                                   | (89)                                   | 1,070                                  | 1,077                                  | 1,093                                  |
|                                 | <b>1,387</b>  | <b>1,191</b>                          | <b>(196)</b>                           | <b>1,480</b>                           | <b>1,490</b>                           | <b>1,502</b>                           |

# Asset pooling

## Brunel Pension Partnership

### Overview

Administering authorities are required by regulation to commit to a suitable pool to achieve benefits of scale. The Cornwall Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (Brunel). Cornwall Council has approved the full business case for Brunel, as have the other administering authorities. Brunel Pension Partnership Limited was formed in October 2016 and is wholly owned by the administering authorities. Brunel obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor.

It is anticipated that the remaining Fund's investment assets will be transitioned across from our existing investment managers to portfolios managed by Brunel by the end of 2021/22, in accordance with a timetable that has been agreed between the administering authorities and Brunel. This does not include the illiquid assets the Fund is already invested in, such as private equity, infrastructure and private debt, which will run off at a normal lifecycle. However, new commitments to these alternative asset classes will be made through Brunel, based on agreed principles.

Until such time as these transitions take place, the Fund will continue to maintain the relationships with our current investment managers and oversee their investment performance.

### Summary of 2020/21

During the course of the year, as part of the implementation of the Fund's investment strategy and the further implementation of pooling, the Fund transitioned a number of assets to Brunel, and also made new investments in Brunel funds, as detailed below.

The Fund disinvested £272m from its Newton Global Equity holding and invested the proceeds in the Brunel Global Sustainable Equity portfolio. This was part of the move toward the new strategic allocation agreed as part of the revised investment strategy in January 2020, which contains a 13% allocation to Global Sustainable Equity.

The Fund's Internally Managed Property portfolio moved across to Brunel, who will now be managing the portfolio on behalf of the Fund.

The property portfolio which was previously managed by Aberdeen Standard also moved across to Brunel, who will now be managing the portfolio on behalf of the Fund.

The Fund's Global Equity portfolio, managed by Newton, moved across to Brunel and will sit in Brunel's Global Core Equity fund, to which Newton is the appointed manager.



The Brunel Private Equity Portfolio, to which Cornwall has committed £55m, started to drawdown capital during the year, and was valued at £0.586m on the 31st March 2021.

The Brunel Infrastructure Portfolio, to which Cornwall has committed £140m, continued to drawdown capital through the year, and was valued at £26.242m on the 31st March 2021.

The Pool set up costs for Cornwall are detailed overleaf. There were no setup costs for 2020-21, as the company was operational by this point, however the cumulative total for the setup costs prior to this is shown below. Brunel's ongoing service charge to Cornwall Pension Fund for services provided for the year 2020-21 was £0.923m. The transition costs incurred during the year reflect the transition of the Fund's Global Equity portfolio to the Brunel Global Sustainable Equities Fund.

# Asset pooling

| Cornwall                                   | 2019-20<br>Direct<br>£000s | 2019-20<br>Indirect<br>£000s | 2019-20<br>Total<br>£000s | Cumulative<br>£000s |
|--|----------------------------|------------------------------|---------------------------|---------------------|
| <b>Set up cost:</b>                        |                            |                              |                           |                     |
| Recruitment                                | -                          | -                            | -                         | 18                  |
| Legal                                      | -                          | -                            | -                         | 133                 |
| Consulting, Advisory and Procurement       | -                          | -                            | -                         | 82                  |
| Other support costs e.g. IT, Accommodation | -                          | -                            | -                         | -                   |
| Share purchase / Subscription costs        | -                          | -                            | -                         | 840                 |
| Other working capital provided e.g. loans  | -                          | -                            | -                         | -                   |
| Staff costs                                | -                          | -                            | -                         | -                   |
| <b>Total set up costs</b>                  | <b>-</b>                   | <b>-</b>                     | <b>-</b>                  | <b>1,072</b>        |
| <b>Transition costs:</b>                   | <b>-</b>                   | <b>-</b>                     | <b>-</b>                  | <b>-</b>            |
| Transition Fee                             | -                          | 77                           | 77                        | 129                 |
| Tax  | -                          | -                            | -                         | 125                 |
| Other Transition Costs                     | -                          | 3,325                        | 3,325                     | 3,632               |
| <b>Total Transition costs:</b>             | <b>-</b>                   | <b>3,402</b>                 | <b>3,402</b>              | <b>3,886</b>        |

## Transition Timetable

Below is the current transition timetable (as at 31st March 2021). This is an indicative timetable. The prioritisation order will be kept under review with Client Group (a group made up of officers from the member funds), and while not driven by market events, notice will be taken of any potentially impactful circumstances.

| Portfolio                           | Asset Transition Date |
|-------------------------------------|-----------------------|
| Multi Asset Credit                  | Q1 2021/22            |
| Tactical Asset Allocation Portfolio | Q4 2021/22 (TBC)      |

## Original Business Case

Before Brunel was created, a complex financial model was developed by the Brunel Pension Partnership (the LGPS funds) in conjunction with PwC. This model analysed the costs and savings for the partnership as a whole and for each of the individual funds. The core model used showed that between the funds, there was a total of £550m forecast cumulative savings over the next 20 years.

Below are the Original Business Case projections for Cornwall Pension Fund. Whilst the Fund has now transitioned some of its assets across to Brunel, as detailed in the in the Summary of 2020/21 above, timing differences from the planned transition timetable used to create the Original Business Case has led to a delay in terms of incurring the expected transition costs and the Fund benefitting from cost savings.

| Original Business Case Projections - Cornwall | 2016<br>2017<br>£000 | 2017<br>2018<br>£000 | 2018<br>2019<br>£000 | 2019<br>2020<br>£000 | 2020<br>2021<br>£000 | 2021<br>2022<br>£000 | 2022<br>2023<br>£000 | 2023<br>2024<br>£000 | 2024<br>2025<br>£000 | 2025<br>2026<br>£000 | 2026<br>2036<br>£000 | Total<br>£000   |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------|
| Set up costs                                  | 117                  | 1,021                | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                    | -                    | 1,138           |
| Ongoing Brunel Costs                          | -                    | -                    | 383                  | 494                  | 510                  | 526                  | 543                  | 561                  | 579                  | 597                  | 7,142                | 11,336          |
| Clients Savings                               | -                    | -                    | (79)                 | (81)                 | (83)                 | (86)                 | (88)                 | (91)                 | (94)                 | (97)                 | (1,140)              | (1,838)         |
| Transition costs                              | -                    | -                    | 1,192                | 2,036                | 93                   | -                    | -                    | -                    | -                    | -                    | -                    | 3,321           |
| Fee savings                                   | -                    | -                    | 4                    | (730)                | (958)                | (1,108)              | (1,274)              | (1,451)              | (1,551)              | (1,657)              | (24,613)             | (33,338)        |
| <b>Net costs / (realised savings)</b>         | <b>117</b>           | <b>1,021</b>         | <b>1,500</b>         | <b>1,720</b>         | <b>(439)</b>         | <b>(668)</b>         | <b>(819)</b>         | <b>(981)</b>         | <b>(1,066)</b>       | <b>(1,156)</b>       | <b>(18,611)</b>      | <b>(19,383)</b> |



# Asset pooling

## Investment Fee Savings from Pooling

| Portfolio                         | Value In Original Business Case (31 March 2016) | Value at 31 March 2021 | Price variance | Quantity Variance | Total Variance |
|-----------------------------------|---|------------------------|----------------|-------------------|----------------|
|                                   | £'000   | £'000                  | £'000          | £'000             | £'000          |
| Emerging Markets                  | 155,635   | 202,728                | 442            | (181)             | 261            |
| Sustainable Equities <sup>1</sup> | -   | 298,634                | 422            | (887)             | (465)          |
| Global Core Equities              | 350,370   | 270,901                | 102            | 81                | 183            |
| Infrastructure Cycle 1            | -   | 18,691                 | 141            | 8                 | 149            |
| Infrastructure Cycle 2            | -   | 7,551                  | 241            | (441)             | (200)          |
| Property                          | 106,409   | 140,459                | 186            | (26)              | 160            |
| Private Equities                  | -   | 586                    | 1              | 157               | 158            |
| Private Debt                      | -   | -                      | 31             | (29)              | 2              |

<sup>1</sup> The Fund did not have an allocation to this portfolio in the original business case, therefore the asset portfolio's standard quoted fee rate has been used as a comparison to the negotiated Brunel fee rate.

This analysis shows the fee savings achieved for the assets that have transitioned to Brunel portfolios against the fees charged at the time the business case for pooling was prepared in 2016. It therefore ignores fee reductions that were negotiated with incumbent managers between the formulation of the business case and the transition to Brunel.

The price variance measures the extent to which fee rates have generated savings. The quantity variance measures the extent to which fees have changed in line with the value of the assets on which they are based. Please note these values have been calculated on an annualised basis.

### Risk Management Framework Note

For Cornwall's Risk Management Framework, the relationship is managed by Brunel and they have negotiated competitive fees compared to the standard terms on the strategies which the LGPS funds in the partnership can use; however, each strategy will be bespoke to each fund dependent upon their requirements.

Cornwall's Risk Management Framework is a dynamic protection framework that is made up of a number of different components including equity protection and currency hedging. Due to the aforementioned, and it not being in place when the Original Business Case was being put together, there is nothing appropriate to compare it to, which is why it is not covered in the above analysis.

### Private Markets Note

The Private Markets allocations shown are the new allocations made through Brunel and do not include legacy private market assets, that are still managed directly by the Cornwall Pension Fund.

The price variance has been calculated by comparing the assumed cost in the Original Business Case, to the actual cost of the portfolio.

### Expected v. Actual Costs and Savings to Date

Below is the outturn over the period this Annual Report covers, against the Original Business Case submission. As previously noted, due to timing differences of assets transitioning to Brunel, compared to the assumptions used in the Original Business Case, there is a timing difference for the savings being realised and transition costs being incurred. These will start to be realised later than was originally anticipated for Cornwall Pension Fund.

# Asset pooling

|                                       | 2019/20<br>Budget |                       | Actual       |                       | 2020/21<br>Budget |                       | Actual       |                       |
|---------------------------------------|-------------------|-----------------------|--------------|-----------------------|-------------------|-----------------------|--------------|-----------------------|
|                                       | Budget<br>In Year | Cumulative<br>to date | In Year      | Cumulative<br>to date | In Year           | Cumulative<br>to date | In Year      | Cumulative<br>to date |
|                                       | £'000             | £'000                 | £'000        | £'000                 | £'000             | £'000                 | £'000        | £'000                 |
| Set up costs                          | -                 | 1,138                 | -            | 1,072                 | -                 | 1,138                 | -            | 1,072                 |
| Ongoing Brunel Costs                  | 494               | 877                   | 1,052        | 1,632                 | 510               | 1,387                 | 923          | 2,555                 |
| Clients Savings <sup>1</sup>          | (81)              | (159)                 | (25)         | (25)                  | (83)              | (243)                 | (27)         | (52)                  |
| Transition costs                      | 2,036             | 3,228                 | 484          | 484                   | 93                | 3,321                 | 3,402        | 3,886                 |
| Fee savings <sup>2</sup>              | (730)             | (726)                 | (137)        | (137)                 | (958)             | (1,684)               | (1,568)      | (1,705)               |
| <b>Net costs / (realised savings)</b> | <b>1,720</b>      | <b>4,358</b>          | <b>1,374</b> | <b>3,026</b>          | <b>(439)</b>      | <b>3,919</b>          | <b>2,730</b> | <b>5,756</b>          |

<sup>1</sup>The “Client Savings” included an assumption that the Fund would make savings from a reduction in the use of investment consultants. Due to the evolution of the regulatory environment and the Fund’s investment strategy since the Business Case was put together in 2016, those assumptions have proven incorrect.

<sup>2</sup> The “Fee savings” is on an actual management fee savings incurred basis (the portfolios transitioned part way through the year) whereas the figures used in the Investment Fee Savings from Pooling table above, are calculated on an annualised basis.

## Cost Transparency – Investment Management Costs

The following table summarises investment management costs for 2020/21. It has been compiled from templates completed by each of the Fund’s investment managers as part of the cost transparency agenda, which aims to ensure full disclosure of all costs involved in investments. The table reconciles to the costs disclosed in note 8 within the Financial Statements, with the exception of the Brunel Asset Pool ‘Implicit Costs’, which represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the assets, when the asset transitions were taking place.

## Summary of Total Investment Management Costs

|  | Brunel Asset Pool |              |              |             | Non-Asset Pool |              |               |              | Fund Total    |             |
|--|-------------------|--------------|--------------|-------------|----------------|--------------|---------------|--------------|---------------|-------------|
|  | Direct            | Indirect     | Total        |             | Direct         | Indirect     | Total         |              |               |             |
|  | £'000             | £'000        | £'000        | bps         | £'000          | £'000        | £'000         | bps          | £'000         | bps         |
| <b>Management Fees</b>                     |                   |              |              |             |                |              |               |              |               |             |
| Ad Valorem                                 | 3,293             | -            | 3,293        | 25.2        | 8,301          | -            | 8,301         | 94.2         | 11,594        | 53.0        |
| Performance                                | 65                | -            | 65           | 0.5         | 417            | -            | 417           | 4.7          | 482           | 2.2         |
| Research                                   | -                 | -            | -            | -           | -              | -            | -             | -            | -             | -           |
| Other Charges                              | 444               | -            | 444          | 3.4         | -              | 632          | 632           | 7.2          | 1,076         | 4.9         |
| <b>Asset Pool Shared Costs<sup>1</sup></b> | -                 | 923          | 923          | 7.1         | -              | -            | -             | -            | 923           | 4.2         |
| <b>Transaction Costs</b>                   |                   |              |              |             |                |              |               |              |               |             |
| Transaction taxes                          | -                 | -            | -            | -           | -              | 213          | 213           | 2.4          | 213           | 1.0         |
| Broker commission                          | -                 | -            | -            | -           | -              | 355          | 355           | 4.0          | 355           | 1.6         |
| Implicit costs                             | -                 | 3,325        | 3,325        | 25.4        | -              | 297          | 297           | 3.4          | 3,622         | 16.5        |
| Indirect transaction costs                 | -                 | 305          | 305          | 2.3         | -              | 824          | 824           | 9.3          | 1,129         | 5.2         |
| Other transaction costs                    | -                 | -            | -            | -           | -              | 34           | 34            | 0.4          | 34            | 0.2         |
| Anti-dilution offset                       | -                 | -            | -            | -           | -              | (305 )       | (305 )        | (3.5)        | (305)         | (1.4)       |
| <b>Custody</b>                             | -                 | -            | -            | -           | -              | -            | -             | -            | -             | -           |
| <b>Other Costs</b>                         | -                 | -            | -            | -           | -              | -            | -             | -            | -             | -           |
| <b>Total</b>                               | <b>3,802</b>      | <b>4,553</b> | <b>8,355</b> | <b>63.9</b> | <b>8,718</b>   | <b>2,050</b> | <b>10,768</b> | <b>122.2</b> | <b>19,123</b> | <b>87.4</b> |

<sup>1</sup> Please note that the basis point rate (bps) of the Asset Pool Shared Costs will come down as more of the Fund’s assets transition into Brunel Portfolios.

# Asset pooling

The different types of costs itemised in the above table are defined below

**Ad Valorem Fees** are the management fees charged by the external fund managers based on the value of funds under their management. These may be invoiced or encashed from units held in pooled funds. Those shown as indirect relate to underlying funds.

**Performance Fees** are fees based on the fund manager having achieved a level of performance that warrants additional fees. These will be based on the manager having achieved performance above a hurdle rate, either an absolute return or relative to a benchmark, and then being entitled to a share of the profit from the return achieved above the hurdle rate.

**Other Charges** – This heading comprises all payments made to parties providing services to the pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses, to the extent these are not included under transaction costs, and any other fees or levies deducted from the pooled fund.

**Asset Pool Shared Costs** comprise the charges levied by the Brunel Pension Partnership to meet the costs of running the company. This excludes legacy custodian costs, included under “Custody”.

**Transaction Taxes** include stamp duty and any other financial transaction taxes.

**Broker Commission** comprises payments for execution of trades. Levies, such as exchange fees, settlement fees and clearing fees are included within broker commissions.

**Implicit Costs** represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset. The precise methodologies for calculating implicit costs are still being deliberated by regulators. The costs included in the table are based on the recommendation that firms may calculate implicit costs by reference to appropriate measures of market spread and portfolio turnover.

**Indirect Transaction Costs** are transaction costs incurred within pooled funds when they buy and sell their underlying investments.

**Other Transaction Costs** are items not included in any other category of transaction cost.

**Anti-Dilution Offsets** are the amounts collected in the period from dilution levies and dilution adjustments (in the case of swinging prices) or the equivalent amounts in relation to the issue and cancellation prices of dual priced funds. These are collected from investors making withdrawals or new investments in a pooled fund to compensate the existing investors in the fund for any impact of their trading on the fund.

**Custody** – the costs levied by the Fund’s custodian.

**Other Costs** include other costs incurred directly by the Cornwall Pension Fund for the management of investments, net of income received from stock lending.

# Responsible Investment

## Responsible Investment Review

The Cornwall Pension Fund's Pensions Committee ("Committee") has a fiduciary duty to act in the best interest of its members. To do this effectively the Committee recognises the importance of managing Environmental, Social and Corporate Governance ("ESG") issues, including climate change, that are financially material to the Fund, both in terms of opportunities and risks. What is more, there is a growing urgency with respect to long-term sustainability issues, particularly climate change. Therefore, it is imperative that ESG considerations and active ownership are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

The Fund has made significant progress in evolving its policies on responsible investment and climate change, since the previous version of this report was published last year. We are continuing to focus on this as a key priority for the Fund, and we continue to aspire to be at the forefront of responsible investment best practice.

As part of building upon our aspirations, the Fund has signed up to a number of commitments and affiliations to support us on our journey, which are detailed in this report. One of the pivotal commitments made this year, was the Fund being in the first wave of signatories to sign up to the ambitious Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Owner Commitment.

As part of this Net Zero Asset Owner Commitment, the Fund has made a number of commitments; including to achieve net-zero portfolio greenhouse gas emissions by 2050 or sooner and a number of actions which are necessary to enable this commitment to be achievable. Further information on the Fund's Net Zero commitment and pathway can be found in the Net Zero Commitment section on page 49.

The Committee has also revisited its beliefs and has updated its policies and processes, which have developed significantly since the previous version of the report was published. The Fund has also met its target commitment to sustainable and low carbon assets, and has reduced the carbon intensity of its equity portfolios. Further information can be found on page 48. The Committee recognises that ESG and stewardship are rapidly developing topics and will continue to develop its understanding, approaches, and ambition in these areas.

The Committee recognises the importance of working collaboratively with the Brunel Pension Partnership ("Brunel") to make the Fund's ESG approach effective.

The Committee defines Responsible Investment ("RI") as the integration of ESG issues into its investment processes and stewardship (or active ownership) practices in the belief this can positively impact financial performance over the long term.

The following sets out the Fund's beliefs and the work which has been done over the course of the year.

## Responsible Investment Beliefs

The Cornwall Pension Fund's Pensions Committee holds the following RI beliefs

|   |   |
|---|---|
| <b>Responsible investors</b>                  | We believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy and society.  |
| <b>Long time horizon</b>                      | We are investors with a long time horizon. This requires us to consider long-term sustainability issues, both in terms of opportunities and risks, as relevant to the Fund and its investment strategy.   |
| <b>ESG integration</b>                        | ESG issues can affect the performance of investment portfolios and should therefore be considered throughout the Fund's investment process.   |
| <b>Stewardship<sup>1</sup></b>                | Good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members. Voting is an integral part of the responsible investment and stewardship process.   |
| <b>Corporate<sup>2</sup> governance</b>       | The Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance in the companies in which we invest contributes to long-term value for our members.  |
| <b>Climate change as a systemic risk</b>      | Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our beneficiaries, employers, and our investment portfolio.  |
| <b>Climate change and the Paris Agreement</b> | Investing to support the Paris Agreement goals that keep a global temperature rise this century to well below 2°C relative to pre-industrial levels, is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries, employers, and our portfolio holdings. |

<sup>1</sup> Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." – The UK Stewardship Guide

<sup>2</sup> Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.



# Responsible Investment

## Responsible Investment Policy

The Cornwall Pension Fund publishes its own dedicated Responsible Investment Policy. The policy can be viewed here:

[Responsible Investment Policy](#)

The policy sets out the Committee's approach to RI and details the actions the Committee, Brunel Pension Partnership ("Brunel"), and other external providers take on behalf of the Fund's members and other stakeholders, to enhance long-term risk adjusted returns and protect the Fund from ESG and reputational risks.

## Climate change

The Committee recognises the commitments made by countries, regions, organisations and also local authorities such as Cornwall Council in relation to climate change. Climate change (and other long-term sustainability issues) present opportunities and risks that increasingly require explicit consideration by long-term investors.

### Our Climate Change Commitments

We are committed to:

- Investing at least 15% of our portfolio in sustainable and low carbon investments by 2022.
- Decarbonising our portfolio:
  - We will seek a carbon intensity improvement of at least 7% year-on-year in our listed equity portfolios. This will equate to over 20% lower carbon intensity than the benchmark (which Brunel is also seeking to improve – see below) by 2022.
  - We will also track and monitor (and report on) the fossil fuel exposure within our equity portfolio held with Brunel and are committed to this being materially lower than the benchmark.
- Assessing the strategic implications of climate change on an ongoing basis by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level. We have already undertaken this analysis and it has helped inform our decision to increase our strategic allocation to sustainable equities and renewable infrastructure.
- Adopting the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").
- Supporting Brunel in pressing the industry to make core benchmarks more compatible with a below 2°C aligned scenario.
- Encouraging Brunel on its engagement of the banking sector on their lending policies, to phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement.

## ESG Integration

The Fund retains responsibility for setting its investment strategy and its ambitions on ESG and responsible investment. Brunel will be responsible for managing ESG issues on behalf of the Fund for the assets invested in its portfolios, in line with the agreed Brunel policies and consistent with the Fund's RI and ESG goals.

Each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing value in relation to each portfolio and its objectives. These considerations are taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets.

The Committee fully supports and actively encourages Brunel's commitment to working with managers in asset classes and strategies where ESG integration is less well developed (for example multi-asset credit and private debt) and to improve this over time through better practices and product innovation, using its scale, knowledge, and influence to help drive change.

The Cornwall Pension Fund inputs into the development of Brunel's Responsible Investment Strategy and Policy, Climate Policy and Stewardship Policy through the Brunel Oversight Board, Brunel Client Group (officers from the local authority pension funds), and the Responsible Investment (RI) Sub-Group (officers of the funds and Brunel officers). See the chart below for an illustration of this structure.

Client Group provides oversight through monthly Responsible Investment updates, providing input on their committee and beneficiaries emerging needs and concerns. In addition, the Responsible Investment Sub-Group meets monthly and acts as a forum for further discussions on Responsible Investment topics. The RI Sub-Group provides an opportunity for us to:

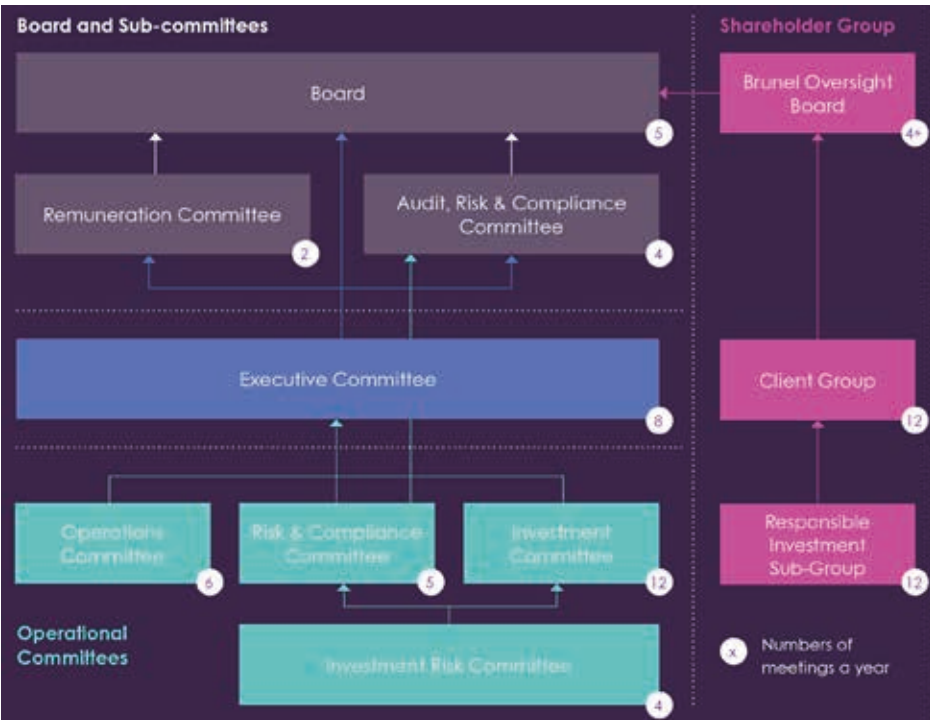
- Raise stewardship interests
- Share best practice with Brunel and amongst partner funds
- Provide insights on concerns, issues, and member perspectives
- Shape priorities of Brunel and EOS at Federated Hermes
- Review reporting outputs
- Knowledge share and receive a deeper dive into topics of interest
- Access expertise
- Consult on policy design and development

# Responsible Investment

The Fund seeks assurance through formal structures such as our interactions as a Shareholder of Brunel, the Brunel Oversight Board, Client Group, the RI Sub-Group, and ongoing reporting and presentations to the Committee, and other means that Brunel is fulfilling the agreed policy commitments with regards to ESG integration.

Workshops are conducted where a deeper awareness or education on a particular topic is useful. In 2020, workshop topics included the requirements of the new Stewardship Code, and sustainability-based investment outcomes and benchmarks. The Brunel team also presents frequently at Committee, Client Group meetings, Brunel Investor Days and dedicated responsible investment training events. These all provide a forum for the Fund to seek assurance or raise any areas of concern.

In 2020 the United Nations Principles for Responsible Investment (UNPRI) published a case study on Brunel’s client Sustainable Development Goals (SDG) workshop. The SDG’s were used in workshop training exercises in order to raise the awareness of important ESG factors. These exercises were a useful way to encourage wider thinking about the SDGs as a tool for Strategic Asset Allocation (SAA) construction, identifying potential risks and opportunities and engagement. The Brunel Board regularly scrutinises Brunel’s Responsible Investment strategy which is overseen operationally by the Executive Committee. Further detail on the governance structure in place with Brunel can be found in their [Annual Report and Financial Statements](#).



Responsibility for managing specific ESG risks, including climate risk, as they affect the Cornwall Pension Fund and Brunel, are explicitly incorporated into the role specifications of Brunel’s Board, executives, and other key personnel. Brunel, on behalf of the Cornwall Pension Fund, expects appointed managers to weigh up and clearly demonstrate how Environmental, Social and Governance (ESG) risks and opportunities are embedded into their investment process and how it is as part of their wider evaluation of investment risk and return objectives as opposed to treating them as a stand-alone concern.

Brunel has built its responsible Investment approach on three pillars: to integrate sustainability criteria into its operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in its activities.

Responsible Investment Overview of ESG in action at Brunel

|                          | <br>To Integrate  | <br>To Collaborate   | <br>To be Transparent                                     |
|--------------------------|--|---|--|
| Own Operations           | <ul style="list-style-type: none"> <li>Board commitment</li> <li>In all we do</li> <li>Staff objectives</li> </ul>   | <ul style="list-style-type: none"> <li>Contributing to local and global community initiatives</li> <li>Diversity and inclusion ambassadors</li> </ul>   | <ul style="list-style-type: none"> <li>Best practice own reporting including climate change, diversity and tax</li> </ul>                    |
| Portfolio Implementation | <ul style="list-style-type: none"> <li>All asset classes globally</li> <li>Fully integrate into managers selection</li> <li>Low carbon and sustainability portfolio options</li> </ul> | <ul style="list-style-type: none"> <li>Innovating investment solutions</li> <li>Cross pool collaboration</li> <li>ESG risk metrics and tools</li> </ul> | <ul style="list-style-type: none"> <li>Impact reporting</li> <li>Positive case studies</li> <li>Carbon and sustainability metrics</li> </ul> |
| Responsible Stewardship  | <ul style="list-style-type: none"> <li>Single voice</li> <li>Active engagement</li> </ul>  | <ul style="list-style-type: none"> <li>Annual engagement plan</li> <li>See Partnerships and Affiliations</li> </ul>                                     | <ul style="list-style-type: none"> <li>Proxy voting Policy and records</li> <li>Pre-declaration on selective votes</li> </ul>                |

# Responsible Investment

Brunel's manager selection process is central to the effective implementation of the Partnership's Responsible Investment, Stewardship and Climate policies. Managers must be able to clearly demonstrate how ESG is embedded into their investment process. Brunel also examines a manager's organisational culture and approach to teams, challenge, risks, and approach to stewardship. The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus the manager selection criteria are determined for each search. Managers are asked to provide an overview of their approach to Stewardship and engagement, how it's undertaken, by whom, how priorities are identified and how it fits into the overall investment approach. A case study illustrating how ESG and RI are integrated into the procurement process is detailed in a [Case Study](#) on Brunel's website.

Brunel's Asset Management Accord was designed to help clarify understanding and shape expectations in the implementation of the investment mandate awarded. The accord captures not only its expectations of managers, but also the spirit of what they can expect from Brunel. It supports long-term sustainable finance and specifically calls on managers to work collaboratively with Brunel across five main areas, being long term, communication, responsible investment and stewardship, collaboration, and thought leadership and innovation. Further details located here: [Asset Manager Accord](#).

The Brunel Partnership expects companies and fund managers to effectively identify and manage the financially material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business models. We have an expectation that companies should:

- put in place specific policies and actions, both in their own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 2°C.
- disclose climate related risks and actions to mitigate these in line with latest best practice guidelines, such as those of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).
- include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. As part of its manager selection and ongoing monitoring Brunel use data from the Transition Pathway Initiative (TPI) and carbon foot printing. Both these tools greatly inform portfolio construction and design.

## Resources and Incentives

The Pension Fund workforce structure can be seen in the Governance section of this report, on page 9. Within the Investments Team, there are two Investment Analysts. One of the Investment Analysts is dedicated to the Fund's Responsible Investment and ESG work. The work done by this Analyst is peer reviewed by the second Analyst, and this work is subsequently reviewed and challenged, where necessary, by the Pensions Investment Manager and the Head of Pensions, Treasury and Technical.

Staff at the Cornwall Pension Fund do not receive bonus pay. Responsible investment is a component of staff's annual objectives which informs annual appraisals.

Brunel's people profiles are publicly available on their website. They also voluntarily publish their gender pay gap reporting within their annual report and accounts. Brunel has a dedicated Responsible Investment team, including a dedicated Stewardship Manager who oversees voting and engagement. Stewardship at Brunel is applied across three avenues. Firstly, by appointed asset managers, secondly, through a specialist provider EOS at Federated Hermes (EOS), and lastly via collaborative forums. Brunel seeks to undertake direct engagement on our behalf where they feel that this will add value. The appointment of a dedicated engagement and voting provider enables a wider coverage of assets and access to further expertise across different engagement themes. The EOS team is diverse, made up of many nationalities and language capabilities, which facilitates engagement in local language and an understanding of cultural customs.

Staff at Brunel do not receive bonus pay. Responsibility for managing specific ESG risks, including climate risk are explicitly incorporated into Brunel's investment principles and the role specifications of its Board, executives, and other key personnel. Responsible investment is a component of staff's annual objectives which informs annual appraisals.

## Review and Assurance

The Cornwall Pension Fund has a Local Pension Board who's role is to provide an oversight function to the Pensions Committee and in assisting the Administering Authority with ensuring its compliance with regulations and best practice. The Local Pension Board Work Plan includes reviewing Fund policies to ensure they remain relevant and effective. More information on the Local Pension Board can be found in the Local Pension Board Annual Report, which starts on Page 16.

The Fund produces a Responsible Investment Work Plan which identifies any areas for review. This is part of the Fund's [Business Plan](#).

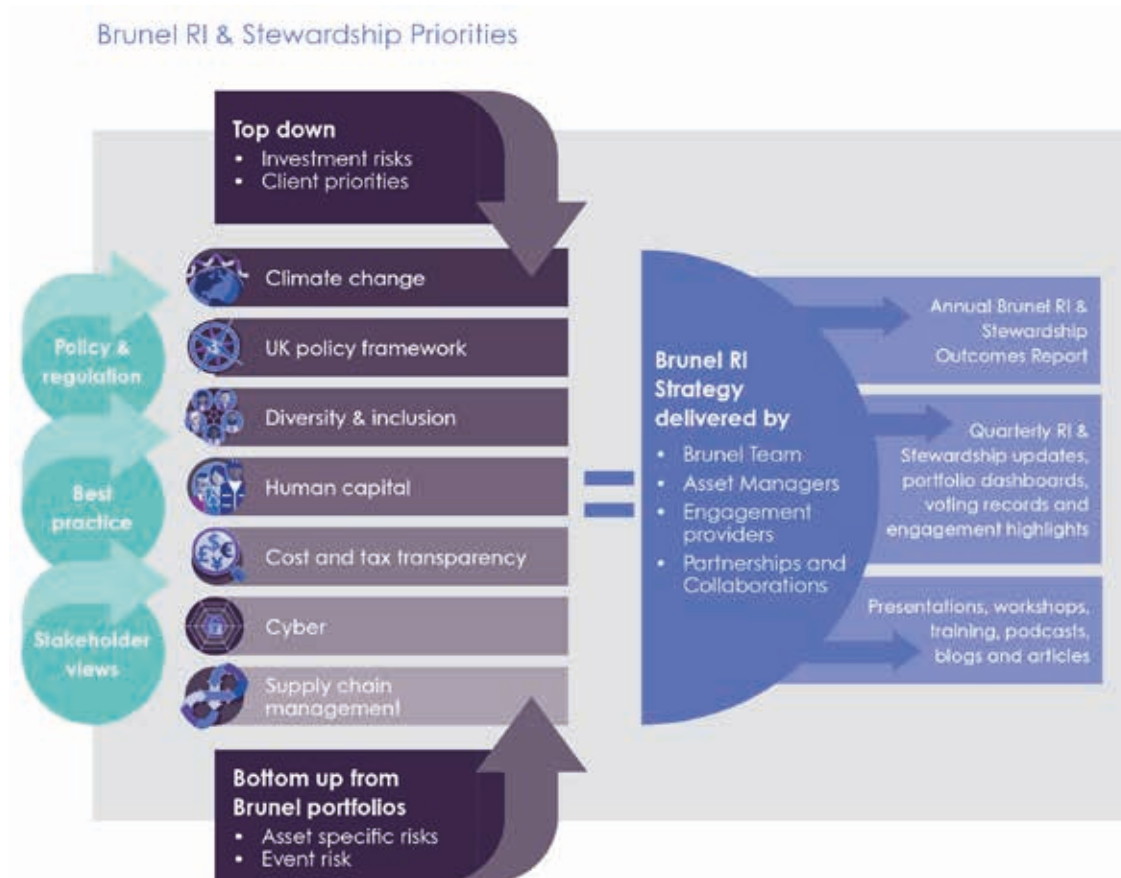
Whilst the strategy and policies are designed for the



# Responsible Investment

long term (5+ years), they are reviewed annually. The Brunel Board approves and is collectively accountable for the broader suite of Brunel's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Stewardship Manager to ensure high levels of coordination and implementation.

The Cornwall Pension Fund communicated its priorities and policies when Brunel's seven responsible investment priority themes were developed. The seven priority themes, as part of an integrated Responsible Investment process, are illustrated in the diagram below. Brief information on the seven priority themes is covered in Brunel's [Responsible Investment Policy](#). Further detailed information is included in Brunel's [Responsible Investment and Stewardship Outcomes Report](#).



We review reporting outputs provided by Brunel via the RI sub group to ensure that stewardship reporting is understandable, fair, and balanced and to ensure that outputs meet reporting requirements.

Brunel has integrated stewardship requirements and the integration of environmental, social and governance (ESG) risks into its legal, investment and operational frameworks. These frameworks are set out in a range of internal policies that are subject to regular internal audit, as well external scrutiny as part of Brunel's regulatory framework required as required by the UK Financial Conduct Authority.

For example, asset manager's approach and effectiveness at stewardship is assessed not only during regular manager monitoring meetings, but on a quarterly basis is given a formal rating, alongside measures relating to climate risk and ESG. This is reviewed by the Brunel Investment Risk Committee. Stewardship also forms part of Client quarterly

reporting. Examples of stewardship undertaken by managers are also included in Brunel's annual [Responsible Investment and Stewardship Outcomes Report](#).

Stewardship components such as ESG data providers, engagement, and voting are all monitored as part of Brunel's Risk and Compliance Self-Assessment (RCSA) framework.

In line with any procurement of third-party services, there is a monitoring process in place to ensure EOS at Federated Hermes delivery of service meets expectations, and in this instance that there is continued alignment of engagement and voting priorities and practices. For example, Brunel monitors voting implementation on a quarterly basis to ensure it does not drop below 95%, a review of voting implementation is included in Brunel's [Responsible Investment and Stewardship Outcomes Report](#) and voting statistics are provided quarterly to clients.

# Responsible Investment

## Minerva Analytics

This year, the Fund has worked closely with Minerva Analytics to ensure that the Fund's Annual Report meets the high standards of reporting required under the Financial Reporting Council ("FRC") Stewardship Code 2020.

## Identifying Risks

The Fund has set out its approach to risk and different types of market-wide and systemic risks, in its Investment Strategy Statement, which starts on page 115. The Fund's Investment Consultant, Mercer, monitor these risks on behalf of the Fund, and report on these risk at regular meetings with Fund officers and the Pensions Committee. Should markets experience a significant event, such as the COVID-19 pandemic, emergency meetings are held with Mercer to discuss any actions that need to be taken by the Fund.

The Brunel Pension Partnership was awarded Environment Finance's Pension Fund of the year award, in recognition of the Cornwall Pension Fund and the partnerships strong and effective leadership on responsible investment. To address climate risk, the partnership published its [Climate Change Policy](#) in January 2020. This policy is already delivering real-world impacts, using its influence to challenge the asset management industry with a five-point plan "to build a financial system which is fit for a carbon-zero future".

To best identify and respond to market-wide and systemic risks, Brunel engages with wide range of stakeholders, including government authorities, trade bodies, unions, investors, and NGOs. Consultation responses are published on the Brunel website: [Policy advocacy](#). Brunel is involved in a number of industry initiatives, Institutional Group on Climate Change (IIGCC), Principles for Responsible Investment (PRI), CA100+, Transition Pathway Initiative (TPI), International Corporate Governance Network (ICGN), the UK Sustainable Investment and Finance Association (UKSIF).

## Voting and Engagement

Hermes Equity Ownership Services (EOS) are the Partnership's engagement and voting services provider. This enables a wider coverage of assets and access to further expertise across different engagement themes. The voting and engagement done on behalf of the Fund is published quarterly on the Fund's website: [Voting and engagement](#)

Brunel selected EOS as its appointed engagement and voting services provider following competitive tender and a comprehensive due diligence process. The contract coverage includes segregated active equity portfolios and segregated corporate fixed income. In line with any procurement of third-party services, there

is a monitoring process in place to ensure delivery of service meets expectations, and in this instance that there is continued alignment of engagement and voting priorities and practices. Brunel is in regular contact with Hermes throughout the year. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

The Cornwall Pension Fund inputs into the developments of Brunel's engagement priorities which are communicated to EOS. There are multiple and distinct touchpoints throughout the year that Brunel and The Cornwall Pension Fund utilise to provide feedback on the engagement plan. To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also identified. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

The Cornwall Pension Fund provides input into the development of Brunel's voting guidelines (see link below), implementation is supported by EOS at Federated Hermes. The voting principles guide Hermes voting recommendation alongside country and region-specific guidelines. Voting decisions are also informed by investment considerations, consultation with portfolio managers, other institutional investors, engagement with companies and escalation by the Cornwall Pension Fund. The voting process, including approach across asset classes, is explained in further detail in Brunel's Stewardship Policy (see link below).

### **Brunel – Updated Stewardship Policy and Voting Guidelines**

Brunel have recently updated the Stewardship Policy in consultation with the Partnership. The Policy sets out Brunel's overall approach to stewardship. In addition, Brunel have published a separate Voting Guidelines document. This sets out Brunel's voting principles across a range of themes, and what Brunel expect of companies, their boards, and their management. It provides detail on Brunel's approach to using voting as part of shareholder engagement. Both documents can be accessed at: <https://www.brunelpensionpartnership.org/stewardship/stewardship-policy/>

### **Brunel Voting Records**

Details of Brunel's Voting activities are uploaded to their website on a quarterly, and annual basis and can be accessed at: <https://www.brunelpensionpartnership.org/stewardship/voting-records/>

### **Hermes Public Engagement Plan 2021-23**

Hermes Equity Ownership Services (EOS) have also published their Engagement Plan for 2021-23. The Engagement Plan is client-led –with Hermes EOS



# Responsible Investment

undertaking a formal consultation process with multiple client touchpoints each year to ensure it is based on their clients' long-term objectives, covering the highest priorities. Officers from Cornwall Pension Fund were involved in this process. The Plan details Hermes EOS's approach to engagement and their key priorities for the next three years. The report can be accessed at: <https://www.hermes-investment.com/eos-insight/eos/eos-engagement-plan-2021-2023/>

## Stewardship Implementation Across Asset Classes

Stewardship responsibilities extend to all asset classes held by Brunel. Brunel's approach has to be appropriate for each asset class and style of investment they choose. Further detail on Brunel's approach for each of the areas they hold is detailed in their [Stewardship Policy](#). These areas include:

- Listed equities (passive and active)
- Private Markets (property, infrastructure, secured income, private debt, and private equity)
- Fixed income
- Liquid Alternatives

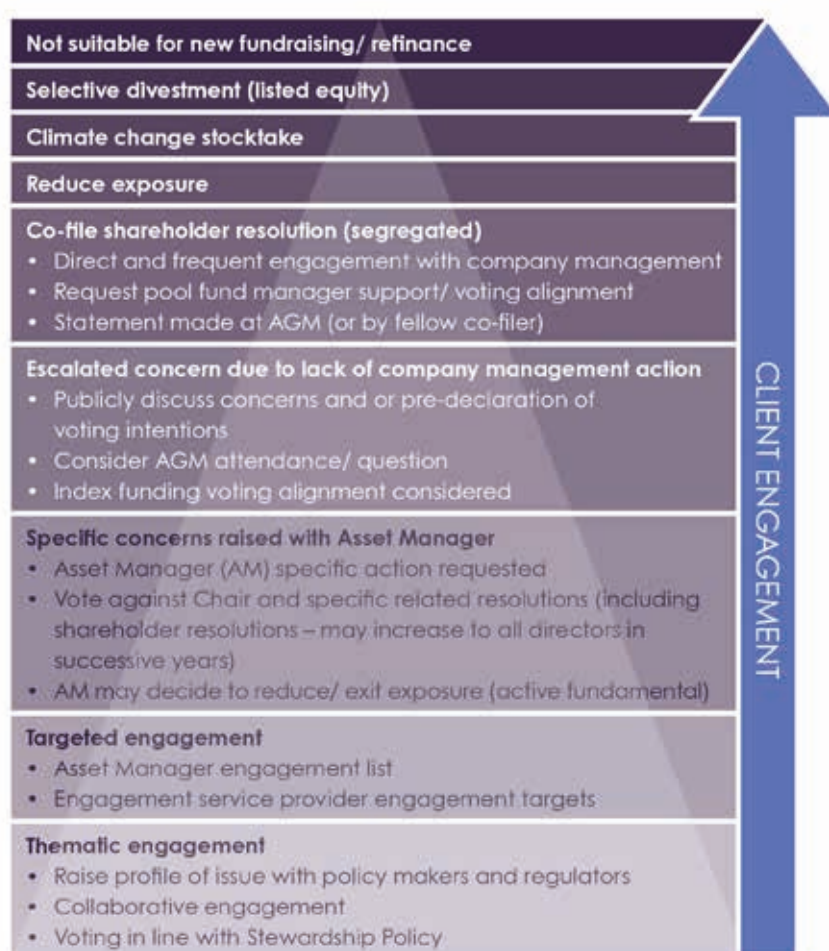
Publicly listed equities account for nearly half of the assets that Brunel manages and is the most developed area of active ownership in the investment industry. Brunel recognise the approach needs to be tailored to each type of investment (asset class), take account of

the level and legal structure of ownership, regulatory expectations, and limitations, and be mindful of differences across geographies.

## Escalation

As detailed above, each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. In the period before all of the Fund's investment mandates transition to Brunel, the extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention, and realisation of investment managers by officers and the Fund's advisors.

Escalation is a key component of stewardship and whilst it rarely follows a given pathway the infographic below provides some insights to Brunel's approach. Some steps might be skipped or happen simultaneously and there may be operational and legal constraints that prevent some actions being undertaken, however regular Client engagement helps guide Brunel's approach and communication throughout. The Responsible Investment Sub-Group provides an opportunity for clients to raise stewardship interests and provide insights on concerns, issues, and member perspectives.



# Responsible Investment

Officers review developments in ESG processes and any relevant ESG data with its fund managers as a standing agenda item in all manager meetings. Officers also assess investment managers’ approaches to ESG integration and stewardship using our Investment Consultant’s ESG ratings, where applicable. Detailed Responsible Investment reporting is presented to the Pensions Committee every quarter, and where the Committee feel an issue requires escalation, the Fund will escalate the issue via the RI Sub-Group With regards to the Fund’s legacy assets: as the majority of Cornwall’s legacy assets are historic private market investments, we do not have the option to disinvest, so where managers are lagging behind their peers, they will be engaged and encouraged to improve.

The Cornwall Pension Fund can escalate stewardship concerns to Brunel and vice versa via the RI Sub-Group and client team. Brunel operates a clear process of engagement escalation, investments cover thousands of companies; a pragmatic approach to escalation needs to be taken. Through the Brunel Investment Risk Committee (BIRC) and the Brunel Investment Committee Brunel may identify escalation to its investment managers. Brunel seeks updates on the company’s managers are engaging with, what they are engaging on, how they assess the risk, and what level of escalation they are undertaking. In parallel Brunel may look at the engagement EOS are undertaking, their engagement targets and escalation. Brunel may use collaborative engagement and reach out to other investors to elevate areas of concern to companies. Voting is an intrinsic part of the escalation process. Further details are outlined in Brunel’s [Stewardship Report](#) page 18.

An example escalation in practice can be seen when Brunel escalated engagement with Barclays and HSBC, co-filing shareholder resolutions seeking Net Zero commitments and short-to-medium term targets to align provision of finance with the goals of the Paris Agreement. The full case study can be found on page 58 of Brunel’s [Responsible Investment and Stewardship Outcomes Report](#).

## Monitoring Managers and Service Providers

Brunel has a comprehensive Manager Selection Policy together with Manager Monitoring and Portfolio Management policy to guide the appointment and monitoring of asset managers across all asset classes. However, the key components from stewardship perspective can be summarised as the ‘6 P’s’. These are philosophy, policies, people, processes, participation, and partnership. These key issues form part of ongoing manager monitoring where a risk assessment is carried out on a quarterly basis and a rating given. This includes an assessment of the managers stewardship. This is reviewed by the Brunel Investment Risk Committee. Further detail is included in Brunel’s [Responsible Investment policy](#).

All Brunel core products have been developed in conjunction with the Cornwall Pension Fund and wider partnership.

The Brunel Investment Risk Committee and the Brunel Investment Committee play key roles in ensuring that products are tracking guidelines, benchmarks and risk parameters. We receive quarterly performance reports which include stewardship activity updates, portfolio narrative and metrics including risks.

### Integrating Responsible Investment into our Manager Selection

Integrating Responsible Investment into manager selection is a core part of our work. Mandate design and a risk appraisal process prior to launching a search for a manager is therefore critical in ensuring that we focus on the right things.

The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus our manager selection criteria are determined for each search.

We have a track record of action evidenced by work such as Brunel Asset Management Accord designed to capture not only our expectations of managers, but also the spirit of what they can expect from us. The accord supports long-term sustainable finance and specially calls on managers work collaboratively with Brunel on thought leadership and integration of ESG issues.

The examples on the right show some of the key issues we address when we appoint managers.

More information about the selection and monitoring of managers is on our [website](#)

| Philosophy             | Policies                            | People                  |
|------------------------|-------------------------------------|-------------------------|
| Board-level leadership | Commitment                          | Diversity and Inclusion |
| Corporate culture      | Policy framework                    | Human Capital           |
| Investment             | Pricing and transparency            | Numbers & retention     |
| Processes              | Participation                       | Partnership             |
| Investment             | Thought-leadership                  | In it together          |
| Reporting              | Innovation                          | Culture fit             |
| Stewardship            | Contribution to investment industry |                         |

# Responsible Investment

On an annualised basis product governance reviews are undertaken to ensure that products remain fit for purpose and meet our strategic objectives and specific and ongoing needs. We are consulted as part of the review and receive a report for assurance purposes. Should we require any changes or an additional portfolio to meet our strategic needs the Portfolio Creation and Amendment and Deletion (CAD) policy provides a high-level framework for exploring the development of new products and amendment to existing Portfolios at our request.

In line with any procurement of third-party services, there is a monitoring process in place to ensure delivery from service providers meets expectations. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

Manager monitoring is part of Brunel's Investment Risk Committee, managers are assessed and graded on a quarterly basis, including their approach to overall approach to stewardship. Brunel establish a partnership approach with managers to seek continual improvement. An example of partnership working to improve the integration of ESG risks, in this case climate, is present in the Invesco example 'Progress Already Made in Reducing Carbon Risks', on page 56.

In the event of a stewardship issue emerging that fell below Brunel's expectations, Brunel would share the concern and corrective action with the Brunel member funds. The same process would be followed should one of the Brunel member funds identify a stewardship related issue, and subsequently bring it to Brunel's attention.

During the year, the Fund utilised the LGPS National Framework to run a tender for the Fund's investment consultant contract. The tender consisted of a two-stage process, for which we had a number of high-quality submissions. Mercer, the incumbent consultant, were successfully reappointed for another term. Mercer particularly impressed us with their exceptional responsible investment credentials. The breadth and depth of knowledge, and experience of the team they have in place really shone through, and the Committee felt they were best placed to help the Fund achieve its ambition to be at the forefront of Responsible Investment best practice.

The contract awarded to Mercer was for 2 years, at which time the contract will be reviewed. Mercer's performance will be monitored by the Pensions Committee and Fund officers on an on-going basis. If it were deemed that Mercer were failing to meet their contractual obligations or were performing poorly, this would be discussed by Committee and options such as the implementation of an improvement plan, or termination of the contact would be considered.

In terms of Mercer's stewardship responsibilities: a large part of the work Mercer does for the Fund will be focussed on ensuring the Fund meets its 2050 Net-Zero target. As part of this, Mercer will conduct the following, which will help to shape the Fund's investment strategy:

- Regular carbon analysis on the Fund's assets (where applicable)
- Portfolio analysis: green/transition/green
- Climate Change scenario modelling on the Fund's Investment Strategy
- Net Zero 2050 target setting with interim targets to 2025 and 2030
- Monitoring Brunel to ensure Brunel portfolios are aligned and remain aligned with 2050 Net-Zero targets

Mercer also review output from Brunel and should any areas of concern be raised, we would challenge Brunel via the escalation process detailed in this document on page 42.

In June 2019 the Competition & Markets Authority (CMA) issued a Final Order, placing new obligations on service providers and pension schemes with regard to Fiduciary Management and Investment Consultancy services. This impacted LGPS funds, in that they must not enter into a contract to receive, or to continue to receive, consultancy services unless they have set strategic objectives for their investment consultancy provider. The Cornwall Pension Fund Committee agreed these objectives by the 10 December 2019 deadline.

The CMA Order and Department for Work and Pensions (DWP) draft regulations, includes a requirement to review the providers performance against the investment consultancy objectives set, and submit an annual statement confirming compliance. During the year, officers reviewed Mercer against the objectives set by the Committee and submitted a positive confirmation to the CMA, covering the period 10th December 2019 to 9th December 2020.

## Client and Beneficiary Needs

The Fund's Pensions Committee and Local Pension Board both have Employer and Employee Representatives as members, to ensure membership representation. Representatives play an important part in the governance and administration of the Fund, taking into account the views of the Scheme Members

Pensions Committee meetings are open to the public and Committee papers are published online, at the following location: [Pensions Committee](#)

The Pension Fund is also subject to the Freedom of Information Act 2000, and regularly responds to requests for information on the Fund, in accordance with the Act.



# Responsible Investment

The Fund has a Communication Policy which details how we communicate with our members and other stakeholders, and how we intend to measure whether our communications are successful. The Communications Policy starts on page 128.

In addition, the Fund has recently engaged with its members, by way of a Responsible Investment survey, to find out their views on responsible investment and the Fund's approach to responsible investment. This will allow the Fund to better understand the views of Scheme members on issues such as climate change. The feedback will be taken into account when we conduct our annual review of the Fund's Responsible Investment Policy, later in the year. It will also allow the Fund to establish the best way to communicate with its members on the progress the Fund is making with regards to responsible investment. We will be engaging with our members in this way on an annual basis, and hope to have a year-on-year increase in the number of members who participate.

At the time of writing this report, the survey has concluded and we are working on a report that will be published on our website, containing the results of the survey. The report will also provide further information on the work the Fund has been doing on behalf of its members with regards to responsible investment and issues such as climate change. The report will be published on our website, [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk), on the 1st of September 2021. Please visit the Member Survey section, from the Investments dropdown menu.

The Fund's Actuary, Hymans Robertson, sets the investment time horizon considered appropriate to deliver the needs of clients and beneficiaries as part of the Funding Strategy Statement, and sets out the rationale behind this time horizon. The Funding Strategy Statement starts on page 79.

## Investment Strategy Review

As part of the Fund's Investment Strategy review which took place during 2020, the Fund utilised Mercer's climate change scenario modelling, to model the different potential impact, different climate change scenarios would have on the Fund. This modelled three climate change scenarios, a 2°C, 3°C and 4°C average warming increase on preindustrial levels, over three timeframes — 2030, 2050 and 2100. For each scenario, the relative asset class and industry sector sensitivities to climate risk factors was assessed over this timeframe.

In addition to this, Mercer also carried out some carbon analysis on our existing investments. The analysis compared the carbon emissions of our investments in both 2016 and 2019, and compared these to a relative benchmark. This helped us better understand

the current trajectory of the carbon intensity of our portfolio and will be used in the future to measure the Fund's performance against meeting its carbon intensity improvement objective.

From a liability perspective, Hymans Robertson (the Fund's actuary) have developed a climate change model to highlight some of the potential long-term climate change implications in terms of funding. While undertaking modelling for the Fund, Hymans performed some further analysis identifying the impact of three different climate change scenarios on the long-term funding outcomes for the whole Fund. This isolated different market outcomes which Hymans associated the following scenarios:

- Head in the sand – slow Government and corporate response to climate change
- Challenging time – some Government and corporate response to climate change
- Green revolution – rapid joint Government and corporate response to climate change

This review resulted in the Fund making explicit sustainable asset allocations of 13% to Sustainable Equities and 2% to Renewable Infrastructure, in its Investment Strategy Statement. It should be noted that each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives, which as assets transition across, will lead to all of the Fund's asset portfolios having a strong responsible investment focus.

In March 2021 Mercer carried out a desktop strategy review of the Fund's overall investment strategy to ensure it still remained fit for purpose. One of Mercer's recommendations, which the Fund agreed with and will be implementing, was the creation of a Social Impact Portfolio. Recognising the importance of Responsible Investment and ESG, the portfolio will be 5% of the Fund's strategic asset allocation and will be invested in medium to long term illiquid opportunities across the following assets classes: Real Estate (Property), Private Equity and Private Debt. The Fund will look at investment opportunities within Cornwall, but also have a wider focus (regional, national or international), to ensure positive financial returns. An overarching philosophy of the Social Impact Portfolio will be that Impact Investments are defined by alignment to United Nations Sustainable Development Goals.

# Responsible Investment

## Responsible Investment Training

During the year, the Pensions Committee and the Local Pension Board members attended training which was aimed at developing knowledge on Responsible Investment best practices and how these can be implemented in the pension fund. The Investor Day, hosted by Brunel, covered Responsible Investment, climate change (Net Zero), modern human slavery, diversity and inclusion, and transparency & reporting (outcomes and carbon metrics). More information can be found in the Knowledge and Skills section on page 14. The Responsible Investment training undertaken by the Committee over the last two years has helped to shape the Fund's investment strategy, resulting in allocations being made to Global Sustainable Equities and renewable infrastructure. It has also helped to inform decisions such as the Fund becoming a signatory to the IIGCC Net Zero Asset Owner Commitment, and the IIGCC Banking Initiative. More information on these can be found on pages 49 and 50.

## Responsible Investment Reporting

Reporting on climate change is an area that is rapidly developing, and the Fund is working with Brunel and other member funds to continue to improve the disclosures made in this area. Officers report the responsible investment activity of the Fund, its investments and of Brunel, to the Committee on a quarterly basis. As the Fund's holdings transition into Brunel portfolios, the Fund will be publishing the following metrics and data, as relevant for different asset classes and strategies:

- Carbon footprints
- Fossil fuel exposures
- Green and brown share (i.e. the proportion of the portfolios invested in areas such as renewable energy)
- Engagement and voting activities

The Fund will use its website as the primary method of communication: [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)



# Responsible Investment

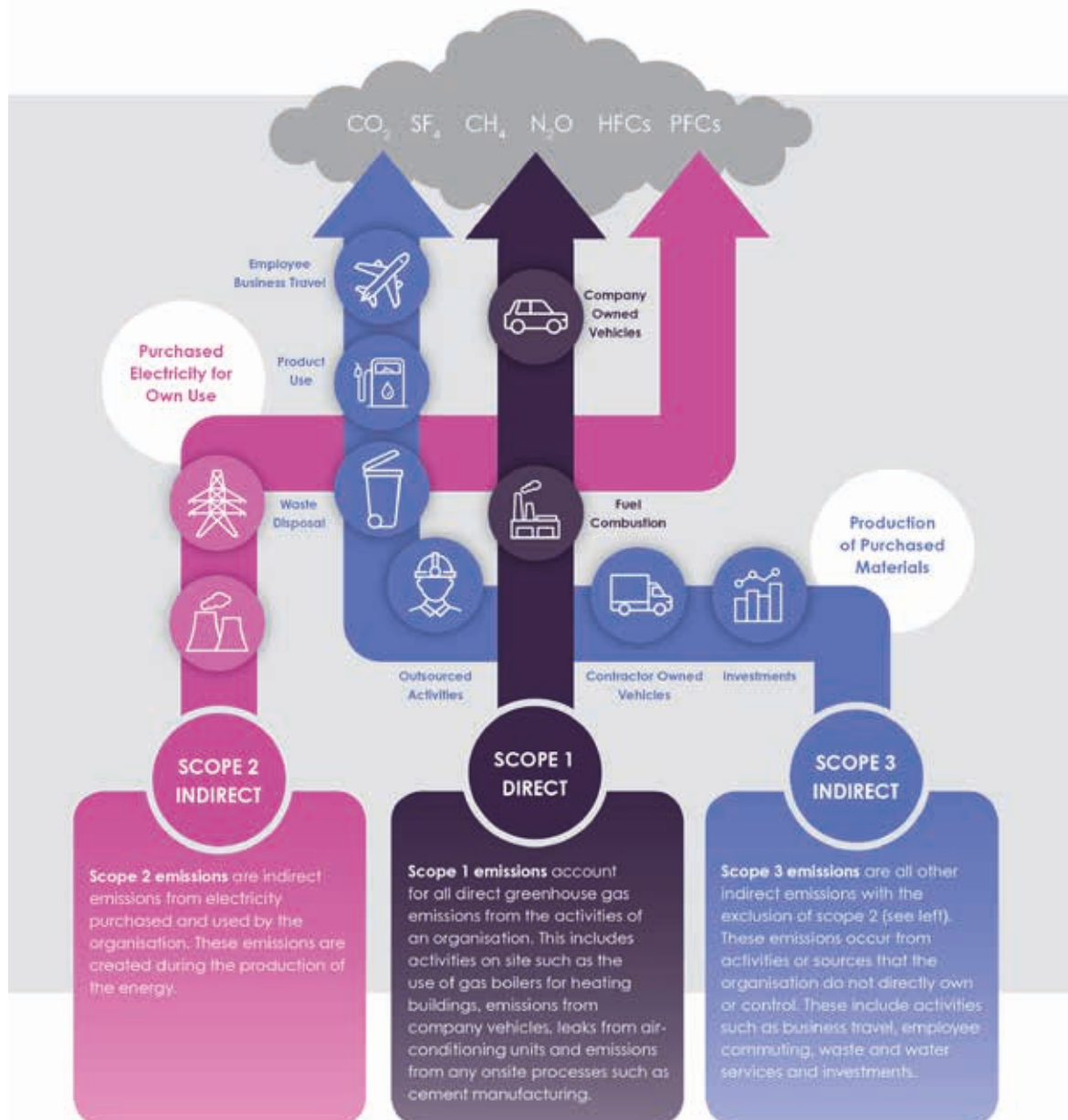
## Carbon Metrics Reporting

Carbon footprinting, alongside other tools, is used to provide essential analysis on the carbon performance of the Cornwall Aggregate Portfolio, which is made up of the associated underlying Brunel listed equity Sub-Portfolios and any listed equity legacy funds.

Weighted Average Carbon Intensity (WACI) is used to show the portfolios exposure to carbon intensive companies. Because carbon intensive companies are more likely to be exposed to potential carbon regulations and carbon pricing, this is a useful indicator of potential exposure to transition risks such as policy intervention and changing consumer behaviour. The WACI is one of the measures recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

Carbon metric reporting for the Cornwall's equity portfolios can be seen below (carbon metric reporting for the overall Brunel Partnership can be found later in this document). Carbon intensity is broken down by scope 1, scope 2 and tier 1 scope 3 emissions, the below diagram illustrates what these different terms mean.

## Scope 1, 2 and 3 definitions



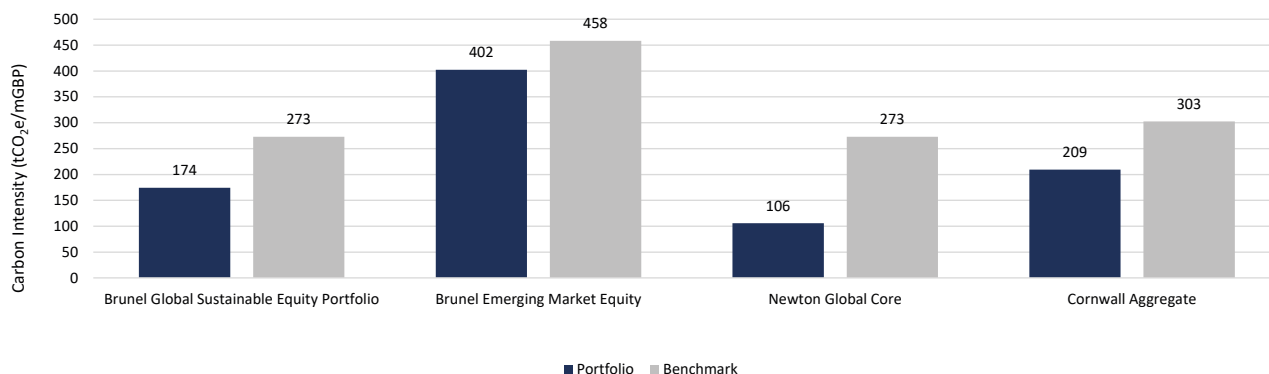
# Responsible Investment

## Cornwall Carbon Metrics Report

Carbon analysis has been conducted on the Fund's listed market equity portfolios. The report illustrates key Carbon Metrics for Cornwall's legacy equity portfolios, Cornwall's Brunel equity portfolios, and the combined portfolios (Cornwall Aggregate). The Cornwall Aggregate Portfolio is made up of Cornwall's share of Brunel Sub-Portfolio's (Brunel

Global Sustainable Equity and Brunel Emerging Market Equity) and the legacy fund (Newton Global Core), weighted by investments as of 31 December 2020. A Custom Benchmark has been used so that the Cornwall Aggregate Portfolio can be measured against a meaningful comparator. This is made up of 84% MSCI ACWI and 16% MSCI Emerging Markets, as of 31 December 2020.

### Weighted Average Carbon Intensity (WACI)



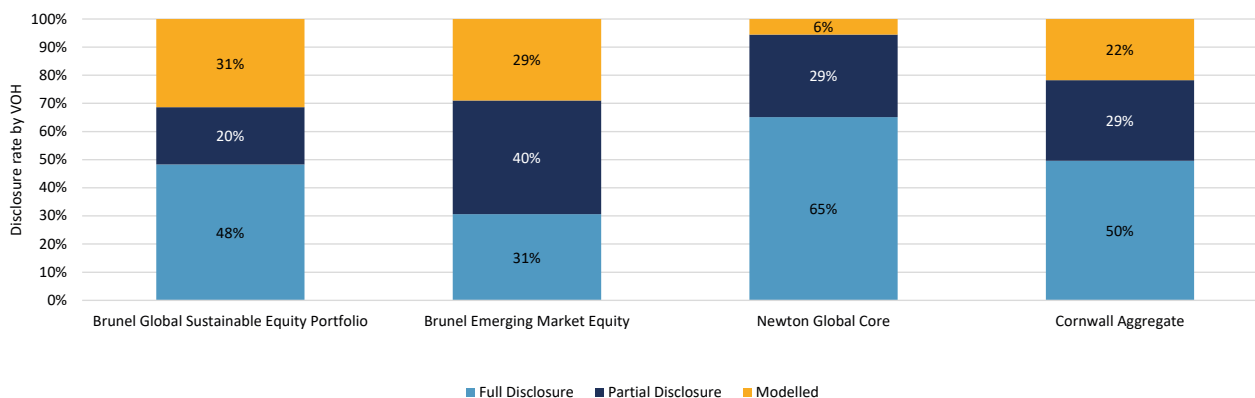
The Weighted Average Carbon Intensity (WACI) of the Cornwall Aggregate Portfolio is below its benchmark, with a relative efficiency of +44%.

Of the Sub-Portfolios within the Aggregate, the highest intensity was the Brunel Emerging Market Equity (402

tCO<sub>2</sub>e/mGBP), whilst the lowest was the Newton Global Core (106 tCO<sub>2</sub>e/mGBP).

All Sub-Portfolios have lower levels of carbon intensity compared to their respective benchmarks.

### Disclosure Rates



**Full Disclosure:** Data disclosed by a company in an un-edited form.

**Partial Disclosure:** Trucost has used data disclosed by a company but has made adjustments to match the reporting scope required by its research process. Values may also be derived from a previous year's disclosed data using changes in business activities and consolidated revenues.

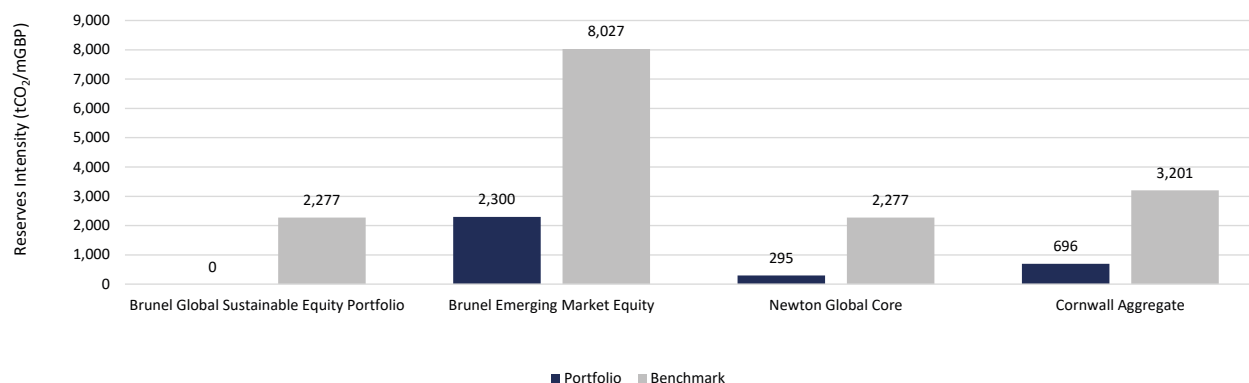
**Modelled:** In the absence of usable disclosures, the data has been modelled using Trucost's EE-IO model.

The rate of companies in the Cornwall Aggregate Portfolio for which fully disclose carbon data was available was 58% (carbon weighted method) and 50% (investment weighted method), indicating scope for improved reporting among investees.

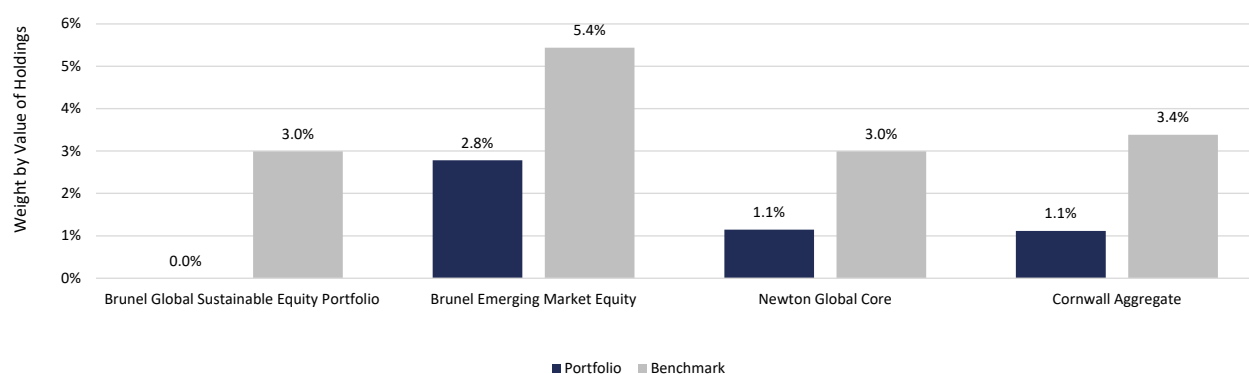
The aggregate rate of Full disclosure is highest in the Newton Global Core Portfolio (65%) and lowest in the Brunel Emerging Market Portfolio (31%) by investment weighted method.

# Responsible Investment

## Emissions from Reserves per Million Invested



## Reserves Exposure



The Cornwall Aggregate Portfolio is less exposed to both fossil fuel revenues (0.41% vs 1.80%) and future emissions from reserves (0.5 MtCO<sub>2</sub> vs 2.3 MtCO<sub>2</sub>) than its benchmark.

## IIGCC Net Zero Investment Framework

In keeping with the Fund's Responsible Investment Policy, and the aspiration of the Fund to be at the forefront of responsible investment best practice, the Fund became a signatory to the IIGCC Net Zero Asset Owner Commitment and was in the first wave of signatories to this new commitment when it launched in March 21. The Commitment reads as follows:

### Commitment

As asset owners with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement and strongly urge governments to implement the actions that are needed to achieve the goals of the Agreement, with utmost urgency.

Recognising the need to address the risks that investors and their beneficiaries face from climate change, investors are taking action on climate change, but we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and play our part in helping deliver the goals of the Paris Agreement.

In this context, my institution commits to the following consistent with our fiduciary obligations:

1. Transitioning our investments to achieve net-zero portfolio GHG emissions by 2050, or sooner.
2. Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative's Net Zero Investment Framework.
3. Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO<sub>2</sub> identified as a requirement in the IPCC special report on global warming of 1.5°C.
4. Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.
5. Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.

# Responsible Investment

6. Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner.
7. Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.
8. Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.
9. Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.
10. Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with TCFD recommendations on climate financial risk.

This commitment recognises that investors across the globe have different opportunities, constraints and starting points for achieving net zero emissions and there are a range of methodologies and approaches available to investors to set targets and implement strategies. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. We will therefore work to address these challenges, including through the Paris Aligned Investment Initiative.

This commitment is based on the expectation that governments and policy makers will deliver on commitments to achieve the 1.5°C temperature goal of the Paris Agreement, and in the context of fulfilling our fiduciary obligations.

Further details of the initiative can be found in the IIGCC press release at: [IIGCC Net-Zero](#)

## LAPF Investment Awards

The Fund is also proud to announce that it won LGPS Fund of the Year (Under £2.5 billion) at the 2020 LAPF Investment Awards, and was also shortlisted for the Best Approach to Sustainable Investing at those same awards. This is a reflection of the great work the Fund has been doing, especially in evolving its policies on responsible investment and climate change and in furthering its aspiration to be at the forefront of responsible investment best practice.

## Brunel Global Sustainable Equities Fund

The Cornwall Pension Fund's updated Investment Strategy Statement includes a 13% allocation to Global Sustainable equities. During the year, the Fund disinvested £272m from its Newton Global Equity holding and invested the proceeds in the Brunel Global Sustainable Equity portfolio.

The Global Sustainable Equities Fund is a listed equity portfolio in which ESG considerations are at the forefront of the investment process, and where the managers positively pursue companies that will provide a benefit to society.

"The Sustainable Equities Fund gives our clients access to both the equity risk and sustainability focus they requested," said David Cox, Head of Listed Markets at Brunel. "The three managers we appointed share a broad investing style and a prioritisation of sustainability, yet their approaches are also different enough to provide clients with the diversification they were looking for."

The portfolio opened with a significant underweight to GICS energy sector and an aggregate carbon intensity that is significantly lower than the MSCI All Country World Index, which it uses as a benchmark.

The selected managers integrate Environmental, Social, Governance (ESG) metrics throughout their whole investment process including their decision making, stewardship, policies and strategies. This portfolio goes beyond our current portfolios which manage ESG risks, and managers actively seek exposure to companies providing solutions to sustainability, whilst also targeting a financial return.

## IIGCC Banking Initiative

The Fund also became a signatory to the IIGCC Net Zero Investor Expectations of Banks initiative, as part of meeting its climate change commitment on the engagement of the banking sector. This initiative sets a list of investor expectations for how banks should demonstrate alignment with the goals of the Paris Agreement. The expectations cover three key areas:

1. Action banks should take to align their financing activities with the Paris goals;
2. Steps to strengthen governance to ensure delivery of net zero commitments; and
3. Disclosure to demonstrate implementation.

Further details of the initiative can be found in the IIGCC press release at: [IIGCC Banking Initiative](#)

# Responsible Investment

## The Institutional Investors Group on Climate Change (IIGCC)

The Cornwall Pension Fund is a member of the Institutional Investors Group on Climate Change.

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 300 members, mainly pension funds and asset managers, across 22 countries, with over €37 trillion in assets under management.

IIGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

In March 2021 Cornwall Pension Fund became one of the first signatories of the IIGCC's Net Zero Investor Framework (NZIF). The framework offers investors support in ensuring their portfolios are aligned with net-zero emissions. By doing so, it underlines the commitment of all signatories to work in a comprehensive manner to help deliver on the goal of the Paris Climate Agreement to keep global warming below 1.5°C.

## Transition Pathway Initiative (TPI)

The Fund is a supporter of the Transition Pathway Initiative (TPI).

The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. Launched in 2017, it is rapidly becoming the 'go-to' corporate climate action benchmark.

TPI provides robust, independent research which empowers investors to assess the alignment of their portfolios with the goals of the Paris Agreement and to drive real world emission reductions through our actions. Asset owner led, the Transition Pathway Initiative ('TPI') is the leading corporate climate action benchmark.

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

The Fund is also a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD)

The Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

The Task Force will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

The work and recommendations of the Task Force will help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs.

## Local Authority Pension Fund Forum (LAPFF)

The Fund continues to be a member of The Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £300 billion. The LAPFF promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Further information on the LAPFF's work and its achievements over the year can be found on its website <https://lapffforum.org/>



# Responsible Investment

## Responsible Investment Work Plan

There are a number of responsible investment (“RI”) related activities on which the Fund will focus during 2021. The table below details some of the major RI

activities the Fund will be undertaking during the year. The full work plan for the Fund can be found in our [Business Plan](#).

| Action  | Description   |
|---|---|
| <b>TCFD Reporting</b>                         | The Fund has voluntarily committed to reporting in line with the Task Force on Climate-related Financial Disclosures (“TCFD”). The Fund will prepare and publish its first TCFD report this year.   |
| <b>IIGCC Net-Zero Framework</b>               | The Fund will continue to engage with the Institutional Investors Group on Climate Change (“IIGCC”) on their Net-Zero Investment Framework, and further integrate the Framework into the Fund’s responsible investment practices.   |
| <b>Scheme Member Engagement</b>               | The Fund will engage with Scheme members on responsible investment and the Fund’s Responsible Investment Policy. This will allow the Fund to better understand the views of Scheme members, and to improve communication on the position and progress the Fund is making with regards to responsible investment.  |
| <b>FRC UK Stewardship Code</b>                | Officers will work hard to ensure that the Fund will meet and produce a report based on the requirements of the Financial Reporting Council’s (FRC) UK Stewardship Code, and thus become a signatory to the Code.<br><br>It should be noted that this commitment represents a lot of work and is not a statutory requirement for the Fund. The 2020 Code sets a high bar to meet, and there has been a clear progression from “tell me” to “show me” since the previous Code. |
| <b>Responsible Investment Outcomes Report</b> | The Fund will once again publish a Responsible Investment Outcomes Report. The Report will detail the progress the Fund has made throughout the year in evolving its policies in responsible investment and climate change, and will also detail some of the RI achievements the Fund has made over the year.   |

## Brunel Pension Partnership and Responsible Investment

As asset owners, the Fund sets its asset allocation and investment strategy. Since the introduction of pooling across the Local Government Pension Scheme, the Fund is no longer responsible for fund manager selection. This process is now handled by Brunel, who manage our investments in line with our strategic objectives. Brunel was formed in July 2017, and Cornwall, along with 8 other local authorities and the Environment Agency, each own 10%. The 10 funds and the operator, Brunel Ltd, have a mutual commitment to building a financial system which is fit for a low carbon future and feel this commitment is pivotal to driving change together.

The Brunel Pension Partnership Investment Principles and its supporting responsible investment policies clearly articulate Brunel’s commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that ESG considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Brunel has published its Responsible Investment Policy Statement and other related policies, which lay out its approach in more detail. More information is on the Brunel website <https://www.brunelpensionpartnership.org/>

## Brunel Responsible Investment and Stewardship Outcomes Report

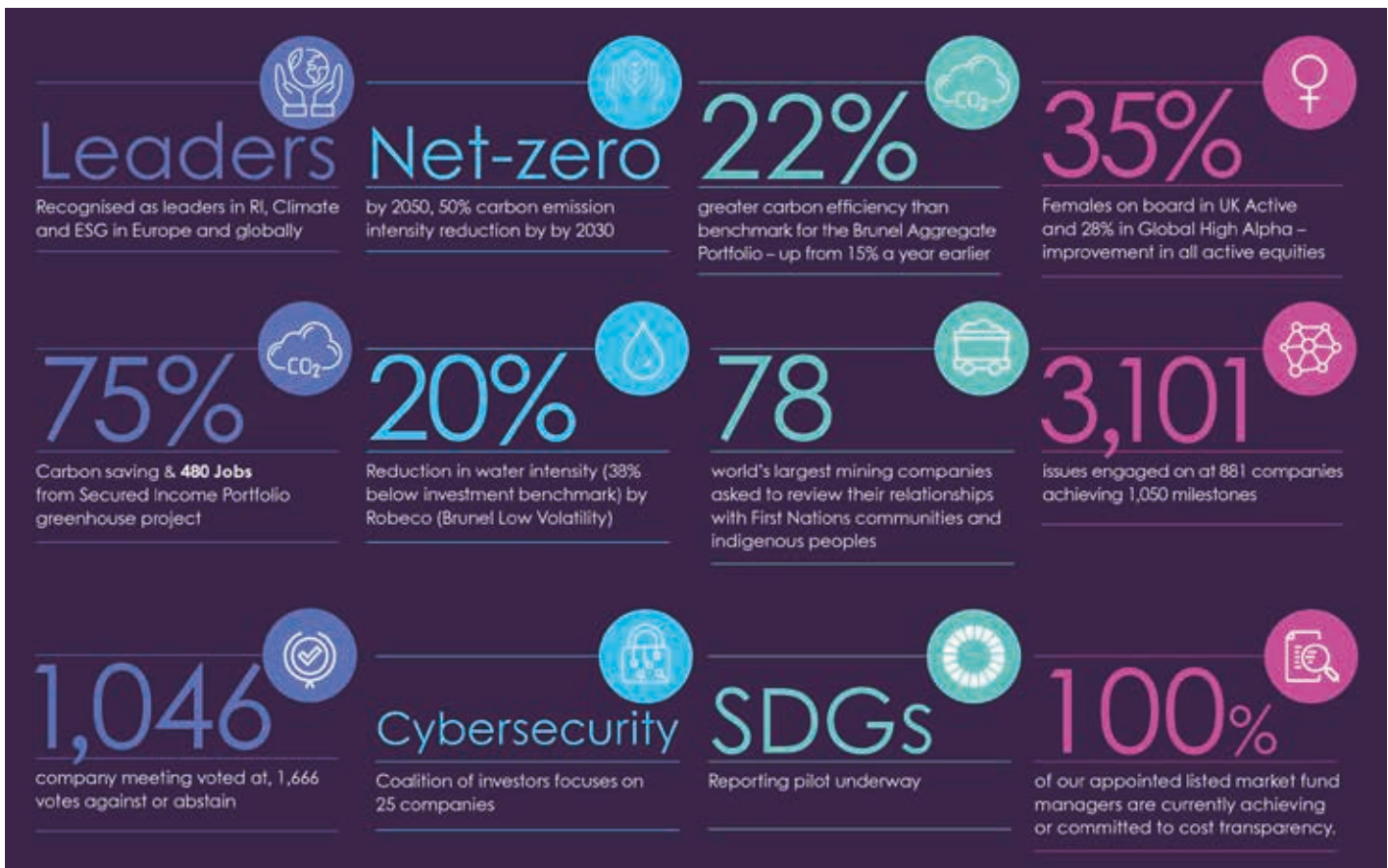
Brunel have recently published their annual Responsible Investment and Stewardship Outcomes report. The report details the great progress the Brunel Pool has made during the year with regards to Responsible Investment.

The full policy can be viewed here: [Brunel RI and Stewardship Outcomes Report](#)

The following are some highlights from the report and demonstrate progress against the Fund’s climate change commitments.

# Responsible Investment

## Brunel Executive Summary



## Paris Alignment & The Net Zero Investment Framework

One of the Fund's climate change commitments is "Supporting Brunel in pressing the industry to make core benchmarks more compatible with a below 2°C aligned scenario." The following demonstrates the work Brunel is doing to support this:

### The Paris Aligned Investment Initiative

Brunel have been actively involved with the Institutional Investors Group on Climate Change (IIGCC) in the development of the Paris Aligned Investment Initiative. They have also been closely involved in drafting the Net Zero Investment Framework, which aims to set a global standard for investors to demonstrate they are Paris-aligned.

The Paris Aligned Investment Initiative had three main objectives:

- Develop working definitions of concepts, terms and pathways relevant to achieving Paris aligned portfolios
- Develop and assess methods and approaches for measuring alignment and the transition of asset classes
- Test the financial implications of aligning portfolios to the goals of the Paris Agreement, using real-world portfolios and quantitative modelling

## Net Zero Investment Framework

The project took an investment-led approach and delivered recommended frameworks for achieving Paris alignment by decarbonising portfolios and increasing allocations to climate solutions.

The Net Zero Investment Framework was released for consultation to the wider investment community in September 2020 ahead of being published in 2021. Brunel was also one of five investors that supported testing the methodologies supported by Avon Pension Fund. The next phase of the project entails creating frameworks for infrastructure and private equity asset classes and will be used to develop guidance on how to support investors with implementation. A dedicated Paris Aligned Investment Initiative microsite has been established to support investors.

# Responsible Investment

## Net Zero Investment Framework



## The Just Transition Alliance

Brunel was a founding signatory of the Financing the Just Transition Alliance which has the vision to identify concrete steps that the financial sector can take to scale up climate action which also delivers positive social impact, both in terms of maximising the social benefits of net zero and also making sure no one is left behind.

## Carbon Intensity Improvements

Another of the Fund's climate change commitments is in seeking a carbon intensity improvement of at least 7% year-on-year in our listed equity portfolios. This will equate to over 20% lower carbon intensity than the benchmark by 2022. The below demonstrates some of the work Brunel are doing in this area on behalf of the Fund and the other members of the Pool.

## Carbon Metrics Reporting

As mentioned earlier Carbon footprinting is used to provide essential analysis on the carbon performance

of Brunel Portfolios and appointed managers. The data helps identify major contributors and engagement opportunities. As well as providing detailed carbon metrics report for the Fund's listed equity portfolio, Brunel also produce a report of the wider Brunel portfolio. Brunel's full report can be seen on their website.

As of 31 December 2020, the Brunel Aggregate Portfolio had an efficiency of 22% versus the Custom Benchmark, up from 15.4% on 31 December 2019. The Weighted Average Carbon Intensity (WACI) of each of Brunel's listed equities portfolios can be seen below. All active equity portfolios have achieved at least a 7% emissions intensity reduction. All index tracking funds, except low carbon, match their benchmark. The priority action for 2021 is looking at low-carbon, potentially net-zero benchmarks for all our index-tracking portfolios. As part of Brunel's product governance review, they will be reviewing the low carbon index portfolio in relation to the products and opportunities in the market.



# Responsible Investment

## WACI and Disclosure Rates for the Brunel Aggregate and Brunel Sub-Portfolios



**Full Disclosure:** Data disclosed by a company in an un-edited form.

**Partial Disclosure:** Trucost has used data disclosed by a company but has made adjustments to match the reporting scope required by its research process. Values may also be derived from a previous year's disclosed data using changes in business activities and consolidated revenues.

**Modelled:** In the absence of usable disclosures, the data has been modelled using Trucost's EE-IO model.

To undertake the carbon emissions and fossil fuel analysis requires companies to disclose all the required information. Disclosure rates vary enormously across the world and this is one of the reasons Brunel is a strong advocate for mandatory climate risk reporting for all companies.

The higher the level of direct disclosure, the higher the confidence in the data against which to take action. Over time, we seek to increase the proportion of direct or 'full disclosure' of all our portfolios.

The level of company disclosures for the Brunel Aggregate Portfolio and each Brunel Sub-Portfolio is illustrated above.

Unsurprisingly, companies under lower regulatory regimes such as Smaller Companies and Emerging Markets have lower levels of disclosure rates. Generally speaking, all of Brunel's Portfolios tend to have higher disclosure rates than their respective benchmarks.

# Responsible Investment

## Carbon intensity 2020 vs December 2019 Benchmark Baseline

| Portfolio                                   | Carbon intensity 2020 vs December 2019 Benchmark Baseline |
|---|---|
| Brunel Aggregate Portfolio                  | -33.1%  |
| Brunel UK Active Portfolio                  | -29.6%  |
| Brunel Global High Alpha Portfolio          | -52.4%  |
| Brunel Emerging Market Equity Portfolio     | -29.4%  |
| Brunel Active Low Volatility Portfolio      | -41.9%  |
| Brunel Passive Low Carbon Portfolio         | -51.9%  |
| Brunel Passive Smart Beta Portfolio         | -24.5%  |
| Brunel Passive UK Portfolio                 | -1.2%   |
| Brunel Passive World Developed Portfolio    | -18.7%  |
| Brunel Global Sustainable Equity Portfolio* | n/a   |
| Brunel Global Smaller Companies Portfolio*  | n/a   |

● Meeting target    ● Action underway

\*Portfolios launched in 2020. We are in the process of establishing an appropriate benchmark date

### Progress Already Made in Reducing Carbon Risks

Over the past 18 months, Brunel have been working closely with Invesco, one of their UK managers, in order to decarbonise their UK Active Equity Portfolio.

Invesco uses an approach called quantitative investing, also known as systematic investing. This approach uses proprietary modelling and data analysis to deliver the investment objectives. The solution to looking at the climate risk, therefore, had to follow the same quantitative approach, rather than using tools such as engagement with the companies.

Along with Invesco, Brunel identified several project objectives, including: stable and predictable carbon emission reductions over time; minimal impact on expected performance; and the ability to quantify the low-carbon impact on portfolio risk and return. Exposures to quality, momentum and value factors were maintained, which was important because they represent the targeted factors of the strategy.

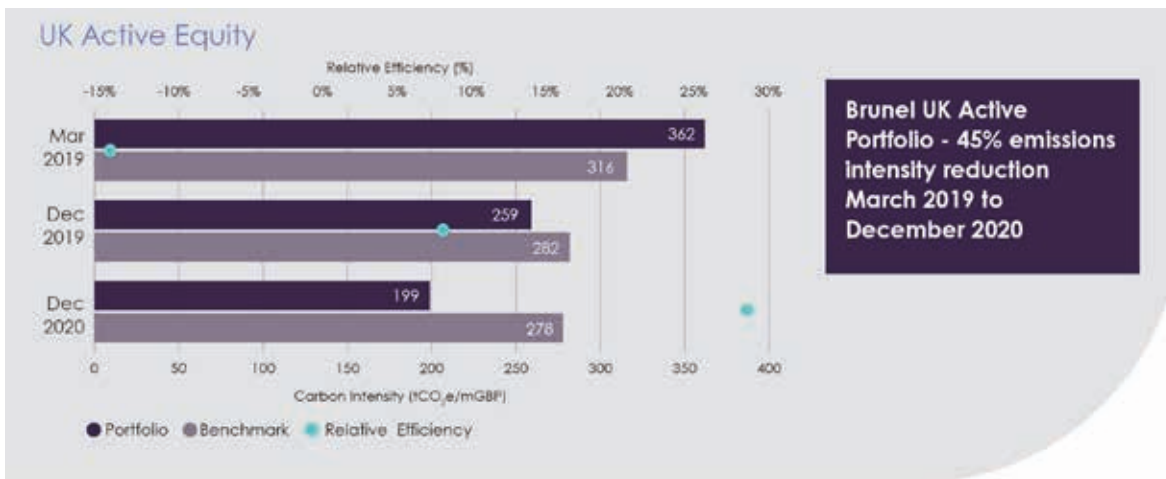
Invesco was able to develop a bespoke low-carbon solution within the existing multi-factor strategy, which has significantly reduced carbon emissions – and aims to keep them below that of the FTSE All-Share Index.

As can be seen in the graphic overleaf: the outcome from this work has been a significant reduction in the carbon intensity of the Brunel UK Active Portfolio from when first measured in March 2019 when it was 362 tCO<sub>2</sub>e/mGBP). The Portfolio as of December 2020 was 199 tCO<sub>2</sub>e/mGBP – a reduction in intensity of 45% over this 21 month time period.

Turning to relative efficiency, as of December 2020, the Brunel UK Active Portfolio had a relative efficiency of 28.4% versus its benchmark, the FTSE All-Share Ex-IT – an improvement from an efficiency of 8.8% in December 2019. Over the last 12 months the Portfolio saw a decline in carbon intensity, from 259 tCO<sub>2</sub>e/mGBP as of December 2019 to 199 tCO<sub>2</sub>e/mGBP in December 2020 – a 23.2% reduction.



# Responsible Investment



## Driving Change in Company Behaviour

The Fund believes that one of the benefits of pooling, achieved through scale and additional resources, is the improved implementation of stewardship practices. The following case studies demonstrate the action Brunel are taking on behalf of the member funds to drive change.

### Case Study: Investing in climate solutions

Through Brunel's Cycle 1 infrastructure portfolio, we are invested in the DWS Pan-European Infrastructure portfolio. It has a strong focus on ESG, with investments in innovative energy solutions aimed at supporting the low carbon transition.

#### Blue Pearl – Green Transition Solutions

Through this fund, we are invested in French and Belgian energy services businesses across installation and maintenance, heating ventilation air conditioning, and district energy and cooling.

#### Vertex – Sustainable Biofuel

Vertex is the sole bioethanol producer in Spain and Southern France and is one of the most efficient producers in Europe. The biofuel is added to gasoline to reduce the carbon intensity of vehicle emissions.

### Case Study: Diversity and Inclusion in Private Markets

A number of Brunel's appointed private market managers have become founding signatories of the Institutional Limited Partners Association's Diversity in Action initiative. The Initiative serves as a means for General Partners and Limited Partners to publicly acknowledge their commitment to take concrete steps to advance diversity, equity and inclusion, both within their organisation and across the industry more broadly.

The Initiative's framework lays out the essential criteria that address D&I across several themes and areas – from recruitment and talent retention, to investment practices, to community outreach.

AlInvest Partners, Ardian and KKR are three of the founding signatories that manage private market investments for Brunel. In addition, Stepstone Infrastructure and Real Assets (SIRA), appointed in 2020 to actively deploy infrastructure capital and build a portfolio to Brunel's specifications, has also become a founding signatory. As well as a strong focus on Responsible Investing and sustainability throughout the due diligence phase, SIRA have upped the focus within their own operations, specifically around Diversity and Inclusion.

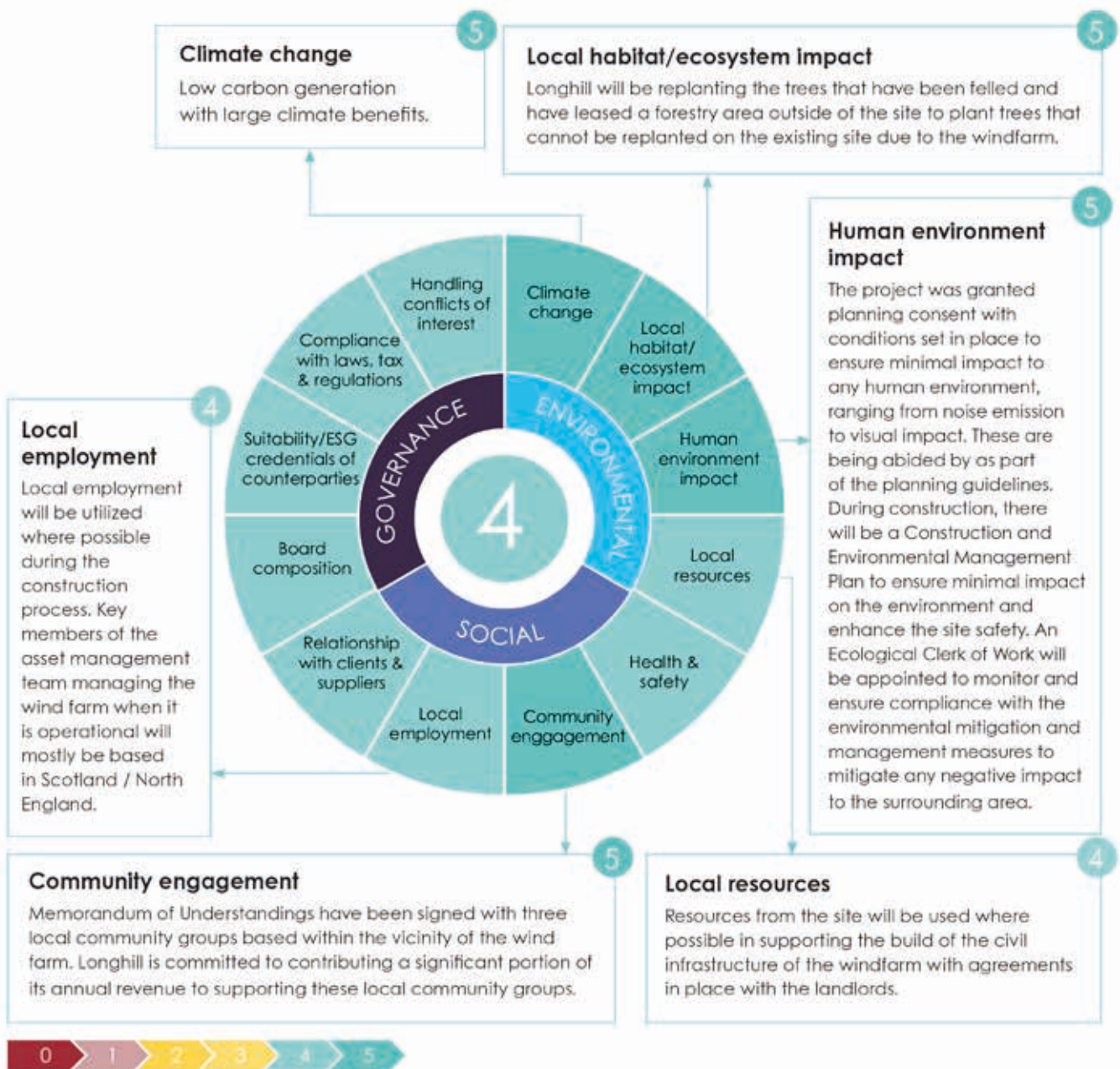
### Case Study: Responsible investment and Stewardship in Private Markets

Capital Dynamics has a long-standing commitment to Responsible Investment ("RI") and utilizes a proprietary R-Eye™ Rating System to ensure a consistent and transparent approach to RI due diligence. This trademarked rating system scores each investment from 0 to 5 based on a set of criteria developed in conjunction with the UN Sustainable Development Goals. Each investment made at Capital Dynamics is rated from 0 to 5 at the time of investment and this score is updated at least once a year.

In February 2021, Capital Dynamics acquired a 50 MW onshore wind project in West Lothian, Scotland, which is expected to be one of the largest subsidy-free onshore wind projects in the UK, once operational. The project received a high R-Eye™ score during the due diligence process, indicative of its impact on such areas as climate, environment, and local community.

Construction of Longhill will commence in March 2021 and is expected to achieve commercial operations in the second half of 2022. The project is estimated to reduce greenhouse emissions by over 2.6 million metric tons during its lifetime – the equivalent of emissions produced by over 550,000 passenger vehicles driven for a year or the electricity to power over 440,000 homes for a year.

# Responsible Investment



## Brunel – Industry Initiatives

A list of Brunel's partnerships and affiliations can be found on page 15 of [Brunel's RI Policy](#).

Brunel's chief responsible investment officer, Faith Ward, was a founder of the Transition pathway Initiative ("TPI") and was formerly co-chair. Brunel sits on the steering committee continuing its contribution to the initiative. TPI has seen many companies improving disclosures and progressing through the levels. One of TPI objectives is improve and evidence Management Quality through disclosure. Brunel has set itself targets based on TPI which are also integrated into their engagement and voting. Making progress against these targets is one way in which the effectiveness of the initiative can be judged, as can the number of public supporters which has grown to 108 presenting \$29 trillion (at 31 August 2021), in assets under management or advice.

However, Brunel acknowledges that the progress made by these companies is a result of engagement by many participants across the industry, not least those covered by the Climate Action 100+ initiative. TPI has partnered with Climate Action 100+ providing data and analysis to develop The Climate Action 100+ Net-Zero Company Benchmark, the first assessment of the biggest corporate greenhouse gas emitters and their efforts to transition to net zero businesses. Climate Action 100+ set 2023 as its milestone for its stewardship outcomes with [Annual Reports](#) providing transparency on progress and effectiveness.

Brunel assesses the effectiveness of its affiliations and partnerships as part of its business planning process as many have resource or budget implications. This assessment is currently a high level, qualitative assessment.

# Financial statements

| Fund Account  | 2020-21  |                  | 2019-20  |                  | Notes |
|---|----------|------------------|----------|------------------|-------|
| Dealings with Members, Employers and Others Directly Involved in the Fund                 | £m       | £m               | £m       | £m               |       |
| Contributions   | 95.910   |                  | 89.956   |                  | 7     |
| Transfers In from Other Pension Funds   | 6.093    |                  | 8.868    |                  | 7     |
| <b>Total Contributions</b>  |          | <b>102.003</b>   |          | <b>98.824</b>    |       |
| Benefits Payable  | (82.010) |                  | (77.105) |                  | 7     |
| Payments to and on account of leavers   | (4.180)  |                  | (3.324)  |                  | 7     |
| <b>Total Payments</b>   |          | <b>(86.190)</b>  |          | <b>(80.429)</b>  |       |
| <b>Net Additions from Dealings with Members</b>   |          | <b>15.813</b>    |          | <b>18.395</b>    |       |
| Management Expenses   | (17.434) |                  | (19.435) |                  | 8     |
| <b>Net Additions including Fund Management Expenses</b>                                   |          | <b>(1.621)</b>   |          | <b>(1.040)</b>   |       |
| <b>Returns on Investments</b>   |          |                  |          |                  |       |
| Investment Income   | 10.886   |                  | 24.238   |                  | 9     |
| Taxes on Income   | (0.100)  |                  | (0.059)  |                  | 9     |
| Profit and Loss on Disposal of Investments and Changes in Market Value of Investments     | 298.939  |                  | (39.009) |                  | 10    |
| <b>Net Returns on Investment</b>  |          | <b>309.725</b>   |          | <b>(14.830)</b>  |       |
| <b>Net Increase / (Decrease) in the Net Assets Available for Benefits During the Year</b> |          | <b>308.104</b>   |          | <b>(15.870)</b>  |       |
| <b>Opening Net Assets of the Scheme</b>   |          | <b>1,914.100</b> |          | <b>1,929.970</b> |       |
| <b>Closing Net Assets of the Scheme at 31 March</b>                                       |          | <b>2,222.204</b> |          | <b>1,914.100</b> |       |

| Net Assets Statement                           | 31 March 2021    | 31 March 2020    | Notes |
|--|------------------|------------------|-------|
|  | £m               | £m               |       |
| Long Term Investments                          | 0.768            | 0.427            | 10    |
| Investment Assets                              | 2,210.539        | 1,904.989        | 10    |
| Investment Liabilities                         | -                | -                |       |
| <b>Total Net Investments</b>                   | <b>2,211.307</b> | <b>1,905.416</b> |       |
| Long Term Assets                               | 3.128            | 3.595            | 16    |
| Current Assets                                 | 13.073           | 9.280            | 16    |
| Current Liabilities                            | (5.304)          | (4.191)          | 16    |
| <b>Net Assets of the Scheme as at 31 March</b> | <b>2,222.204</b> | <b>1,914.100</b> |       |

These accounts summarise the transactions of the Fund during the year, both for benefits and investments, and show the position of the Fund on 31 March 2021. They provide information about the financial position, performance and financial adaptability of the Fund and show how we have managed the Fund and what assets were in the Fund at the period end. Liabilities to pay pensions and other benefits in the future are not included but are dealt with in the Actuarial data included in Notes 14 and 15.

## Notes to the Pension Scheme Accounts

### 1. Description of the Fund

The Cornwall Pension Fund “the Fund” is a Local Government Pension Scheme (LGPS).

#### General

Local Government Pension Schemes are required to be funded and the Fund is required to be sufficient to meet

the estimated future pension entitlements of current and past employees. It is actuarially re-valued every three years to establish the contributions to be made by the employing authorities to achieve this objective. Transfers into or out of the Fund are sums received from, or paid to, other pension schemes. These relate to new and former members’ periods of pensionable employment, where transferable.

After meeting pension payments and other benefits, the balance of the Pension Fund is invested in a range of investments. The Fund is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

The LGPS Regulations 2013 (as amended)

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

The LGPS (Management and Investment of Funds) Regulations 2016



# Financial statements

The Pensions Committee is responsible for all matters relating to the Pension Fund. The membership includes two member-nominated representatives and two representatives of the employers in the scheme. The Pensions Committee has approved a scheme of delegation to the Section 151 Officer. Whereas the Pensions Committee approves all policies, the Section 151 Officer is empowered to invest monies of the Pension Fund. The Head of Pensions, Treasury and Technical also has delegated responsibilities based on the approved scheme of delegation. The Pensions Committee receives investment advice from the Fund's investment consultant, Mercer, and also receives guidance from an independent advisor who helps ensure good investment governance.

The Pensions Board carries out an oversight function to ensure such decisions are properly compliant with regulations, guidance and internal policies. An Investment Strategy Statement, setting out how the Fund's investments are managed, can be viewed on the Pension Fund website at [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk) or in the Pension Fund Annual Report.

## Membership

All employees (except teachers and fire fighters who have their own schemes) are entitled to join the scheme. Individuals have the right to seek alternative pension arrangements if they so wish. On 31 March 2021 there were 162 employer records in the Fund with active members (156 in the previous year).

The table below shows a breakdown of the membership.

|                                     | 2017          | 2018          | 2019          | 2020          | 2021          |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Contributors                        |               |               |               |               |               |
| Cornwall Council                    | 7,426         | 7,021         | 6,810         | 6,881         | 6,816         |
| Academies                           | 5,542         | 6,732         | 7,386         | 7,709         | 7,730         |
| Other Bodies                        | 4,247         | 4,081         | 3,888         | 3,816         | 3,558         |
| <b>Total Number of Contributors</b> | <b>17,215</b> | <b>17,834</b> | <b>18,084</b> | <b>18,406</b> | <b>18,104</b> |
| Pensioners                          |               |               |               |               |               |
| Receiving Benefits                  | 12,906        | 13,602        | 14,460        | 15,329        | 16,256        |
| Deferred Benefits                   | 20,306        | 21,014        | 21,060        | 20,785        | 21,118        |
| <b>Total Number of Pensioners</b>   | <b>33,212</b> | <b>34,616</b> | <b>35,520</b> | <b>36,114</b> | <b>37,374</b> |

## Funding

Benefits are funded by contributions and investment earning. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013. There are two sections in the scheme, the main section and the 50/50 section. The main section contributions range from 5.5% to 12.5% of pensionable pay for the year ending 31 March 2021. The 50/50 section allows members of the scheme to elect to accrue a lower personal benefit by paying half contributions. Employer contributions are

set during the triennial actuarial funding valuation, the actuary determines the appropriate level of employer contributions for each employer and these can be found on the Rates and Adjustments Certificate. The last such valuation was at 31 March 2019, which revealed that the Fund's assets, were valued at £1,926 million and were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £207 million. The next formal valuation will be carried out as at 31 March 2022, however the position is monitored on a quarterly basis by officers and the Pensions Committee, using a projection produced by the actuary for the valuation of the Fund's liabilities and the quarterly asset valuation from the Fund's custodian.

## Benefits

Prior to 01 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 01 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is reviewed annually, in line with the Consumer Prices Index.

## 2. Basis of Preparation

These accounts summarise the Fund's transactions for 2020-21 and its position at the year ending 31 March 2021. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 (the code), based on International Financial Reporting Standards (IFRS) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21.

The Fund's Administering Authority is Cornwall Council, and the Council's professional staff who prepared these accounts, followed the same accounting policies, principles and practices that have been adopted for the Council's own Statement of Accounts for 2020-21.

The accounts have been prepared on a going concern basis.

## 3. Accounting Policies

### Fund Account – Revenue Recognition and Expense Items

#### Contributions

These are included on an accrual's basis, where these amounts have been determined on the closure of accounts.

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all LGPS schemes which rise according to pensionable



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pay. Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

These accruals do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations. Lump sum benefits are accrued at year end.

Employer deficit contributions are accounted for on the due dates on which they are payable, under the schedule of contributions set by the scheme actuary or on receipt, if earlier than the due date. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

## **Investment Income and Expenses**

Investment income for pooled funds is held back within the pooled funds and reinvested, this value is reflected in the unit price. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Interest income is recognised in the fund account as it accrues, and dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period are accrued for.

## **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 assets statement as current liabilities.

## **Transfer Values to/from Other Funds**

Transfer Values represent amounts received and paid during the period for individual members who have either joined or left the Cornwall Pension Fund during the financial year. Individual transfers in/out are accounted for on a received or paid basis during the year and are calculated in accordance with the LGPS Regulations. Block transfers would be accrued, if they straddled the year end.

## **Pension Fund Management Expenses**

Pension Fund Management Expenses have been prepared in accordance with the CIPFA guidance, Accounting for Local Government Pension Scheme Management Expenses (2016), and as such have been split into administrative expenses, oversight and governance costs and investment management expenses. All items of expenditure are charged to the Fund on an accrual's basis.

## Administrative Expenses

The staff costs of the pension benefits team are charged direct to the Fund, as is the associated management, accommodation and other overheads which are apportioned to this function.

## Oversight and Governance Costs

These include the staff costs of the investments team, advisors to the Fund and other services which help the Fund provide effective oversight and governance. The associated management, accommodation and other overheads which are apportioned to this function are also charged to the Fund.

## Investment Management Expenses

Investment Management Expenses comprise of expenses which are incurred in relation to the management of pension fund assets. Where an investment manager's fee note has not been received by the reporting period end date, an estimate based upon the market value of the mandate at the end of the reporting period has been used.

Management fees are agreed in the respective mandates governing the manager's appointments and are based on the market value of these investments under their management and therefore increase or reduce as the value of these investments change.

In addition, some of the Fund's investments have an element of their fee which is performance related.

## **Taxation**

For taxation purposes, the Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As Cornwall Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investment expenses.

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

## **Net Assets Statement**

### **Financial Assets**

Financial assets are included in the Net Assets Statement on a fair value basis at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset and any gains or losses arising from changes in the fair value are recognised in the Fund Account.

The values of investments included in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of

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fair value hierarchy, the Fund has been minded to take consideration of the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Cornwall Council and the other 9 shareholders each holds a 10% share in Brunel Pension Partnership Ltd (Company number 10429110). As such, no fund is deemed to have a significant influence and this long-term investment is accounted for at fair value. The asset was initially measured at cost and is subsequently revalued for any impairment.

The accounts for the year ended 31 March 2021 use the valuations for the Fund's assets based on the figures provided by the Fund's custodian, State Street.

## Foreign Currency Transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction.

Investments held in foreign currencies are converted at the closing rates of exchange, as at the financial year-end date.

## Cash and Cash Equivalents

Cash comprises cash in hand (Bank) and demand deposits (MMFs), which also includes amounts held by the custodian.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

## Additional Voluntary Contributions:

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

The Fund has no involvement in the management of these assets and, for this reason, they are not included in Cornwall Pension Fund's financial statements in accordance with the LGPS (Management and Investment of Funds) Regulations 2016 section 4(2)(b) but are disclosed as a note. Further details are provided in Note 17.

## The Actuarial Present Value of Promised Retirement Benefits

The Actuarial Present Value of Promised Retirement Benefits is disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, Cornwall Pension Fund has included a note disclosing the actuarial present value of retirement benefits (Notes 14 and 15).

Under the Pension Fund Regulations, employers' contribution rates are set to enable the Fund to meet, eventually, 100% of its overall liabilities to pay benefits for both local authorities and other bodies (see Note 14).

## Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

## Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

During the reporting period there were no prior period adjustments.

## 4. Critical Judgments in Applying Accounting Policies

### Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary, following work which is carried out to ensure that they are the most appropriate for the Fund and these assumptions are explained in Notes

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14 and 15. The estimate of fund liability is subject to significant variances based on changes to the underlying assumptions. These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term yield/return.

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

These financial statements contain estimated figures that are based on assumptions and judgements made by our investment managers/actuary about the future or that are otherwise uncertain. These estimates and assumptions affect the amounts reported for the assets and liabilities at balance sheet date and the amounts reported for revenues and expenses during the year. 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 the assumptions and estimates. It should be noted that the Fund does not produce any of these significant estimates, they all come from highly regulated professionally qualified providers.

The items in the Net Assets Statement at 31 March 2021, for which there is a significant risk of material adjustment in the forthcoming year, are as shown below:

| Item  | Uncertainties   | Effect if actual results differ from assumptions  |
|---|---|---|
| <b>Actuarial present value of promised retirement benefits</b>                          | <p>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.</p> <p>A firm of consulting actuaries, Hymans Robertson, is engaged to provide the Fund with expert advice about the assumptions to be applied.</p> | <p>The effects on the net pension liability of changes in the individual assumptions can be measured. A 0.5% decrease in the real discount rate assumption would increase the pension liability by £402m. A 0.5% rise in the salary increase rate would increase the liability by £37m. A 0.5% increase in assumed pension increase rate would increase the liability by £357m. A 1 year increase in assumed life expectancy would increase the liability by 3-5%.</p> <p>More details on the Actuary's assumptions and projections are shown in Notes 14 and 15.</p> |
| <b>Private Equities, Infrastructure, Property Limited Partnerships and Private Debt</b> | <p>These investments are not publicly listed and as such there is a degree of estimation involved in their valuation.</p> <p>See Note 11, Fair Value - Basis of Valuation for further detail</p>  | <p>The total private equity, infrastructure, property limited partnerships and Private Debt investments in the financial statements are £275.403m.</p> <p>There is a risk that these investments may be under - or over - stated in the accounts due to estimation uncertainties. See Note 11 for further details.</p>  |

## 6. Events after the Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements 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 (adjusting events after the reporting period), and
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

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## Non-Adjusting Events After the Reporting Period

### Investments/Disinvestments

Since the end of the reporting period, the Fund has made the following investments and disinvestments, this excludes capital calls/distributions from the Fund's private markets managers (please note that the value of the investments will be different than at the 31st March 2021 due to changes in the market values of investments):

| New Investment                                     | Further Investment | Fully Disinvested   | Partially Disinvested   |
|--|--------------------|---|---|
| Brunel Multi-Asset Credit £176.6m                  | -                  | Insight Investment Management (Multi-Asset Credit) £92.6m | Invesco Perpetual (Diversified Growth Fund) £196.0m           |
| Brunel Diversifying Returns Fund £173.0m           | -                  | Man Institutional Solutions (Hedge Fund) £131.0m          | Legal & General Investment Management (Insurance Fund) £11.9m |
| Brunel Global High Alpha Global Equity Fund £29.5m | -                  | -   | -   |
| Brunel Smaller Companies Equity Fund £29.5m        | -                  | -   | -   |

### Man Institutional Solutions

The Man Institutional Solutions investment that the Fund was invested in, was a vehicle of one investor (the Fund), as the Fund had given notice that it was disinvesting, the investment vehicle was effectively ending (so no longer a going concern) and as such was valued on a liquidation basis. Due to this, the auditor of the Man investment vehicle the Fund held, included an emphasis of matter paragraph within their audit opinion, of the vehicle no longer being a going concern (because it was ending).

## 7. Analysis of Total Contributions and Benefits

The total contributions receivable and benefits payable during the year ending 31 March 2021 were as shown below:

| Contributions and Benefits                           | Cornwall Council<br>£m | Scheduled Bodies<br>£m | Designatory Bodies<br>£m | Admitted Bodies<br>£m | 2021<br>£m      | 2020<br>£m      |
|--|------------------------|------------------------|--------------------------|-----------------------|-----------------|-----------------|
| Contributions Receivable                             |                        |                        |                          |                       |                 |                 |
| Employers' normal                                    | 30.096                 | 20.190                 | 5.868                    | 2.832                 | 58.986          | 52.114          |
| Employers' fixed deficit                             | 11.553                 | 5.434                  | 0.182                    | 0.920                 | 18.089          | 19.693          |
| From Employees (normal and additional)               | 9.645                  | 6.549                  | 1.824                    | 0.814                 | 18.832          | 18.140          |
| Transfers In   |                        |                        |                          |                       |                 |                 |
| Individual transfers                                 | 4.327                  | 0.438                  | 0.021                    | 1.307                 | 6.093           | 8.868           |
| Other Income   | 0.003                  | -                      | -                        | -                     | 0.003           | 0.009           |
| <b>Total Income</b>                                  | <b>55.624</b>          | <b>32.611</b>          | <b>7.895</b>             | <b>5.873</b>          | <b>102.003</b>  | <b>98.824</b>   |
| Benefits Payable                                     |                        |                        |                          |                       |                 |                 |
| Pensions   | (51.502)               | (7.319)                | (2.843)                  | (4.701)               | (66.365)        | (62.889)        |
| Lump Sums  | (8.338)                | (3.084)                | (1.541)                  | (1.076)               | (14.039)        | (12.647)        |
| Death Benefits                                       | (0.731)                | (0.317)                | (0.309)                  | (0.133)               | (1.490)         | (1.357)         |
| Taxation where lifetime or annual allowance exceeded | (0.052)                | (0.019)                | (0.018)                  | (0.027)               | (0.116)         | (0.212)         |
| Payments on Account of Leavers                       |                        |                        |                          |                       |                 |                 |
| Refunds of Contributions                             | (0.091)                | (0.112)                | (0.002)                  | (0.003)               | (0.208)         | (0.357)         |
| Transfers Out  |                        |                        |                          |                       |                 |                 |
| Individual transfers                                 | (2.396)                | (1.065)                | (0.139)                  | (0.372)               | (3.972)         | (2.967)         |
| <b>Total Expenditure</b>                             | <b>(63.110)</b>        | <b>(11.916)</b>        | <b>(4.852)</b>           | <b>(6.312)</b>        | <b>(86.190)</b> | <b>(80.429)</b> |

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Fund in exchange for the Fund settling their tax liability.



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## 8. Management Expenses

For the years ended 31 March, the analysis of management expenditure was as follows:

| Management Expenses                                 | 2021<br>£m    | 2020<br>£m    |
|---|---------------|---------------|
| Administrative Costs                                | 0.913         | 0.968         |
| Investment Management Expenses                      |               |               |
| Management Fees                                     | 12.517        | 11.077        |
| Performance Fees                                    | 0.482         | 0.873         |
| Transaction Costs                                   | 1.723         | 3.164         |
| Other Costs <sup>1</sup>                            | 1.076         | 2.404         |
| Custody Fees  | 0.016         | 0.018         |
| Oversight and Governance Costs                      | 0.707         | 0.931         |
| <b>Total Investment and Administration Expenses</b> | <b>17.434</b> | <b>19.435</b> |

<sup>1</sup> Other Costs are investment management expenses incurred which do not fall into the other subheadings

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the costs of investment acquisitions and in proceeds from the sales of investments (see Note 10).

Included in Oversight and Governance Costs is £0.033m for the year to 31 March 2021 (£0.025m for the year to 31 March 2020) which relates to the external audit of the Pension Fund accounts. There is also a charge included from the Scheme's external auditor, which relates to the provision of IAS 19 assurances to Scheme employer auditors, which was £0.004m for the year to 31 March 2021 (£0.004m for the year to 31 March 2020).

## 9. Investment Income

The income paid back to the Fund generated by the Fund's investments, net of tax, amounted to £10.786m. Other income is generated by the Fund's investments, but the holdings are invested in accumulation shares, which are held for capital growth. The income is held back and reflected in the unit price. Investment income for the year ended 31 March was received from the following sectors:

| Investment Income   | 2021<br>£m    | 2020<br>£m    |
|---|---------------|---------------|
| <b>Pooled Investment Vehicles</b>                               |               |               |
| Private equities, infrastructure and private debt               | 4.900         | 7.826         |
| Pooled Property Funds   | 3.585         | 4.930         |
| Unit Trust Bonds  | 1.669         | 0.858         |
| Gain on foreign currency transactions when trading <sup>1</sup> | 0.236         | 10.347        |
| Interest on cash deposits                                       | 0.460         | 0.277         |
| Other   | 0.036         | -             |
| <b>Gross Investment Income</b>                                  | <b>10.886</b> | <b>24.238</b> |
| Irrecoverable Withholding Tax                                   | (0.100)       | (0.059)       |
| <b>Net Investment Income</b>                                    | <b>10.786</b> | <b>24.179</b> |

## 10. Investments

| Investments                                 | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m | Notes |
|---|------------------------|------------------------|-------|
| <b>Long Term Investments</b>                |                        |                        |       |
| Brunel Pension Partnership Ltd <sup>1</sup> | 0.768                  | 0.427                  |       |
| <b>Investment Assets</b>                    |                        |                        |       |
| Pooled Investments                          | 2,048.211              | 1,744.713              |       |
| Pooled Property Investments                 | 140.459                | 135.835                |       |
| Cash Deposits                               | 21.850                 | 20.758                 | 13    |
| Other Investment Balances                   | 0.019                  | 3.683                  |       |
| <b>Net Investment Assets</b>                | <b>2,211.307</b>       | <b>1,905.416</b>       |       |

<sup>1</sup> See Note P20 (Contingent Liability) for further information re the Brunel Pension Partnership long-term investment.

The following note shows the pooled investments split by asset class at 31 March.

| Investment Assets   | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m |
|---|------------------------|------------------------|
| <b>Pooled Investments</b>                                 |                        |                        |
| Multi Asset Credit  | 91.929                 | 80.026                 |
| Equities  | 772.262                | 573.300                |
| Diversified Growth Funds                                  | 251.503                | 201.113                |
| Hedge Funds   | 123.748                | 123.498                |
| Infrastructure Funds                                      | 132.970                | 106.767                |
| Liability Driven Investment <sup>1</sup>                  | -                      | 378.296                |
| Pooled Property Investments                               | 140.459                | 135.835                |
| Private Debt  | 71.742                 | 71.578                 |
| Private Equity  | 51.608                 | 58.437                 |
| Risk Management Framework <sup>1</sup>                    | 367.649                | -                      |
| Unitised Insurance Fund                                   | 184.800                | 151.698                |
|   | <b>2,188.670</b>       | <b>1,880.548</b>       |
| Cash Deposits   | 21.850                 | 20.758                 |
| Investment Income Due and tax receivable                  | 0.019                  | 0.072                  |
| Amounts Receivable from Sales                             | -                      | 3.611                  |
|   | <b>21.869</b>          | <b>24.441</b>          |
| <b>Net Investment Assets of the Scheme as at 31 March</b> | <b>2,210.539</b>       | <b>1,904.989</b>       |

<sup>1</sup> The Fund's Liability Driven Investment transitioned to the Risk Management Framework in year.

<sup>1</sup> The gain on foreign currency transactions in 2019-20 resulted from a large change in exchange rates, from when the investment was originally purchased to when it was sold

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The following note shows the reconciliation of movements in investments for the year ending 31 March 2021

|                                   | Value<br>1 April<br>2020<br>£m | Purchases<br>at cost<br>£m | Sales<br>Proceeds<br>£m | Profit / Loss<br>and Change<br>in Market<br>Value<br>£m | Value<br>31 March<br>2021<br>£m |
|-----------------------------------|--------------------------------|----------------------------|-------------------------|---|---------------------------------|
| <b>Long Term Investments</b>      |                                |                            |                         |   |                                 |
| Brunel Pensions Partnership       | 0.427                          | -                          | -                       | 0.341   | 0.768                           |
| <b>Investment Assets</b>          |                                |                            |                         |   |                                 |
| Pooled Investment Vehicles        |                                |                            |                         |   |                                 |
| Pooled Equity Funds               | 573.300                        | -                          | (11.707)                | 210.669   | 772.262                         |
| Pooled Property Funds             | 135.835                        | 6.518                      | (3.558)                 | 1.664   | 140.459                         |
| Other Pooled Investments          | 1,171.413                      | 345.683                    | (327.408)               | 86.261  | 1,275.949                       |
|                                   | <b>1,880.975</b>               | <b>352.201</b>             | <b>(342.673)</b>        | <b>298.935</b>  | <b>2,189.438</b>                |
| Other adjustments for revaluation | -                              |                            |                         | 0.004   | -                               |
| Cash Deposits                     | 20.758                         |                            |                         |   | 21.850                          |
| Other Investment Balances         | 3.683                          |                            |                         |   | 0.019                           |
| <b>Net Investment Assets</b>      | <b>1,905.416</b>               |                            |                         | <b>298.939</b>  | <b>2,211.307</b>                |

The comparative data for the previous year are as follows:

|                                   | Value<br>1 April<br>2019<br>£m | Purchases<br>at cost<br>£m | Sales<br>Proceeds<br>£m | Profit / Loss<br>and Change<br>in Market<br>Value<br>£m | Value<br>31 March<br>2020<br>£m |
|-----------------------------------|--------------------------------|----------------------------|-------------------------|---|---------------------------------|
| <b>Long Term Investments</b>      |                                |                            |                         |   |                                 |
| Brunel Pensions Partnership       | 0.395                          | -                          | -                       | 0.032   | 0.427                           |
| <b>Investment Assets</b>          |                                |                            |                         |   |                                 |
| Pooled Investment Vehicles        |                                |                            |                         |   |                                 |
| Pooled Equity Funds               | 633.841                        | 166.732                    | (196.985)               | (30.288)  | 573.300                         |
| Pooled Property Funds             | 144.931                        | 1.879                      | (7.444)                 | (3.531)   | 135.835                         |
| Other Pooled Investments          | 1,132.238                      | 764.641                    | (720.244)               | (5.222)   | 1,171.413                       |
|                                   | <b>1,911.405</b>               | <b>933.252</b>             | <b>(924.673)</b>        | <b>(39.009)</b>   | <b>1,880.975</b>                |
| Other adjustments for revaluation | -                              |                            |                         | -   | -                               |
| Cash Deposits                     | 9.307                          |                            |                         |   | 20.758                          |
| Other Investment Balances         | 0.158                          |                            |                         |   | 3.683                           |
| <b>Net Investment Assets</b>      | <b>1,920.870</b>               |                            |                         | <b>(39.009)</b>   | <b>1,905.416</b>                |

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The fund managers' portfolios were valued as follows:

| Fund Manager   | 31 March 2021    |               | 31 March 2020    |              |
|--|------------------|---------------|------------------|--------------|
|  | £m               | % of Total    | £m               | % of Total   |
| <b>Investments managed by Brunel Ltd</b>                               |                  |               |                  |              |
| Brunel Infrastructure Portfolio  | 26.242           | 1.2%          | 11.274           | 0.5%         |
| Brunel Emerging Market Equities  | 202.728          | 9.2%          | 138.728          | 7.3%         |
| Brunel Global Sustainable Equities <sup>1</sup>                        | 298.634          | 13.5%         | -                | 0.0%         |
| Brunel Core Global Equities <sup>2</sup>                               | 270.901          | 12.3%         | -                | 0.0%         |
| Brunel Liability Driven Investment (BlackRock) <sup>3</sup>            | -                | 0.0%          | 378.296          | 19.9%        |
| Brunel Risk Management Framework (BlackRock) <sup>3</sup>              | 367.649          | 16.6%         | -                | 0.0%         |
| Brunel Private Equities  | 0.586            | 0.0%          | -                | 0.0%         |
| Brunel Property <sup>4</sup>   | 140.459          | 6.4%          | -                | 0.0%         |
| <b>Total Investments managed by Brunel Ltd</b>                         | <b>1,307.199</b> | <b>59.2%</b>  | <b>528.298</b>   | <b>27.7%</b> |
| <b>Investments managed outside of Brunel Pension Partnership</b>       |                  |               |                  |              |
| Aberdeen Standard Investments (Property & Private Equity) <sup>4</sup> | 9.764            | 0.4%          | 68.845           | 3.6%         |
| Arcmont Asset Management (Private Debt)                                | 40.032           | 1.8%          | 36.294           | 1.9%         |
| Environmental Technology Fund (Private Equity)                         | 0.185            | 0.0%          | 0.312            | 0.0%         |
| Golub (Private Debt)   | 31.709           | 1.4%          | 35.284           | 1.9%         |
| Federated Hermes (Infrastructure)                                      | 60.498           | 2.7%          | 59.715           | 3.1%         |
| HSBC (Frontier Market Equities) <sup>5</sup>                           | -                | 0.0%          | 9.397            | 0.5%         |
| Infracapital Partners (Infrastructure)                                 | 46.231           | 2.1%          | 35.778           | 1.9%         |
| Insight Investment Management (Multi Asset Credit)                     | 91.929           | 4.2%          | 80.026           | 4.2%         |
| Internally Managed Property Funds (Property) <sup>4</sup>              | -                | 0.0%          | 80.801           | 4.2%         |
| Invesco Perpetual (Diversified Growth Fund)                            | 251.503          | 11.4%         | 201.113          | 10.6%        |
| Man Institutional Solutions (Hedge Fund)                               | 123.748          | 5.6%          | 123.498          | 6.5%         |
| Newton Investment Management (Global Equities) <sup>2</sup>            | -                | 0.0%          | 425.175          | 22.3%        |
| Wilshire Associates (Private Equity)                                   | 41.072           | 1.9%          | 44.314           | 2.3%         |
| Legal & General Investment Management (Insurance Fund)                 | 184.800          | 8.4%          | 151.698          | 8.0%         |
| <b>Total Investments managed by Cornwall Pension Fund</b>              | <b>881.471</b>   | <b>39.9%</b>  | <b>1,352.250</b> | <b>71.0%</b> |
| <b>Total Investments with external managers</b>                        | <b>2,188.670</b> | <b>99.1%</b>  | <b>1,880.548</b> | <b>98.7%</b> |
| Accruals and Cash Deposits   | 21.869           | 0.9%          | 24.441           | 1.3%         |
| <b>Total Investment Assets</b>   | <b>2,210.539</b> | <b>100.0%</b> | <b>1,904.989</b> | <b>100%</b>  |

<sup>1</sup> During the 2020-21 financial year, the Fund made a new allocation to Brunel Global Sustainable Equities in line with the Fund's Investment Strategy

<sup>2</sup> As part of LGPS Pooling, the Fund's investment with Newton Investment Management transitioned to Brunel Core Global Equities during the 2020-21 financial year

<sup>3</sup> The Fund's Liability Driven Investment transitioned into the Risk Management Framework in the 2020-21 financial year in line with the Fund's Investment Strategy.

<sup>4</sup> As part of LGPS Pooling, the Fund's property holdings with Aberdeen Standard and Internally Managed Property both transitioned to Brunel Property during the 2020-21 financial year

<sup>5</sup> HSBC Frontier Market Equities sold down during the 2020-21 financial year, due to Cornwall Pension Fund no longer having a direct allocation to frontier market equities

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The following holdings each represent more than 5% of the net assets of the Fund:

|   | 31 March 2021 |            | 31 March 2020 |            |
|---|---------------|------------|---------------|------------|
|   | £m            | % of Total | £m            | % of Total |
| Brunel Risk Management Framework (BlackRock) <sup>1</sup>           | 367.649       | 16.6%      | -             | 0.0%       |
| Brunel Global Sustainable Equities <sup>2</sup>                     | 298.634       | 13.5%      | -             | 0.0%       |
| Brunel Core Global Equities <sup>3</sup>                            | 270.901       | 12.3%      | -             | 0.0%       |
| Invesco Balanced Risk 8 Accumulation Shares                         | 251.503       | 11.4%      | 201.113       | 10.6%      |
| Brunel Emerging Market Equities                                     | 202.728       | 9.2%       | 138.728       | 7.3%       |
| Legal & General Investment Management (Insurance Fund Policy 37084) | 184.800       | 8.4%       | 151.698       | 8.0%       |
| Brunel Property <sup>4</sup>  | 140.459       | 6.4%       | -             | 0.0%       |
| Man Institutional Solutions - Cornwall Hedge Fund Strategy          | 123.748       | 5.6%       | 123.498       | 6.5%       |
| Brunel Liability Driven Investment (BlackRock) <sup>1</sup>         | -             | 0.0%       | 378.296       | 19.9%      |
| Newton Global Equity X Shares Fund <sup>3</sup>                     | -             | 0.0%       | 425.175       | 22.3%      |

<sup>1</sup> The Fund's Liability Driven Investment transitioned into the Risk Management Framework in the 2020-21 financial year in line with the Fund's Investment Strategy.

<sup>2</sup> During the 2020-21 financial year, the Fund made a new allocation to Brunel Global Sustainable Equities in line with the Fund's Investment Strategy

<sup>3</sup> As part of LGPS Pooling, the Fund's investment with Newton Investment Management transitioned to Brunel Core Global Equities during the 2020-21 financial year

<sup>4</sup> As part of LGPS Pooling, the Fund's property holdings with Aberdeen Standard and Internally Managed Property both transitioned to Brunel Property during the 2020-21 financial year



# Financial statements

## 11. Fair Value – Basis of Valuation

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

| Description of asset          | Valuation hierarchy | Basis of valuation   | Observable and unobservable inputs  | Key sensitivities affecting the valuations provided  |
|-------------------------------|---------------------|--|---|--|
| Diversified Growth Funds      | Level 2             | Valued using vendor pricing and OTC pricing models   | Evaluated price feeds   | Not Required   |
| Pooled Equity Funds           | Level 2             | Closing bid price where bid and offer prices are published. Closing single price where single price published  | NAV-based pricing set on a forward pricing basis  | Not Required   |
| Multi Asset Credit            | Level 2             | Average of broker price feeds  | Evaluated price feeds   | Not Required   |
| Risk Management Framework     | Level 2             | Valued using vendor pricing and OTC pricing models   | Evaluated price feeds, OTC Modelling and economics of Swap  | Not Required   |
| Property Unit Trusts (UK)     | Level 2             | Closing bid price where bid and offer prices are published. Closing single price where single price published  | NAV-based pricing set on a forward pricing basis  | Not Required   |
| Hedge Funds                   | Level 2             | Closing bid price where bid and offer prices are published. Closing single price where single price published  | NAV-based pricing set on a forward pricing basis  | Not Required   |
| Insurance Policies            | Level 2             | Closing bid price where bid and offer prices are published   | Evaluated price feeds   | Not Required   |
| Private Debt                  | Level 3             | Fair value derived from the amortised cost measurement   | Initial recognition cost, Principal repayments, effective interest method, Impairment reductions  | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, as the fund is exposed to credit risk and asset determined to be uncollectible will need to be written off and by any differences between the audited and unaudited accounts. |
| Property Limited Partnerships | Level 3             | Valued at fair value at the year-end using a number of different models that reflect the general partner's determination of assumptions and inputs that market participants might reasonably use in valuing the securities | NPV of projected cash flows, internally-generated pricing models utilising NAV methodologies, underlying property valuations, transactions observable in the marketplace and reported NAV as provided by the investee | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.  |
| Infrastructure Funds          | Level 3             | Direct investments: Independent valuation performed using discounted cash flow methodology in accordance with international private equity valuation guidelines  | Future free cash flows from underlying investments<br>Cost of capital of underlying investments   | Valuations could be affected by material events occurring after the preparation of the independent reports, and by changes to expected cash flows.   |
| Private Equities              | Level 3             | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines   | EBITDA multiple<br>Revenue multiple<br>Discount for lack of marketability<br>Control premium  | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.  |

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## Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

|                               | Assessed valuation range<br>(+/-) | Value at 31 March 2021<br>£m | Value on increase<br>£m | Value on decrease<br>£m |
|-------------------------------|-----------------------------------|------------------------------|-------------------------|-------------------------|
| Private Debt                  | 5                                 | 71.742                       | 75.329                  | 68.155                  |
| Property Limited Partnerships | 10                                | 19.083                       | 20.991                  | 17.175                  |
| Private equities              | 15                                | 51.608                       | 59.349                  | 43.867                  |
| Infrastructure funds          | 10                                | 132.970                      | 146.267                 | 119.673                 |
| <b>Total</b>                  |                                   | <b>275.403</b>               | <b>301.936</b>          | <b>248.869</b>          |

The comparative data for the previous year are as follows:

|                               | Assessed valuation range<br>(+/-) | Value at 31 March 2020<br>£m | Value on increase<br>£m | Value on decrease<br>£m |
|-------------------------------|-----------------------------------|------------------------------|-------------------------|-------------------------|
| Private Debt                  | 5                                 | 71.578                       | 75.157                  | 67.999                  |
| Property Limited Partnerships | 10                                | 13.887                       | 15.276                  | 12.498                  |
| Private equities              | 15                                | 58.437                       | 67.202                  | 49.671                  |
| Infrastructure funds          | 10                                | 106.767                      | 117.444                 | 96.090                  |
| <b>Total</b>                  |                                   | <b>250.669</b>               | <b>275.079</b>          | <b>226.258</b>          |

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 – Unadjusted, quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.  
Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.
- Level 2 – Inputs, other than quoted prices under Level 1, that are observable for the asset or liability, either directly or indirectly. 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 – These are financial instruments where at least one input that could have a significant effect on the valuation is not based on observable market data, an example of these instruments is unquoted equities.

The valuation relies on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. This is done with reference to the International Private Equity and Venture Capital Valuation Guidelines, which follow the principles of IFRS and US GAAP.

Valuations for the Fund's private equities are usually undertaken at the end of December and cash flow adjustments are used to roll forward valuations to 31 March.

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The following table sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2021:

| <b>Investment Assets as at 31 March 2021</b>           | <b>Quoted Market Price<br/>Level 1<br/>£m</b> | <b>Using Observable Inputs<br/>Level 2<br/>£m</b> | <b>With Significant Unobservable Inputs<br/>Level 3<br/>£m</b> | <b>Total<br/>£m</b> |
|--|---|---|--|---------------------|
| Financial Assets at Fair Value Through Profit and Loss | -   | 1,913.267   | 275.403  | <b>2,188.670</b>    |
| Other Investment Assets                                | 21.869  | -   | -  | <b>21.869</b>       |
| <b>Total Investment Assets</b>                         | <b>21.869</b>                                 | <b>1,913.267</b>                                  | <b>275.403</b>   | <b>2,210.539</b>    |

The comparative table for 31 March 2020 is shown below:

| <b>Investment Assets as at 31 March 2020</b>           | <b>Quoted Market Price<br/>Level 1<br/>£m</b> | <b>Using Observable Inputs<br/>Level 2<br/>£m</b> | <b>With Significant Unobservable Inputs<br/>Level 3<br/>£m</b> | <b>Total<br/>£m</b> |
|--|---|---|--|---------------------|
| Financial Assets at Fair Value Through Profit and Loss | -   | 1,629.879   | 250.669  | <b>1,880.548</b>    |
| Other Investment Assets                                | 24.441  | -   | -  | <b>24.441</b>       |
| <b>Total Investment Assets</b>                         | <b>24.441</b>                                 | <b>1,629.879</b>                                  | <b>250.669</b>   | <b>1,904.989</b>    |

## Reconciliation of Fair Value Measurements within level 3

|                                   | <b>Private equities<br/>£m</b> | <b>Infrastructure funds<br/>£m</b> | <b>Private Debt<br/>£m</b> | <b>Property Limited Partnerships<br/>£m</b> | <b>Total value<br/>£m</b> |
|-----------------------------------|--------------------------------|------------------------------------|----------------------------|---|---------------------------|
| Market value April 2020           | 58.437                         | 106.767                            | 71.578                     | 13.887                                      | 250.669                   |
| Transfers into Level 3            | -                              | -                                  | -                          | -   | -                         |
| Transfers out of Level 3          | -                              | -                                  | -                          | -   | -                         |
| Purchases during the year         | 1.039                          | 39.842                             | 3.048                      | 7.041                                       | 50.970                    |
| Sales during the year             | (6.616)                        | (29.693)                           | (1.633)                    | (2.421)                                     | (40.363)                  |
| Unrealised gains/losses           | (3.979)                        | 10.587                             | (1.251)                    | 0.625                                       | 5.982                     |
| Realised gains/losses             | 2.727                          | 5.467                              | -                          | (0.049)                                     | 8.145                     |
| <b>Market value 31 March 2021</b> | <b>51.608</b>                  | <b>132.970</b>                     | <b>71.742</b>              | <b>19.083</b>                               | <b>275.403</b>            |

The comparative table for 31 March 2020 is shown below:

|                                   | <b>Private equities<br/>£m</b> | <b>Infrastructure funds<br/>£m</b> | <b>Private Debt<br/>£m</b> | <b>Property Limited Partnerships<br/>£m</b> | <b>Total value<br/>£m</b> |
|-----------------------------------|--------------------------------|------------------------------------|----------------------------|---|---------------------------|
| Market value April 2019           | 61.854                         | 63.308                             | 47.180                     | 16.385                                      | 188.727                   |
| Transfers into Level 3            | -                              | -                                  | -                          | -   | -                         |
| Transfers out of Level 3          | -                              | -                                  | -                          | -   | -                         |
| Purchases during the year         | 1.788                          | 44.691                             | 32.874                     | 1.879                                       | 81.232                    |
| Sales during the year             | (12.355)                       | (4.269)                            | (9.581)                    | (2.627)                                     | (28.831)                  |
| Unrealised gains/losses           | (0.520)                        | 2.980                              | 1.097                      | (1.750)                                     | 1.807                     |
| Realised gains/losses             | 7.670                          | 0.057                              | 0.008                      | -   | 7.735                     |
| <b>Market value 31 March 2020</b> | <b>58.437</b>                  | <b>106.767</b>                     | <b>71.578</b>              | <b>13.887</b>                               | <b>250.669</b>            |

# Financial statements

## 12. Financial Instruments

Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate fair value.

### Classification of Financial Instruments

| Financial Assets                         | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m |
|--|------------------------|------------------------|
| <b>Fair value through profit or loss</b> |                        |                        |
| Pooled Investments                       | 2,048.211              | 1,744.713              |
| Pooled Property Investments              | 140.459                | 135.835                |
| Long Term Investments                    | 0.768                  | 0.427                  |
| <b>Assets at amortised cost</b>          |                        |                        |
| Cash                                     | 23.928                 | 21.912                 |
| Other investment balances                | 0.019                  | 3.683                  |
| Debtors                                  | 14.123                 | 11.721                 |
| <b>Total Financial Assets</b>            | <b>2,227.508</b>       | <b>1,918.291</b>       |
| <b>Financial Liabilities</b>             |                        |                        |
| <b>Measured at amortised cost</b>        |                        |                        |
| Creditors                                | (5.304)                | (4.191)                |
| <b>Total Financial Liabilities</b>       | <b>(5.304)</b>         | <b>(4.191)</b>         |
| <b>Grand Total</b>                       | <b>2,222.204</b>       | <b>1,914.100</b>       |

### Net Gains and Losses on Financial Instruments

| Financial Assets                   | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m |
|------------------------------------|------------------------|------------------------|
| Fair Value Through Profit and Loss | 298.939                | (39.009)               |
| Loans and Receivables              | -                      | -                      |
| <b>Total</b>                       | <b>298.939</b>         | <b>(39.009)</b>        |

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

The Cornwall Council Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore, the Fund holds financial instruments such as equities, bonds, and cash and cash equivalents in a number of different investment vehicles. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and foreign currency risk.

The Fund's investments are managed on behalf of the Fund by the appointed fund managers. Each fund manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Pensions Committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each manager and considers and

takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by State Street Bank and Trust Company, who act as custodian on behalf of the Fund, or with the custodian appointed by the pooled investment vehicle.

Because the Fund adopts a long-term investment strategy, the high-level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

### Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments, to all of these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and fund managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee. The Fund also has a Risk Management Framework in place, which provides the Fund with a level of equity protection (to protect from significant equity market falls) and it also provides the Fund with a level of currency hedging on its equities.

### Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general e.g. COVID 19 and geopolitical trade tensions.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital; the maximum risk being determined by the fair value of the financial instruments. The fund managers mitigate this risk through diversification, in line with their own investment strategies and mandate guidelines.

### Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced in each asset class on a three-year average basis, as observed and provided by PIRC during the year to 31 March 2021. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.



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Movements in market prices would have increased or decreased the net assets, at 31 March 2021, by the amounts shown below:

| As at 31 March 2021                                   | Value<br>£m      | Volatility<br>of Return<br>% | Value on<br>Increase<br>£m | Value on<br>Decrease<br>£m |
|---|------------------|------------------------------|----------------------------|----------------------------|
| Global Equities                                       | 772.262          | 12.59%                       | 869.468                    | 675.057                    |
| Property  | 140.459          | 2.21%                        | 143.566                    | 137.352                    |
| Bonds   | 91.929           | 7.96%                        | 99.246                     | 84.612                     |
| Other pooled investment vehicles and private equities | 932.517          | 3.71%                        | 967.155                    | 897.879                    |
| Diversified Growth Fund                               | 251.503          | 9.08%                        | 274.352                    | 228.655                    |
| <b>Total <sup>1</sup></b>                             | <b>2,188.670</b> | <b>7.87%</b>                 | <b>2,360.963</b>           | <b>2,016.377</b>           |

<sup>1</sup> The percentage change for total assets includes the impact of correlation across asset classes. Therefore, the values on increase and decrease do not add to the totals.

The comparative data for the previous year are as follows:

| As at 31 March 2020                                   | Value<br>£m      | Volatility<br>of Return<br>% | Value on<br>Increase<br>£m | Value on<br>Decrease<br>£m |
|---|------------------|------------------------------|----------------------------|----------------------------|
| Global Equities                                       | 573.300          | 10.92%                       | 635.906                    | 510.694                    |
| Property  | 135.835          | 2.60%                        | 139.372                    | 132.298                    |
| Bonds   | 80.026           | 7.45%                        | 85.988                     | 74.064                     |
| Other pooled investment vehicles and private equities | 890.274          | 12.75%                       | 1,003.784                  | 776.764                    |
| Diversified Growth Fund <sup>2</sup>                  | 201.113          | 7.24%                        | 215.683                    | 186.543                    |
| <b>Total <sup>1</sup></b>                             | <b>1,880.548</b> | <b>7.80%</b>                 | <b>2,027.202</b>           | <b>1,733.894</b>           |

<sup>1</sup> The percentage change for total assets includes the impact of correlation across asset classes. Therefore, the values on increase and decrease do not add to the totals

<sup>2</sup> Reanalysed to split out the Diversified Growth Fund from Other pooled investment vehicles and private equities.

## Interest Rate Risk

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables remain constant and shows the effect of a +/- 1% change in interest rates.

| Interest Rate Risk as at 31 March 2021 | Value<br>£m    | Potential movement 1% change in interest rates<br>£m | Value on Interest Rate Decrease<br>£m | Value on Interest Rate Increase<br>£m |
|--|----------------|--|---------------------------------------|---------------------------------------|
| Risk Management Framework <sup>1</sup> | 367.649        | 29.178   | 396.827                               | 338.471                               |
| <b>Total</b>                           | <b>367.649</b> | <b>29.178</b>  | <b>396.827</b>                        | <b>338.471</b>                        |

<sup>1</sup> The Fund's Liability Driven Investment transitioned into the Risk Management Framework in year in line with the Fund's Investment Strategy.

The comparative data for the previous year are as follows:

| Interest Rate Risk as at 31 March 2020 | Value<br>£m    | Potential movement 1% change in interest rates<br>£m | Value on Interest Rate Decrease<br>£m | Value on Interest Rate Increase<br>£m |
|--|----------------|--|---------------------------------------|---------------------------------------|
| Liability Driven Investment            | 378.296        | 162.783  | 541.079                               | 215.513                               |
| <b>Total</b>                           | <b>378.296</b> | <b>162.783</b>                                       | <b>541.079</b>                        | <b>215.513</b>                        |

## Foreign Currency Risk Comparators

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls.

## Foreign Currency Risk - Sensitivity Analysis

The following table analyses the Fund's currency exposure as at 31 March 2021 as observed and provided by PIRC. PIRC analysed historical data and considered the potential volatility associated with foreign exchange rate movements to be 7.74% (as measured by one standard deviation).

The below table reports foreign currency sensitivity only for the pooled funds denominated in a currency other than sterling, for the pooled funds which are denominated in sterling at the 31 March, the Fund is of the opinion that these represent a fair valuation of the pooled funds in sterling, when taken in conjunction with the market price risk sensitivity analysis.

The pooled funds denominated in sterling will on a day to day basis be subject to foreign currency risk (due to underlying holdings in other markets), which is taken into account with the sterling unit pricing of these pooled funds as at 31 March. The managers of the pooled funds have the ability to manage this exposure by using forward exchange contracts or hedging the sterling value of investments that are priced in other currencies, if they deem this risk material. The Fund also has a Risk Management Framework in place, which provides the Fund with a level of currency hedging on its underlying equities holdings in other currencies.

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The analysis assumes that all other variables, in particular interest rates, remain constant:

| Overseas Assets as at 31 March 2021 | Value<br>£m    | Potential<br>Percentage<br>Change | Value on<br>Increase<br>£m | Value on<br>Decrease<br>£m |
|-------------------------------------|----------------|-----------------------------------|----------------------------|----------------------------|
| Cash                                | 2.209          | 7.74%                             | 2.380                      | 2.038                      |
| Property                            | 5.389          | 7.74%                             | 5.806                      | 4.972                      |
| Alternatives                        | 94.250         | 7.74%                             | 101.547                    | 86.953                     |
| <b>Total</b>                        | <b>101.848</b> | <b>7.74%</b>                      | <b>109.733</b>             | <b>93.963</b>              |

The comparative data for the previous year are as follows:

| Overseas Assets as at 31 March 2020 | Value<br>£m    | Potential<br>Percentage<br>Change | Value on<br>Increase<br>£m | Value on<br>Decrease<br>£m |
|-------------------------------------|----------------|-----------------------------------|----------------------------|----------------------------|
| Cash                                | 1.264          | 7.35%                             | 1.357                      | 1.171                      |
| Property                            | 5.425          | 7.35%                             | 5.824                      | 5.026                      |
| Alternatives                        | 101.801        | 7.35%                             | 109.286                    | 94.316                     |
| <b>Total</b>                        | <b>108.490</b> | <b>7.35%</b>                      | <b>116.467</b>             | <b>100.513</b>             |

## Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties (including brokers, custodian and investment managers) minimises the credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the Custodian may affect the Fund's access to its assets. However, all assets held by the Custodian are ring-fenced as client assets and therefore cannot be claimed by creditors of the Custodian. The Fund manages its risk by monitoring the credit quality and financial position of the Custodian.

The Fund does not hold any fixed interest securities directly and the manager of the Multi-Asset Credit funds is responsible for managing credit risk. The market prices of the bonds incorporate an assessment of credit quality in their valuation, which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed in line with Cornwall Pension Fund's Cash Management Strategy. The Fund invests surplus cash with the Custodian in diversified, money market funds.

(See table below for breakdown of this).

## Liquidity Risk

| Cash and cash equivalents              | Rating | At 31 March 2021<br>£m | At 31 March 2020<br>£m |
|--|--------|------------------------|------------------------|
| <b>Money Market Funds</b>              |        |                        |                        |
| Aberdeen Standard Liquidity Fund       | AAA    | 12.075                 | 12.933                 |
| State Street Global Advisors (SSGA)    | AAA    | 9.641                  | 6.116                  |
| <b>Bank</b>                            |        |                        |                        |
| Natwest Plc                            | A+     | 2.078                  | 1.154                  |
| State Street Bank & Trust Company      | AA-    | 0.134                  | 1.709                  |
| <b>Total cash and cash equivalents</b> |        | <b>23.928</b>          | <b>21.912</b>          |

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. A substantial portion of the Fund's investments consist of readily realisable securities (in particular equities and bonds). However, the main liability of the Fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long-term nature of these liabilities. Therefore, the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements.

The majority of the Fund's invested assets could be realised within a three-month period. The exceptions to this would be private equities, infrastructure, private debt and property limited partnerships. At 31 March 2021, these amounted to £275.403m, which represented 12.5% of the Fund's investment assets (at 31 March 2020, these amounted to £250.669m, which represented 13.2% of the Fund's investment assets).

## 14. Actuarial Statement for 2020-21

(This note has been prepared by the Fund's Actuary, Hymans Robertson)

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

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated April 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members' dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;

# Financial statements

- 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 (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,926 million, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £207 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 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

The below table shows the funding level has changed between valuations. There has been a reduction in the funding deficit from £486m to £207m, with the investments having returned 26.9% over the 3-year period compared with the expected returns of 12.2%

| Valuation Date                  | 31 March 2016 | 31 March 2019 |
|---------------------------------|---------------|---------------|
| <b>Past Service Liabilities</b> | (£m)          | (£m)          |
| Employees                       | 696           | 717           |
| Deferred Pensioners             | 399           | 447           |
| Pensioners                      | 866           | 970           |
| <b>Total Liabilities</b>        | <b>1,961</b>  | <b>2,133</b>  |
| <b>Assets</b>                   | <b>1,475</b>  | <b>1,926</b>  |
| <b>Surplus / (Deficit)</b>      | <b>(486)</b>  | <b>(207)</b>  |
| <b>Funding Level</b>            | <b>75%</b>    | <b>90%</b>    |

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

Full details of the methods and assumptions used are described in the 2019 valuation report.

### Method

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

### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

| Financial assumptions             | 31 March 2019 |
|-----------------------------------|---------------|
|                                   | % p.a.        |
| Discount rate                     | 4.1%          |
| Salary increase assumption        | 2.3%          |
| Benefit increase assumption (CPI) | 2.3%          |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience 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             | 21.4 years | 23.6 years |
| Future Pensioners <sup>1</sup> | 22.3 years | 25.1 years |

<sup>1</sup> Aged 45 at the 2019 valuation

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience over the period since March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

# Financial statements

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

## Julie West FFA

Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
28 April 2021

## 15. Actuarial present value of Promised Retirement Benefits

(This note was prepared by the Fund's Actuary, Hymans Robertson)

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Cornwall Pension Fund ("the Fund").

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

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

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

I have been instructed by the Administering Authority to provide the necessary information for the Cornwall Pension Fund, which is in the remainder of this note.

### Balance sheet

| Year ended   | 31 March 2021<br>£m | 31 March 2020<br>£m |
|--|---------------------|---------------------|
| Active members                                       | 1,762               | 1,144               |
| Deferred members                                     | 887                 | 639                 |
| Pensioners   | 1,154               | 1,063               |
| <b>Present value of Promised Retirement Benefits</b> | <b>3,803</b>        | <b>2,846</b>        |

The promised retirement benefits at 31 March 2021 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable

estimate of the actuarial present value of benefit promises.

Note that the above figures at 31 March 2021 do not include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. Due to the adoption of CPI as the Fund's salary increase assumption, we expect the impact of the McCloud judgements to have a negligible impact on the assessment of the Fund's liabilities.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the Pension Fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2021 and 31 March 2020. I estimate that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £790m. I estimate that the impact from of the change in the demographic and longevity assumptions is to increase the actuarial present value by £45m.

### Financial assumptions

My recommended financial assumptions are summarised below:

| Year ended             | 31 March 2021<br>% p.a. | 31 March 2020<br>% p.a. |
|------------------------|-------------------------|-------------------------|
| Pensions Increase Rate | 2.9%                    | 1.9%                    |
| Salary Increase Rate   | 2.9%                    | 1.9%                    |
| Discount Rate          | 2.0%                    | 2.3%                    |

### Longevity assumption

Life expectancy is based on the Fund's VitaCurves alongside future improvements based on the CMI 2020 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|                                | Males      | Females    |
|--------------------------------|------------|------------|
| Current Pensioners             | 21.5 years | 24.1 years |
| Future Pensioners <sup>1</sup> | 22.8 years | 25.8 years |

<sup>1</sup> Aged 45 at the 2019 valuation

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.



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## Commutation assumptions

An allowance is included for future retirements to elect to take 40% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 70% of the maximum tax-free cash for post-April 2008 service.

### Julie West FFA

Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
28 April 2021

## 16. Current Assets and Liabilities

|   | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m |
|---|------------------------|------------------------|
| <b>Current Assets</b>                       |                        |                        |
| Administration income receivable            | 0.391                  | 0.443                  |
| Employees Contributions receivable          | 1.925                  | 1.927                  |
| Employers Contributions receivable          | 5.294                  | 5.459                  |
| Pension strain income receivable            | 3.385                  | 0.297                  |
| Cash Balances                               | 2.078                  | 1.154                  |
| <b>Total Current Assets</b>                 | <b>13.073</b>          | <b>9.280</b>           |
| <b>Current Liabilities</b>                  |                        |                        |
| Administration expenses payable             | (3.161)                | (2.689)                |
| Pension lump sums payable                   | (2.143)                | (1.502)                |
| <b>Total Current Liabilities</b>            | <b>(5.304)</b>         | <b>(4.191)</b>         |
| <b>Total Current Assets and Liabilities</b> | <b>7.769</b>           | <b>5.089</b>           |

### Long Term Debtors

|   | 31 March<br>2021<br>£m | 31 March<br>2020<br>£m |
|---|------------------------|------------------------|
| <b>Long Term Debtors</b>                        |                        |                        |
| Reimbursement of Lifetime Allowance Tax Charges | 0.257                  | 0.244                  |
| Cessation Payment Due                           | 2.871                  | 3.351                  |
| <b>Total Long Term Debtors</b>                  | <b>3.128</b>           | <b>3.595</b>           |

## 17. Additional Voluntary Contributions (AVC)

| AVC Scheme                     | Value at<br>31 March 2021<br>£m | Value at<br>31 March 2020<br>£m |
|--------------------------------|---------------------------------|---------------------------------|
| Standard Life                  | 2.488                           | 2.149                           |
| Utmost                         | 0.369                           | 0.411                           |
| <b>Total</b>                   | <b>2.857</b>                    | <b>2.560</b>                    |
| <b>Changes During the Year</b> |                                 |                                 |
| Contributions                  | 0.337                           | 0.288                           |
| Paid Out                       | (0.388)                         | (0.186)                         |
| Change in Market Value         | 0.348                           | (0.077)                         |

## 18. Related Party Transactions

Cornwall Council is the administering authority of the Fund. The majority of investments are managed by external fund managers, although during the year a small proportion was held as cash and controlled in nominated money market accounts for cash flow management purposes, see Note 13 for details. Transactions with the Fund in respect of employees in the Scheme are shown in Note 7.

Included in Management Expenses (see Note 8) are charges amounting to £1.191m incurred for the internal costs of providing these services during the year to 31 March 2021 (£1.205m for the year to 31 March 2020). For the year to 31 March 2021 this is composed of £0.913m Administrative Costs and £0.278m Oversight and Governance Costs (£0.968m Administrative Costs and £0.237m Oversight and Governance Costs for the year to 31 March 2020).

Senior officers of the Pension Fund are members of the Fund as employee contributors. Following the local elections in May 2017, Cornwall Council Councillors are no longer eligible for active membership of the Pension Fund therefore, as at 31 March 2021, there were three Councillors serving on the Pensions Committee who were pensioners of the Fund, and both employee representatives were also pensioners of the Fund, along with one Councillor (through another role) and one employer representative who were active in the Fund.

The Council made payments to each Cornwall Council elected Member serving on the Pensions Committee, in accordance with the Council's Member's Allowances Scheme. These payments were met by Cornwall Council and declared in their statutory accounts.

### Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (Brunel) was formed on the 14 October 2016 and will oversee the investment of pension fund assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Cornwall Council, own 10% of Brunel. For the year ended 31st March 2021, Brunel's service charge to the Cornwall Pension Fund totalled £0.923m.

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## Key Management Personnel

The key management personnel of the Fund are the Section 151 Officer, the Head of Pensions, Treasury & Technical and the Pensions Committee. The table below shows the benefits they receive. This is not the total remuneration these posts receive, but is a notional amount based on their time allocated to the Fund.

| Year ended               | 2021<br>£m   | 2020<br>£m   |
|--------------------------|--------------|--------------|
| Short-term benefits      | 0.085        | 0.081        |
| Post-employment benefits | 0.006        | 0.007        |
| <b>Total</b>             | <b>0.091</b> | <b>0.088</b> |

## 19. Contractual Commitments and Contingent Liabilities

Outstanding capital commitments (investments) at the prevailing exchange rate on the day at 31 March 2021 were £337.975m (£142.653m at 31 March 2020). This has increased, as the Fund has made further commitments via Brunel Ltd, in line with the Fund's strategic allocation which is documented in its Investment Strategy.

These commitments relate to outstanding call payments due to the Fund's partnerships for private equities, private debt, infrastructure and property. The amounts called by these partnerships are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

34 admitted body employer contracts in the Cornwall Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. No such defaults have occurred in 2020/21, 2019/20 or 2018/19.

## 20. Contingent Asset

Cornwall Pension Fund has ongoing claims against some European countries for tax withheld on foreign income dividends. KPMG, who submitted these claims in 2007, are still pursuing these claims on behalf of the Fund.

These claims are made on the basis that, within the European Union, all member states should enjoy the same tax status. Resident investors should not be classed differently to non-residents. Court cases such as those known as 'Manninen' and 'Fokus' have added to the strength of the arguments. The value of these claims is in excess of £250,000.

Also, in 2007, claims were made against the HM Revenue

and Customs for potential tax recovery in respect of manufactured dividends on equity stock lent out through the stock lending programme. Further claims were registered in the High Court in 2009-10 and again in 2012-13. These claims, to date, have a value in excess of £1.6m. According to our tax advisers, KPMG, recent developments offer some optimism on the success of these claims. In 2019 further action was taken to protect these claims with the UK set to leave the European Union.

All these claims noted above are being pursued through group action along with other pension funds. No accruals have been included in the accounts for these tax claims because outcomes are uncertain, although the amounts are significant. KPMG were contacted for an update in March 2021 and these claims are still ongoing.

## Contingent Liability

The staff at Brunel Ltd (of which Cornwall Council is a 1/10th shareholder) have access to the Local Government Pension Scheme (LGPS), which comes with a pension obligation risk. As Brunel is a Markets in Financial Instruments Directive ("MiFID") regulated firm, it is required to hold regulatory capital for this risk. This is because it is identified in the General Prudential sourcebook, under the provision GENPRU 1.2.30 as a source of risk for which firms must assess and maintain, on an ongoing basis, the capital resources that are considered adequate to mitigate these risks. If this pension obligation risk were to increase, then any additional capital, would have to be called from the shareholders as and when required.

In September 2020, the Brunel shareholders entered into a Pension Cost Recharge Agreement (PRA), which was deemed a more capital efficient way to deal with this pension obligation risk. It provides assurance that the shareholders will reimburse any LGPS pension related cashflows, including reimbursement of contributions and exit payments, as and when required, which mitigates the requirement for Brunel to hold regulatory capital for this risk.

The value of the Pension Cost Recharge Agreement from Brunel's 2020 Financial Statements is £6.566m, Cornwall Pension Fund's share of this is £0.657m however the actual amount payable and date of any cash flows would need to take into account returns on assets which are inherently uncertain and a range of actuarial considerations. Brunel will be reimbursed through separate one-off invoices prior to any exit payments or additional employer pension contribution payments. This is not deemed to be material and is disclosed here for transparency.

## Funding Strategy Statement December 2019

### 1 Introduction

#### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Cornwall Pension Fund (“the Fund”), which is administered by Cornwall Council, (“the Administering Authority”).

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

#### 1.2 What is the Cornwall Pension Fund?

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

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

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

#### 1.3 Why does the Fund need a Funding Strategy Statement?

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

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

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for

their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

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

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

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

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

#### 1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

## 1.5 What does the FSS aim to do?

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

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

## 1.6 How do I find my way around this document?

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

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

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

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

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

If you have any other queries please contact Sean Johns, Pension Investments Manager in the first instance at e-mail address [Sean.Johns@cornwall.gov.uk](mailto:Sean.Johns@cornwall.gov.uk) or on telephone number 01872 324432.

## 2 Basic Funding issues

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

### 2.1 What is each employer's contribution rate?

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

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date and will aim to return the employer to fully funded over an appropriate period, "the time horizon". The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

### 2.2 How does the actuary calculate the employer contribution rate?

In essence this is a three-step process:

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

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now



participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

strategies for these different employers.

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

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

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

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

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

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

### **2.5 How is a funding level calculated?**

An employer’s “funding level” is defined as the ratio of:

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

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

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take

an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target). This is because of the higher likelihood that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

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

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

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

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this will be achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

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

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

## 2.8 When will the next actuarial valuation be?

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

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

## 3 Calculating contributions for individual Employers

### 3.1 General comments

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

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

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying lower contributions

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

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

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding

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target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

- it may take longer to reach their funding target, all other things being equal.

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

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



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### 3.3 The different approaches used for different employers

| Type of employer                                   | Scheduled Bodies   |                                    |                  | Community Admission Bodies and Designating Employers  |  | Transferee Admission Bodies*   |
|--|--|------------------------------------|------------------|---|--|--|
| Sub-type   | Local Authorities  | Colleges, Housing Associations etc | Academies        | Open to new entrants  | Closed to new entrants   | (all)  |
| Funding Target Basis used                          | Ongoing, assumes long-term Fund participation (see Appendix E)   |                                    |                  | Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)  |  | Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)  |
| Maximum time horizon – Note (c)                    | 20 years   |                                    |                  | 20 years  | Shorter of: Future Working Lifetime of employees, and 15 years | Shorter of: Future working lifetime of employees, and outstanding contract term  |
| Likelihood of achieving target** – Note (e)        | No less than 66%   | No less than 75%                   | No less than 66% | 75%   |  | 66%  |
| Primary rate approach                              | (see Appendix D – D.2)   |                                    |                  |   |  |  |
| Secondary rate – Note (d)                          | Monetary Amount  |                                    |                  |   |  | Monetary amount or percentage of payroll   |
| Phasing of contribution changes                    | Eligible for stabilisation arrangement<br>See Note (b)   |                                    |                  | 3 years   |  | None   |
| Review of rates – Note (f)                         | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations   |                                    |                  |   |  | Particularly reviewed in last 3 years of contract  |
| Treatment of surplus                               | Covered by stabilisation arrangement   |                                    |                  | Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority   |  | Where appropriate reduce contributions by spreading the surplus over the remaining contract term   |
| New employer                                       | n/a  | n/a                                | Note (g)         | Note (h)  |  | Notes (h) & (i)  |
| Cessation of participation: cessation debt payable | Cessation is assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j). |                                    |                  | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). |  | Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details. |

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

\*\* As noted in section 2.7, considering the benefit structure change uncertainty, we have also assessed contribution rates at the 2019 valuation against a slightly higher required likelihood of reaching funding target, all other things being equal. For local authorities and academies this bar was set at 70%, whilst for other scheduled bodies (colleges, universities) and community admission bodies a likelihood of 80% was used.

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

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding, the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields and extending the allowance for future improvements in longevity) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

### Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

| Type of employer                     | Local Authorities                          | Other large Scheduled Bodies | Academies            |
|--------------------------------------|--|------------------------------|----------------------|
| <b>2020-21 rate</b>                  | 0.5% of pay increase to 2019-20 total rate | Same as 2019-20 rate         | Same as 2019-20 rate |
| <b>2021-22 rate</b>                  | Same as 2020-21 rate                       | Same as 2020-21 rate         | Same as 2020-21 rate |
| <b>2022-23 rate</b>                  | Same as 2021-22 rate                       | Same as 2021-22 rate         | Same as 2021-22 rate |
| <b>Thereafter: Max cont increase</b> | 0.5% p.a.                                  | 1.0% p.a.                    | 0.5% p.a.            |
| <b>Max cont decrease</b>             | 0.5% p.a.                                  | 1.0% p.a.                    | 0.5% p.a.            |

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation, to take effect from 1 April 2023. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

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

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### Note (d) (Secondary rate)

The Secondary contribution rate for each employer covering the period until the next formal valuation will usually be set as a monetary amount but may in some cases be set as a percentage of pay. The Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

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

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

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

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

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

### **Note (f) (Regular Reviews)**

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

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

### **Note (g) (New Academy conversions)**

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

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT.
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions, the council funding position using actual returns and

the academy's active Fund membership on the day prior to conversion.

- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above.
- v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT i.e. all assets and liabilities in respect of the academies participation in the fund will transfer to the new MAT. The assets and liabilities (where required) will be calculated on the date of transfer.
- vi. The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iii) and (iv) above will be reconsidered at each valuation.

### **Note (h) (New Admission Bodies)**

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

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

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

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

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

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

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

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

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

### i) Pooling

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

### ii) Letting employer retains pre-contract risks

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

### iii) Fixed contribution rate agreed

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

The Administering Authority is willing to administer any of the above options as long as the approach is

documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

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

## **Note (j) (Admission Bodies Ceasing)**

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt



or exit credit may be payable, depending on the terms of the agreement.

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

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

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

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

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

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

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the "gilts exit basis" at any time and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members. NB this approach will only be considered in exceptional circumstances, and must be agreed by the Chairman and Vice Chairman of the Pensions Committee and the Cornwall Council's Section 151 Officer.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such

events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

### 3.5 Additional flexibility in return for added security

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

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

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

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

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

### 3.6 Non ill health early retirement costs

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

With the agreement of the Administering Authority the payment can be spread as follows:

|  |                        |
|--|------------------------|
| Major Employing bodies                               | - up to 3 years        |
| Community Admission Bodies and Designating Employers | - up to 3 years        |
| Academies  | - up to 3 years        |
| Transferee Admission Bodies                          | - payable immediately. |

### 3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### 3.8 External ill health insurance

The Fund recognises that ill health retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

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

When an active member retires on ill health early retirement, the claim amount will be paid directly from the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 3.9 Employers with no remaining active members

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

situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the Scheme Employer/Guarantor named as a party to the admission agreement will be required to contribute to pay all remaining benefits. Where no entity of this type exists, responsibility will fall on all the other fund employers: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. Similar to above, the remaining assets would be allocated to any Scheme Employer/Guarantor named as a party to the Admission Agreement in the first instance. Otherwise, the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

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

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All

of this must be invested in a suitable manner, which is the investment strategy.

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

## 4.4 Does the Fund monitor its overall funding position?

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

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

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

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

### 5.2 Solvency

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

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

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

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily

concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

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

Absolute considerations include:

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

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

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

"to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;  
to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and  
to take a prudent longer-term view of funding those liabilities."

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

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



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

### **A2 Does the Administering Authority consult anyone on the FSS?**

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

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

- a) There was an Employers Forum on 28 November where the funding strategies for employers and the FSS were discussed and questions on the matter could be raised and answered;
- b) A draft version of the FSS was taken to the committee on 9 January 2020 and subsequently issued to all participating employers for comment;
- c) Comments were requested within 30 days from 9th January 2020 (the date of its approval to go out for consultation by the Pensions Committee);
- d) Following the end of the consultation period the FSS was updated where required and formally approved by the Pensions Committee at its meeting on the 12th March 2020. It was then published, on or before 31 March 2020.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

- Published on the website, at [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk);
- A copy sent by /e-mail to each participating employer in the Fund;
- A copy sent to employee representatives of the Pensions Committee and Local Pensions Board;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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

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

### **A5 How does the FSS fit into other Fund documents?**

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

These documents can be found on the web at [cornwallpensionfund.org.uk](http://cornwallpensionfund.org.uk).

## Appendix B – Responsibilities of key parties

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

### **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

### **B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

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

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

### C2 Financial Risks

| Risk  | Summary of Control Mechanisms   |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | <p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>                        |
| Inappropriate long-term investment strategy.  | <p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>   |
| Active investment manager under-performance relative to benchmark.  | <p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>   |
| Pay and price inflation significantly more than anticipated.  | <p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies  | <p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p>  |
| Orphaned employers give rise to added costs for the Fund  | <p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>  |
| Effect of possible asset underperformance as a result of climate change.  | <p>Please refer to the Fund's ISS for details.</p>  |

## C3 Demographic Risks

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

## C4 Regulatory Risks

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



## C5 Governance Risks

| Risk  | Summary of Control Mechanisms  |
|---|--|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>   |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way  | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>  |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.   | <p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>  |
| An employer ceasing to exist with insufficient funding or adequacy of a bond.   | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</li> <li>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>Vetting prospective employers before admission.</li> <li>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</li> <li>Requiring new Community Admission Bodies to have a guarantor.</li> <li>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</li> <li>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</li> </ul> |
| An employer ceasing to exist resulting in an exit credit being payable  | <p>The Administering Authority regularly monitors admission bodies coming up to cessation</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>   |

## Appendix D – The calculation of Employer contributions

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

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

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

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

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

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

### **D2 How is the Primary contribution rate calculated?**

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

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

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

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

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

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

### **D3 How is the Secondary contribution rate calculated?**

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

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

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

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for

a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

## **D4 What affects a given employer's valuation results?**

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

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

## **D5 How is each employer's asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership

and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

## **D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

## **Appendix E – Actuarial assumptions**

### **E1 What are the actuarial assumptions used to calculate employer contribution rates?**

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

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Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.

Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

### E2 What assumptions are used in the ESS?

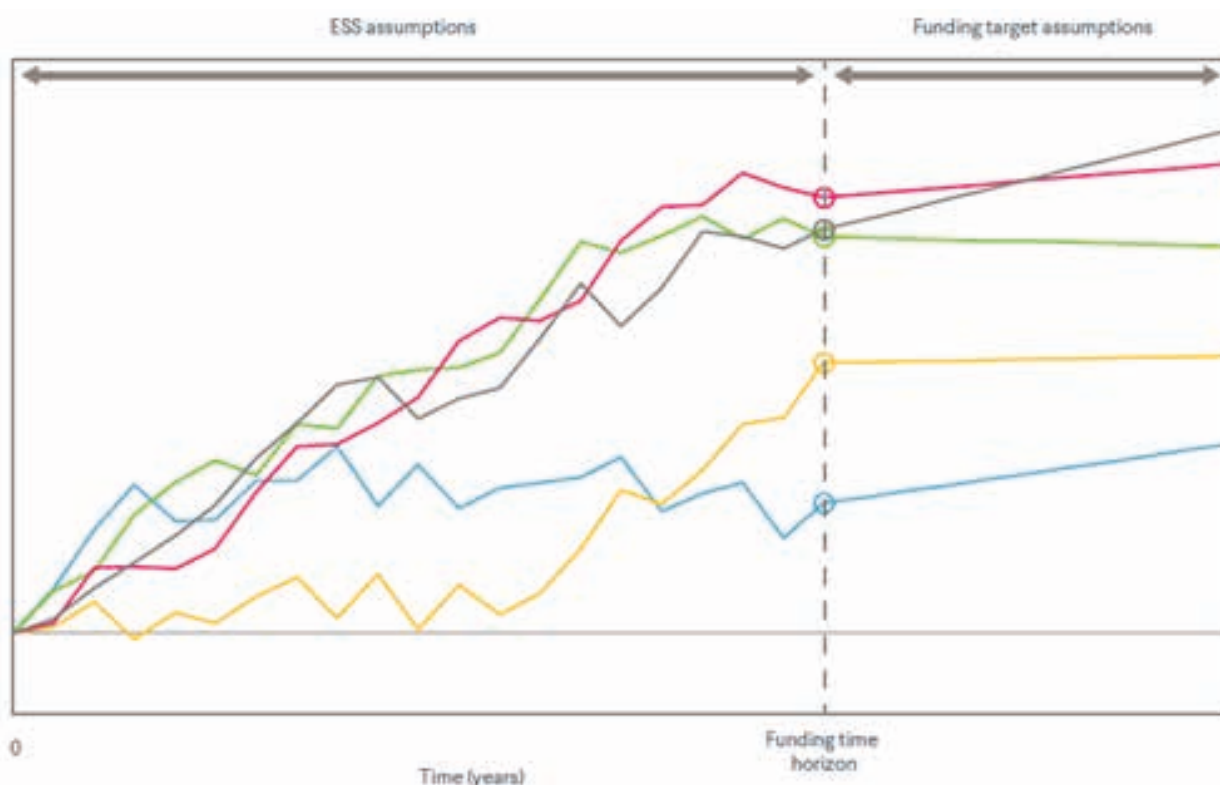
The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

### E3 What basis is used by the Fund – assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")





# Regulatory statements Funding Strategy Statement

|                         |           | Annualised total returns |                             |                               |           |                 |          |                                  |                           |                              |                         |
|-------------------------|-----------|--------------------------|-----------------------------|-------------------------------|-----------|-----------------|----------|----------------------------------|---------------------------|------------------------------|-------------------------|
|                         |           | Cash                     | Index linked Gilts (Medium) | Fixed Interest Gilts (Medium) | UK Equity | Overseas Equity | Property | A rated corporate bonds (Medium) | RPI inflation expectation | 17 year real govt bond yield | 17 year govt bond yield |
| 5 Years                 | 16th %ile | -0.4%                    | -2.3%                       | -2.9%                         | -4.1%     | -4.1%           | -3.5%    | -2.7%                            | 1.9%                      | -2.5%                        | 0.8%                    |
|                         | 50th %ile | 0.7%                     | 0.5%                        | 0.3%                          | 4.0%      | 4.1%            | 2.4%     | 0.8%                             | 3.3%                      | -1.7%                        | 2.1%                    |
|                         | 84th %ile | 2.0%                     | 3.3%                        | 3.4%                          | 12.7%     | 12.5%           | 8.8%     | 4.0%                             | 4.9%                      | -0.8%                        | 3.6%                    |
| 10 Years                | 16th %ile | -0.2%                    | -1.8%                       | -1.3%                         | -1.5%     | -1.4%           | -1.5%    | -0.9%                            | 1.9%                      | -2.0%                        | 1.2%                    |
|                         | 50th %ile | 1.3%                     | 0.0%                        | 0.2%                          | 4.6%      | 4.7%            | 3.1%     | 0.8%                             | 3.3%                      | -0.8%                        | 2.8%                    |
|                         | 84th %ile | 2.9%                     | 1.9%                        | 1.7%                          | 10.9%     | 10.8%           | 7.8%     | 2.5%                             | 4.9%                      | 0.4%                         | 4.8%                    |
| 20 Years                | 16th %ile | 0.7%                     | -1.1%                       | 0.1%                          | 1.2%      | 1.3%            | 0.6%     | 0.7%                             | 2.0%                      | -0.7%                        | 2.2%                    |
|                         | 50th %ile | 2.4%                     | 0.3%                        | 1.0%                          | 5.7%      | 5.8%            | 4.3%     | 1.9%                             | 3.2%                      | 0.8%                         | 4.0%                    |
|                         | 84th %ile | 4.5%                     | 2.0%                        | 2.0%                          | 10.3%     | 10.4%           | 8.1%     | 3.0%                             | 4.7%                      | 2.2%                         | 6.3%                    |
| Volatility (Disp) (1yr) |           | 1%                       | 7%                          | 10%                           | 17%       | 17%             | 14%      | 11%                              | 1%                        |                              |                         |

| Funding basis   | Ongoing participation basis   | Low risk exit basis  |
|---|---|--|
| <b>Employer type</b>  | All employers except Transferee Admission Bodies and closed Community Admission Bodies        | Community Admission Bodies that are closed to new entrants                                 |
| <b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b> | Long term government bond yields plus an asset outperformance assumption (AOA) of [1.7]% p.a. | Long term government bond yields with no allowance for outperformance on the Fund's assets |

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

### E3 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

#### a) Salary growth

After discussion with Fund officers, the salary increase

assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2.3% p.a. until 31 March 2022, followed by
2. Consumer Prices Index (CPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of CPI plus 0.1% per annum. The change has led to a reduction in the funding target (all other things being equal).

#### b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we continue to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

#### c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal)..

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

### General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

**Funding basis:** The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.

**Administering Authority:** The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.

**Admission Bodies:** Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

**Covenant:** The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

**Designating Employer:** Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

**Employer:** An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.

**Gilt:** A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.

**Guarantee / guarantor:** A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

**Letting employer:** An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

**LGPS:** The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

**Maturity:** A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**Members:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Primary contribution rate:** The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

**Profile:** The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.

**Rates and Adjustments Certificate:** A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

**Scheduled Bodies:** Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Secondary contribution rate:** The difference between the employer's actual and Primary contribution rates. See Appendix D for further details.

**Stabilisation:** Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.

**Valuation:** A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.

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## Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority for the period 1 April 2020 to 31 March 2021 is 19.1% of pensionable pay plus £16.790million.

Individual adjustments are required under Regulation 62(5) and 62(7) of the Local Government Pension Scheme Regulations 2013. Accordingly, minimum total contribution rates for the period 1 April 2019 to 31 March 2020 are set out in the following table:

| Employer                                     | Minimum contribution for the year ended 31 March 2021 |
|--|---|
| <b>Major scheduled and resolution bodies</b> |   |
| Cornwall Council (Non School Staff)          | 17.5% plus £11,474.4k                                 |
| Cornwall Council (School Staff)              | 21.8%   |
| Cornwall Development Company                 | 27.4%   |
| Cornwall Housing Ltd                         | 25.0%   |
| Cornwall Sea Fisheries                       | 18.0% plus £28.2k                                     |
| Council of the Isles of Scilly               | 17.6% plus £259.2k                                    |
| Cormac Solutions Ltd                         | 28.7%   |
| Tamar Bridge & Torpoint Ferry                | 20.0% plus £163.9k                                    |
| CORSERV                                      | 20.7%   |
| <b>Minor Employer Pools</b>                  |   |
| Bodmin Town Council                          | 18.7% plus £24.2k                                     |
| Bude Stratton Town Council                   | 18.7% plus £10.2k                                     |
| Callington Town Council                      | 18.7% plus £3.8k                                      |
| Calstock Parish Council                      | 18.7% plus £1.7k                                      |
| Camborne Town Council                        | 18.7% plus £6.2k                                      |
| Camelford Town Council                       | 18.7% plus £1.3k                                      |
| Carlyon Parish Council                       | 18.7% plus £0.3k                                      |
| Cornwall Airport Ltd                         | 26.8%   |
| Deviock Parish Council                       | 18.7%   |
| Falmouth Town Council                        | 18.7% plus £10.8k                                     |
| Feock Parish Council                         | 18.7% plus £1.1k                                      |
| Grade Ruan Parish Council                    | 18.7% plus £0.2k                                      |
| Gwinear Gwithian Parish Council              | 18.7% plus £0.9k                                      |
| Hayle Town Council                           | 18.7% plus £2.8k                                      |
| Helston Town Council                         | 18.7% plus £7.2k                                      |
| Lanivet Parish Council                       | 18.7% plus £0.2k                                      |
| Launceston Town Council                      | 18.7% plus £9k  |
| Linkinhorne Parish Council                   | 18.7% plus £0.2k                                      |
| Liskeard Town Council                        | 18.7% plus £6.1k                                      |
| Looe Town Council                            | 18.7%   |
| Lostwithiel Town Council                     | 18.7% plus £0.9k                                      |
| Manaccan Parish Council                      | 18.7% plus £0.1k                                      |
| Marhamchurch Parish Council                  | 18.7%   |
| Mawgan in Meneage Parish Council             | 18.7% plus £0.2k                                      |
| Newquay Town Council                         | 18.7% plus £9.4k                                      |
| Padstow Town Council                         | 18.7% plus £7.3k                                      |
| Penryn Town Council                          | 18.7% plus £3.2k                                      |
| Penzance Town Council                        | 18.7% plus £13.5k                                     |
| Perranzabuloe Parish Council                 | 18.7% plus £1.1k                                      |
| Redruth Town Council                         | 18.7% plus £6.3k                                      |
| Roche Parish Council                         | 18.7% plus £1.3k                                      |
| Saltash Town Council                         | 18.7% plus £5.3k                                      |
| Sithney Parish Council                       | 18.7% plus £0.2k                                      |

| Employer                                   | Minimum contribution for the year ended 31 March 2021 |
|--|---|
| St Agnes Parish Council                    | 18.7% plus £1.5k                                      |
| St Austell Bay Parish Council              | 18.7% plus £0.6k                                      |
| St Austell Town Council                    | 18.7% plus £3.5k                                      |
| St Blaise Town Council                     | 18.7% plus £0.9k                                      |
| St Columb Major Town Council               | 18.7% plus £0.3k                                      |
| St Ives Town Council                       | 18.7% plus £6k  |
| St Just in Roseland Parish Council         | 18.7% plus £0.1k                                      |
| St Just-In-Penwith Town Council            | 18.7% plus £1.2k                                      |
| St Keverne Parish Council                  | 18.7% plus £0.2k                                      |
| St Martin in Meneage Parish Council        | 18.7%   |
| St Neot Parish Council                     | 18.7%   |
| St Sampson Parish Council                  | 18.7%   |
| Torpoint Town Council                      | 18.7% plus £2.6k                                      |
| Truro City Council                         | 18.7% plus £24.5k                                     |
| Wadebridge Town Council                    | 18.7% plus £7.4k                                      |
| <b>Colleges</b>                            |   |
| Cornwall College                           | 19.3% plus £924.1k                                    |
| Falmouth University                        | 18.1% plus £376k                                      |
| Truro & Penwith College                    | 18.4% plus £274.4k                                    |
| <b>Academies</b>                           |   |
| An Daras Multi-Academy Trust               | 17.3% plus £46.7k                                     |
| Archbishop Benson School                   | 18.1% plus £21.3k                                     |
| Aspire Academy Trust                       | 16.8% plus £320.5k                                    |
| Bodmin College                             | 17.2% plus £69k                                       |
| Bridge Multi-Academy Trust                 | 17.0% plus £114k                                      |
| Callywith College                          | 16.7% plus £20k                                       |
| Camborne Science and International Academy | 16.1% plus £58.2k                                     |
| Celtic Cross Education Trust               | 17% plus £118.8k                                      |
| Cornwall Education Learning Trust          | 16.7% plus £347.3k                                    |
| Crofty Academy                             | 19.2% plus £27.2k                                     |
| Duchy Academy Trust                        | 17.1% plus £20.6k                                     |
| Falmouth School                            | 17.7% plus £61k                                       |
| Harrowbarrow School                        | 17.7% plus £4.3k                                      |
| Kernow Learning MAT                        | 17.2% plus £211k                                      |
| Launceston College                         | 16.9% plus £102.5k                                    |
| Leading Edge Academies Partnership         | 17.0% plus £79.3k                                     |
| Nansloe Academy                            | 17.2% plus £11.8k                                     |
| North Cornwall Learning Trust              | 18.8% plus £7k  |
| Penair School                              | 16.7% plus £56.7k                                     |
| Penryn College                             | 16.3% plus £53.1k                                     |
| Plymouth Cast                              | 17.0% plus £40.9k                                     |
| Pool Academy                               | 16.9% plus £36.5k                                     |
| Rainbow Multi-Academy Trust                | 16.7% plus £32.0k                                     |
| Roseland Community College                 | 17.1% plus £22k                                       |
| Sir Robert Geffery's School                | 17.8% plus £11.2k                                     |
| South East Cornwall Mart                   | 17.8% plus £148.1k                                    |
| Southerly Point Trust                      | 18.5% plus £34.6k                                     |
| Special Partnership Multi Academy Trust    | 16.4% plus £283.2k                                    |
| St Barnabas Multi-Academy Trust            | 17.0% plus £46.1k                                     |
| St Buryan Academy Primary School           | 17.8% plus £6.6k                                      |
| St Ives Infant School                      | 17.1% plus £13.4k                                     |
| Tregolls School                            | 16.7% plus £14.5k                                     |
| Trewirgie Infants School                   | 17.2% plus £21.3k                                     |



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| Employer  | Minimum contribution for the year ended 31 March 2021 |
|---|---|
| Trewirgie Junior School                         | 16.9% plus £18.1k                                     |
| Truro & Penwith Academy Trust                   | 17.1% plus £243.7k                                    |
| Venture MAT                                     | 16.2% plus £9.6k                                      |
| Wadebridge Secondary School                     | 16.7% plus £63.9k                                     |
| Wave MAT  | 16.6% plus £60.2k                                     |
| Westcountry Schools Trust                       | 17.4% plus £73.7k                                     |
| <b>Admitted Bodies</b>                          |   |
| Addaction (We are with you)                     | 36.3%   |
| Aspens Services Ltd (399) Aspire Academy        | 27.9%   |
| Aspens Services Ltd (379) Aspire St Uny         | 31.2%   |
| Aspens Services Ltd (350) Bodmin College        | 37.7%   |
| Aspens Services Ltd (354) Budehaven             | 33.0%   |
| Aspens Services Ltd (382) Camelford & Gorran    | 35.0%   |
| Aspens Services Ltd (376) Celtic Cross          | 30.7%   |
| Aspens Services Ltd (386) Penpol School         | 33.4%   |
| Biffa   | 0.0%  |
| CAPH  | 31.9%   |
| Caterlink (355)                                 | 29.0%   |
| Caterlink (357)                                 | 34.5%   |
| Caterlink (359)                                 | 28.8% plus £2k  |
| Caterlink (360)                                 | 30.0%   |
| Caterlink (363)                                 | 36.7%   |
| Caterlink (380)                                 | 35.1%   |
| Caterlink (381)                                 | 34.4%   |
| Churchill Contract Services (248) Contract      | 0.0%  |
| Churchill Contract Services (297) Cormac        | 0.0%  |
| Churchill Contract Services (319) Truro College | 25.4%   |
| Churchill Contract Services (331) Tretherras    | 10.0%   |
| Churchill Contract Services (335) Trevithick    | 7.9%  |
| Churchill Contract Services (345) St Merryn     | 16.4%   |
| Churchill Contract Services (356) ACE Academy   | 35.1%   |
| Churchill Contract Services (371) St Johns      | 35.6%   |
| Churchill Contract Services (389) Trevisker     | 32.1%   |
| Churchill Contract Services (392) TPAT          | 38.4%   |
| Churchill Contract Services (393) Coast         | 38.0%   |
| Churchill Contract Services (396) Celtic        | 28.0%   |
| Churchill Contract Services (397) St Barnabus   | 24.3%   |
| Compass Contract Services (UK) Ltd (324)        | 31.8%   |
| Compass Contract Services (UK) Ltd (347)        | 25.0%   |
| Compass Contract Services (UK) Ltd (364)        | 32.4%   |
| Compass Contract Services (UK) Ltd (367)        | 33.8%   |
| Compass Contract Services (UK) Ltd (368)        | 34.0%   |
| Compass Contract Services (UK) Ltd (384)        | 28.2%   |
| Compass Contract Services (UK) Ltd (387)        | 32.2%   |
| Compass Contract Services (UK) Ltd (390)        | 33.4%   |
| Compass Contract Services (UK) Ltd (394)        | 28.4%   |
| Compass Contract Services (UK) Ltd (395)        | 30.20%  |
| Compass Contract Services (UK) Ltd (401)        | 28.40%  |
| Compass Contract Services (UK) Ltd (402)        | 29.50%  |
| CSW Group Ltd                                   | 17.4% plus £526.7k                                    |

| Employer                           | Minimum contribution for the year ended 31 March 2021 |
|------------------------------------|---|
| Devon Norse                        | 32.0%   |
| Falmouth Exeter Plus               | 18.3% plus £213.5k                                    |
| Falmouth Harbour Commissioners     | 19.8%   |
| Future Cleaning Services Ltd (311) | 33.2%   |
| Future Cleaning Services Ltd (340) | 0.0%  |
| Future Cleaning Services Ltd (378) | 36.1%   |
| Future Cleaning Services Ltd (385) | 25.6%   |
| Glen Cleaning Services (330)       | 5.3%  |
| Glen Cleaning Services (348)       | 16.2%   |
| Glen Cleaning Services (352)       | 30.4%   |
| Glen Cleaning Services (383)       | 30.9% plus £0.1k                                      |
| Glen Cleaning Services (398)       | 28.6%   |
| Greenwich Leisure Ltd              | 28.2%   |
| Interserve                         | 34.8%   |
| Interserve Catering Services       | 26.3%   |
| RNLI                               | 35.0%   |
| The Learning Partnership           | 28.6%   |
| Trading Standards South West Ltd   | 25.7%   |

### Employers with no active members

|   |                                    |
|---|------------------------------------|
| Affordable Cleaning                     | Ocean Housing Ltd                  |
| Age Concern                             | Ocean Housing Group Ltd            |
| Blisland PC                             | Ocean Services SW Ltd              |
| Blue Support Services                   | OCS Group                          |
| BT Cornwall                             | Penwith Respite Care Ltd           |
| Camborne School of Metalliferous Mining | Polperro Community Council         |
| Camborne School of Mines                | Restormel Regeneration Partnership |
| Coastline Housing                       | Serco Ltd                          |
| Cornwall Care                           | Southern Electric Contracting      |
| Cornwall Disabled Association           | St Cleer Parish Council            |
| Cornwall Magistrates Courts             | St Mewan Parish Council            |
| Cornwall River Authority                | St Minver Parish Council           |
| Devon & Cornwall Housing                | Stonham                            |
| Kerrier Groundwork Trust                | Tempus Leisure                     |
| Landscapes Southwest Ltd                | The Trevithick Trust               |
| Newlyn Pier and Harbour Commissioners   | Truro School                       |
|   | United Response                    |

## Governance Compliance Statement

As approved March 2017.

The Local Government Pension Scheme Regulations 2013 (LGPS 2013 Regulations) require administering authorities to prepare a written statement setting out compliance with best practice governance principles.

The following statement sets out:

- the principles against which compliance is to be measured;
- the level of compliance by the Cornwall Pension Fund;
- evidence of compliance; and, if appropriate, reasons for non-compliance.

Section 1 sets out how the Administering Authority exercises its powers of delegation under the LGPS 2013 Regulations

Section 2 sets out details of the terms, structure and operational procedures relating to the local pension board established under the LGPS 2013 Regulations.

### Section 1

| Statutory Guidance<br>Governance Standards and Principles  | Compliance status | Evidence of compliance and justification for non-compliance  |
|--|-------------------|--|
| <b>A – Structure</b>   |                   |  |
| a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | Compliant         | The terms of reference for the Pensions Committee clearly define its responsibilities in these areas   |
| b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Compliant         | The Pensions Committee membership is:<br>- with full voting rights:<br>• 10 Cornwall Councillors<br>• 2 representatives of the other employers<br>• 2 member-nominated representatives appointed by the trade unions representing employees, deferred members and pensioners |
| c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.   | Not Applicable    | The Pensions Committee has no secondary committee  |
| d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.  | Not Applicable    | The Pensions Committee has no secondary committee  |

# Regulatory statements Governance Compliance Statement

| Statutory Guidance<br>Governance Standards and Principles | Compliance<br>status | Evidence of compliance and justification for non-compliance |
|---|----------------------|---|
|---|----------------------|---|

## B – Representation

|  |           |   |
|--|-----------|---|
| a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:   |           |   |
| i) employing authorities (including non-scheme employers, eg, admitted bodies);  | Compliant | See A - Structure, section b) above.  |
| ii) scheme members (including deferred and pensioner scheme members);  | Compliant | The Pensions Committee includes 2 member-nominated representatives appointed by the trade unions, representing employees, pensioner and deferred pensioner members.   |
| iii) independent professional observers; and   | Compliant | The Committee is advised by an independent professional adviser who is invited to attend all meetings of the Pensions Committee and other relevant meetings.  |
| iv) expert advisors (on an ad-hoc basis).  | Compliant | The Fund has a contract with Hymans Robertson covering actuarial services and JLT Investment Consulting as investment advisors. Other advisors covering actuarial, benefit and investment services are available from the South West framework agreement on an ad-hoc basis, if required. |
| b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Compliant | All members of the Pensions Committee are given equal access to meetings, training events and can fully contribute to the decision making process.  |

## C – Selection and role of lay members

|  |           |  |
|--|-----------|--|
| a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Compliant | On appointment all new Pensions Committee members receive an information pack and induction training, setting out the status of the LGPS, and the role of the committee in respect of the fiduciary duties and the extent to which this committee differs from any other committee that Cornwall Council members may be involved with. |
|--|-----------|--|

## D – Voting

|   |           |  |
|---|-----------|--|
| a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Compliant | The constitution of the Pensions Committee and the Governance Statement sets out the voting rights of each organisation. |
|---|-----------|--|

| Statutory Guidance<br>Governance Standards and Principles | Compliance<br>status | Evidence of compliance and justification for non-compliance |
|---|----------------------|---|
|---|----------------------|---|

## E – Training, facility time and expenses

|   |           |  |
|---|-----------|--|
| a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Compliant | <p>The Pensions Committee recognises the importance of training for members of the Committee and fully supports Myners' first principle. This states that decisions should only be taken by persons or organisations with the skill, information and resources necessary to take them effectively. In the Fund Business Plan provision is made for the cost of Member Training to further the achievement of this. In recognition of the need for specialist knowledge no substitutes are allowed on the Pensions Committee.</p> <p>Cornwall Council, as administering authority has fully embraced CIPFA's Knowledge and Skills framework for members of the committee as well as officers involved in the support to the Committee. As such, an extensive programme of training is undertaken, with events being held on a quarterly basis covering the range of topics identified within the Knowledge and Skills framework. There is also an agreed training strategy that the Committee follows in order to demonstrate their commitment to this statutory requirement.</p> <p>Any expenses incurred by members of the Pensions Committee in attending training courses are reimbursed through the Council arrangements Members' Allowance Scheme. For employee and employer representatives they will liaise with the Pensions Investment Manager for expenses incurred.</p> |
| b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.  | Compliant | All members of the Pensions Committee have equal access to training.   |

## F – Meetings (frequency/quorum)

|  |                |  |
|--|----------------|--|
| a) That an administering authority's main committee or committees meet at least quarterly.   | Compliant      | There are four scheduled quarterly meetings of the Pensions Committee. Additional Committee meetings are arranged as necessary.  |
| b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.  | Not Applicable | The Pensions Committee has no secondary committee  |
| c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Not Applicable | The Pensions Committee does not include lay members, however an Annual Employers Meeting is held to which all employers are invited. The interests of scheme members are represented through the Member Nominated Representatives. |

## G – Access

|   |           |  |
|---|-----------|--|
| a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Compliant | All members of our Pensions Committee receive the same agenda and all reports and papers, including those treated as confidential. |
|---|-----------|--|



# Regulatory statements Governance Compliance Statement

| Statutory Guidance<br>Governance Standards and Principles | Compliance status | Evidence of compliance and justification for non-compliance |
|---|-------------------|---|
|---|-------------------|---|

## H – Scope

|  |           |  |
|--|-----------|--|
| a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Compliant | The remit of the Pensions Committee includes all matters relating to the Local Government Pension scheme, including issues in relation to discretions. |
|--|-----------|--|

## I – Publicity

|   |           |   |
|---|-----------|---|
| a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Compliant | The Governance Policy Statement was approved by the Pensions Committee in March 2017. The Statement is available on the Council and Pension Fund's website within the Fund's Annual Report. |
|---|-----------|---|

## Section 2

### Local Pension Board Compliance

| Requirement | Compliance status | Evidence of compliance and justification for non-compliance |
|-------------|-------------------|---|
|-------------|-------------------|---|

#### A - LGPS 2013 Regulations

|  |           |   |
|--|-----------|---|
| Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.   | N/A       | Cornwall Councils decision making functions are delegated to a pensions committee (see Section 1). The local pension board is constituted separately.   |
| Where the administration and management of a Scheme is wholly or mainly shared by two or more administering authorities, those administering authorities may establish a joint local pension board if approval in writing has been obtained from the Secretary of State. | N/A       | Cornwall Council does not wholly or mainly share administration with any other administering authority and as a result cannot operate a joint local pension board.  |
| Only employer and scheme member representatives shall be entitled to vote  | Compliant | The local pension board terms of reference specify that all employer and scheme member representatives will be entitled to vote, but the independent Chair does not.  |
| The administering authority has established a fair and transparent process for the appointment of local pension board members  | Compliant | A fair and transparent process for the appointment of employer and scheme member representatives is included as an annex to the local pension board's terms of reference.<br><br>The process allows all eligible individuals to put their names forward for consideration against a clearly defined set of criteria.  |
| The local pension board consists of at least 4 members of whom 2 are employer representatives and 2 scheme member representatives  | Compliant | The structure of the local pension board is, as follows; <ul style="list-style-type: none"> <li>• 2 employer representatives drawn from any employer participating in the Cornwall Pension Fund</li> <li>• 2 scheme member representatives drawn from the active, deferred or pensioner membership of the Cornwall Pension Fund.</li> <li>• 1 independent Chair.</li> </ul> |
| Employer and scheme member representatives have the capacity to represent their constituency.  | Compliant | As part of the selection process, prospective pension board members are first assessed against their ability to commit the time to attend meetings, undertake training and effectively represent employers and members (as appropriate)   |

# Regulatory statements Governance Compliance Statement

| Requirement   | Compliance status | Evidence of compliance and justification for non-compliance  |
|---|-------------------|--|
| Where the local pension board is not a joint body also exercising delegated decision making powers;<br>a) no officer or elected member of the administering authority who is also responsible for the discharge of functions under LGPS 2013 may be a member of the local pension board, and<br>b) any elected member of the administering authority who is a member of the pension board must be an employer or scheme member representative | Compliant         | The local pension board terms of reference specify that;<br>1. No officer or elected member of Cornwall Council who is either responsible for discharging any function in relation to the LGPS regulations or has delegated decision making authority in relation to LGPS matters may be a member of the Local Pension Board, and<br>2. the employer representatives may be elected members or officers of scheme employers represented in the Cornwall Pension Fund |
| No person to be appointed to the pension board may have a conflict of interest.   | Compliant         | The local pension board has its own policy on the managing of conflicts.<br>Prospective members of the local pension board are required to declare any interests which are assessed as part of the appointment process as well as at any subsequent point that they arise.   |
| No member of a pension board may have a conflict of interest.   | Compliant         | The local pension board has its own policy on the managing of conflicts.<br>Members of the local pension board are required to complete and keep up to date a register of interests.<br>Members of the local pension board are required to provide any information requested by Cornwall Council in order to establish the existence or otherwise of a conflict of interests.  |

## B - Training

|   |           |  |
|---|-----------|--|
| There is a clear policy on training which complies with the Pension Regulator's code of practice no. 14 | Compliant | A training strategy exists detailing how Pension Board members will attain and maintain the appropriate level of knowledge and understanding to carry out their duties effectively. All pension board members are required to attend training. |
|---|-----------|--|

## C - Expenses and facility time

|   |           |   |
|---|-----------|---|
| There is a clear policy on the reimbursement of expenses and use of facility time | Compliant | Allowances and expenses will be in accordance with established practice for the committees of Cornwall Council. It is expected that employers will facilitate reasonable paid absence to allow Local Pension Board members to fulfil their representative role. |
|---|-----------|---|

## D - Conduct of members

|   |           |  |
|---|-----------|--|
| The members of a Local Pension Board should have regard to the 'Seven Principles of Public Life' ("the Nolan Principles") | Compliant | The pension board's terms of reference requires members to abide by the Nolan Principles and the required Code of Conduct for elected members. |
|---|-----------|--|

## E - Reporting Breaches

|   |           |  |
|---|-----------|--|
| There should be a policy in place for the reporting of breaches of the law. | Compliant | The pension board has a policy on breaches of law which is in line with the requirements of the Pensions Regulator |
|---|-----------|--|

## F - Internal reporting

|   |           |   |
|---|-----------|---|
| There should be a clear mechanism for the Pension Board to report its requests, recommendations or concerns | Compliant | The circumstances and mechanism for internal reporting form part of the board's terms of reference. |
|---|-----------|---|

## Governance Policy Statement

March 2017

### Introduction

This is the Governance Policy Statement of the Cornwall Pension Fund, as required under the Local Government Pension Scheme Regulations 2013, Regulation 55.

### Exercise of Administering Authority Function

The Council, on 20 May 2014, continued to support the agreement that the Pensions Committee will:

- exercise the functions of the Council as administering authority for the Local Government Pension Scheme in Cornwall; and
- establish a scheme of delegation to officers.

### Membership of the Pensions Committee

The membership, with full voting rights, is as follows:

- ten Cornwall Councillors (politically balanced);
- two co-opted representative of the other employers in the Scheme.
- two Member-nominated representatives appointed by the trade unions representing the views of employees, deferred members and pensioners.

### Period of Membership

The Council suggested that co-opted members are appointed for an initial period of four years. At the end of the four year period the individuals should be able to present themselves for reselection.

### Frequency of meetings

The Committee meets quarterly, with additional meetings as and when required.

### Scheme of Delegation from the Pensions Committee to the Section 151 Officer

At its meeting on 16 March 2017, the Committee agreed a Scheme of Delegation to the Section 151 Officer (set out in full at Appendix 1). This can be summarised as:

### The Committee retains responsibility for the following items:

- The Fund's investment strategy
- The Investment Strategy Statement
- Approval of all policies
- The appointment of investment managers, consultants and the custodian
- Approval of the Annual Business Plan
- Approval of Annual Report and Accounts
- Acceptance of the triennial valuation report produced

by the Fund Actuary

- Appointment of AVC providers

### The Committee delegates to the Section 151 Officer responsibility for the following items:

- Managing and monitoring the investment managers, consultants and custodian
- Managing the Fund's cash assets directly held by the Administering Authority
- Transferring assets between the Administering Authority, the investment managers and custodian
- Accounting for all investment transactions
- Within limits, authorising expenditure from the Fund
- Paying the fees of the investment managers and the custodian
- When necessary, exercising the Funds' voting rights after consulting the Chairman and Vice Chairman
- Admitting organisations into the Pension Scheme after consulting the Chairman and Vice Chairman

### Operation of the Cornwall Pension Fund Pension Board

As required by Regulation 106 of the Local Government Pension Scheme Regulations 2013 Cornwall Pension Fund has established a local pension board, the role of which is to;

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

The pension board does not carry out a delegated decision making function on behalf of the Administering Authority. Instead the pension board will carry out an oversight function to ensure that such decisions are properly compliant with regulations, guidance and internal policies.

# Regulatory statements Governance Policy Statement

The Composition of the pension board is as follows;

| Representing      | Number of members | Voting rights |
|-------------------|-------------------|---------------|
| Fund employers    | 2                 | Yes           |
| Scheme Members    | 2                 | Yes           |
| Independent Chair | 1                 | No            |

Each member of the Local Pension Board will have an initial 2 year term of office to be extended to up to 4 years subject to review after the first 18 months.

No member, or prospective member, of the pension board may have a conflict of interest. All pension board members must declare any potential conflicts of interest prior to their appointment or at any point they arise. The pension board has a conflict of interest policy of which all members are aware and the board maintains a full declaration of interests.

All members of the pension board are required to subscribe to the Fund's training strategy which details how board members will attain the level of knowledge and understanding of their role required by The Pensions Regulator.

Where the pension board votes, by a majority, that a decision made by the pension committee or an officer exercising delegated powers, does not comply with certain principles they may refer that decision back to the relevant party. The Pension Investment Manager of the CPF must be informed of any such referral. The circumstances under which a decision may be referred back are that;

1. Under the CPF Scheme of Delegation, the decision maker did not have the power to make such a decision;
2. The decision was in breach of legislation and/or regulations;
3. The decision maker(s) did not follow professional advice given (or didn't take professional advice if it was a requirement to do so) and it is believed that this could result in a materially bad outcome for the CPF;
4. The decision making process did not follow one or more of the following principles:
  - The decision-maker(s) did not ask themselves the right questions;
  - The decision-maker(s) did not direct themselves correctly in law; in particular did not adopt a correct interpretation of the legislation and regulations relevant to the CPF;
  - The decision-maker(s) did not take into account all relevant facts and disregard any irrelevant facts;

If the Local Pension Board is dissatisfied with the response or resolution to the concern raised, it will seek the advice of the Section 151 officer of Cornwall Council. Where the decision-maker in question is the Section 151 officer or the LPB remains dissatisfied with the response or resolution, the concern will be escalated within the Council as far as possible before seeking the advice of the Scheme Advisory Board.

The fact that the LPB may have questioned a decision in this way does not affect the validity of that decision nor in any way prevent a decision from being acted upon.

## Appendix 1

### Scheme of Delegation from the Pensions Committee to the Section 151 Officer

#### Pension Fund Investments

The Council has set up a Pensions Committee to exercise its functions as the Administering Authority for the Local Government Pension Scheme in Cornwall. This responsibility includes managing the investments of the Fund.

The Pensions Committee has agreed to delegate certain of its responsibilities for managing the Fund's investments to the Section 151 Officer. This Scheme of Delegation sets out the limits of that delegation.

The Committee has also delegated day-to-day management of the Fund's investments to professional investment managers. Legally binding agreements govern the relationship between the Council and the investment managers.

Irrespective of whether or not the Committee decides to delegate a function to an officer, it is essential that those making a decision receive proper advice from suitably qualified people or organisations (usually the Section 151 Officer or the Fund's Investment consultants and advisers).

Nothing in this Scheme of Delegation can override the responsibility of Members and Officers to comply with the Council's Constitution, Financial Regulations, or Standing Orders.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide the legal framework governing investments by the Pension Fund. Any decisions or actions taken by the Committee, Members or officers must comply with these regulations.

Responsibilities retained by the Committee and not delegated to officers or Investment Managers

1. Determination of the Fund's investment strategy.
2. Approval of the Investment Strategy Statement, including the Funds position on asset pooling and social, ethical and environmental issues relating to investments.



# Regulatory statements Governance Policy Statement

3. Approval of the Funding Strategy Statement
4. Approval of all policies – current policies cover:
  - a. Corporate governance and the exercise of voting rights;
  - b. Activism;
  - c. Admission of organisations into the Pension Scheme.
5. The appointment and removal of investment managers, the Fund actuary, investment consultants and the Fund custodian.
6. Approval of the Annual Business Plan.
7. Approval of the Annual Report and Accounts.
8. Acceptance of the triennial valuation report produced by the Fund actuary.
9. Appointment of AVC providers.

## **Investment responsibilities delegated to the Section 151 Officer:**

1. The management, monitoring and reporting to the Pensions Committee of the activities and the performance of the:
  - a. Investment Managers;
  - b. Investment Consultants and Advisers; and
  - c. Fund Custodian.
 (Within any limits set by the Pensions Committee)
2. The management of the Fund's cash assets directly held by the Administering Authority.
3. The authorisation of cash or asset movements between the Administering Authority, the Fund custodian and the investment managers.
4. Accounting for all investment transactions in compliance with standard accountancy and audit practice.
5. To re-balance to the target allocations approved in the Investment Strategy Statement, when deemed prudent to do so.
6. Authorising expenditure from the Fund in accordance with financial projections contained in the annual Business Plan or any higher amount as approved by the Committee (See 7 below).
7. The payment of fees to the investment managers and the custodian in accordance with their contractual agreements. The fees paid to the Investment Managers and to the custodian are linked to the performance of the market. They may also be performance related. For this reason, they are excluded from the limits of expenditure in 6 above.

8. The Committee has delegated the use of voting rights on the fund's shareholdings to the Investment Managers. In exceptional circumstances the Section 151 Officer may, in consultation with the Chair and Vice Chair, request the Investment Managers to vote in a specific way.
9. The admission of organisations into the Pension Scheme - in accordance with approved policy and after consulting the Chairman and Vice Chairman of the Committee
10. Under exceptional circumstances, taking urgent decisions regarding management of funds in the event that existing fund managers are unable to fulfil their responsibilities. This may, for example relate to fund managers no longer carrying out the management function and selling that on to another organisation.
11. In consultation with specialist advisors, determining on a risk by risk basis, whether to pursue litigation cases to attempt to recover sums due in relation to taxation issues.
12. Authorisation to commit funds to existing alternative asset managers, to ensure that target allocations to the alternative asset classes are maintained.

## **Appendix 1A**

### **Pension Fund administrative discretions and requirements**

#### **Responsibilities retained by the committee and not delegated to officers**

| Item | Regulation | Details  |
|------|------------|--|
| 1.   | A16 (10)   | Discretion as to requirement for a medical examination before purchasing additional pension. |
| 2.   | T3 (13)    | Discretion regarding abatement of pension.   |

Regulation prefix (A) refers to the Local Government Pension Scheme Regulations 2013.

Regulation prefix (T) refers to the Local Government Pension Scheme Regulations 2008, as covered by the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

## Administrative responsibilities delegated to the Chief Operating Officer

| Item | Regulation   | Details  |
|------|--------------|--|
| 1.   | A40/43/46    | Recipient of a Death Grant can be the member's nominee, personal representatives, relatives or dependants as decided on the merits of each case.   |
| 2.   | A Schedule 1 | Decide on the evidence required to determine the financial dependence of a nominated co-habitee on a scheme member or the financial interdependence of a nominated co-habitee and scheme member. |
| 3.   | A Schedule 1 | For the payment of a child's pension, the treatment of education as continuous despite a break.  |
| 4.   | A 34         | Commutation of small pensions.   |
| 5.   | A 71         | Ability to charge interest on late payment of contributions.   |
| 6.   | T15          | Ability to charge a member for information on AVC transfers if no election is subsequently made.   |
| 7.   | A36 (3)      | Choice of medical practitioner for advice on ill-health retirements.   |
| 8.   | T15 (1)      | Ability to extend time limit if employee wishes to pay off additional contributions by way of a lump sum.  |
| 9.   | A64 (2A)     | Ability to delay a cessation valuation for an exiting employer for a period of up to 3 years.  |

Regulation prefix (A) refers to the Local Government Pension Scheme Regulations 2013.

Regulation prefix (T) refers to the Local Government Pension Scheme Regulations 2008 as covered by the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

## Investment Strategy Statement

Cornwall Council

Administering Authority for the Cornwall Pension Fund

Presented to the Pensions Committee  
12 March 2020

Minor revision to incorporate the strategic asset allocation changes approved by the Committee on the 11 March 2021 and for where fund managers have changed (1 July 2021)

### 1. Introduction

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replaced the 2009 Investment Regulations. These regulations came into force on 1st November 2016. Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

These investment regulations state that authorities are required to maintain an Investment Strategy Statement (ISS) documenting how the investment strategy for the Fund is determined and implemented. The statement is regularly reviewed (at least every three years). The ISS is required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments.

In maintaining the Statement, the Committee have obtained and considered advice from a suitably qualified individual, employed by their investment consultants, JLT Employee Benefits (part of Mercer, a Marsh & McLennan company), whom they believe to have a degree of knowledge and experience that, is appropriate for the management of their investments.

The Committee will review the Statement at least every three years and as required with any material changes, which is more regularly than the Regulations require, but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statements
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

### Background to the Fund

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

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

The Cornwall Pension Fund is a participant in Brunel Pension Partnership which is fundamentally changing the way in which the Fund's strategic asset allocation is implemented. This is a long term strategic relationship of ten LGPS funds. How pooling impacts the Fund's investment arrangements and the authority delegated to the new company is explained in detail in this statement.

The Fund is a long-term investor with a primary objective as follows:

***To provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, as required by the Local Government Pension Scheme (Benefits) Regulations 2013 (as amended).***

This overall objective is supplemented by the funding and investment objectives which are detailed in this document.

## Cornwall Pension Fund's Investment Strategy

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a), 7(2) (b) and 7(2) (c); listed below:

### **2. Investment of money in a wide variety of investments**

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which Fund monies must be invested.

### **3. Suitability of particular investments and types of investments**

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

### **Funding Objectives**

The objectives of the funding strategy, as detailed in the Fund's 2020 Funding Strategy Statement, 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 (NB this will also minimise the costs to be borne by Council Tax payers);
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The assumptions used correspond with the assumptions used in the latest Actuarial Valuation. The funding position will be reviewed on a regular basis but at least at each triennial Actuarial Valuation. The Committee will be advised on the effect of any material changes to the Fund during the inter-valuation period.

## Investment Strategy

### **Setting the Strategy**

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. The objectives for the Cornwall Fund are considered below:

The full objectives of the investment strategy are:

***To achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an on-going basis.***

To achieve these objectives, the Investment Strategy detailed in this document has been agreed.

The Committee has determined its investment strategy after considering the Fund's liability profile and requirements of the Statutory Funding Objective and their own appetite for risk. The Committee have also received written advice from a suitability qualified individual, employed by their investments consultants, JLT Employee Benefits (part of Mercer, a Marsh & McLennan company). Input has also been received from the Fund's independent adviser, and the Actuary; Hymans Robertson.

Against these strategic targets, the Cornwall Pension Fund regularly reviews its Investment Strategy with an exercise completed annually as part of the business planning processes and (comprehensively at least every three years as part of the triennial valuation process) and in doing so considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The basis of the Committee's strategy is to divide the Fund's assets between a "growth" portfolio, comprising assets such as diversified growth funds (DGFs) and equities, an "alternatives" portfolio comprising assets such as hedge funds, private equity, property, infrastructure and private credit



and a “stabilising” portfolio, comprising assets such as multi-asset credit and those assets within the risk management framework. The growth/alternatives/stabilising allocation is set with regard to the overall expected return objective of the Fund’s assets, which is determined by the funding objective and current funding level, as well as the risk tolerance.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. As a result, the Committee has a “diversified growth” investment manager to select and manage the allocations across asset classes for a proportion of the Fund’s assets. In addition, the Fund’s assets are invested in a wide range of asset classes with different risk/return profiles.

In assessing the suitability of investments required to form the overall portfolio the Cornwall Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Fund the starting point is always the Actuary’s assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long-term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

## **Investment Decisions**

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

### **Strategic Investment Decisions**

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment consultant with independent advice on the investment consultant’s recommendations being provided to the Committee by the Fund’s independent advisor. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth, alternative and stabilising portfolios
- Determining the allocation to asset classes within the growth, alternatives and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

## **Tactical Investment Decisions**

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

As part of the 2016 review of its investment strategy the Cornwall Fund created a Tactical Asset Allocation Portfolio (TAAP). This allocation is designed to essentially act as an overlay across the Fund’s strategic portfolio, and take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The TAAP became effective in September 2018.

## **Risk Management Framework (RMF)**

The Fund’s asset portfolio is exposed to several market risks such as equity, interest rate, inflation and currency risk. Some of these risks could be rewarded in certain market conditions but at other times it could be helpful to reduce volatility of the portfolio by hedging some of these risks.

The RMF is designed to identify, measure and mitigate these risks.

## **Stock Selection Decisions**

All such decisions are the responsibility of the investment managers with which the Fund invests.

## **Strategic Asset Allocation**

The Committee are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked
- UK and overseas corporate bonds
- Multi-asset credit (MAC)
- Convertible bonds
- Property
- Commodities
- Hedge Funds (including managed account)
- Private equity
- Infrastructure
- Private credit
- High yield bonds
- Emerging market debt
- Diversified growth
- Risk management products
- Cash

# Regulatory statements Investment Strategy Statement

The Fund currently mainly invests in pooled portfolios. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

## Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments. The Fund's strategic benchmark, detailed in this document, takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

## Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be

consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

For the purpose of the triennial funding valuation at 31 March 2019 and setting contribution rates effective from 1 April 2019, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 4.1% per annum at the time of the valuation (this was 3.9% or 1.7% above gilts at the 2016 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, the asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

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

| Asset Class                                      | 2019 Strategic allocation (%) | 2020 Strategic allocation (%) | Strategic range (%) |           | Absolute Expected return p.a. <sup>1</sup> |      | Expected 10-year Risk (Volatility) p.a. <sup>1</sup> |       |
|--|-------------------------------|-------------------------------|---------------------|-----------|--|------|--|-------|
|  |                               |                               | 2019                | 2020      | 2019                                       | 2020 | 2019   | 2020  |
| Growth Assets                                    |                               |                               |                     |           |  |      |  |       |
| Developed Market Equity                          | 23                            | 23                            | 18 - 30             | 18 - 30   | 5.9%                                       | 4.8% | 16.8%  | 17.3% |
| Developed Core Equity                            | 10                            | 10                            | -                   | -         | -  | -    | -  | -     |
| Global Sustainable Equity                        | 13                            | 13                            | -                   | -         | -  | -    | -  | -     |
| Emerging Market Equity                           | 8                             | 8                             | 2 - 11              | 2 - 11    | 6.5%                                       | 4.6% | 28.7%  | 28.4% |
| Diversified Growth                               | 5                             | 7.5                           | 0 - 12              | 0 - 12    | 4.0%                                       | 3.8% | 10.0%  | 10.1% |
| Tactical Asset Allocation Portfolio <sup>2</sup> | 8                             | 8                             | 2 - 14              | 2 - 14    | 4.3%                                       | 3.8% | 10.0%  | 10.1% |
| Alternative Assets                               |                               |                               |                     |           |  |      |  |       |
| Social Impact Portfolio <sup>3</sup>             | 0                             | 5                             | n/a                 | 0-8       | n/a  | 3.0% | n/a  | 14.9% |
| Hedge Funds                                      | 7.5                           | 0                             | 4 - 13              | n/a       | 4.0%                                       | n/a  | 7.3%   | n/a   |
| Property <sup>3</sup>                            | 7.5                           | 7.5                           | 4 - 13              | 4 - 13    | 3.9%                                       | 2.5% | 14.1%  | 14.8% |
| Private Equity <sup>3</sup>                      | 5                             | 5                             | 2.5 - 7.5           | 2.5 - 7.5 | 7.5%                                       | 4.6% | 24.2%  | 24.4% |
| Infrastructure <sup>3</sup>                      | 12                            | 12                            | 7 - 17              | 7 - 17    | 6.8%                                       | 3.6% | 14.6%  | 15.0% |
| Private Credit <sup>3</sup>                      | 6                             | 6                             | 3 - 9               | 3 - 9     | 6.0%                                       | 4.3% | 3.4%   | 12.6% |
| Stabilising Assets                               |                               |                               |                     |           |  |      |  |       |
| Multi-asset Credit                               | 5                             | 5                             | 0 - 15              | 0 - 15    | 3.6%                                       | 4.1% | 4.3%   | 8.1%  |
| Risk Management Framework                        | 13                            | 13                            | 6 - 20              | 6 - 20    | -  | -    | -  | -     |
| Cash   | 0                             | 0                             | -                   | -         | -  | -    | -  | -     |

Notes:

<sup>1</sup> Expected Returns and expected risk figures are Mercers' forecasts as at the time of modelling (30 September 2020, for 2020 numbers).

<sup>2</sup> Tactical Asset Allocation Portfolio (TAAP) is an allocation designed to take advantage of short term (approximately one year) opportunities that are consistent with the long-term risk and return goals of the Fund.

<sup>3</sup> Due to the time it takes to deploy capital in private markets (sometimes a matter of years) and not wanting this to cause a material drag on the strategic return objective, as part of the 2020 review, the Committee approved the use of liquid private markets alternatives, to top the underweight allocations to Private Markets up to their strategic allocations.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long-term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation').

## Current Strategic Benchmark

The strategic benchmark does not assume any outperformance from the investment managers. The Minimum and Maximum range allowed acts as the Fund's own limit on its investment strategy, and ensures compliance with the guidance which requires this.

The Fund's Investment Strategy was formally reviewed in 2019 as part of the valuation process and there was an annual review in 2020, to ensure that the strategy was still appropriate to meet the requirements set by the actuary.

We have set out the expected risks and returns as well as the strategic asset allocations at both of these reviews. The changes to the asset allocation as a result of the 2020 review are below:

- Reducing Hedge Fund allocation from 7.5% to 0%
- Increasing Diversified Growth allocation from 5% to 7.5%
- 5% allocation to Social Impact

The inclusion of a diversified range of assets in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long-term return.

## 4. Approach to risk, including the ways in which risks are to be measured and managed

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate). It also requires that funds ensure that the approach is complicit with that in their Funding Strategy Statement.

### Approach to risk

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following

paragraphs explain the Cornwall Fund's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus to reduce the contributions required to Fund the liabilities over time. However, this type of strategy would be expected to lead to volatile short to medium term results, both in absolute terms and, particularly, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, a number of these are considered below:

### Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

### Manager Risk (including the Brunel Pension Partnership)

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

- The Brunel Pension Partnership (BPP) is responsible for appointing and monitoring the managers with which the Fund invests. BPP have the appropriate mechanisms in place to allow the Fund to hold it to account. Further details can be found in section 5 below.

## Liquidity Risk

- This is monitored according to the level of cash flows required by the Fund over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable. As a result the investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

## Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this through regular reviews of the investments and through investing in funds which give a wide degree of diversification.

## Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

## Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

## Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices.

Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

- Market risk comprises of the following three types of risk:

## Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

## Interest rate risk and Inflation risk

This covers the following risks:

### Interest rate risk -

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

### Inflation risk -

- This is the risk that the value of the Fund's liabilities which are inextricably linked to long-term expected Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.

## Climate Risk

- The risk that climate change issues may negatively impact asset classes, sectors and companies, and therefore negatively impact investment returns on the Fund's assets.
- The Fund manages this by understanding and monitoring the exposure of the assets to climate risks. The Fund assesses and takes appropriate actions where necessary to address any climate risks within the assets. Further details on the Fund's approach to climate related risks are set out in the Fund's Responsible Investment Policy.

## Pandemic Risk

- This is the risk that an outbreak of an infectious disease causes disruption (possibly worldwide) that



has a significant impact on the state of the economy and could result in a significant reduction in assets.

- The Fund manages this through regular reviews of the investments and through investing in funds which give a wide degree of diversification, in a wide range of companies and sectors. The Fund also assesses this by understanding the extent of extreme downside scenarios on the Fund's assets.

## 5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Cornwall Pension Fund pools investments with 8 other local authorities and the Environment Agency through the Brunel Pension Partnership and its operator Brunel Ltd. This pool became operational from September 2018 and the Cornwall Pension Fund, through the Pension Committee, retain the responsibility for setting the detailed Strategic Asset Allocation and policies for the Fund. The portfolios provided by Brunel Ltd, have been designed to meet the requirements set out by the Brunel Pension Partnership members funds and the Fund allocates to these portfolios in-line with this Investment Strategy Statement.

The Brunel Pension Partnership is a company wholly owned by the Administering Authorities. It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular, it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds are operated by professional external investment managers. The Cornwall Fund will be a client of the Brunel Pension Partnership and as a client has the right to expect certain standards and quality of service. A detailed Service Agreement is in place, which sets out the duties and responsibilities of Brunel Ltd, and the rights of the Cornwall Fund as a client. It includes a duty of care of Brunel Ltd to act in its clients' best interests.

There is an Oversight Board, which is comprised of representatives from each of the Administering Authorities and has been set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel Pension Partnership delivers the services required to achieve investment pooling and therefore has a monitoring and oversight function. Subject to its terms of reference it is able to consider relevant matters on behalf of the

Administering Authorities, but does not have delegated powers to take decisions requiring Shareholder approval. These are remitted back to each Administering Authority individually.

The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but also draws on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel Pension Partnership, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance.

## 6. Responsible Investment Policy

The Cornwall Pension Fund's Pensions Committee ("Committee") has a fiduciary duty to act in the best interest of its members. To do this effectively the Committee recognises the importance of managing Environmental, Social and Corporate Governance ("ESG") issues, including climate change, that are financially material to the Fund, both in terms of opportunities and risks. What is more, there is a growing urgency with respect to long-term sustainability issues, particularly climate change. Therefore, it is imperative that ESG considerations and active ownership are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

The Fund has made significant progress over the last 12 months in evolving its policies on Responsible Investment and climate change. We are continuing to focus on this as a key area for the Fund and aspire to be at the forefront of responsible investment practice. As part of this, the Committee has revisited its beliefs, updated its policies and processes, and is committed to increasing its allocation to sustainable and low carbon assets. The Committee recognises that ESG and stewardship are rapidly developing topics and will continue to develop its understanding, approaches, and ambition in these areas.

The Committee recognises the importance of working collaboratively with Brunel Pension Partnership ("Brunel") to make the Fund's ESG approach effective.

The Committee defines Responsible Investment ("RI") as the integration of ESG issues into its investment processes and stewardship (or active ownership)

practices in the belief this can positively impact financial performance over the long term.

This policy sets out the Committee's approach to RI and details the actions the Committee, Brunel Pension Partnership ("Brunel"), and other external providers take on behalf of the Fund's members and other stakeholders, to enhance long-term risk adjusted returns and protect the Fund from ESG and reputational risks.

## Brunel Pension Partnership and RI

As asset owners, the Fund sets its asset allocation and investment strategy. Since the introduction of pooling across the Local Government Pension Scheme, the Fund is no longer responsible for fund manager selection. This process is now handled by Brunel, who manage our investments in line with our strategic objectives. Brunel was formed in July 2017, and Cornwall, along with 8 other local authorities and the Environment Agency, each own 10%. The 10 funds and the operator, Brunel Ltd, have a mutual commitment to building a financial system which is fit for a low carbon future and feel this commitment is pivotal to driving change together.

The Brunel Pension Partnership Investment Principles and its supporting responsible investment policies clearly articulate Brunel's commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that ESG considerations are part of the process in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Brunel has published its Responsible Investment Policy Statement and other related policies, which lay out its approach in more detail. More information is on the Brunel website <https://www.brunelpensionpartnership.org/>

|   |   |
|---|---|
| <b>Responsible investors</b>                  | We believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy and society.  |
| <b>Long time horizon</b>                      | We are investors with a long time horizon. This requires us to consider long-term sustainability issues, both in terms of opportunities and risks, as relevant to the Fund and its investment strategy.   |
| <b>ESG integration</b>                        | ESG issues can affect the performance of investment portfolios and should therefore be considered throughout the Fund's investment process.   |
| <b>Stewardship<sup>1</sup></b>                | Good stewardship can enhance long-term portfolio performance and is therefore in the best interests of its members. Voting is an integral part of the responsible investment and stewardship process.   |
| <b>Corporate governance<sup>2</sup></b>       | The Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance in the companies in which we invest contributes to long-term value for our members.  |
| <b>Climate change as a systemic risk</b>      | Climate change presents a systemic and material risk to the ecological, societal and financial stability of every economy and country on the planet, and therefore will impact our beneficiaries, employers, and our investment portfolio.  |
| <b>Climate change and the Paris Agreement</b> | Investing to support the Paris Agreement goals that keep a global temperature rise this century to well below 2°C relative to pre-industrial levels, is entirely consistent with securing long-term financial returns and is aligned with the best long-term interests of our beneficiaries, employers, and our portfolio holdings. |

<sup>1</sup> Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. Effective stewardship benefits companies, investors and the economy as a whole." – The UK Stewardship Guide

<sup>2</sup> Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.

## ESG integration

The Fund retains responsibility for setting its investment strategy and its ambitions on ESG and responsible investment. Brunel will be responsible for managing ESG issues on behalf of the Fund for the assets invested in its portfolios, in line with the agreed Brunel policies and consistent with the Fund's RI and ESG goals.

Each Brunel portfolio, across all asset classes, explicitly includes responsible investment and an assessment of how ESG considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing value in relation to each portfolio and its objectives. These considerations are taken into account when constructing the Brunel portfolios and in the selection, non-selection, retention and realisation of assets.

The Committee fully supports and actively encourages Brunel's commitment to working with managers in asset classes and strategies where ESG integration is less well developed (for example multi-asset credit and private debt) and to improve this over time through better practices and product innovation, using its scale, knowledge, and influence to help drive change.

We will seek assurance through formal structures such as our interactions as a Shareholder of Brunel, the Brunel Oversight Board, Client Group, the Responsible Investment sub-group (made up of officers of the funds and Brunel officers), and ongoing reporting and presentations to the Committee, and other means that Brunel is fulfilling its policy commitments with regards to ESG integration.

In the period before our mandates transition to Brunel, the extent to which managers evaluate and manage ESG issues in their investment process is assessed in the selection, retention and realisation of investment managers.

Officers review developments in ESG processes and any relevant ESG data with its fund managers as a standing item in manager meetings. Officers also assess investment managers' approaches to ESG integration and stewardship using our Investment Consultant's ESG ratings, where applicable. Where managers are lagging behind their peers, they will be engaged and encouraged to improve.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund.

## Climate Change

The Committee recognises the commitments made by countries, regions, organisations and also local authorities such as Cornwall Council in relation to climate change. Climate change (and other long-term sustainability issues) present opportunities and risks that increasingly require explicit consideration by long-term investors.

Our climate change commitments

We are committed to:

- Investing at least 15% of our portfolio in sustainable and low carbon investments by 2022.
- Decarbonising our portfolio:
  - We will seek a carbon intensity improvement of at least 7% year-on-year in our listed equity portfolios. This will equate to over 20% lower carbon intensity than the benchmark (which Brunel is also seeking to improve – see below) by 2022.
  - We will also track and monitor (and report on) the fossil fuel exposure within our equity portfolio held with Brunel and are committed to this being materially lower than the benchmark.
- Assessing the strategic implications of climate change on an ongoing basis by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level. We have already undertaken this analysis and it has helped inform our decision to increase our strategic allocation to sustainable equities and renewable infrastructure.
- Adopting the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").
- Supporting Brunel in pressing the industry to make core benchmarks more compatible with a below 2°C aligned scenario.
- Encouraging Brunel on its engagement of the banking sector on their lending policies, to phase out the provision of financial services to energy companies and to utilities that are not aligned with the goals of the Paris climate agreement.

## Brunel's 2020-2022 climate change policy objectives

The Committee fully encourages and supports Brunel's 2020-2022 policy objectives on climate change which are set out in their Climate Change Policy. These are laid out below.

### Brunel's 2020-2022 policy objectives

We will play an active and leading role in encouraging policy makers to establish comprehensive and robust climate change policy frameworks. Within this, we will focus particular attention on:

- The adoption of a meaningful price on carbon, which is material (i.e. sufficient to drive change at the scale and rate required), progressive over time and widespread (i.e. applies to all major sectors of the economy).
- The removal of fossil fuel subsidies.
- The introduction of policy measures – for example, product standards, limitations on high carbon technologies, support for low carbon technologies – that accelerate the move away from high impact activities and sectors.
- The removal or correction of regulatory barriers to progress and support financial policy makers and regulators in being ambitious and effective in implementation of plans to mitigate climate risk and under the Adaptation Reporting Power.
- The integration of climate change into the mandates and into the oversight and control processes of prudential regulators and other regulatory bodies.
- Ensuring that climate change policy is socially sustainable and takes due account of workers' rights and community interests (the 'Just Transition') when taking action to reduce greenhouse gas emissions and adapt to a changing climate.

We will play an active leading role in encouraging policy makers to integrate climate change into multilateral and bilateral trading frameworks, with a particular focus on the UK post Brexit.

We will encourage policy makers to introduce mandatory climate change disclosure requirements for companies, with a focus on providing clear, decision useful information and encouraging a clear articulation of the risks that companies and their investors face.

We will support the development of skills, knowledge and professional standards of those intermediaries who are critical influencers in the action of investors and companies. These include, but are not limited to, investment consultants, actuaries, lawyers and auditors.

Further details of Brunel's Climate Change policy are set out on its website:

<https://www.brunelpensionpartnership.org/>

## Monitoring and Reporting Progress

Reporting on climate change is an area that is rapidly developing, and we are working with Brunel and other member funds to continue to improve this. We are supportive of Brunel's involvement in initiatives, such as the Institutional Investors Group on Climate Change ("IIGCC") Paris Aligned Investment Initiative, that are working to allow asset owners and investment managers to explain, in a consistent and comparable manner, how their portfolios compare to the goals of a net zero carbon future and of keeping global temperature rise below 2°C.

We currently undertake climate change scenario analysis and carbon footprinting (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within our portfolio. As our holdings transition into Brunel portfolios, we will be publishing the following metrics and data, as relevant, for different asset classes and strategies:

- Carbon footprints
- Fossil fuel exposures
- Green and brown share (i.e. the proportion of its portfolios invested in areas such as renewable energy)
- Its engagement and voting activities.

The Fund will use its website as the primary method of communication [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

We will publicly report in line with TCFD recommendations in due course and are developing our approach in this area.

### 2022 stocktake and ongoing improvements

We are currently supportive of Brunel's approach of not yet issuing exclusion lists as we believe that simply stating exclusions or requiring divestment from specific stocks or sectors will not compel investment managers to develop their capacity on climate change or drive change in the companies in which they are invested.

Alongside Brunel and our partner funds, we will be undertaking a full review of our climate change policy approach in late 2022 to provide us with the opportunity to reflect on our progress, the effectiveness of our approach, and to raise our ambitions (ahead of the triennial strategy review).

One of the key questions we will be answering as part of this review is whether Brunel's decision to engage with investment managers has been effective. Specifically, whether it has been effective in delivering change in the way investment managers work and in their ongoing engagement with companies to drive improvements in corporate strategies on climate change, so that these companies are on a trajectory to be aligned with the transition to a below 2°C economy. If the answer is no, we will be expecting Brunel to take action, including



the possibility of changing investment managers and/or introducing selective divestment requirements for companies.

We will continue to monitor Brunel's progress on implementing its policy objectives and will work with them to achieve our collective climate change ambitions. If the Fund does not feel action is progressing at an appropriate pace, the Fund will seek to address this with the partnership.

In addition to the full review, the Committee will be reviewing its beliefs and commitments on an annual basis to ensure that they remain fit for purpose and that strategic objectives are set with these in mind. To support this, we will ensure there is regular training on climate change for the Committee, Board, and Officers so that those in charge of the decision making for the Fund are sufficiently informed.

## Stewardship

As part of Brunel, we are actively exploring opportunities to enhance our stewardship activities. At the same time, we will continue to be an active owner in our own right.

The Committee believes one of the potential benefits of pooling, achieved through the scale and resources arising from pooling, is the improved implementation of stewardship practices. Brunel has published its Responsible Investment Stewardship Policy which outlines its approach and priorities. The policy reflects the priorities of its underlying clients, and we were active in contributing to the policy.

With the support of the Cornwall Pension Fund and the other partner funds, Brunel has been using its influence to press for improved stewardship at external investment managers and has been actively involved in government consultations and other initiatives in the area. Once all equity assets have been transitioned, the Partnership and Brunel Ltd will seek to deliver best practice standards in responsible investment and stewardship in terms of company engagement as outlined in the Brunel Pension Partnership Investment Principles. More information is available on the website ([www.brunelpensionpartnership.org](http://www.brunelpensionpartnership.org)).

The Committee has delegated investment powers to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) to act in the best interests of the Fund. Brunel and the Fund's investment managers are encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in key areas. Brunel and the Fund's investment managers have been asked to report to the Committee on the implementation of their stewardship and engagement activities, which will be reviewed on a regular basis.

Officers of the Fund are involved in the Responsible Investment sub-group and discuss ESG and responsible investment matters and developments, and exchange best monthly. A representative from Brunel is also present at every quarterly Committee meeting to report back on these activities.

The Fund recognises the importance of collaboration with other investors to achieve more effective and wider reaching outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on their <http://www.lapffforum.org/>

## Voting

The Committee has delegated the exercise of voting rights to Brunel and the Fund's investment managers (where assets have not yet transitioned to Brunel) on the basis that voting power will be exercised with the objective of preserving and enhancing long-term shareholder value.

As part of owning publicly listed companies Brunel, on behalf of its clients, will have the opportunity to vote at company meetings (AGM/ EGMs). Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider. Brunel will publish its voting policy and provide online voting records at least annually. The Fund will publish the voting carried out on its behalf on its website [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

Investment managers have produced written guidelines of their process and practice in this regard. They are encouraged to vote in line with their guidelines, in respect of all resolutions, at annual and extraordinary general meetings of companies. Investment managers are expected to report on their voting activity on a regular basis.

## 2020 UK Stewardship Code:

In late 2019, the Financial Reporting Council ("FRC") published its revised 2020 UK Stewardship Code ("2020 Code"). The latest Code defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

The FRC has described the 2020 Code as ambitious and highlighted the increased focus on 'activities and outcomes' as opposed to policy statements alone. As part of this increased remit, the 2020 Code covers a wider

range of asset classes, requires signatories to consider the systematic integration of ESG and climate change in the stewardship and investment process, and is based on a more stringent 'comply and explain' basis. The revised 2020 Stewardship Code now has 12 principles for signatories which can be found below.

The Fund plans to become a signatory to the 2020 Code by the end of 2021, recognising the significant amount of work complying with and reporting on the new Code will entail. The Fund has already had discussions with its partner funds and Brunel to ensure appropriate structures are in place to enable this goal.

## RI Initiatives

To deliver our Responsible Investment policy the Fund is active in supporting a number of responsible investment initiatives. We are committed to adopting the recommendations of the Taskforce for Climate-related Financial Disclosure ("TCFD"). The Fund plans to become a signatory to the UK Stewardship code. The Fund is a member of the LAPFF. The Fund will become a member of the Institutional Investors Group on Climate Change ("IIGCC"), it also supports the Just Transition and the Transition Pathway Initiative ("TPI"). In addition, the Fund supports Brunel as a signatory to the UN supported Principles for Responsible Investment ("PRI").

## Social investments

Government guidance addresses the issue of "social investments"; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authority has good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the Fund. To date the Fund has not made any social investments. Social investing is an active area of consideration for the Fund and policies on this are expected to continue to develop.

## 12 Principles of the 2020 Stewardship Code

- 1) Purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
- 2) Governance, resources and incentives support stewardship.
- 3) Manage conflicts of interest to put the best interests of clients and beneficiaries first.
- 4) Identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
- 5) Review their policies, assure their processes and assess the effectiveness of their activities.
- 6) Take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
- 7) Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
- 8) Monitor and hold to account managers and/or service providers.
- 9) Engage with issuers to maintain or enhance the value of assets.
- 10) Where necessary, participate in collaborative engagement to influence issuers.
- 11) Where necessary, escalate stewardship activities to influence issuers
- 12) Actively exercise their rights and responsibilities.

## Contact

Sean Johns  
Pension Investments Manager  
Cornwall Pension Fund  
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New County Hall  
Truro TR1 3AY

Email: [pension.investments@cornwall.gov.uk](mailto:pension.investments@cornwall.gov.uk)

Tel: 01872 324432

## Appendices

### A. Investment Manager Information

As at 30 June 2021 the Fund invested with a range of Fund managers. The table below shows the details of the mandate(s) with each manager. All set objectives are net of fees.

| Investment Manager/Fund                              | Date of Appointment | Benchmark                                   | Objective      |
|--|---------------------|---|----------------|
| <b>Growth Assets</b>                                 |                     |   |                |
| <b>Core Global Equities<sup>1</sup></b>              |                     |   |                |
| Brunel   | September 1994      | MSCI AC World                               | +1 - 2.0% p.a. |
| <b>Global Sustainable Equities</b>                   |                     |   |                |
| Brunel   | October 2020        | MSCI AC World                               | +1 - 2.0% p.a. |
| <b>Emerging Market Equities</b>                      |                     |   |                |
| Brunel   | October 2019        | MSCI Emerging Markets TR                    | +2 - 3.0% p.a. |
| <b>Diversified Growth</b>                            |                     |   |                |
| Invesco  | February 2013       | 3 months Sterling LIBOR                     | +6.0% p.a.     |
| Tactical Asset Allocation Portfolio (advisor)        | September 2018      | Total Fund ex RMF ex TAAP                   | +1.0% p.a.     |
| <b>Property</b>                                      |                     |   |                |
| Brunel UK Property                                   | July 2020           | MSCI/AREF UK Quarterly Property Fund Index  | +0.5% p.a.     |
| Brunel International Property                        | September 2020      | Global Real Estate Fund Index (INREV GREFI) | +0.5% p.a.     |
| <b>Alternatives - Infrastructure</b>                 |                     |   |                |
| Infracapital   | July 2007           | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Hermes   | January 2015        | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Brunel   | January 2019        | UK CPI                                      | +4.0% p.a.     |
| <b>Alternatives – Private Equity</b>                 |                     |   |                |
| Aberdeen Standard                                    | April 2006          | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Wilshire   | March 2007          | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Environmental Technologies Fund                      | July 2008           | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Brunel   | February 2021       | MSCI ACWI                                   | +3.0% p.a.     |
| <b>Alternatives – Private Credit</b>                 |                     |   |                |
| Golub  | April 2017          | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Arcmont  | August 2017         | LIBOR 7 Day Index                           | +5.0% p.a.     |
| Brunel   | June 2021           | GBP SONIA                                   | +4.0% p.a.     |
| <b>Alternatives – Hedge Funds</b>                    |                     |   |                |
| Man Solutions  | December 2014       | LIBOR 7 Day Index                           | +3.0% p.a.     |
| <b>Stabilising Assets</b>                            |                     |   |                |
| <b>Alternatives – Multi-Asset Credit<sup>2</sup></b> |                     |   |                |
| Brunel MAC   | June 2021           | GBP SONIA                                   | +4 - 5.0% p.a. |
| <b>Risk Management Framework</b>                     |                     |   |                |
| BlackRock  | June 2020           | Fund Specific benchmark                     | n/a            |
| <b>Cash</b>  |                     |   |                |
| Drawdown Portfolio (Advisor)                         | April 2019          | LIBOR 7 Day Index                           | -              |

<sup>1</sup> Newton portfolio moved across to Brunel on the 1st January 2021 and will sit in Brunel's Global Core Equity portfolio. Newton are the only manager in this portfolio, so will continue to manage the fund, with oversight from Brunel. Date of appointment is therefore the date Newton began managing the investment.

<sup>2</sup> At the time of writing, the previous MAC investment with Insight was in the process of being sold down and invested in the Brunel MAC Fund.

### B. Stock lending

The Fund utilises stock lending as a way of enhancing the income gained from securities. The Fund is currently invested in pooled investment funds, meaning that decisions on stock lending are delegated to the investment manager.

## Communication Policy Statement

March 2020

### Introduction

This is the Communications Policy Statement of the Cornwall Pension Fund, administered by Cornwall Council (the Administering Authority).

The Fund liaises with over 150 employers and approximately 55,000 scheme members in relation to the Local Government Pension Scheme (LGPS). The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Cornwall Pension Fund  
4th Floor South Wing, County Hall  
Truro  
Cornwall  
TR1 3AY  
Tel: 01872 322322  
Email: [pensions@cornwall.gov.uk](mailto:pensions@cornwall.gov.uk)  
[www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk)

### Regulatory Framework

This policy statement is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulations 2013. The provision requires us to:

“...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members;
- (b) representatives of members;
- (c) prospective members;
- (d) scheme employers.”

In addition it specifies that the statement must include information relating to:

- (a) the provision of information and publicity about the Scheme to members, representatives of members and scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.”

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations 2013 and other relevant legislation.

### Responsibilities and Resources

Within Cornwall Pension Fund the responsibility for communication materials are performed by the Pension Administration Manager and Pension Investment Manager with the assistance of the Assistant Pensions Administration Manager, Employer Liaison Officer and four Senior Pensions Technical Officers.

Although we write all communication within the team, all design work is carried out by the Council's design team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement

The majority of printing is carried out by an external supplier as there is no suitable “in-house” printing facility. Comparison quotations are obtained which include printing, collating, inserting into envelopes and where appropriate, posting to home addresses. All arrangements for forums, workshops, meetings and presentations covered within this statement are made by the same officers detailed above, in partnership with the employer or department requesting the information.

### Communication with key audience groups

#### Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we explain how we communicate with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- Surviving partners
- scheme employers and admission bodies;
- senior managers;
- union representatives;
- elected members
- Other Committee and Local Pension Board members
- Cornwall Pension Fund staff

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Ministry for Housing, Communities and Local Government, solicitors, the Money and Pensions Service, the Pensions Ombudsman, Pension Regulator and other pension providers.

### How we communicate

#### General communication

We will continue to use paper-based communication as a means of communicating, for example, by sending letters to our scheme members who join and leave the scheme.



# Regulatory statements Communication Policy Statement

However, communication with our employers is primarily by e-mail. Both methods are complemented by use of other electronic means such as our website. We will accept communications electronically, for example, by e-mail and, where we do so, we will respond electronically where possible.

Cornwall Pension Fund staff are responsible for specific tasks and for dealing with a specific proportion of our scheme members. Direct line phone numbers and email addresses are shown on all external communication where permitted, to assist with easier access to the correct person.

## Branding

The Pension Fund is administered by Cornwall Council, but now provides services to over 150 employers who participate in the Fund.

To reflect the ever diversified membership of the Cornwall Pension Fund, the Fund has adopted an individual identity, which will allow all communications from the Fund to be instantly recognisable as Cornwall Pension Fund related communications.

## Policy on Communication with Active, Deferred and Pensioner Members:

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- liaise with their employers or ex-employers to help resolve queries any of their current or former employees may have
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.
- Help prevent possible scams

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail in the following table:

| Method of Communication                 | Media                      | Frequency of issue                  | Method of Distribution   | Audience Group (Active, Deferred, Pensioner or All) |
|---|----------------------------|-------------------------------------|--|---|
| Summary Scheme booklet                  | Paper based and on website | At joining and major scheme changes | Post to home address/via employers   | Active  |
| Full Scheme booklet                     | Paper based and on website | As requested                        | Post to home address/via employers or electronic link via email                              | All   |
| Starter Pack                            | Paper                      | At joining                          | Post to home address   | Active  |
| Pension Fund Annual Report and Accounts | Website                    | Annually                            | Website  | All   |
| Pension Fund Accounts – Summary         | Website                    | Annually                            | Website  | All   |
| Annual Benefit Statements               | Paper based                | Annually                            | Post to home address/via employers for active members. To home address for deferred members. | Active and Deferred.                                |
| Website                                 | Electronic                 | Continually available               | Advertised on all communications   | All   |
| Roadshows/Induction sessions            | Face to face               | On request                          | Advertised in Administration manuals and employer bulletins.                                 | All   |
| Face to face education sessions         | Face to face               | On request                          | On request   | All   |
| P60's, payslips and newsletters         | Paper based                | Annually                            | Post to home   | Pensioners  |

## Explanation of communications

Summary Scheme booklet – A booklet summarising the main benefits of the LGPS.

Full Scheme booklet - A booklet providing a comprehensive description of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Starter pack – These complement the summary scheme booklet and contain confirmation of joining the scheme including an Expression of Wish and Pension History form. Pension History form helps to identify any previous pension benefits the member has and wishes to consider transferring into the Cornwall Pension Fund.

Pension Fund Annual Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This document is available on our website. A summary document, as detailed below, is also available on our website.

Pension Fund Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Annual Benefit Statements – For active members these include the current value of benefits as well as the projected benefits up to Normal Pension Age (NPA). The associated death benefits are also shown as well as an indication of whether or not the individual has completed an Expression of Wish form regarding their preferred recipient of the lump sum death grant. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and details of the associated death benefits.

Website – The website will provide scheme specific information (such as the policies of the Fund), forms that can be printed or downloaded, access to documents (such as newsletters and annual report and accounts), links to related websites and contact information.

Roadshows – A number of senior staff will attend various locations upon request of the employer. These presentations provide the opportunity to have a face to face conversation about your pension rights.

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the options available in respect of their accrued pension benefits.

P60's, payslips and newsletters – communication regarding confirmation of pension paid from the Fund.

## Policy on promotion of the scheme to Prospective Members and their Scheme Employers

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.
- for our employers to be employers of choice.

As we, in the Pension Fund office, do not have direct access to prospective members, we will work in partnership with the scheme employers in the Fund to meet these objectives. We will do this by providing the following communications:

| Method of communication | Media                          | Frequency of issue                        | Method of distribution | Audience group             |
|-------------------------|--------------------------------|---|------------------------|----------------------------|
| Summary Scheme booklet  | Paper based and website        | On commencing employment                  | Via employers          | New employees              |
| Full Scheme booklet     | Paper based and on website     | As requested                              | Via employers          | New employees              |
| Educational sessions    | As part of induction workshops | On commencing employment and as requested | Face to face           | New employees              |
| Posters                 | Paper based                    | Ongoing                                   | Via employers          | New and existing employees |

## Explanation of communications

Summary Scheme booklet – A booklet summarising the main benefits of the LGPS.

Scheme booklet - A booklet providing a comprehensive description of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

## Policy on communication with Scheme Employers

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.
- to ensure they are aware of their statutory responsibilities when tendering service contracts involving employees contributing to, or eligible for membership of the LGPS.
- to assist them in making the most of the discretionary areas within the LGPS.
- To provide a dedicated point of contact for employers through the Employer Liaison Officer

Our objectives will be met by providing the following communications:

| Method of communication                 | Media  | Frequency of issue                  | Method of distribution       | Audience group   |
|---|--|-------------------------------------|------------------------------|--|
| Administration Guide for Employers'     | Paper based and on employer section of website | At joining and updated as necessary | Post or via email            | Main contact for all employers   |
| Bulletins                               | Paper based and on employer section of website | As necessary                        | Email                        | All contacts for all employers   |
| Annual employers meeting                | Face to face                                   | Annually                            | Invitations by email         | All contacts for all employers   |
| Employers focus groups                  | Face to face                                   | As necessary                        | Invitations by e-mail        | Either main contacts or specific groups (e.g. HR or Finance) depending on topics |
| Pension Fund Annual Report and Accounts | Website  | Annually                            | Website                      | Main contact for all employers   |
| Meeting with adviser                    | Face to face                                   | On request                          | Invite sent by post or email | Senior management involved in funding and HR issues.                             |
| Meeting with Employer Liaison Officer   | Face to Face                                   | On request                          | Email                        | Main contact for all employers   |
| Pensions Administration Strategy        | Paper based and on employer section of website | As necessary                        | Post or via email            | Main contact for all employers   |

## Explanation of communications

Administration Guide for Employers' - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Cornwall Pension Fund and scheme members.

Bulletins - A short briefing paper informing employers of any future changes to benefit structures or providing updates on topical issues and also be a useful future reference point.

Annual employers meeting - A formal annual general meeting event with a number of speakers covering topical LGPS issues.

Employers' focus groups - Generally workgroup style sessions set up to debate current issues within the LGPS.

Pension Fund Annual Report and Accounts - Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current scheme employers and scheme membership numbers.

Adviser meeting - Gives employers the opportunity to discuss their involvement in the scheme with advisers.

Employer Liaison Officer - Gives employers a dedicated point of contact to discuss any matters relating to their participation in the scheme.

Pensions Administration Strategy - A formal document detailing the responsibilities and performance standards expected of our employers to help the Fund deliver a high quality and cost efficient administration service.

## Policy on communication with senior managers

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the scheme as a recruitment/retention tool

Our objectives will be met by providing the following communications:

| Method of communication    | Media                           | Frequency of issue              | Method of distribution      | Audience group |
|----------------------------|---------------------------------|---------------------------------|-----------------------------|----------------|
| Briefing papers            | Paper based and electronic      | As and when required            | Website, email or hard copy | All on request |
| Committee papers           | Paper based and electronic      | In advance of committee meeting | Website, email or hard copy | All on request |
| Local Pension Board Papers | Paper based and pension website | As and when available           | Website, email or hard copy | All on request |

## Explanation of communications

Briefing papers - a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings.

Committee papers - formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Local Pension Board Papers - a formal document setting out the matters to be reviewed in respect of the LGPS and seeking specific assurances or directions from the Board members.

## Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme
- to provide opportunities to educate union representatives on the provisions of the scheme



# Regulatory statements Communication Policy Statement

Our objectives will be met by providing the following communications:

| Method of communication         | Media                      | Frequency of issue   | Method of distribution      | Audience group |
|---------------------------------|----------------------------|----------------------|-----------------------------|----------------|
| Briefing papers                 | Paper based and electronic | As and when required | Website, email or hard copy | All            |
| Face to face education sessions | Face to face               | On request           | On request                  | All            |
| Pension Committee meetings      | Meeting                    | Quarterly            | Website, email or hard copy | All            |
| Local Pension Board             | Meeting                    | Quarterly            | Website, email or hard copy | All            |

## Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies.

Pension Committee meetings – a formal meeting of elected members, attended by senior officers, at which local decisions in relation to the scheme (policies, etc) are taken

Local Pension Board – a formal meeting attended by senior officers, employee and employer representatives and an independent Chair, where the work of the Pensions Committee and Cornwall Pension Fund officers is reviewed.

## Policy on communication with elected members/the Pensions Committee

Our objectives with regard to communication with elected members/the Pensions Committee are:

- to ensure they are aware of their statutory responsibilities in relation to the scheme
- to ensure they have access to and receive the appropriate and required training for the role
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme

Our objectives will be met by providing the following communications:

| Method of communication    | Media                                    | Frequency of issue  | Method of distribution                                  | Audience group                       |
|----------------------------|--|---|---|--------------------------------------|
| Training sessions          | Face to face                             | When there is a new Pension Committee or to a new member who joins the Pensions Committee during the cycle<br><br>Usually prior to each formal meeting and set training days which are provided throughout the year | Face to face  | All members of the Pension Committee |
| Training Strategy          | Face to face, paper based and electronic | As and when required  | In house and external training, web based and hard copy | All members of the Pension Committee |
| Briefing papers            | Paper based and electronic               | As and when required  | Website, email or hard copy                             | All members of the Pension Committee |
| Pension Committee Meetings | Meeting                                  | Quarterly   | Website, email or hard copy                             | All members of the Pension Committee |

## Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and Committee member’s responsibilities within it. Also, more detailed training on specific topics relevant to the Cornwall Pension Fund.

Training Strategy – formal document established to assist Committee members in performing and developing in their role and to equip them with the necessary skills and knowledge to act effectively in line with their statutory responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Pension Committee meetings - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken

## Policy on communication with the Local Pensions Board

Our objectives with regard to communication with members of the Local Pension Board

- to ensure they are aware of their statutory responsibilities in relation to the scheme
- to ensure they have access to all necessary documents
- to ensure they receive the appropriate and required training for the role

Our objectives will be met by providing the following communications:

| Method of communication       | Media                                    | Frequency of issue   | Method of distribution                                  | Audience group                          |
|-------------------------------|--|--|---|---|
| Training sessions             | Face to face                             | When a new member joins<br><br>Usually prior to each formal meeting<br><br>On training days which are provided throughout the year | Face to face  | All members of the Local Pensions Board |
| Training Strategy             | Face to face, paper based and electronic | As and when required   | In house and external training, web based and hard copy | All members of the Local Pensions Board |
| Briefing papers               | Paper based and electronic               | As and when required   | Website, email or hard copy                             | All members of the Local Pensions Board |
| Local Pensions Board Meetings | Meeting                                  | Quarterly  | Website, email or hard copy                             | All members of the Local Pensions Board |

## Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, the Board member’s responsibilities within it and other training required to meet The Pensions Regulator’s requirements. Also, more detailed training on specific topics relevant to the Cornwall Pension Fund.

Training Strategy – formal document established to assist Pension Board members in performing and developing personally in their role and to equip them with the necessary skills and knowledge to act effectively in line with their statutory responsibilities.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Local Pension Board meetings - a formal meeting of elected employee and employer representatives, attended by senior officers and an independent Chair, where the work of the Pensions Committee and Cornwall Pension Fund officers is reviewed.

## Policy on communication with Cornwall Pension Fund staff

Our objectives with regard to communication with Cornwall Pension Fund staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job and external training opportunities to all staff
- to develop improvements to services, and changes to processes as required
- Improve knowledge and understanding of scheme regulations

# Regulatory statements Communication Policy Statement

Our objectives will be met by providing the following communications:

| Method of communication                             | Media               | Frequency of issue     | Method of distribution                                       | Audience group                |
|---|---------------------|------------------------|--|-------------------------------|
| Face to face training sessions                      | Face to face        | As required            | By arrangement   | All                           |
| Staff meetings                                      | Face to face        | As required            | By arrangement   | All                           |
| Administration procedure guide                      | Internally provided | As and when required   | By email, paper based  | All                           |
| Attendance at seminars                              | Externally provided | As and when advertised | By email, paper based  | All                           |
| Software User Group meetings                        | Face to face        | quarterly              | By email, paper based  | Senior Pension Administrators |
| Regional Officer group meetings                     | Face to face        | quarterly              | By email, paper based  | Pensions/Assistant Manager    |
| Regional Group Training sessions                    | Face to Face        | As and when required   | By email, paper based.                                       | All Pension Administrators    |
| National Communication Working Group meetings       | Face to Face        | Quarterly              | By email, paper based  | Employer Liaison Officer      |
| Encourage attainment of professional qualifications | Externally provided | As requested           | By email, paper based or attending external training courses | All                           |

## Explanation of communications

Face to face training sessions – which enable new staff to understand the basics of the scheme, or provide more in-depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme and software updates

Staff meetings – to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meetings – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements.

Regional Officer Group meetings – quarterly meetings with senior officers from other South West local authorities to discuss administration matters including, latest government guidance and other topical issues.

Regional Group Training sessions – regular meetings with officers from other South West local authorities to discuss specific administration procedures.

National Communications Working Group – regular national meetings with communication officers from other pension funds to discuss communication matters including latest Government guidance and other topical issues.

Encourage attainment of professional qualifications – external courses available to enhance general pensions knowledge and assist with career grade position.

## Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme
- to provide assurance that the fund is being administered and governed in accordance with statutory requirements.

# Regulatory statements Communication Policy Statement

Our objectives will be met by providing the following communications:

| Method of communication          | Media   | Frequency of issue    | Method of distribution      | Audience group  |
|----------------------------------|---|-----------------------|-----------------------------|-----------------|
| Pension Fund Report and Accounts | Website                                       | Annually              | Website                     | All, on request |
| Pension Committee Papers         | Paper based and on Cornwall Council's website | As and when available | Website, email or hard copy | All, on request |
| Local Pension Board Papers       | Paper based and on Cornwall Council's website | As and when available | Website, email or hard copy | All, on request |
| Scheme Advisory Board            | Website                                       | As and when available | Email                       | All, on request |

## Explanation of communications

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

Local Pension Board Papers – a formal document setting out the matters to be reviewed in respect of the LGPS and seeking specific assurances or directions from the Board members.

Scheme Advisory Board – a statutory body established to assist both the Government and Local Pension Boards in promoting best practice, increasing transparency and coordinating technical issues in the LGPS.

## Policy on communication with the media

Our objectives with regard to communication with the media are:

- to ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme
- to provide assurance that the Fund is being administered and governed in accordance with statutory requirements.

Our objectives will be met by providing the following communications:

| Method of communication    | Media                           | Frequency of issue                     | Method of distribution      | Audience group  |
|----------------------------|---------------------------------|--|-----------------------------|-----------------|
| Press releases             | Paper based or electronic       | As and when required for other matters | Website, email or hard copy | Local press     |
| Local Pension Board Papers | Paper based and pension website | As and when available                  | Website, email or hard copy | All, on request |
| Scheme Advisory Board      | Website                         | As and when available                  | Email                       | All, on request |
| Pension Committee papers   | Paper based and pension website | As and when available                  | Website, email or hard copy | All, on request |

## Explanation of communications

Press releases – provide statements setting out the Fund's opinion of the matters concerned (i.e . . . Fund valuation results)

Local Pension Board Papers – a formal document setting out the matters to be reviewed in respect of the LGPS and seeking specific assurances or directions from the Board members.

Scheme Advisory Board - a statutory body established to assist both the Government and Local Pensions Boards in promoting best practice, increasing transparency and coordinating technical issues in the LGPS.



## Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's Additional Voluntary Contribution (AVC) scheme

Our objectives will be met by providing the following communications:

| Method of communication  | Media                   | Frequency of issue                         | Method of distribution | Audience group  |
|--|-------------------------|--|------------------------|---|
| Pension Fund valuation reports:<br>• Rates & Adjustment certificates<br>• Revised R&A certificates<br>• Cessation valuations | Paper based/Electronic  | Every three years or as required           | Website, post or email | Ministry of Housing, Communities and Local Government (MHCLG)/Her Majesty's Revenue and Customs HMRC/all scheme employers |
| Details of employers exiting the Fund  | Electronic              | As each employer exits the Fund            | Email                  | Exiting employer  |
| Details of new employers entered into the Fund   | Hard copy               | As new employers are entered into the Fund | Post                   | MHCLG/HMRC/ Pensions Regulator  |
| Formal resolution of pension disputes  | Hard copy or electronic | As and when a dispute requires resolution  | Via email or post      | Scheme member or their representatives, the Money and Pensions Service/the Pensions Ombudsman                             |
| Completion of questionnaires and/or consultations  | Electronic or hard copy | As and when required                       | Via email or post      | MHCLG/HMRC/ Pensions Regulator  |
| Additional Voluntary Contribution (AVC) Annual Benefit statements  | Paper based             | Annually                                   | Post to home address   | Scheme member   |

### Explanation of communications

Pension Fund Valuation Reports – a report issued every three years containing the Rates & Adjustment (R&A) Certificate setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date.

Details of employers exiting the Fund - Cessation valuation detailing any surplus or deficit where an employer ceases to participate in the pension fund.

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Formal Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires/consultations – various questionnaires that may be received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund. Consultations on proposed changes to LGPS Regulations.

AVC Annual Benefit statements – statements received from insurance companies, information loaded onto administration database and paper copy forwarded to scheme member.

# Regulatory statements Communication Policy Statement

## Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

### Timeliness

We will measure against the following target delivery timescales:

| Communication                            | Audience   | Statutory delivery period                           | Target delivery period   |
|--|--|---|--|
| Summary Scheme booklet                   | New joiners to the LGPS                            | Within two months of joining                        | Within four weeks of receiving notification from scheme employer             |
| Annual Benefit Statements as at 31 March | Active and deferred members                        | 31 August each year                                 | 31st August each year  |
| Telephone calls                          | All  | Not applicable                                      | 95% of phone calls to be answered within 30 seconds                          |
| Issue of retirement benefits             | Active and deferred members retiring               | Within two months of retirement                     | 95% of retirement benefits to be issued within 10 working days of retirement |
| Issue of deferred benefit details.       | Leavers  | Within two months of withdrawal                     | Within one month of receiving notification.                                  |
| Transfers in                             | Joiners/active members                             | Within two months of request                        | Within one month of request  |
| Issue of forms i.e. expression of wish   | Active/Deferred/Pensioners members                 | N/A   | Within five working days of request  |
| Changes to scheme rules                  | Active/deferred and pensioner members, as required | Within two months of the change coming into effect  | Within two months of change coming into effect                               |
| Annual Pension Fund Report and Accounts  | All  | Accounts by 31 July and Annual Report by 1 December | On or before these dates.  |
| Breaches of HMRC Annual Allowance        | All  | 6 October each year                                 | 6 October each year  |
| Reporting specific events to HMRC        | All  | 31 January following scheme year end                | 31 January following scheme year end   |

### Quality

| Audience                    | Method  | To consider   | Notes  |
|-----------------------------|---|---|--|
| Active and deferred members | Feedback from annual benefit statements   | All services  | -  |
| All member types            | Administration software performance statistics based on completion of specific tasks and procedures | Performance targets achieved for each specific administration procedure | Procedure performance figures obtained for various benefit calculations i.e.:<br>retirements<br>new starts and transfers in<br>transfers out<br>deferred leavers |
| All member types            | Pensions Committee and Local Pension Board meeting on quarterly basis                               | All services and identify improvement areas/new services                | Representative group of all member types.  |
| Employers                   | Training sessions, presentations and Annual General Meeting   | Their issues  | Regular feedback sessions.   |

### Results

Details of the software performance figures are reported on a monthly basis and are reviewed by the Pensions and Assistant Pensions Administration Manager. Feedback is received from the Head of Pensions, Treasury & Technical.

### Review Process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk) and paper copies will be available on request.

## Appendix 1

### Administration Strategy

#### 1. Introduction and background

- 1.1. This is the Pension Administration Strategy Statement for the Cornwall Pension Fund (“the Fund”) which has been developed following consultation with employers in the Fund. The aim of the strategy is to ensure both the Administering Authority and the employers are fully aware of their responsibilities under the Scheme, and to outline the performance standards they are expected to meet to ensure the delivery of a high-quality and cost-effective administration service. More detailed objectives of this strategy document are set out in Section 4.
- 1.2. Cornwall Council (the “Administering Authority”) is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). The Fund comprises over 130 employers with active members, and approximately 50,000 scheme members (including active members, deferred and pensioner members).
- 1.3. Delivery of a high quality administration service is not the responsibility of one person or organisation, but rather of a number of different parties, who between them are responsible for delivering the pensions administration service to meet the diverse needs of the membership.

#### 2. Implementation

- 2.1. This Strategy Statement was approved by the Pensions Committee in December 2018. It is effective from 1 January 2019.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date above. The statement sets out the expected levels of performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

In preparing this Strategy we have consulted with the relevant employers and other persons considered appropriate.

We will review the Strategy to ensure it remains up to date and meets the necessary regulatory requirements at least every three years.

The Strategy will be available on our website at:  
<https://www.cornwallpensionfund.org.uk>

- 2.2. Any enquiries in relation to the day to day administration of the Fund should be sent to:  
Cornwall Pension Fund  
Fourth Floor, South Wing  
County Hall  
Truro  
TR1 3AY  
Email: [pensions@cornwall.gov.uk](mailto:pensions@cornwall.gov.uk)  
Phone: 01872 322322

- 2.3. However, if you have an enquiry about the principles or content of this Strategy, please contact Matt Allen, Employer Liaison Officer:  
Cornwall Pension Fund  
Fourth Floor, South Wing  
County Hall  
Truro  
TR1 3AY  
Email: [matthew.allen@cornwall.gov.uk](mailto:matthew.allen@cornwall.gov.uk) or  
[pensions@cornwall.gov.uk](mailto:pensions@cornwall.gov.uk)  
Phone: 01872 323563 or 01872 322322

#### 3. Regulatory Basis

- 3.1. The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 (as amended) provide the conditions and regulatory guidance surrounding the production and implementation of an Administration Strategy.
- 3.2. In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:
  - Local Government Pension Scheme Regulations;
  - Pensions Act 2011 and associated disclosure legislation;
  - Freedom of Information Act 2000;
  - Equality Act 2010;
  - Data Protection Act 2018;
  - Finance Act 2013; and
  - Relevant Health and Safety legislation.
- 3.3. In particular, regulations 72, 73, 74, 75 and 80 of Local Government Pension Scheme Regulations 2013 require the following:
  - 3.3.1. Employer Responsibilities:
    - To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is entitled to any benefit under the scheme) as soon as is reasonably practicable

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- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including as a minimum by the end of June each year the following information in relation to any person who has been an active member of the scheme in the previous year:
  - name and gender
  - date of birth and national insurance number
  - a unique reference number relating to each employment in which the employee has been an active member
  - in respect of each individual employment during that year:
- the dates during which they were a member of the scheme
- the normal pensionable pay received and employee contributions paid
- the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
- Full Time Equivalent pay for pre April 2014 service
- the normal employer contributions paid
- any additional employee or employer contributions paid
- any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)

## 3.3.2. Administering Authority Responsibilities:

- To decide the amount of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are

calculated and information about their internal dispute resolution procedure

- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

3.4. Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement (“the pension administration strategy”) to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
  - (i) the setting of performance targets;
  - (ii) the making of agreements about levels of performance and associated matters; or
  - (iii) such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer’s unsatisfactory performance in carrying out

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its functions under the LGPS Regulations when measured against the desired levels of performance.

- The publication by the Administering Authority of annual reports dealing with -
  - (i) the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and
  - (ii) such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

3.5. Regulation 59(2) (e) allows an Administering Authority to recover additional costs from an employer where, in its opinion, they are directly related to the poor performance of that employer. Where this situation arises the Administering Authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

3.6. In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of the Fund's employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult the employers and such other persons as it considers appropriate.

3.7. Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

3.8. This statement, therefore, sets out the information required in accordance with regulation 59 and forms the basis of the day to day relationship between Cornwall Council as the Administering Authority and the employers of the Fund. It also sets out the circumstances where additional costs will be incurred as a result of the poor performance of an employer, together with the steps that would be taken before any such costs arose.

## 4. Our Administration Aims and Objectives

4.1. The purpose of this strategy statement is to set out the quality and performance standards expected of Cornwall Council in its role of Administering Authority and its separate role

as employer, as well as all other employers within the Fund. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the employers and the Administering Authority. Our key objectives relating to administration are as follows;

- Provide a high quality, seamless, informative, timely and customer focused administration service to the Fund's stakeholders.
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately, with the focus on a 'digital first' approach.
- Be accountable and take responsibility for our actions.
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.
- Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.
- Maintain accurate records and ensure data is protected and has authorised use only.
- Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.

4.2. Our separate Communications Policy has a number of specific objectives relating to how we communicate with our stakeholders. This is available on our website: <https://www.cornwall.gov.uk/jobs-and-careers/cornwall-pension-fund/investments/regulatory-statements/>

## 5. Communication

5.1 Good communication reminds, or alerts, employees to the value of the LGPS which aids recruitment, retention and the motivation of the workforce and negates misleading media information. Effective communication between an Administering Authority and its Fund employers reduces errors, improves efficiency and leads to good working relationships.

5.2 Where areas of improvement are identified from benchmarking or performance monitoring as indicated in the above section, our Employer Liaison Officer (see below) will be responsible for working closely with the employers in improving the identified weaknesses.

5.3 As part of the review process any new procedures or practices introduced will be kept under review to monitor achievement.



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## 5.4 Communication with Employers

### 5.4.1 Employer key contact officers and meetings

Each employer in the Fund will designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer will ensure they keep the Administering Authority aware of the contact details for that person.

Our Employer Liaison Officer will contact, and where relevant, meet with the employer key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the Administering Authority. Meetings will be arranged if necessary (particularly if specific issues around the performance of the employer arise). The contact details for the Employer Liaison Officer are shown on page 139.

### 5.4.2 Employer Guidance

The Employer Guidance will be maintained on the Cornwall Pension Fund website. It will outline all the key responsibilities and processes that must be carried out by each employer as well as specifying the format of all information to be provided. An e-mail will be issued to all employers when this guidance is updated, and all new employers will be provided with a link to this guidance when they join the Fund.

### 5.4.3 Newsletters

In addition to the employer guide, the Fund will also issue a periodic newsletter to employers, bringing to their attention areas of performance or quality where improvements were identified and the steps taken to address them. They will also include information relating to changes to scheme rules and employer procedures or responsibilities associated with them. These will be issued by e-mail as and when required.

### 5.4.4 Email Updates

Other information and procedural requirements, such as the annual year-end procedures, will be disseminated by e-mail.

### 5.4.5 Training sessions

The Fund will provide training to scheme employers as and when required or on request from the scheme employer. All new employers in the Fund will also be provided with training. Employers will be expected to attend any such training, particularly where significant performance issues have been identified.

### 5.4.6 Employer forums

The Fund will host an employer forum periodically to which all employers will be invited. The forum will include updates on recent developments within the LGPS or pensions generally, as well as to report and review the performance of the Pension Fund.

### 5.4.7 Employer specific events

The Pension Administration Team will also be happy to attend any employer specific events to assist employers to understand their responsibilities.

## 5.5 Information for Scheme Members:

### 5.5.1 Website

The Fund's website [www.cornwallpensionfund.org.uk](http://www.cornwallpensionfund.org.uk) contains information about the Fund and the LGPS. More detailed information can be obtained at [www.lgpsmember.org](http://www.lgpsmember.org)

### 5.5.2 Member Self Service

It is intended to introduce an on-line self-service facility throughout 2019, which will give members a more intuitive access to their own pension records, and this 'digital first' initiative should eventually result in fewer enquiries being dealt with by the Pension Administration Team, as members resolve many issues themselves.

### 5.5.3 Annual Benefit Statements

These statements are sent annually to all active and deferred scheme members. These are posted directly to members.

### 5.5.4 Newsletters

The Fund also issues a periodic newsletter to scheme members, bringing to their attention information such as changes to scheme rules. These are usually issued with annual benefit statements.

### 5.5.5 Individual Scheme member meetings

One to One meetings are available with a member of the Pension Administration Team as required at Cornwall Council offices.

### 5.5.6 Pension Presentations

Presentations are given to staff, managers, new employees etc. on pension related matters including as part of induction and pre-retirement sessions on request.

### 5.5.7 Helpline and email

Scheme members can contact the Pension Administration Team directly using the following contact details:

Email: [pensions@cornwall.gov.uk](mailto:pensions@cornwall.gov.uk)

Telephone helpline: 01872 322322

## 6 Delivery of Administration

- 6.1. Cornwall Council has delegated responsibility for the management of the Pension Fund to the Pensions Committee. The Pensions Committee has delegated some responsibilities to the Chief Operating Officer. Full details are set out in the Governance Policy Statement on our website <https://www.cornwall.gov.uk/jobs-and-careers/cornwall-pension-fund/investments/regulatory-statements/>
- 6.2. Operationally, the administration of the Fund is undertaken 'in-house' within Cornwall Council. Most LGPS administering authorities provide the administration service from internal teams, although some have outsourced (or partially outsourced) their administration, and some utilise shared service administration arrangements across more than one Fund. At this point in time, Cornwall Council believes in-house administration is the most appropriate method for ensuring the objectives of the Fund are met.

## 7 Performance Standards and Responsibilities

### 7.1. Quality

#### 7.1.1. Local Standards

The legislative and regulatory standards are set out in Section 3. On top of these, the Administering Authority and employers will ensure that all functions/tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer guide
- information to be provided in the required format and/or on the appropriate forms contained within the employer guide and on our website
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy document.

#### 7.1.2. Secure data transfer

The Administering Authority and employers will follow Cornwall Council's data security guidelines when sending any personal data. This means that if data is sent by email it should be sent using a secure system such as Egress or Cryptshare and

if this is not possible the data should be sent encrypted using Winzip or equivalent, with the password supplied separately.

#### 7.1.3. Oversight of Compliance and Quality

Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. However there are ways in which they will be subject to elements of scrutiny or oversight:

**Audit** - The Fund will be subject to a regular annual audit of its processes and internal controls. The Administering Authority and the employers will be expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by Cornwall Council and where appropriate duly implemented (following discussions with employers where necessary).

Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator – The Public Service Pensions Act 2013 introduced greater oversight through these entities. As a result the Local Pension Board of the Cornwall Pension Fund was established in July 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made by any of these entities will be considered by the Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

#### 7.2. Timeliness and accuracy

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. Locally agreed performance standards have been agreed which cover all aspects of the administration of the scheme, where appropriate going beyond the overriding legislative requirements.

For the avoidance of doubt "accuracy" in this Strategy is defined as when we have received a completed form or transfer of information with no gaps in mandatory areas and with no information which is either contradictory or which we need to query.

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The target service standards below relate to a date of event being either the date the member started or left the Fund, or when relevant details changed such as commencing a period of long term absence. However where information is required in order to carry out that responsibility, the target service standard is from the date of receipt of all relevant information.

These locally agreed performance standards for the Fund are set out in the following tables. This table isn't an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the Employers' Guide. Target standards shown in **bold italics>** will be monitored and reported on.

| New Appointments   |   |
|--|---|
| Employer's responsibility  | Target Service Standard   |
| To ensure that pensions information is included as part of any induction process   | As required   |
| To provide each new employee with basic scheme information   | Within one month of start date  |
| Administering Authority's Responsibility   |   |
| To provide employers (on request) with appropriate information for inductions  | Within 10 working days of request   |
| New Scheme Members   |   |
| Employer's responsibility  | Target Service Standard   |
| Provide new members with Election form   | Within 10 working days of start date  |
| Decide and ensure the correct employee contribution rate is applied  | Immediately on joining in line with employer's policy, and each April thereafter (as a minimum) |
| Send a Notification of Joining the LGPS to a scheme member   | Within 10 working days of start date  |
| Provide new starter information to the Administering Authority for each new employee joining the LGPS. Where there is more than one contract of employment with the same employer, separate notifications of those employments will be required. | Within 1 month of start date  |
| Forward completed New Entrant and Election forms completed by scheme members to the Administering Authority  | Within 5 working days of receipt  |
| Administering Authority's Responsibility   |   |
| Provide new members with scheme guides   | Within 2 months of start date   |
| To accurately record and update member records on the pension administration system  | Within 5 working days of receipt of data  |
| To apply for any transfer value details from a previous fund or scheme   | Within 5 working days of receipt of request   |
| To send a Notification of Joining the LGPS to a scheme member for an in-house payroll  | Within 20 working days of receipt of data from employer   |
| To send a Notification of Joining the LGPS to a scheme member for an external payroll  | Within 10 working days of receipt of data from employer   |
| Changes in circumstances   |   |
| Employer's responsibility  | Target Service Standard   |
| Arrange for reassessment of employee contribution rate in line with employer's policy  | If applicable, as per employer's policy   |
| Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.   | Within 10 working days of receipt of opt-out form   |
| Send a Notification of Change (or equivalent) if legally required to a scheme member   | Within 20 working days of change  |
| Notify the Administering Authority of all other relevant changes in the circumstances of employees   | Within 1 month of change  |
| Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.   | Month following the month of election   |
| Notify the Fund of any periods of unpaid leave   | Within 1 month of the member returning to work  |
| Administering Authority's Responsibility   |   |
| To accurately record and update member records on the pension administration system  | Within 15 working days of receipt of data   |
| To send a Notification of Change (or equivalent) if legally required   | Within 15 working days of receipt of data   |

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## Retirement Estimates (including ill-health)

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>   |
|--|--|
| Notify the Fund when a member is due to retire, including as accurate assessment of final pay as possible and reason for retirement (ensuring authorisation and available discretionary power where appropriate) | As early as possible and no later than 15 working days before date of retirement |
| <b>Administering Authority's Responsibility</b>  |  |
| <b><i>Providing quotations on request for retirements within 12 months of request</i></b>  | <b><i>Within 20 working days of request</i></b>                                  |
| Providing provisional statement of retirement benefits for deferred members  | 2 months before normal retirement date   |

## Actual Retirements (including ill-health)

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>   |
|--|--|
| Notify the Fund when a member leaves employment, including an accurate assessment of final pay   | Within 20 working days of leaving  |
| Send a Notification of Entitlement of Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable) | No later than 10 working days before date of retirement  |
| <b>Administering Authority's Responsibility</b>  |  |
| To accurately record and update member records on the pension administration system  | Within 10 working days of receipt of data  |
| <b><i>Notification of amount of retirement benefits and payment of tax free cash sum</i></b>   | <b><i>Within 10 working days of receipt of fully completed claim forms from member or date of leaving whichever is later</i></b> |
| Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information                    | Within 10 working days of receipt of information   |

## Ill-Health Retirements (additional responsibilities)

| <b>Employer's responsibility</b>  | <b>Target Service Standard</b>                           |
|---|--|
| Appoint a qualified independent medical practitioner in order to consider all ill health retirement applications, and agree this appointment with the Fund. | Within one month of becoming an employer within the Fund |
| To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months   |  |
| Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate information to allow the Fund to recalculate benefits if necessary | Within 5 working days of receiving results of review     |
| Send a Notification of Entitlement of Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits          | Within 5 working days of receiving results of review     |
| <b>Administering Authority's Responsibility</b>   |  |
| To notify employers prior to scheduled discontinuation of benefit payments, and before updating the member records to "pensioner with deferred benefits".   | 3 months prior to scheduled discontinuation date         |

## Members leaving before retirement

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>               |
|--|--|
| Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.  | Within 10 working days of leave date         |
| <b>Administering Authority's Responsibility</b>  |  |
| To accurately record and update member records on the pension administration system  | Within 10 working days of receipt of data    |
| To inform members who leave the scheme (and are not eligible for immediate benefits) of their options and their deferred benefit or refund entitlement as applicable | Within 20 working days of receipt of data    |
| Provide a refund of contributions where requested  | Within 20 working days of receipt of request |
| Provide a statement of current value of deferred benefits on request   | Within 10 working days of receipt of request |

# Appendix

## Members leaving before retirement

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>               |
|--|--|
| Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.  | Within 10 working days of leave date         |
| <b>Administering Authority's Responsibility</b>  |  |
| To accurately record and update member records on the pension administration system  | Within 10 working days of receipt of data    |
| To inform members who leave the scheme (and are not eligible for immediate benefits) of their options and their deferred benefit or refund entitlement as applicable | Within 20 working days of receipt of data    |
| Provide a refund of contributions where requested  | Within 20 working days of receipt of request |
| Provide a statement of current value of deferred benefits on request   | Within 10 working days of receipt of request |

## Death Benefits

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>                                       |
|--|--|
| Notify the Fund of the death of a member and provide details of next of kin where available              | Within 5 working days of notification                                |
| <b>Administering Authority's Responsibility</b>  |  |
| Write to next of kin or other contact requesting information following the death of a scheme member      | Within 10 working day of notification                                |
| <b>Calculate and notify dependant(s) of amount of death benefits</b>                                     | <b>Within 10 working days of receipt of all relevant information</b> |
| <b>Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed</b> | <b>Within 10 working days of receipt of all relevant information</b> |

## Transfers

| <b>Employer's responsibility</b>  | <b>Target Service Standard</b>  |
|---|---|
| Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged. | Initial notification within 5 working days of becoming aware of potential outsourcing |
| <b>Administering Authority's Responsibility</b>   |   |
| Liaise with new provider to arrange admitted body status  | Within 5 working days of receipt of notification from scheme employer.                |
| <b>Obtain transfer details for transfer in, and calculate and provide quotation to member</b>   | <b>Within 20 working days of receipt of information</b>                               |
| Request transfer value upon acceptance of transfer in   | Within 10 working days of receipt of acceptance                                       |
| <b>Notify scheme member of benefits purchased by transfer in on receipt of payment</b>  | <b>Within 10 working days of receipt of payment</b>                                   |
| Provide details of transfer value for transfer out, on request  | Within 20 working days of receipt of request  |
| Provide payment of transfer value to appropriate recipient.   | Within 10 working days of receipt of payment request                                  |

## Additional Benefits (APCs and AVCs)

| <b>Employer's responsibility</b>   | <b>Target Service Standard</b>    |
|--|-----------------------------------|
| Commence, cease or amend (as appropriate) deduction of APCs and AVCs       | In month following election       |
| <b>Administering Authority's Responsibility</b>                            |                                   |
| To provide information on APCs / AVCs on request to members and employers. | Within 10 working days of request |



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| Various Financial Obligations   |   |
|---|---|
| Employer's responsibility   | Target Service Standard   |
| Electronically pay the Fund all employee contributions deducted from payroll and all employer contributions.  | By 22nd of the month following the month in which contributions were deducted from pay. |
| Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.  | Within 20 working days from receiving invoice   |
| Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer   | Within 20 working days from receiving invoice   |
| Administering Authority's Responsibility  |   |
| To allocate the received contributions to each employer's cost centre   | Within 5 working days of receipt of contributions                                       |
| Issue invoice in relation to additional fund payments in relation to early payment of benefits  | Within 10 working days of retirement date (or information being received if later)      |
| Inform the employers of any new contribution banding  | Within 5 working days of receipt of information   |
| Notify member of calculation and new value of pension following annual pensions increase  | No later than 2 working days after payment of revised pension                           |
| Annual Return, Valuation and Annual Benefit Statements  |   |
| Employer's responsibility   | Target Service Standard   |
| Provide the Fund with year-end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements. | By 30 April annually  |
| Administering Authority's Responsibility  |   |
| Process employer year end contribution returns  | Within 2 months of receipt of data  |
| <b><i>Produce annual benefit statements for all active and deferred members.</i></b>  | <b><i>By 31 August each year in line with LGPS regulations timescales</i></b>           |
| Provide information to the Actuary (or GAD as appropriate) for both the actuarial valuation and for accounting purposes.  | As agreed between the Fund and the Actuary.   |
| Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.                              | Within 5 working days of receipt of report  |

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| General   |  |
|---|--|
| Employer's responsibility   | Target Service Standard  |
| Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation. | By effective date of admission to the Fund or within 5 working days of previous representative leaving                                       |
| Formulate, publish and review policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.                  | Within 3 months of joining the Fund and also provided to Administering Authority every 3 years   |
| Respond to enquiries from the Fund.   | Within 10 working days of receipt  |
| Distribute any information provided by the Fund to members / potential members  | Within 10 working days of receipt  |
| Put in place a Stage 1 Internal Dispute Resolution Procedure  | Within 3 months of joining the Fund and before the effective date of any change to the existing procedure (e.g. an appointed person leaving) |
| Administering Authority's Responsibility  |  |
| Arrange for the setting up of an admission agreement where required   | Within 3 months of all information being provided  |
| Publish and keep up to date the Scheme Members' Guide and Employers' Procedural Guide.  | Updates made within 20 working days of any legislation changes   |
| Publish and keep up to date all forms that members, prospective members and employers are required to complete.                                   | Updates made within 10 working days of any legislation changes   |
| Publish the Fund's annual report and accounts and any report from the auditor   | By 1 December annually   |
| Provision of other responses to general enquiries from scheme members and employers   | Within 10 working days of receipt  |
| Put in place a Stage 1 Internal Dispute Resolution Procedure  | Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)   |
| Put in place a Stage 2 Internal Dispute Resolution Procedure  | Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)   |

| Pension Payments  |  |
|---|--|
| Employer's responsibility   | Target Service Standard                          |
| Issue pension payments to designated bank accounts  | To arrive on payment due date                    |
| Issue payslips to home addresses where net pension payment varies by more than £5 from the previous month | Posted so as to arrive on the payment due date   |
| Investigate returned payments and action appropriately  | Within 10 working days of payment being returned |
| Respond to pensioner queries in writing   | Within 10 working days of receipt                |
| Implement a change to pension in payment  | By next payroll period                           |

For the avoidance of doubt, date of receipt of anything by the Administering Authority is deemed to be the same day where receipt is before 5pm and is deemed to be the following day when receipt is after 5pm.

## 8. Improving Employer Performance (Where Necessary)

8.1. The Employer Liaison Officer will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

8.2. Where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, the following sets out the steps we will take in dealing with the situation in the first instance:

- The Employer Liaison Officer will write to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance.
- The Employer Liaison Officer will meet with the employer to discuss the area(s) of poor performance and how they can be addressed.
- Where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, the Employer Liaison Officer will consult with the

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Head of Pensions and if considered appropriate, will issue a formal written notice to the employer setting out the area(s) of poor performance that has been identified, the steps taken to resolve those area(s) and giving notice that the additional costs may now be reclaimed.

- The Employer Liaison Officer will clearly set out the calculations of any loss or additional costs resulting to the Fund / Administering Authority, taking account of time and resources in resolving the specific area of poor performance; and
- The Fund will make a claim against the employer, setting out the reasons for doing so, in accordance with the Regulations.
- The employer will be offered the option of attending a specific training course hosted by either the Administering Authority or an external organisation in order to improve performance, as an alternative to paying any financial penalty.
- The Fund will consider whether a material breach has occurred which requires a report to The Pensions Regulator.

## 8.3. Circumstances where the Administering Authority may levy costs associated with the employer's poor performance

Cornwall Pension Fund will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. Cornwall Pension Fund will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost;
- The amount the Administering Authority has determined the employer should pay;
- The basis on which this amount was calculated; and
- The provisions of the pension administration strategy relevant to the decision to give notice.

Any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance will be recovered from the employer. The circumstances where we will

recover such additional costs from the employer include:

- persistent failure to provide relevant information to the Administering Authority, scheme member or other interested party in accordance with specified performance targets (as a result of either quality of information, format of information or timeliness of delivery)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body.
- Payment of contributions by cheque rather than electronic transfer unless otherwise agreed by the Administering Authority

In addition, interest will be charged on late contributions in line with the LGPS Regulations.

## 8.4. Calculation of costs incurred

For a persistent failure to resolve an isolated case satisfactorily we will recharge costs from the point in time at which a formal letter is written to the employer until the case is resolved, at a rate of £100 for each hour an officer spends trying to resolve the matter, exclusive of VAT.

For persistent and ongoing failure to meet targets, following the intervention to assist the employer concerned, we will recharge the additional costs due to the employer's unsatisfactory performance at the rate of £100 per hour spent, exclusive of VAT, from the point in time that the formal letter was sent, until performance improves.

For payment of contributions by cheque, unless otherwise agreed by the Administering Authority, the Fund will charge £50 plus VAT per cheque processed.

Where the performance of the employer results in fines or additional costs being levied against the Fund we will recharge the full costs it has incurred to the relevant employer.

All such costs or fines will be levied against the scheme employer, even where the fault may lie with an external provider appointed by the scheme employer.

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## 9. Performance Measures And Improvement Plans

We will monitor performance as Administering Authority in carrying out our responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking

clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time. We will monitor success against our administration objectives in the following ways:

| Objectives   | Measurement  |
|--|--|
| Provide a high quality, seamless, informative, timely and customer focused administration service to the Fund's stakeholders.  | Key target service standards (highlighted in table above) achieved in 90% of cases*.<br>Annual satisfaction surveys with employers and random scheme members achieving 80% of scores in positive responses in these areas.               |
| Administer the Fund in a cost effective and efficient manner utilising technology appropriately.   | Cost per member is not in upper quartile when benchmarked against other Councils.  |
| Be accountable and take responsibility for our actions   | Annual satisfaction surveys with employers and scheme members achieving 80% of scores in positive responses in these areas.  |
| Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund. | Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months.<br>Key target service standards (highlighted in table above) achieved in 90% of cases*.                                |
| Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.  | Mainly positive results in audit and other means of oversight/scrutiny.<br>Key target service standards (highlighted in table above) achieved in 90% of cases*.  |
| Maintain accurate records and ensure data is protected and has authorised use only.  | Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months<br>No breaches of data security protocols<br>Mainly positive results in audit and other means of oversight/scrutiny |
| Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.   | As outlined against the objectives above.  |

\*We also expect employers to meet targets in 90% of cases.

An overview of our performance against these objectives and in particular our target standards for turnaround times will be reported within the Fund's annual report and accounts.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan which will be incorporated into the Fund's annual Business Plan. This will be reported to the Fund's Pensions Committee together with an ongoing update on achievement against the improvement plan.

## 10. Key Risks

The key risks to the delivery of this Strategy are outlined below. The Head of Pensions, the Pensions Administration Manager and the Pension Investment Officer will work with the Pensions Committee in monitoring these and other key risks and considering how to respond to them.

- Changes in government / legislative requirements meaning responsibilities are changed / removed / added
- The administration system provider not providing a robust system or not making changes to the system in a timely manner
- Key staff at the Administering Authority leaving and not being replaced with staff with similar experience, and without appropriate transitional handover
- Pensions staff not having suitable resource and/or knowledge to undertake their responsibilities
- Employers not having suitable resource and/or knowledge to understand their responsibilities
- Government or other pressure to outsource or merge pension teams
- Employers not accepting or being aware of their responsibilities in relation to the Fund
- Lack of engagement by the Pensions Committee on administration matters

If you would like this information in another format or language please contact:

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