CHESHIRE PENSION FUND

Annual Report
2018-19

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Introduction

Welcome to the Annual Report of the Cheshire Pension Fund for the year ending 31st March 2019

The Fund's investment agenda this year has once again, been dominated by pooling, following the successful launch of LGPS Central on 1st April 2018. During the year the Fund has worked with its LGPS Central partners, and the jointly owned pool company (LGPS Central Ltd) to develop a transition plan and timetable to transfer collective assets of around £40 billion to a shared investment platform. The scale and complexity of the exercise is proving as challenging as expected, but in February 2019, the Fund successfully completed an initial transfer of £250m from its active equity portfolio to LGPS Central's Global Active Equities pooled sub-fund.

Subsequently, the Pension Fund Committee also agreed to transfer £460m to LGPS Central's low carbon passive index fund, and earmarked a further £125m for joint investment with LGPS Central partners, in a Sustainable Equity Fund; reflecting the Fund's continuing commitment to long term, sustainable investment.

The fundamental objective of pooling is to deliver reduced costs and improved value through scale economies, sharing of costs and expertise and improved efficiency. In line with these objectives, and national guidance issued by CIPFA, this year's Annual Report includes additional information relating to the costs and savings associated with pooling, which will be updated annually as transition progresses.

Economic uncertainty both in the UK and globally, caused significant market volatility during the year, but the Fund continued to perform well with a total return for the year of 5.5% compared to a benchmark return of 5.5%. The value of assets during the year rose from £5.3 billion to £5.6 billion as a consequence. There were no significant changes to the Fund's overall asset allocation or investment strategy .

There were also no changes to the membership of the Pension Fund Committee during the year, although a number of long standing members announced their intention to retire in the run up to the May 2019 local council elections. They will take with them many years of knowledge and experience which will be missed, but preparations are in hand to welcome and induct new members of the Committee during the summer of 2019.

The independent Chairman of the Local Pensions Board, along with employee representatives and council nominated employer representative were re-appointed during the year, having completed their first three years of office. The Board continued to provide invaluable support on a range of issues, and links were established with the Pension Boards of the other LGPS Central partner funds, which will help to support joint development and sharing of expertise going forward.

In the light of the Pension Regulator's 21st Century Trusteeship campaign and on-going national debate about governance arrangements across the LGPS, the Fund commissioned an independent review of its governance framework in the autumn of 2018. A number of improvement recommendations will be implemented over the next twelve months, but overall the review concluded that the current arrangements are effective and that there was no case for fundamental change. This positive outcome is testament to the hard work and commitment of all concerned; officers, committee and board members and the Fund's investment and actuarial advisers.

The 2018/19 Accounts set on pages 71-118 show that the Fund continues to be cash flow positive, after taking into account investment income of £34m. A small underspend was delivered against the administration budget, which continues to grow in line with scheme membership and employer participation.

The Benefits Team's key improvement priority for the year was data quality, both in response to increased scrutiny from the Pensions Regulator and the need to improve processing efficiency and reduce persistent casework backlogs. The introduction of monthly employer online returns from February 2019 is the critical driver here, and the Fund's Administration Strategy has been updated to reflect this. So far, the response from employers has been positive, with encouraging prospects for a successful roll-out programme over the next twelve months.

The introduction of monthly returns is just one element of an ambitious change and transformation programme which the Pensions Team launched last year, and which is continuing with the support of a full time programme manager. Planned developments in the next twelve months include the relaunch of the Fund's website, the introduction of a new client/employer relationship and engagement model, and the start of the journey towards member self-service. This is being underpinned by a systematic review of key business processes and investment in staff training and development.

Despite periods of economic volatility over the past year, funding level improvements achieved since the last valuation in 2016 have been sustained. The funding position at 31st March 2019 was 91%, compared to 90% at the end of 2016. This means that the Fund is well placed going into the 2019 valuation, and the actuary has already confirmed reductions in the employer contribution rates for the four council employers, based on initial modelling; with the outlook for other employers looking equally positive. This will provide some welcome relief for those employers who continue to face tight budgetary pressures and funding level reductions.

Once again, I'd like to thank everyone who has worked for, or with the Cheshire Pension Fund over the last twelve months for their support and continued commitment.

Mark Wynn
Chief Operating Officer
Cheshire West and Chester Council

Management and Financial Performance

Scheme Management and Advisors (as at 31 March 2019)

Administering Authority

Cheshire West and Chester Council
HQ, 58 Nicholas Street, Chester, CH1 2NP

Cheshire West and Chester Council Officers

Mark Wynn Chief Operating Officer

Vanessa Whiting and Karen McIlwaine
Director of Governance and Monitoring Officer (job share)

Pension Fund Committee

Councillor Myles Hogg
Cheshire West and Chester Council (Chairman)

Councillor Don Beckett
Cheshire West and Chester Council*

Councillor Brian Crowe Cheshire West and Chester Council*

Councillor Carol Gahan Cheshire West and Chester Council**

Councillor Liz Durham Cheshire East Council*

Councillor Paul Findlow Cheshire East Council

Councillor Geoff Baggott Cheshire East Council*

Councillor Sam Corcoran Cheshire East Council

Councillor Russ Bowden Warrington Borough Council**

Councillor Mike Wharton Halton Borough Council

Paul Matthews GMB

*Following elections of 2 May 2019 the above Councillors either retired or were not re-elected. New members joining the Committee have since been confirmed as:

Councillor Gareth Gould Cheshire West and Chester Council

Councillor Paul Williams Cheshire West and Chester Council

Councillor Carol Bulman Cheshire East Council

Councillor Amanda Stott Cheshire East Council

** For 2019/20 the following councillors have been re-elected however have been replaced on the Committee by:

Councillor Gina Lewis Cheshire West and Chester Council

Councillor Cathy Mitchell Warrington Borough Council

Local Pension Board members

Peter Raynes Chairman (Independent)

Councillor Robert Bisset Employer Representative (Cheshire West and Chester Council)

Adrienne Laing Employer Representative (Bridgewater High)

Geoff Wright Member Representative (UNISON)

Neil Harvey Member Representative (GMB)

Asset Pool Operator

LGPS Central Limited Mander House, Mander Centre, Wolverhampton WV1 3NB

Investment Managers

Adams Street Partners UK LLP
4th Floor, 75 Davies Street, London W1K 5JN

Arrowgrass Capital Partners LLP
3rd Floor, 10 Portman Square, Marylebone, London, W1H 6AZ

Baillie Gifford & Co
Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN

Blackstone
The Blackstone Group, 40 Berkeley Square, London, W1J 5AL

BlueBay Asset Management
77 Grosvenor Street, London, W1K 3JR

Darwin Property Investment Management Limited
11 New Street, St Peter Port, Guernsey, GY1 3EG

Janus Henderson Global Investors
201 Bishopsgate, London, EC2M 3AE

Legal & General Investment Management
One Coleman Street, London, EC2R 5AA

Lexington Partners UK LLP
42 Berkeley Square, London, W1J 5AW

M&G Investments
10 Fenchurch Avenue, London, EC3M 5AG

Pantheon Ventures (UK) LLP
10 Finsbury Square, 4th Floor, London, EC2A 1AF

Patrizia UK Ltd
166 Sloane Street, London, SW1X 9QF

Winton Capital Management
Grove House, 27 Hammersmith Grove, London W6 0NE

Custodian

BNY Mellon Asset Servicing
London Branch, One Canada Square, Canary Wharf, London, E14 5AL

AVC Providers

Scottish Widows (Clerical Medical prior to April 2017)
PO Box 902, 15 Dalkeith Road, Edinburgh, EH16 9AS

Equitable Life Assurance Society
PO Box 484, Walton Street, Aylesbury, Bucks, HP21 7WW

Standard Life
1 Baileyfield Cresent, Edinburgh, EH15 1ET

Actuary

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

Investment Advisor

Mercer
Belvedere, 12 Booth Street, Manchester, M2 4AW

Legal Advisor

Cheshire West and Chester Council
Director of Governance, HQ, Nicholas Street, Chester, CH1 2NP

Auditors

Grant Thornton
Audit and Assurance, Public Sector, Royal Liver Building, Liverpool, L3 1PS

Banker

Lloyds Bank plc
Chester Branch, Foregate Street, Chester, CH1 1XP

Scheme Administrator

Cheshire West and Chester Council
HQ, 58 Nicholas Street, Chester, CH1 2NP

Risk Management

Cheshire West and Chester Council's approach

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them.

Cheshire West and Chester Council are the Administering Authority for the Fund and have a statutory responsibility under the Accounts and Audit Regulations (England) 2015 to have arrangements in place for the management of risk.

The Council is responsible for ensuring that its business is conducted in accordance with the law and corporate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, members and senior officers are responsible for putting in place effective arrangements for the governance of the Council's affairs and the stewardship of resources at its disposal.

The Council has a formal risk management strategy with the following objectives:

- To further embed and integrate risk management into the Council's culture and day-to-day operations at both strategic and operational levels, as part of a sound system of corporate governance.
- To adopt a systematic, structured framework to the identification, assessment, evaluation, prioritisation and management of risks to which the Council is exposed, at all levels, in accordance with best practice.
- To ensure risks are considered and recorded in decision making processes at all levels within the Council via the maintenance of risk registers.

Pension Fund Risks

As part of the Finance service, the Pension Fund has a dedicated risk register which forms part of the Finance Service's Risk Register.

As part of the annual business planning process, the Pensions Leadership Team identifies the main risks that might prevent the Fund delivering its key objectives. These risks are categorised in the risk register against the Fund's long term strategic objectives in respect of:-

- Governance
- Administration
- Financial Sustainability

The risk register is regularly reviewed in light of new information and updated when necessary with new risks added and old risks removed. The Pension Fund Committee receives regular updates on the key risks facing the Fund.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and also the reputational, financial and resource impacts faced by the Fund if it were to occur.

Risks are then considered against a series of mitigations designed to reduce their likelihood and/or impact. Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

The following table summarises the highest scoring risks identified in setting the 2019/20 business plan, after taking into account mitigating actions and controls. Their status indicates that the current level of risk exposure exceeds the Fund's tolerance or risk appetite, and that, continued monitoring and / or further action may be required to avoid negative risk consequences.

Objective	Priority/ Outcome	Risk	Planned Action	Risk Status
Governance	**G1** LGPS Asset Pooling	Failure to successfully transition Fund assets to the LGPS Central investment pool and to realise planned savings and benefits in accordance with government criteria and planned timetable.	• Implement product development protocol to minimise delays in product launch. • Appoint specialist transition managers to extend skills and capacity. • Engage via Investment Working Group to influence the design of pooled offers in line with CPF strategic requirements. • Collaborate with partner funds to track costs and savings.	Amber
Governance	**G2** Transparent Performance reporting and compliance with best practice	Failure to improve the quality of data held by the Fund and clear backlogs of casework leading to poor customer service, errors in calculation benefits, delays in processing casework and failure to meet statutory disclosure resulting in regulatory penalties.	• Implement Monthly Interfacing to enable regular transfer of information from employers with on-line data validation. • Introduce exception reporting to identify missing and erroneous data and resolve queries. • Develop a suite of performance reports to monitor compliance with service standards set out in CPF Administration Strategy. • Extend automatic breach reporting to cover all casework processes.	Amber
Governance	**G3** Supported, empowered and enabled employers	Employers fail, or are unable to meet their responsibilities and achieve performance standards set out in the Fund Administration Strategy	• Develop employer performance 'dashboards' to highlight performance issues and introduce regular client relationship meetings to address. • Review employer training offer • Implement Employer self-serve.	Amber
Administration	**A1** Digitally enabled interaction, communication and self-serve. **A3** Secure and efficient transmission of high quality data. **G3** Supported, empowered and enabled employers	Failure to deliver Monthly Interfacing functionality and secure employer buy-in/engagement.	• Share feedback from early adopters to promote the benefits of Monthly Interfacing • Develop a staged on-boarding plan to maintain progress towards full roll-out of Monthly Interfacing. • Continue to engage with employers via the Pensions Consultative Forum to optimise solution design and delivery in line with user expectations. • Re-negotiate on-boarding plan for Cheshire West and Chester and Cheshire East in line with the revised timetable for financial systems replacement.	Amber
Administration	**A3** Optimal use of technology to support transmission of high quality data.	Lack of engagement from scheme members/employers and poorly informed decision making due to poor quality data and/or ineffective communication.	• Implement a Data Management Strategy to improve the quality of Fund data. • Implement validation checks on information provided by employers before uploading to the pensions database. • Standardise processes/introduce templates for the receipt of non-standard information from employers.	Amber
Financial Sustainability	**F4** Competitive and sustainable cost base	Failure to exploit opportunities presented by the Council's major change programmes to maximise operational efficiency in line with the timetable for the Fund's own major change programme.	• Establish a task group to resolve data mapping issues between the pension systems and administering authority payroll system, and design and implement a Pensions Increase solution to replace the legacy process. • Implement remote printing solution to allow the benefits of flexible and mobile working to be fully realised.	Red
All	**All**	Loss of key skills and expertise due to staff/electoral turnover leading to reduced capacity and delays in delivering key business objectives.	• Use CIPFA Knowledge & Skills Framework to update member and officer training plans. • Arrange induction training for new Pension Fund Committee members following May 2019 elections. • Introduce further career grade/apprenticeship posts.	Amber

Investment and Funding Risk

In addition to the service risks identified above, the Fund is also exposed to a range of specific investment and funding risks. These are explained in detail, along with the risk management measures the Fund has put in place, in Note 19 on page 100 of the Statement of Accounts.

The principal risks are:-

Market risk – the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads.

Valuation risk – the risk that the realisable financial value of asset has been under or over-estimated leading to an unplanned financial surplus or loss.

Counterparty/credit risk – the risk of loss as a consequence of the counterparty to a transaction failing to meet its obligations.

Liquidity risk – the risk that the Fund has insufficient cash resources to meet its financial obligations as they fall due.

Funding risk – the risk that the Fund's assets fail to grow in line with the growth in its liabilities , leading to unplanned, or unsustainable funding demands on employers.

The Fund understands the relationship between risk and return and recognises the need to strike an appropriate, and affordable balance between them over the long term.

The principal risk mitigation measures adopted include:-

Policy Framework – the Fund 's Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) establish clear principles and objectives and a sound framework for strategic and operational investment decision making, informed by independent actuarial and investment advice.

Strategic Asset Allocation – a strategic asset allocation benchmark has been set for the Fund aligned to its long term liabilities and funding plan. The benchmark is reviewed at each triennial valuation to ensure asset growth and liability projections remain appropriately matched.

Diversification – the investment portfolio is well-diversified across a range of asset classes, markets, and investment durations; and by investment manager and counter-party, thereby limiting the Fund's exposure to any single risk factor.

Cash Flow Management – cash inflows and outflows from the Fund are continuously monitored and future forecasting is undertaken to make sure adequate cash reserves are available when required. Instant access, money market funds are used to manage short term liquidity.

Investment Performance Monitoring – clear benchmarks and targets are set for all asset classes and individual investment mandates aligned to the Fund's long term investment objectives and risk parameters. Monthly and quarterly monitoring and reporting is undertaken, so that any issues of under/over performance can be promptly identified and (if necessary) addressed.

Employer Fund Level Monitoring and Dynamic Risk Management – the Fund has recognised that over time, the characteristics and funding objectives of its participating employers have become increasingly diverse. In order to ensure that each employer takes an appropriate level of investment risk consistent with its long term funding objective, four distinct investment strategies are in operation.

Funding levels for each strategy are monitored on a monthly basis, with a view to identifying opportunities to reduce investment risk exposure when funding level improvements exceed pre-determined triggers.

This dynamic approach to de-risking allows the Fund's allocation to growth assets to be reduced, and funding level improvements 'banked' when market conditions allow, provided that this can be done with no detriment to future employer contribution rates or deficit recovery periods. This can be achieved where the upward pressure on future service contribution resulting from reduced exposure to growth assets, is balanced by a reduction in deficit recovery contributions as a result of an improved funding level.

Financial Performance

2016 Triennial Valuation

Every three years the Pension Fund is subject to a formal valuation by the Fund Actuary which produces two key outputs.

Firstly, it quantifies the Funding Level i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensions and pensions in payment are matched by the market value of the Fund's assets. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years.

The formal valuation report by the Fund Actuary including the minimum contribution rates to be paid by each employer 1 April 2017 to 31 March 2020 in Appendix H is available on the Fund's website at the following link http://www.cheshirepensionfund.org/wp-content/uploads/2017/03/Valuation-Report.pdf

The table below summarises the funding position of the Cheshire Pension Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Summary Valuation Results

	31 March 2016	31 March 2013
Total past service liability (£m)	4,620	3,982
Fund assets (£m)	4,153	3,259
Surplus/(deficit) (£m)	(467)	(723)
Funding level	90%	82%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Fund Account- Comparison of 2018-19 Forecasts to Actual

The table below outlines the Fund's performance for key financial variables against forecast for the 12 months to 31 March 2019.

Fund Account	2018-19	2018-19	2018-19
	Forecast (Restated)	Actual	Variance
	£000	£000	£000
Contributions	152,871	159,982	7,111
Payments	(167,223)	(181,091)	(13,868)
Admin/Oversight and Governance expenses	(3,706)	(3,459)	247
Net investment income	34,862	34,389	(473)
Investment expenses	(24,100)	(24,366)	(266)
Change in market value	119,153	261,953	142,800
Net increase in the Fund	**111,857**	**248,591**	**135,551**

Operational Expenses – Comparison of 2018-19 Forecasts to Actual

	2018-19	2018-19	
	Forecast (Restated)	Actual	Variance
	£000	£000	£000
Administration/Oversight and Governance			
Employees*	1,878	1,645	(233)
LGPS Central running costs**	305	359	54
Supplies and Services	549	487	(62)
Actuarial Fees	257	260	3
Investment Advisor Expenses	163	142	(21)
Capital Repayment	99	99	0
IT Costs	287	319	32
Printing & Postage	89	41	(48)
External Audit Fees	29	34	5
Legal Fees	50	73	23
Total	**3,706**	**3,459**	**(247)**
Investment Management			
External Fund Managers	23,983	24,253	270
Custodian	117	113	(4)
Total	**24,100**	**24,366**	**(266)**

*Employee costs were lower than expected due to staff vacancies and maternity leave.

** LGPS Central Costs relate to £861k Governance, Operator Running Costs & Product Development less set up costs refunded of £502k. Further details of the LGPS Central Set up Costs are below.

The Administration and Oversight and Governance forecast figure has been restated for a budget uplift agreed by the Pension Fund Committee in year to account for the Fund's share of running costs for LGPS Central Ltd. These were expected but the figure was yet to be agreed when the budget was approved last year as LGPS Central only began to trade at the start of April 2018.

The key variance between the forecast and the actual performance was the change in market value which was driven by higher returns than expected from investment assets, particularly equities.

LGPS Central Set Up Costs

	Direct	Indirect	Total	Cumulative
	£000s	£000s	£000s	£000s
Set up Costs:				
Recruitment	0	0	0	27
Procurement	0	0	0	2
Other support costs	0	0	0	284
Staff Costs	0	0	0	142
Other Costs	0	0	0	59
Share purchase costs	0	0	0	1,315
Loans	0	0	0	685
Total set up costs				**2,514**

The pool was fully set up by 31 March 2018 therefore no set up costs were incurred in the 2018-19 financial year. However, set up costs totalling £502k were refunded to the Fund and interest of £43k was accrued on the outstanding loan in 2018-19.

The following tables show the forecasts for the Fund Account and Net Assets Statement for the 3 years to 31 March 2021.

The forecast figures for 2018-19 and 2019-20 have been updated in order to reflect the most up to date information.

Forecast Fund Account for Three Years – 2019-20 to 2021-22

	2019-20	2020-21	2021-22
	Restated	Restated	
	£000	£000	£000
Contributions	156,918	196,037	200,823
Payments	(167,325)	(181,825)	(192,475)
Admin/Oversight and Governance expenses	(4,661)	(4,534)	(4,668)
Net investment income	35,114	36,303	37,508
Investment expenses	(24,949)	(25,800)	(26,573)
Change in market value	120,150	125,670	126,616
Net increase in the fund	**115,247**	**145,851**	**141,231**

Contributions and payments are based on current expectations, the administration and investment management expenses are based on current budgets, and the net investment income and change in market value are based on the long term forecast returns for each asset class.

The forecasts for total investment assets are based on the actual allocations at 31 March 2019 figures multiplied by the forecast returns for each asset class as provided by the Fund's investment advisor.

These long term forecasts are revised every three years in line with the actuarial valuation exercise and the subsequent strategic asset allocation review with the next review taking place in 2019/20.

Three Year Forecast Management Expenses - 2019-20 to 2020-22

	2019-20	2020-21	2021-22
	Restated	Restated	
	£000	£000	£000
Administration/Oversight and Governance			
Employees	1,979	2,032	2,086
Asset Pool running costs	1,083	1,105	1,146
Supplies and Services	484	444	449
Actuarial Fees	382	264	272
Investment Advisor Expenses	197	199	205
IT Costs	312	327	343
Capital Repayment Costs*	65	0	0
External Audit Fees	23	23	23
Printing & Postage	86	88	91
Legal Fees	50	52	53
	4,661	**4,534**	**4,668**
Investment Management			
External Fund Managers	24,836	25,687	26,460
Custodian	113	113	113
Total	**24,949**	**25,800**	**26,573**

*The capital repayment cost is for the costs associated with the new administration software system implemented during 2014-15, which will be repaid over a period of 5 years. The first of which was paid in 2015-16 with the last payment due in 2019-20.

Actuarial fees in 2019-20 are higher due to this being a valuation year.

The 2019-20 and 2020-21 budgets have been restated to incorporate increases resulting from changes to the staffing structure, additional costs associated with running the asset pool and costs associated with operational developments within the Fund.

Analysis of Pension Contributions

The table below shows the value of primary pension contributions received on time and late.

	Total	On Time		Late	
	£000	£000	% (by value)	£000	% (by value)
Employee	36,829	36,786	99.87%	43	0.13%
Employer	123,153	122,989		164	
Total	**159,982**	**159,775**		**207**	

The Fund classes contributions income as being received on time where it is received within 22 days (if received electronically), commencing from the end of the month in which the amount is deducted from the earnings. Contributions received over 22 days are classed as late.

No interest charges were applied to employers during the year as a result of late payments.

The Fund continues to monitor the timeliness of contribution receipts from all employers and will charge a mandatory penalty when an employer breaches on 3 or more occasions over a 6 month rolling period. Material (Red) breaches will also be reported to The Pensions Regulator.

In total the Fund recorded 65 late payments of contributions on the Breaches Log in 2018-19. Of these, 20 were Amber relating to three Employers who on a number of occasions had made late payments to the Fund, the remaining 45 were green breaches and were paid shortly after the deadline of the 22nd of the month. No Red breaches were recorded in 2018/19.

Pension Overpayments

The Cheshire Pension Fund pays around 28,800 pensioners every month, with a monthly gross payroll in excess of £12 million. Unfortunately mistakes can occur and with such a large volume of pensioner payments it is inevitable that there will be times when a member has been receiving more pension than they are entitled to. Wherever possible the Fund will attempt to recover any overpayment and will only write off an overpayment as a last resort when all other avenues have been exhausted.

Analysis of Pension Overpayments	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	Total
Overpayments Recovered	£25,700	£33,850	£48,700	£52,000	£35,000	£32,000	£227,250
Overpayments written off				£5,000			£5,000
Deaths		£2,944	£2,500		£7,000		£12,444
Annual Payroll	£148,638	£141,304	£136,864	£133,155	£129,111	£124,638	£813,710
Write offs as % of payroll	0.00%	0.03%	0.004%	0.004%	0.005%	0.00%	0.00%

The Fund participates in the National Fraud Initiative which is a biennial process; the last initiative was undertaken in 2018/19 and identified 26 cases which required investigating, so far 7 overpayments have been identified as a result of the initiative. Investigation procedures involve writing to members where a mismatch is identified, performing DWP traces on members that cannot be contacted or writing to registrar's offices to confirm and obtain a copy of the death certificate. Overpayments recovered or written off as a result of the National Fraud Initiative are included in the pension's overpayments table above.

Administration Report 2019

As outlined in last year's Annual Report, the Fund has commenced a transformation project to fundamentally re-design the delivery of the service, both to maximise efficiency, to improve the customer experience for our members and to deliver value for money.

The successful implementation of a number of key initiatives which are being undertaken by the Fund will lead to improved value for money for both members and other stakeholder within the Fund.

This transformation project has been named project Chrysalis and is centred around 4 key themes:

Theme	Development and Improvement Required
Customer Services/Demand Management	Gathering information on the who, how and why the Fund is being contacted and implementing more efficient ways to meet this demand. This will include improvements in communications and introducing 'self-service' and easily accessible information to inform and empower members to make decisions.
Team Development	Internal teams have been restructured to allow greater flexibility in utilising resources. The Fund are also upskilling the team to a multi-skilled workforce with a wider breadth of knowledge and skills who are able to provide a more joined up service for our membership. This will also allow the Fund to adapt to changes in demand and allocate resources to the greatest effect.
System/Technology	The Fund is enhancing the use of technology in order to maximise efficiency. Introducing transformational developments such as Monthly Interfacing (MI) which will improve the quality and timeliness of information received by the Fund. MI is an online system which allows employers to upload monthly 'per member' data to the Fund via an online portal. Improvements in data quality will also lead to the introduction of straight through processing which will release capacity within the Fund allowing more time to clear casework backlogs.
Process Redesign	Re-design how services are delivered to maximise efficiency and customer satisfaction.

Considerable progress has already been achieved on the transformation project as outlined throughout the administration section and work will continue into 2019/20 and beyond.

Data Quality

Data Quality is key for the Fund to be able to work efficiently and provide an excellent service to its members.

The Fund has undertaken a number of initiatives throughout the year in order to improve the quality of data held, and to streamline and standardise the way it receives data in the future. Improvements in data quality will provide value for money for both the Fund and its members as it will allow the Fund to introduce improved processes for administering casework.

Good quality data is vital if the right benefits are to be paid to the right members at the right time. In order to improve the quality of data held, the Fund has commenced a variety of complimentary workstreams during the past year:

- **TPR Data Scores** – In accordance with the Pensions Regulators requirements the Fund submitted data scores for its common and scheme specific information in the autumn of 2018. The Fund now repeats this exercise on a quarterly basis and any data queries identified are resolved during the quarter. The Local Pension Board receives an update on the data scores at each quarterly meeting.
- **Exception Reporting** – the Fund has also developed its suite of exception reports and now runs these on a quarterly basis as well, during the intervening period between running the TPR reports. Again, queries are investigated and cleared.
- **Monthly Interfacing** – the MI project in itself will help to improve the accuracy and timeliness of data received from employers as 'per member' information will be received on a monthly basis.
- **MI Data Cleanse** – ahead of each employer 'onboarding' onto MI, the Fund undertakes a data cleanse exercise to ensure that the common data (i.e. name, address, date of birth etc) of the members held by the Employer and the Fund both match. Any discrepancies are then resolved ahead of the move to MI.
- **Employee Membership Number** – a key step in the MI process is also for employers to receive the unique 'Employee Membership Number' which exists for each contract of employment within the Fund's database. This key piece of information will be included in each MI file thereby ensuring that the correct employee record is updated automatically once the MI file is uploaded.
- **Dedicated Team** – the Fund has dedicated 4 staff which are working on the implementation of Monthly Interfacing. In addition, the team are also assisting with various tasks associated with the cleansing of data, such as clearing TPR and exception report queries as well as assisting with other activities as outlined below.
- **Year-end Queries** – the Fund has undertaken a fundamental review of all outstanding year-end queries which resulted from the annual 'per member' data collection exercises over the past four years. This includes missing starter and leaver information, as well as other data queries. During the year these queries have been gathered together and issued to employers on a bulk basis. The team are now working through the responses received from employers.
- **Pre Valuation Modelling** – ahead of the valuation exercise, which will be based on information as at 31 March 2019, the Fund uploaded data relating to the largest employers within the Fund to the actuaries data portal which has a series of validation checks built into it and were able to identify potential data queries. As a result of this exercise the Fund has been able to correct the high priority queries ahead of the valuation exercise and therefore, improve the quality of data which will be submitted to the Actuary.

The Fund has robust systems and processes to protect the safety and security of data held by the Fund, both within the administration database and in shared drives. An important aspect of the safety of data is the Fund's approach to cyber security.

The Fund administration database and other IT system are operated utilising the network and computer systems of Cheshire West and Chester Council who manage and maintain all systems in line with their PSN (Public Service Networks) accreditation. This standard mandates adherence to best practice principles and managing and securing ICT systems and data.

Administration Strategy

The Administration Strategy sets out the responsibilities of both the Fund and Employers, in accordance with Regulations and the Pensions Regulators Code of Practice.

The strategy was fundamentally re-designed in 2018 in order to ensure that it captured the responsibilities of both Employers and the Fund whilst allowing for performance against those responsibilities to be measured.

In order to develop the revised strategy the Fund worked with the Pensions Consultative Forum and captured their views on the suitability of targets set out within the strategy from an employer perspective.

The Fund opened a four week consultation with employers which closed on 15 March 2019, and the revised strategy was published on the Fund's website and came into force on 1 April 2019.

Now that the revised strategy is available the Fund will implement a suite of reports to highlight the Fund's and Employer's performance against the key performance indicators which are set out within it. The output from these performance reports will form the basis of regular dialogue with Employers and will be used to drive through performance improvement on both sides.

In order to achieve this regular dialogue the Fund has also implemented dedicated Customer Relationship Managers who will each have responsibility for a sub-set of Employers within the Fund.

Initially meetings will take place with the top tier of employers i.e. those who have more than 100 members or where there are considerable issues that the Fund needs to address with the employer. These meetings will commence in 2019/20.

The Fund will then look to introduce an engagement framework with employers below the top tier, and determine the most efficient way of reaching this wider audience. This may take the form of seminars for some groups of employers or could simply be the employer receiving a regular report on both their own and the Fund's performance against the strategy and areas for improvement.

A key requirement from the responsibilities in the Administration Strategy include the requirement for employers to provide accurate and timely data about members, their pay, personal circumstances and pension choices.

An important responsibility for Employers is that they each employer have a Designated Pensions Contact whose key responsibilities are to ensure that the standards set out in the Strategy are delivered, and to act as a conduit for communication to appropriate staff within the employer organisation.

Technology and Pensions Administration System Development

The Pensions section currently uses the Universal Pensions Management (UPM) pensions administration software supplied by Civica, utilising benefits calculation, task management, document imaging, document production and workflow functionality.

The Fund is working closely with Civica in order to implement a technology roadmap over the next couple of years that will transform the way the Fund delivers its service in the future. The key to being able to implement the roadmap is for the Fund to streamline and standardise the way it receives data from its employers so that improvements in the accuracy and timeliness of the data can be achieved.

The first step on this journey is to move away from annual receipt of 'per member' data from employers and replace it with monthly data.

As outlined in last year's Annual Report the Fund was developing new technology for receipt of monthly data, known as Monthly Interfacing (MI). The Fund has now implemented Monthly Interfacing (MI) into its administration database and a number of employers are live on this new system.

This transformational functionality will allow the Fund to replace the current annual process of receiving 'per member' data from Employers and replace it with monthly information from Employers containing pay and contributions data. Once the Fund has clean data it can then look to implement straight through processing of casework.

As outlined above, ahead of the move to MI the Fund undertakes a data cleanse exercise with each employer and provides the employer with the unique 'Employee Membership Number' per contract of employment. This key piece of information will ensure that any updates to information are correctly and efficiently applied to the right member once the employer moves to the new MI system.

The Fund is working with all employers in the Fund with the aspiration of moving the majority of employers to the new system within this financial year. This will be subject to the ability of employers to adopt the new way of working which will need to be aligned with their own projects, for instance a number of employers are replacing their back office systems so their move to MI may be delayed until those projects are complete.

During 2019/20 the Fund will be implementing straight through processing (STP). This is where the database itself processes the more straightforward casework allowing staff more time to concentrate on complex cases and other areas of work. Again, this will provide value for money by both speeding up the processing of casework and freeing up capacity within the team to concentrate on more complex casework and administration casework backlogs.

The Pension Fund has a dedicated website www.cheshirepensionfund.org which provides information on all aspects of the LGPS and has dedicated sections for the Fund's customer groups - including active members, deferred members, pensioners, councillor members and employers. It also contains key publications such as policy statements and a back collection of annual reports.

The Fund's Communication Policy Statement which provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders is laid out in the Communications Policy Statement section of this report.

Member Engagement

Each year a series of roadshows are undertaken which allow the Fund to interact with its membership. The roadshows are held across the borough to provide an opportunity for both existing and potential members of the Fund to raise queries and ask questions about their pension on a 'drop in' basis.

During 2018/19 8 roadshows were undertaken at various locations across the County which were attended by around 300 members.

The topics raised by attendees at the events were similar to those raised at the events in the previous year and included; an understanding of how benefits are calculated, requests for further explanation around the Annual Benefit Statement, questions around their personal circumstances, retirement queries (i.e. when can they retire and what impact would early retirement have on their pension), application of the Rule of 85 and questions around the additional benefits that members can contribute in order to maximise their pension.

The Fund will also be running similar sessions during 2019/20.

Major Projects

As well as the normal workload the Fund has also continued working on two major projects throughout the year:

- GMP
- Compliance with the Data Protection Act 2018

Guaranteed Minimum Pension (GMP)

With the introduction of the single tier state pension in 2016, the LGPS will no longer be contracted-out of the state second pension. As a consequence, HMRC will no longer track contracted-out rights and have issued closure schedules to pension schemes to enable them to compare the GMP figures held on their systems to that of HMRC. This is known as the GMP reconciliation.

The project continues to make good progress and, by the end of March 2019 the Fund had completed the reconciliation of the 125,500 member GMP values with those held by HMRC. There are a small number of queries which the Fund has yet to receive a response from HMRC (1,200), however the Fund was able to meet the deadline of December 2018 to raise all queries with HMRC.

The Fund has worked with its software provider, Civica and an implementation partner, Intellica, in order to complete the reconciliation phase of the project.

In 2019/20 the attention will now turn to the rectification phase of the project. The Fund has identified circa 8,100 members where the GMP value held by HMRC does not agree to those held by the Fund. The Fund will now review these cases to determine whether there has been an under or overpayment of pension and make the necessary corrections.

Compliance with the Data Protection Act 2018

As set out in last year's report, the Fund has undertaken considerable steps to ensure compliance with the Data Protection Act 2018, following the rule changes which were introduced in the General Data Protection Regulations on 25 May 2018.

The Fund commenced a comprehensive programme of work in the autumn of 2017 to ensure compliance with the new regulations. During 2018 the Councils Internal Audit Department also undertook an assessment of the Funds approach which resulted in a positive audit report.

The audit report also included some recommendations relating to a number of areas where the Fund still has work to complete. A detailed project plan was produced in response to these recommendations and the Fund is working to these requirements.

Compliance with Data Protection is an important issue for the Fund and is a keen focus area for the Local Pension Board. Progress has been closely monitored by the Local Pension Board during 2018/19 and the Board will continue to receive regular updates into 2019/20 and beyond.

Key Performance Data

During 2018 a working party was set up by CIPFA with the aim of developing a process whereby all LGPS Fund's would disclose information about their performance on completing benefit administration casework, on a consistent basis.

The first step of this exercise was for all Fund's to capture information on the same administration processes and in two different formats:

1. Outlining how many cases have been completed for each category during the year, including opening and closing balances for that year.
2. Outlining compliance against local key performance indicators and against disclosure regulation requirements.

This is the first year that the Fund will include this information and it is expected that it will evolve over the coming years.

The Local Pension Board receives quarterly updates on administrative performance throughout the year and this will continue in the future.

Casework type	2018/19				
	2017/18 Completed cases	Number of cases outstanding at start of the period	Number of cases commenced in year	Number of cases completed in year	Number of cases outstanding at year end
Deaths	1,065	181	1,294	1,317	158
Retirement Estimates	4,440	665	6,341	6,102	904
Retirements	1,672	115	1,773	1,781	107
Deferment	3,429	1,739	3,313	2,769	2,283
Transfers In	903	331	1,005	1,025	311
Transfers Out	1,375	338	1,424	1,427	335
Joiners	2,257	543	2,511	2,656	398
Divorce	251	3	242	239	6
Aggregation	1,664	3,801	1,629	881	4,549
Refunds	1,673	247	1,861	1,823	285
Leaver	4,584	2,199	5,127	5,103	2,223
Totals	**23,313**	**10,162**	**26,520**	**25,123**	**11,559**

Casework type	Local KPI target	Achieved	Number of cases commenced with KPI	Local requirement (from notification)	Achieved
	Number of days	%			%
Deaths (Active)	5	80%	24	2 months	100%
Deaths (Deferred)	5	93%	37	2 months	100%
Deaths (acknowledgement)	5	95%	766	2 months	100%
Deaths (Dependents benefit)	10	91%	702	2 months	100%
Retirements (Active Members)	5	92%	689	2 months	100%
Retirements (Deferred Members)	5	93%	857	2 months	98%
Deferment	30	46%	956	2 months	90%
Transfer In	10	99%	297	2 months	99%
Transfer Out	10	97%	372	2 months	100%
Refunds	10	88%	778	2 months	99%

Pensions Staffing Structure

The Pensions Team sits within the Finance Service of Cheshire West and Chester Council, it deals with the day to day management of the Fund, including the administration of scheme membership.

A staffing restructure was completed during 2017/18 in order to maximise the service to the customers of the Fund, ensure the quality of data held and allow the pensions section to adapt to changing working practices such as digital and flexible and mobile working and automation.

During 2018 staff were moved into their new teams although work to fully transition into the new structure is ongoing. In order to move fully to the new structure, and to embed new ways of working, the Fund needs to continue with training staff to become multi skilled.

Training had commenced on the multi skilling of staff in 2018/19, with all 50 staff having attended a one day course aimed at delivering good customer service. A number of staff in manager/supervisory roles have also commenced a 5 day Leadership and Development Programme.

The Fund needs to design and implement a comprehensive training and development plan over the coming months in order to develop both the technical and non-technical skills of all staff. This will continue in 2019/20 and beyond.

The Fund is organised across five functional areas :

- **Operations Team** – which is further split between two teams:
  - **Benefits Team** – responsible for the calculation of retirement benefits, early leavers, deceased members, transfers for divorced members, and transfers in and out of the fund and arranging additional contributions contracts.
  - **Business Information, Development and Improvement Team** – responsible for maintaining the UPM pension's database, research and delivery of the development roadmap and providing support to staff members in the most efficient use of the UPM pension's database. The team are also responsible for the production of reports to satisfy all statutory and operating requirements, and to assist in continually improving the data held by the Fund.
- **Stakeholder and Engagement Team** – responsible for processing scheme admissions and cessations, notifying new employers of their responsibilities to the Cheshire Pension Fund, arranging and providing training to new employers, attending and delivering presentations at retirement seminars hosted at external sites, creating and maintaining factsheets for members and employers and updating the Cheshire Pension Fund website.
- **Finance and Investments Team** – responsible for the management of investments and production of the Statement of Accounts.

There are 45 (44 in 17/18) full time equivalent (FTE) posts in the Pensions section with 35 (34 in 17/18) staff responsible for pensions administration. This equates to an administration staff to fund-member ratio of one FTE employee to 2,853 (2,848 in 17/18) Members, based on the total fund membership of 99,848 (96,825 17/18). As at 31 March 2019 the Fund also had 3 staff vacancies within the administration section.

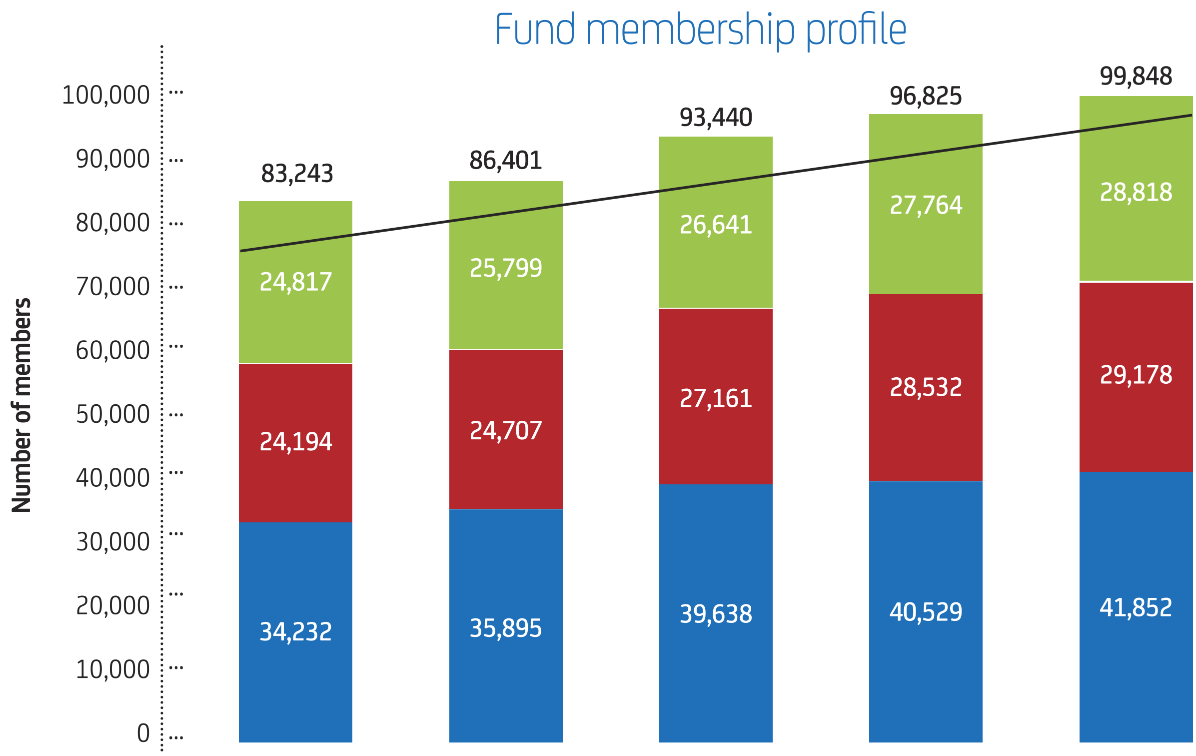
Of the remaining 10 staff, 5 are based in the Finance and Investments section and 4 in Stakeholder and Engagement with the Pension Fund Manager bringing the total to 45.

In addition the Fund has also employed a project manager to assist with the transformation outlined in Project Chrysalis. This post will be in place for 2 years.

Process	2014/15	2015/16	2016/17	2017/18	2018/19
Total Membership Number	83,243	86,401	93,440	96,825	99,848
Investment Management Expenses					
Total Cost £000	29,464	23,985	25,564	27,466	24,366
Sub cost per Member	*354*	*278*	*274*	*284*	*244*
Administration Costs					
Total Cost £000	1,321	1,633	1,771	2,147	2,188
Sub cost per Member	*16*	*19*	*19*	*22*	*22*
Oversight and Governance costs					
Total Cost £000	688	699	1,001	1,213	1,271
Sub cost per Member	*8*	*8*	*11*	*13*	*13*
Total Management Expenses	31,473	26,317	28,336	30,826	27,825
Total Cost per Member	**378**	**305**	**303**	**318**	**279**

Membership and Employer Movement and Scheme Complexity

The Fund continues to experience a year on year increase in the number of members across all categories (Active, Deferred and Pensioners). In addition the number of Employers in the Fund also continues to grow as the tables below illustrate.



	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Actives	**34,232**	**35,895**	**39,638**	**40,529**	**41,852**
Deferreds	**24,194**	**24,707**	**27,161**	**28,532**	**29,178**
Pensioners	**24,817**	**25,799**	**26,641**	**27,764**	**28,818**
Total Membership	**83,243**	**86,401**	**93,440**	**96,825**	**99,848**

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Number of Employers (who paid contributions during the year)	210	226	254	283	290

The increase in membership and number of Employers adds to the already challenging workload of the Fund. This is compounded by the increased complexity of the scheme with the introduction of CARE which now means that the Fund is effectively managing 3 separate schemes:

Scheme	Details
Pre 1 April 2008	Members build up a pension of 1/80 of Full Time Equivalent Pensionable Pay for each year of membership
Post 1 April 2008 – 31 March 2014	Members build up a pension of 1/60 of Full Time Equivalent Pensionable Pay for each year of membership
Post 2014 - CARE	Members build up an annual pension pot for each scheme year and part year of membership. The pension pot is calculated by dividing the actual earnings by 1/49th

Further amendment to the benefits package may also be made in the future in order to keep the costs of the scheme within the cost cap. Further changes to the benefits package would add yet more complexity to the scheme and therefore, make it harder to administer.

The Fund receives a limited number of complaints each year and deals with all complaints in accordance with Cheshire West and Chester's complaints policy.

Fund's Membership Profile over a 5 year period

The Fund's membership continues to grow year on year across all membership categories with the number of deferred members increasing by the largest percentage. It is positive to note that despite continued pressure on public sector finances the number of active members in the scheme has increased year on year, as increasing numbers of employers are now obliged to auto-enrol new employees into the scheme.

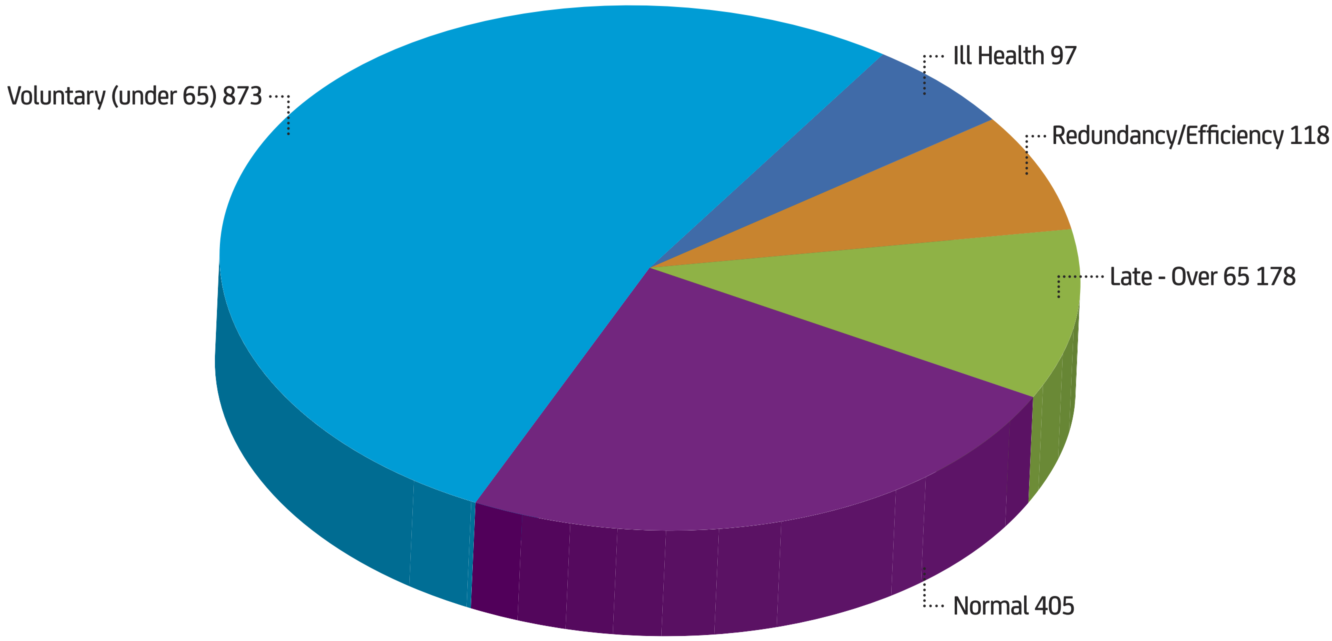
Membership Category (at 31 March)	Mar-15	Mar-16	% Change	Mar-17	% Change	Mar-18	% Change	Mar-19	% Change
Actives	34,232	35,895	4.90%	39,638	10.40%	40,529	2.20%	41,852	3.30%
Pensioners	24,194	24,707	4.00%	27,161	3.30%	28,532	4.00%	29,178	2.50%
Deferreds	24,817	25,799	2.10%	26,641	9.90%	27,764	4.80%	28,818	4.00%
Total	**83,243**	**86,401**	**3.80%**	**93,440**	**8.10%**	**96,825**	**3.60%**	**99,848**	**3.10%**

The table below summarises the age ranges of the membership over the three categories of Active, Pensioner and Deferred.

Age group	Active		Pensioner		Deferred	
	Number	%	Number	%	Number	%
0 - 5	0	0	2	0.01	0	0
6-10	0	0	22	0.08	0	0
11-15	0	0	53	0.18	0	0
16 - 20	182	0.43	69	0.24	1	0
21 - 25	1,389	3.32	50	0.17	148	0.51
26 - 30	2,838	6.78	2	0.01	1,022	3.5
31 - 35	3,562	8.51	2	0.01	2,304	7.9
36 - 40	4,394	10.50	12	0.04	3,041	10.42
41 - 45	4,871	11.64	32	0.11	3,526	12.08
46 - 50	6,530	15.60	56	0.19	4,904	16.81
51 - 55	7,117	17.01	164	0.57	6,190	21.21
56 - 60	6,234	14.90	1,038	3.6	5,920	20.29
61 - 65	3,557	8.50	4,917	17.06	1,837	6.3
66 - 70	954	2.28	6,621	22.98	246	0.84
71 - 75	207	0.49	6,376	22.13	38	0.13
76 - 80	16	0.04	3,894	13.51	1	0
81 - 85	1	0.00	2,749	9.54	0	0
86 - 90	0	0	1,752	6.08	0	0
91 - 95	0	0	768	2.67	0	0
96 -100	0	0	213	0.74	0	0
101 - 105	0	0	22	0.08	0	0
105 -	0	0	4	0.01	0	0
Totals	**41,852**	**100**	**28,818**	**100**	**29,178**	**100**

Retirements during 2018/19

There were 1,671 retirements during 2018/19 as summarised in the chart below:



Internal Dispute Resolution Procedure

There are times when Scheme members, employers and the Administering Authority may find themselves in disagreement about a pension issue. The first approach in these situations is for those involved to talk to each other to reach a resolution. However, should this not prove possible, the Fund has established an Internal Disputes Resolution Procedure (IDRP).

The IDRP is a two stage process. When the Fund or an Employer makes a decision about a beneficiary's benefit under the LGPS rules, if for any reason a member, pensioner, deferred pensioner or potential beneficiary is not satisfied about a decision made they can apply to the employer or the Fund to have their complaint reviewed under a stage 1 of the IDRP.

If the beneficiary is dissatisfied with the stage 1 decision they may move to a stage 2 of the IDRP within 6 months of the stage 1 decision.

If after the stage 2 decision the beneficiary is still dissatisfied they can contact The Pensions Advisory Service (TPAS) and The Pensions Ombudsman (TPO) for help when dealing with a complaint.

TPAS is usually focussed on complaints before the IDRP has been completed, whilst TPO usually deals with complaints that have been through IDRP.

From April 2018, the TPAS dispute resolution function moved to TPO to simplify the customer journey and lead to improve complaint handling. Customers can now access all pension dispute resolution in one place.

Fortunately such instances are few and far between, in the last year there have been 2 IDRP cases raised against the Administering Authority. In one of these cases the outcome was that it was not upheld and the other case is ongoing.

Investment Policy and Performance

Investment Management

Management of Cheshire Pension Fund's assets is determined within the context of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). The regulations require the Fund to publish its Investment Strategy Statement which documents the current investment strategy, provides transparency in relation to how the Fund's investments are managed and acts as a high level risk register. This document can be found on the Fund's website and provide further detailed information about how the Fund manages its assets.

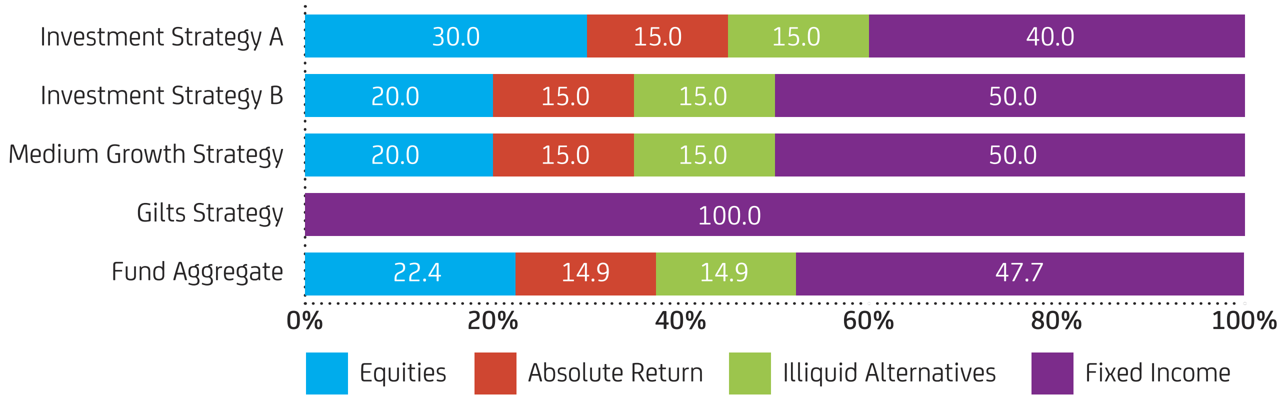
In summary, the Fund manages four distinct investment strategies. This ensures that each of the Fund's 396 scheme employers (290 employers who contributed to the fund in year) has access to an investment strategy that meets their long term funding requirements. Two of the four investment strategies are managed dynamically, meaning that the level of investment risk can be adjusted if the funding level moves ahead of or behind the long term funding plan. In practice this means that the Fund monitors funding level progression against pre agreed trigger points that can prompt an increase or decrease in the level of growth and defensive assets held. Asset allocations are only adjusted where the change does not have a negative impact on employer contribution rates.

Each investment strategy has a strategic asset allocation which targets the required long term target rate of return, whilst ensuring that the portfolio maintains an acceptable level of risk and provides an appropriate level of diversification. The strategic asset allocation is formally reviewed every three years alongside the actuarial valuation and is considered and approved by the Pension Fund Committee after taking advice from the Fund's professional advisers.

Further details on the Fund's investment strategy, risk management strategy and governance arrangements are available on the Fund's website: **www.cheshirepensionfund.org**.

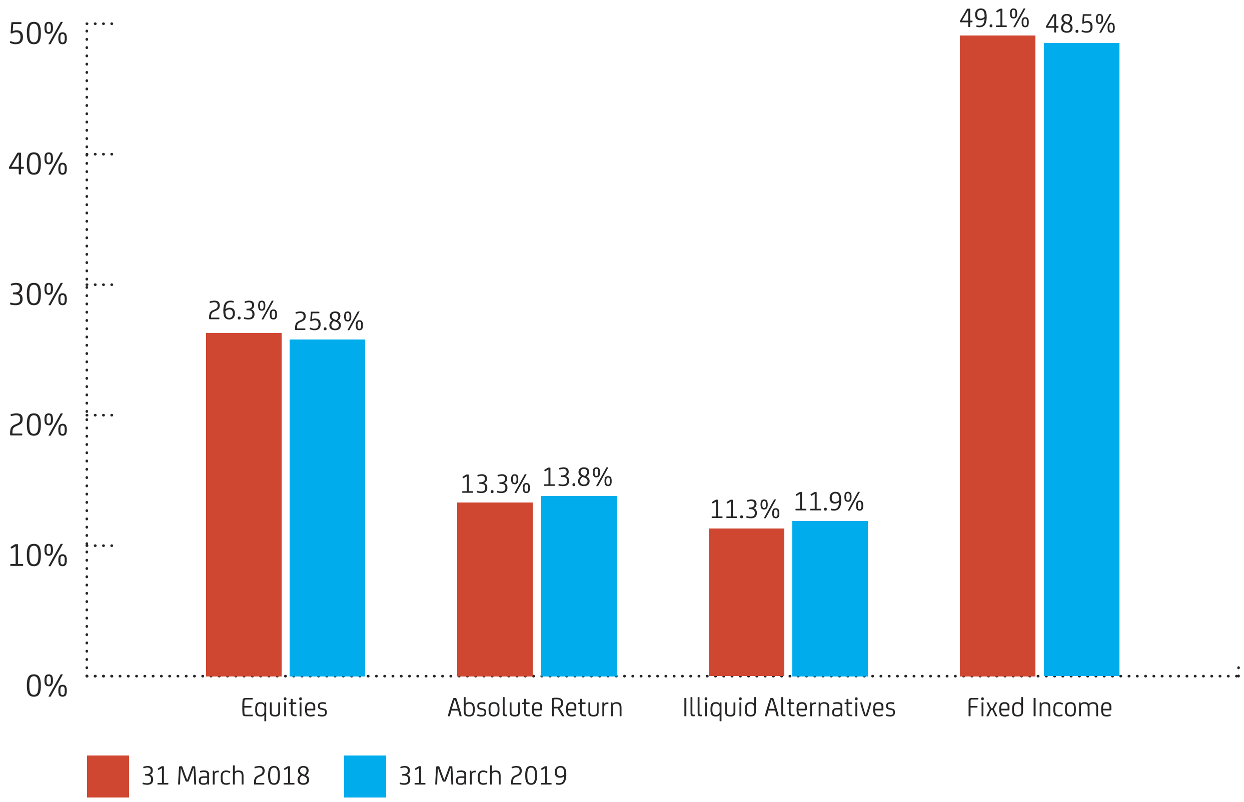
Strategic Asset Allocation

The strategic asset allocations were unchanged during 2018-19. The strategic asset allocation for each investment strategy is shown in the chart below, alongside a weighted aggregated asset allocation at whole fund level

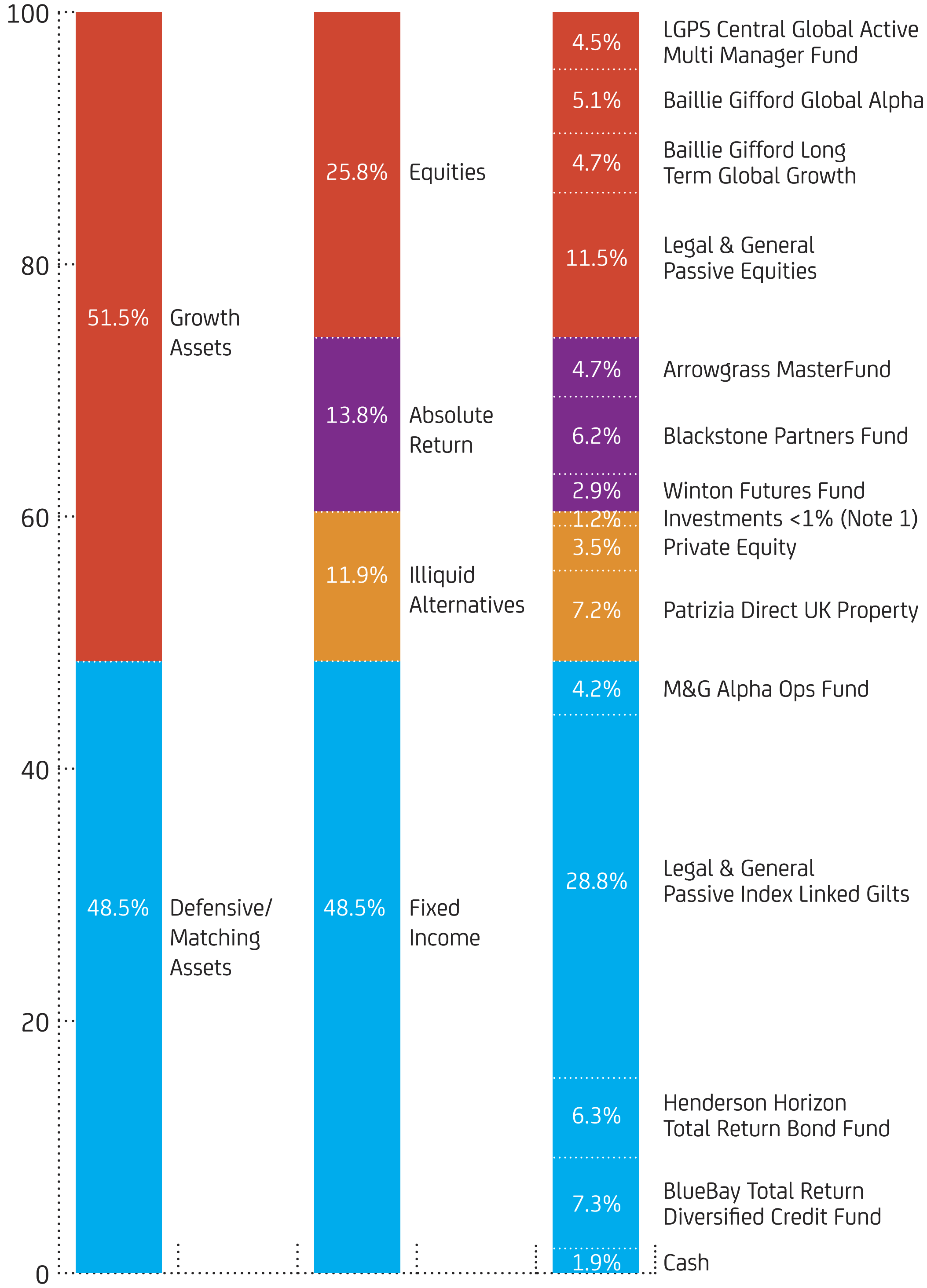


Actual Asset Allocation

The market value of the Fund's investments, cash and other assets, as at 31 March 2019, was £5.589 billion, compared with a value of £5.336 billion as at 31 March 2018. The chart below shows the distribution of assets across the main investment categories which change year on year as a result of changes to the strategic asset allocation, the performance of the underlying asset classes and managers and rebalancing across managers and asset classes.



The detailed distribution of assets by category and by manager at 31 March 2019 is set out in the following chart.

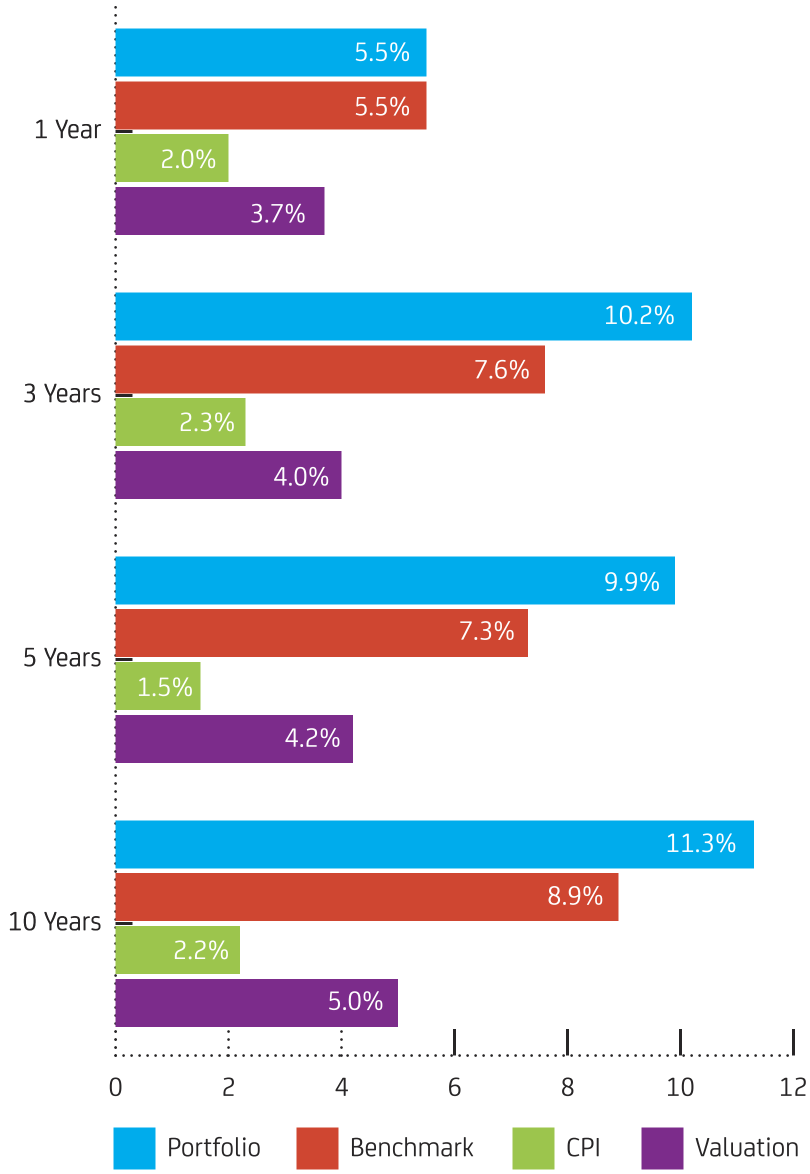


(Note 1) **Investments which make up less than 1% of the funds total assets include:**

M&G UK Financing Fund
M&G Debt Opportunities Fund
Darwin Leisure Fund
Darwin Property Development Fund

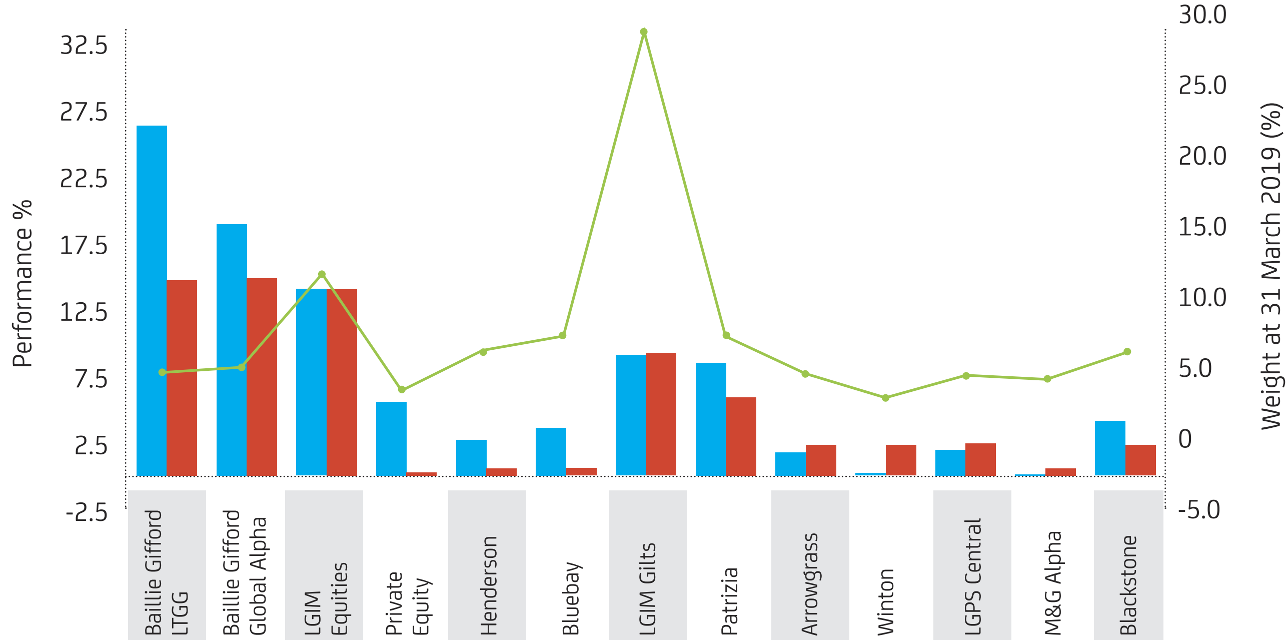
Investment Performance

The Fund uses a tailored benchmark that reflects its specific asset allocation. The following chart shows the performance of the Fund relative to its strategic benchmark, inflation (CPI) and the return assumption used by the Actuary as part of the triennial valuation. Returns for periods of greater than 1 year are annualised.



Appointed Investment Managers

The Fund utilises external investment managers to undertake the day to day management of the Fund's assets. Each manager has a specific benchmark and performance target against which their performance is regularly monitored. The aggregation of each underlying manager's performance provides the total fund return as shown on the previous page. Rolling 3 year performance for each investment manager is shown in the table below, alongside the relevant benchmark. The right hand axis and green line shows the % of assets held by each manager at 31 March 2019.



	Baillie Gifford LTGG	Baillie Gifford Global Alpha	LGIM Equities	Private Equity	Henderson	Bluebay	LGIM Gilts	Patrizia	Arrowgrass	Winton	LGPS Central	M&G Alpha	Blackstone
Performance (LH Axis)	26.6	19.0	14.3	5.6	2.8	3.7	9.2	8.6	1.8	0.2	2.0	0.1	4.2
Benchmark (LH Axis)	14.9	15.0	14.3	0.3	0.5	0.5	9.2	5.9	2.3	2.3	2.4	0.5	2.3
% Weight (RH Axis)	4.7	5.1	11.5	3.5	6.3	7.3	28.8	7.3	4.7	2.9	4.5	4.2	6.2

Performance (LH Axis) Benchmark (LH Axis) % Weight (RH Axis)

Notes: Excludes contributions from Managers who are no longer used (at 31 March 2019). Where a manager/mandate has been in place for less than 3 years, annualised return since inception is used. All returns are annualised.

The following table provides further details in relation to each investment manager.

Manager / Mandate	Description	Benchmark	Performance total per annun	Inception
Baillie Gifford Long Term Global Growth	Active global equities	FTSE ALL World Index	b/m +3%	2005
Baillie Gifford Global Alpha	Active global equities	MSCI All Countries World	b/m +2%	2011
LGIM Equities	Passive global equities	Tailored b/m	Track index	1994
Private Equity	Private Equity fund of fund and direct	LIBID	10%	2003
Janus Henderson	Total return fixed income	LIBOR	4%	2012
Bluebay	Multi asset credit	LIBOR	5-10%	2015
M&G Alpha	Multi asset credit	LIBOR	b/m +3-5%	2018
LGIM Gilts	Passive index linked gilts	FTSE A Index-Linked > 5 Years	Track index	2013
Patrizia	UK direct property	BNY Property Median	Outperform index	1988
Arrowgrass	Multi strategy hedge fund	CPI	b/m +5%	2011
Winton	Commodities trading advisor	CPI	b/m +5%	2011
LGPS Central Ltd	Active global equities	FTSE ALL World Index	b/m +1.5%	2019
Blackstone	Fund of hedge fund	CPI	b/m +5%	2016

The above tables provide information on those managers that manage fund assets >2%. The Fund also has small allocations with Darwin Leisure Investment Fund, M&G UK Companies Financing Fund and M&G Debt Opportunities Fund.

The private equity mandate is managed by Pantheon Ventures, Adams Street Partners and Lexington. The Fund also committed £22m to LGPS Central Ltd private equity fund but as at 31 March 2019 no calls had taken place.

Investment Fees

The Fund is committed to transparency in relation to the fees it pays to investment managers. It believes that it is important to assess the value delivered by asset managers by evaluating fees in relation to investment performance. The table below shows the fees paid to managers in each asset class, including those underlying fees that the Fund is not required to report in the Statement of Accounts.

	Management Fees	Performance and Other Fees	Underlying fees within Fund of Fund Structures	Total Fees inc. Underlying	Estimated 12 Month Performance	Net Impact on Asset Value of Investment Returns, minus all fees
Pooled Investments	4,883	471	-	5,354	+4.2%	+131m
Equities	2,605	3,028	-	5,633	+14.6%	+82m
Absolute Return	7,522	241	-	7,763	+0.5%	+12m
Private Equity	3,128	1,153	2,889	7,170	+21.6%	+27m
Direct Property	1,151	13	-	1,164	+4.6%	+3m
Loans	9	-	-	9	+3.9%	0
Cash and Other	113	49	-	162	0	0
Total Fund	**19,411**	**4,955**	**2,889**	**27,255**	**+5.5%**	**+255m**

The table below shows the fees paid to managers alongside the combined returns of those managers and the net impact (i.e. taking into account both fees and performance) on the value of Fund assets.

Ongoing management fees

	Asset Pool				Non Asset Pool				Fund Total	
	Direct	Indirect	Total		Direct	Indirect	Total			
	£000s	£000s	£000s	bps	£000s	£000s	£000s	bps	£000s	bps
Management fees:										
Ad valorem	39		39	13.55	19,252		19,252		**19,291**	
Performance			-		3,619		3,619		**3,619**	
Transaction costs:										
Commissions	3		3	1.14	262		262		**265**	
Acquisition/issue costs			-				-		**-**	
Disposal costs			-				-		**-**	
Registration/filing fees			-				-		**-**	
Taxes and stamp duty	1		1	0.35			-		**1**	
Custody	2		2	0.82	113		113		**115**	
Other	2		2	0.24	1,068		1,068		**1,070**	
Total	**47**	**-**	**47**	**16.10**	**24,314**	**-**	**24,314**		**24,361**	

Note: bps are basis points with 100 bps = 1%. So, a manager who charged 100 bps in fees would levy a fee equivalent to 1% of assets under management.

In addition to the above ongoing management fees the Fund was also charged £861k for its share of the running costs of LGPS Central. These costs were in respect of product development, governance costs and operator costs. These costs have been included within the Fund’s Statement of Accounts under the category of oversight and governance costs.

Asset Allocations and Performance

Asset Category	Opening value		Closing value		Performance 1 year		Passive	Local
					Gross	Net	Index	Target
	£000s	%	£000s	%	%	%	%	%
Asset Pool Managed Investments								
Active Listed Equity	-		250,229	4.5%	2.6%	2.5%	3.4%	3.8%
Other*	2,000	0.0%	2,043	0.0%	N/A	N/A	N/A	N/A
Total	**2,000**	**0.0%**	**252,272**	**4.5%**				
Non Asset Pool Managed Investments								
Active Listed Equity:								
Global Fund 1	408,850	7.7%	262,405	4.7%	17.5%	16.5%	11.7%	13.7%
Global Fund 2	395,669	7.4%	287,113	5.1%	9.8%	9.4%	11.1%	13.1%
Global Fund 3	193	0.0%	141	0.0%	N/A	N/A		
Passive Listed Equity	588,072	11.0%	640,086	11.5%	N/A	N/A	8.8%	8.8%
Passive Listed Fixed Income	1,498,609	28.1%	1,605,661	28.7%	N/A	N/A	5.6%	5.8%
Private Debt	238,380	4.5%	1,690	0.0%	N/A	N/A	N/A	N/A
Property:								
Direct- Core	287,985.48	5.4%	328,615	5.9%	N/A	N/A	N/A	6.5%
Direct- Index Linked	74,962	1.4%	78,393	1.4%	N/A	N/A	N/A	3.5%
Indirect	60,604	1.1%	65,500	1.2%	N/A	7.2%	N/A	8.1%
Unlisted Equity	183,904	3.4%	194,995	3.5%	N/A	N/A	N/A	N/A
Cash	126,659	2.4%	104,049	1.9%	N/A	N/A	N/A	N/A
Multi-asset funds/diversified growth funds:								
Diversified credit Fund	390,436	7.3%	409,743	7.3%	N/A	-2.7%	N/A	5%
Total Return Bond Fund	352,959	6.6%	352,271	6.3%	N/A	-0.4%	N/A	4%
Opportunities Fund	-	0.0%	235,555	4.2%	N/A	-1.1%	N/A	1.4%
Hedge Funds:								
Multi- Strategy 1	5,531	0.1%	-	0.0%	N/A	N/A	N/A	N/A
Multi- Strategy 2	261,239	4.9%	260,424	4.7%	N/A	N/A	N/A	7%
Hedge Fund of Funds	295,388	5.5%	346,058	6.2%	N/A	N/A	N/A	7%
Multi-Strategy/CTA	165,059	3.1%	164,139	2.9%	N/A	N/A	N/A	7%
Total	**5,334,499**	**100.0%**	**5,336,839**	**95.5%**				
Overall Total	**5,336,499**	**100%**	**5,589,111**	**100%**	**-**	**-**	**-**	**-**

*Relates to equity share of £1.315m in LGPS Central Ltd and Loan advanced to LGPS Central Ltd of £685k plus £43k interest

The Fund made its first transfer of assets into LGPS Central Ltd mid March 2019, due to the close proximity of the transfer to the end of year it is not yet possible to accurately report cost savings achieved from this transfer. The Fund will look to report on this in the 2019/20 Annual Report.

In response to the Scheme Advisory Board Transparency Code the Fund has contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2018/19 and future years to allow more transparent reporting. LGPS Central Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers they select are signed up to the Transparency Code. The table above includes information from all managers who returned the transparency code template in time for inclusion in the Annual Report.

Investment Administration and Custody

Whilst the Fund's appointed investment managers make and implement investment decisions, particularly in respect of the purchase and sale of stock, the practical consequences of their decisions in terms of the Fund's rights to, and benefits of, ownership of investments and cash are handled by custodians who are independent of the investment managers.

The Pension Fund's custodian is Bank of New York Mellon who is responsible for custody and safekeeping of assets within the segregated equity mandates managed by Baillie Gifford. The Fund's custodian is also employed to undertake an independent review and validation of the assets held in unit trusts with other investment managers and their own custodians. A full list of the custodians used by the Fund and its investment managers is provided below:

Investment Manager / Sub Fund	Asset Class	Custodian
Baillie Gifford	Segregated Equity	Bank of New York Mellon
BlueBay Asset Management	Fixed Income	Brown Brothers Harriman
Janus Henderson	Fixed Income	BNP Paribas
M&G	Secured Loans	State Street
Arrowgrass	Absolute Return	CITCO Fund Services
Winton	Absolute Return	CITCO Fund Services
Blackstone	Absolute Return	CITCO Fund Services
Legal & General	Passive Equity / Gilts	HSBC
LGPS Central	Pooled Equity	Northern Trust

Statement of Responsible Investment

The Cheshire Pension Fund ("the Fund") is a long term investor aiming to deliver a sustainable Pension Fund for all stakeholders.

Cheshire West and Chester Council ("the Council") as the Administering Authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund's approved policy on responsible investment is contained within its Investment Strategy Statement which is appended to this document.

Policies Adopted

The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.

Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund delegates responsibility for voting to its directly appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the fund, investment manager's quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. This is reported to the Investment Sub Committee on a quarterly basis and any exceptions or examples of non-compliance are addressed directly with the Fund's managers.

The table below summarises the voting activity for the Fund over the 12 months to 31st March 2019:

	UK	Overseas	Total	%
Number of Companies	4	154	158	N/A
Votes Cast in Favour	66	1,212	1,278	93.3
Votes Cast Against	0	75	75	5.5
Votes Abstained / Withheld	0	17	17	1.2
Total number of Resolutions	66	1,304	1,370	100.0

The Fund also invests a Global Active Equity Fund managed by its pooling fund company, LGPS Central Ltd ('LGPSC'). LGPSC have a 'Responsible Investment and Engagement Framework', available on the company's website at: https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Responsible-Investment-and-Engagement-Framework.pdf, which contains two key objectives:

1) To support the company's investment objectives;

2) To be an exemplar for Responsible Investment within the financial services industry and raise standards across the market.

Every three months, LGPSC publish a 'Quarterly Stewardship Report' setting out in full their stewardship, engagement and voting activities. This is also available on the LGPS Central website at: https://www.lgpscentral.co.uk/wp-content/uploads/2019/03/LGPS-Central-Quarterly-Stewardship-Report-Third-quarter.pdf.

Statement of Compliance with the UK Stewardship Code for Institutional Investors

The Fund is committed to the UK Stewardship Code and has submitted a statement of compliance to the Financial Reporting Council. The Fund's statement is provided within the Investment Strategy Statement (Responsible Investment Policy). A revised UK Stewardship Code is due to be published during Summer 2019 and the Fund will update its statement of compliance accordingly.

Myners' Principles

The Myners' Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding compliance with these Principles on a 'comply or explain' basis. The Myners' Principles are:

Principle 1: **Effective Decision-Making**

Principle 2: **Clear Objectives**

Principle 3: **Risk and Liabilities**

Principle 4: **Performance Assessment**

Principle 5: **Responsible Ownership**

Principle 6: **Transparency and Reporting**

The Pension Fund's compliance with the Myners' Principles is shown in the following table:

Principle	Evidence of Compliance
Principle 1 Effective Decision Making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the Chief Operating Officer advised by the Pension Fund Committee. The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions. The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 Clear objectives: • An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly com-municated to advisers and investment managers.	**Compliant** The Committee has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 Risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle	Evidence of Compliance
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Compliant** The performance of the Fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money. During 2018-19 Barnett Waddingham were commissioned to undertake an independent review of the Fund's governance arrangements. Their review concluded that the Fund's governance arrangements were working effectively, although a number of relatively minor improvement recommendations were made. In addition, the Fund has completed a self assessment against the CIPFA/SOLACE 'Delivering Good Governance framework 2016' and this is included in the Governance section of this AR (page ref).
Principle 5 Responsible Ownership: • Adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	**Compliant** The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles. This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership. The Fund's asset pooling company, LGPS Central has its own Responsible Investment and Engagement policy and is fully compliant with the FRC Stewardship Code.
Principle 6 Transparency and Reporting: Administering authorities should • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Pension Fund Committee maintains minutes of meetings which are available on the Council website. The Council meet regularly with sponsoring employer bodies and a member representative attends committee meetings. The Investment Strategy Statement is published on the Fund's website and is available to members on request. Other information on the Scheme is available to members on the Fund's website.

Investment performance – link to 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 Funding Strategy (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. The strategic objectives include:

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

- Ensuring 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;
- Ensuring that employer contribution rates are reasonably stable where appropriate;
- Minimising 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
- Reflecting 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
- Using reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

How does contribution rate vary for different employers?

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

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 without directly impacting 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 (e.g. due to outsourcing or redundancies), 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 2016 valuation exercise, the stabilised details are as follows:

Type of employer	Stabilisation Mechanism
Tax Raising bodies excluding Cheshire East Council (including Police and Fire and Parish Councils)	+0.5%pa/-0.5%pa
Cheshire East Council	+1.5%pa/-0.5%pa
Higher/Further Education Establishments	+2.0%pa/-0.5%pa
Academies	Same stabilisation as ceding local authority

All other employers were set an appropriate individual employer rate based on their own individual characteristics. This contribution rate may be different to their theoretical contribution rate. Any deviation will be based on their own circumstances and a range of factors including (amongst other things) their perceived security or covenant, any budgetary constraints that they may be bound by, their likely time horizon as an LGPS employer etc.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate which is available on the Funds website as an appendix to the 2016 Actuarial Valuation Report.

During the year the Fund welcomed 25 new employers into the scheme, 18 schools converted to academies and 7 admitted bodies.

The LGPS regulations requires that admitted bodies carry out, to the satisfaction of the Administering Authority an assessment, taking account of actuarial advice, of the level of risk arising on the premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

Such a risk assessment was carried out for each of the 7 new admitted bodies, admission agreements and pension indemnity bonds are in place or in the process of being put in place for the new bodies. These are to be reviewed on an annual basis.

During the year the fund had 6 employers who ceased membership of the Cheshire Pension Fund. Of these; 4 were admitted bodies, 1 was a parish council and 1 was a housing trust.

Governance Arrangements

Governance is defined in the International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014) as '... the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved'.

The Cheshire Pension Fund is committed to delivering effective governance and to the seven core principles set out in the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in their 'Delivering Good Governance in Local Government (2016)' framework. The purpose of the framework is to assist local authorities in developing arrangements which ensure that:-

- Resources are directed in accordance with agreed policy and according to priorities
- There is sound and effective decision making
- There is clear accountability for the use of resources in order to achieve desired outcomes for service users and communities

Fund Governance Arrangements

Overall responsibility for managing the Fund lies with Cheshire West and Chester Council. The Council have delegated management and administration of the Fund to the Chief Operating Officer, as the s151 officer.

The Chief Operating Officer is advised by the Pension Fund Committee; the Pension Fund Manager, who manages the Fund on a day to day basis; the Council's Director of Governance; the Fund Actuary and the Strategic Investment Advisor.

The Pension Fund Committee receives advice from an Investment Sub-Committee, the Pensions Consultative Forum and the Local Pensions Board to enable it to discharge its responsibilities effectively. The Board's role, as defined by the Public Service Pensions Act 2015, is to assist the Council in ensuring effective governance and administration of the Fund and compliance with all relevant legislation and guidance, and the requirements of the Pensions Regulator.

The Council reviews the discharge of its responsibilities through the Audit & Governance Committee, who receive the minutes of the Pension Fund Committee on a quarterly basis.

The terms of reference and membership of the Pension Fund Committee, Investment Sub-Committee, Pension Consultative Forum and Local Pensions Board are set out in the Governance Policy Statement on pages 66-89. The Policy Statement also includes an assessment of the extent to which the Fund's governance arrangements comply with guidance issued by the Secretary of State.

In December 2016, the Council agreed a number of changes to the terms of reference of the Pension Fund Committee and the Investment Sub-Committee to take effect from 1st April 2018, following the launch of the LGPS Central asset pool. The Council entered into a joint agreement with the Administering Authorities of the Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire and West Midlands Pension Funds to establish the pool in response to national legislation which requires all LGPS Funds to enter into collective arrangements for the management and investment of their assets in order to achieve savings and improve efficiency through scale economies , improved capacity and sharing of resources.

The partner funds have established an arms-length, regulated investment company (LGPS Central Ltd), to manage the asset pool, and are joint and equal shareholders. The Council has appointed the Cabinet Member for Finance & Legal as its shareholder representative, with discretion to exercise its voting rights at company meetings. A Shareholder Forum, comprising the representatives from each of the partner councils meets twice yearly ahead of company meetings to jointly consider matters reserved for shareholder decision, as set out in a Shareholders Agreement.

The operation and performance of the pool, including investment returns and savings targets, is overseen by a Joint Committee, which meets twice yearly. The Chairman of the Pension Fund Committee represents the Fund at meetings of the Joint Committee, which is not a decision making body, but can make recommendations to the individual partner funds.

The Shareholder Forum and the Joint Committee are advised by a Practitioners Advisory Forum, on which the s151 officers and senior pensions officers from the respective partner funds sit.

Assets will be transferred into the pool on a phased basis. Prior to transition, assets will continue to be managed under legacy arrangements with external managers appointed by the Fund, and overseen by the Pension Fund Committee and Investment Sub-Committee.

Governance in practice – how it works

Pension Fund Committee

The Committee met five times during the year, as detailed below:-

	8 June 2018	20 July 2018	14 September 2018	7 December 2018	15 March 2019
Cllr Hogg (Chair)		✔	✔	✔	✔
Cllr Beckett	✔	✔	✔	✔	✔
Cllr Crowe			✔	✔	✔
Cllr Gahan	✔	✔	✔	✔	✔
Cllr Findlow		✔	✔		
Cllr Corcoran	✔	✔	✔	✔	✔
Cllr Baggott	✔	✔	✔	✔	✔
Cllr Durham		✔			
Cllr Wharton	✔	✔	✔	✔	✔
Cllr Bowden	✔	✔	✔		
Paul Matthews	✔	✔			✔

At every meeting the Committee receive a number of Standing Item reports, which include regular updates on:-

- Funding level changes
- Employer and membership changes (admissions/cessations)
- Compliance Report (Breaches Log)
- Regulatory developments
- Progress against Business Plan targets
- Risk Register

The Committee also considers the minutes and recommendations of the Investment Sub-Committee, Pensions Consultative Forum and the Local Pensions Board.

During 2018/19 the Committee also received reports and advised on decisions in respect of:-

Equity Portfolio re-balancing – to reduce exposure in line with the strategic asset allocation target, following strong market performance in 2017/18.

Funding Level triggers and de-risking framework – following the annual review of the Fund's investment risk management framework.

Pooling transition – resulting in decisions to invest in the LGPS Central Global Equity Fund and Low Carbon, Multi-Factor Index Fund and joint investment (with LGPS Central partners) in a Sustainable Equity Fund.

Appointment of Strategic Investment Advisors – following a competitive tendering exercise, Mercer were reappointed for a further 2 years.

Changes to the Funding Strategy Statement – following the introduction of updated regulations on the treatment of employer exit credits.

Responsible Investment – including development of LGPS Central's responsible investment and stewardship framework.

Governance Review – receiving the report and final recommendations following an independent review of the Fund's governance undertaken by Barnett Waddingham.

Cash Flow monitoring – in light of the Fund's increasing maturity.

2019 Valuation Planning and assumptions – including the review of early modelling for major scheme employers undertaken by the Fund Actuary, and confirmation of the financial and membership assumptions for the 2019 valuation exercise.

Training during the year focussed on the Statutory Accounts and Annual Report, Equity portfolio review and transition options, LGPS National Governance Review, developments in the retail property market and valuation 'refresher' training.

During the year members of the Committee also attended (insert details of external events e.g Celtic Manor, Carden Park)

During the year Committee Members undertook a self-assessment of their training needs using the CIPFA Skills and Knowledge Framework. The results will be used to shape future training plans, once nominations to the Committee are confirmed following the May 2019 local elections.

Long standing members of the Committee, Councillors Beckett and Crowe resigned from the Council at the end of 2018/19, there were no other membership changes during the year.

Investment Sub –Committee

The Investment Sub-Committee met 4 times during the year, attendance at this Committee is voluntary. An average of seven members of the Pension Fund Committee attended each meeting. For 2019-20 the Fund will look to create a core group of Committee members who will look to attend every meeting, other members of the Pension Fund Committee will be able to still attend on a voluntary basis.

At each meeting the Sub-Committee receives an Investment Monitoring and Performance report which sets out the overall performance of the fund, the four different investment strategies and each investment manager. This regular report also includes:

- Outputs from the Fund's most recent annual review meetings with investment managers;
- A summary of Corporate Governance issues which includes Equity Manager's voting and engagement activity during quarter; and
- An explanation of Mercer ratings and important notices regarding any changes at investment managers.

The Sub-Committee also received reports and advised on decisions in respect of:

Risk Management / Re-Risking Strategy – to consider a revised 'Risk Management – Committee Guide' which updated the Fund's Risk Management strategy effective from 1 May 2018.

Liability Driven Investment / Real Assets Training — received a presentation from Mercer on De-risking and potential investment options in light of the Fund's significant funding level improvements.

Equity Portfolio - **Voting Engagement and Senior Manager Remuneration** – received a number of reports which considered various aspects of the Fund's current policy on executive remuneration and explained how the Fund exercises its voting rights in companies in which it has an equity holding.

Stock Lending – received a presentation from Mercer which explained what stock lending was and how it worked, why it was used and what the potential risks and issues were for stock lenders such as the Cheshire Pension Fund. A subsequent report on potential changes to the existing policy was considered and the Investment Sub Committee confirmed it did not wish to make any changes.

LGPS Central Investment products – received regular updates on new investment funds that LGPS Central was developing.

Pensions Consultative Forum

The Pensions Consultative Forum met four times during the year. A range of employer bodies were represented as follows

	13 April 2018	13 July 2018	21 September 2018	19 November 2018
Peter Raynes (Chair)	✔	✔	✔	✔
Cheshire West and Chester Council	✔	✔		
Cheshire East Council		✔	✔	✔
Halton Borough Council	✔	✔	✔	
Warrington Borough Council		✔	✔	✔
Cheshire Constabulary	✔	✔	✔	✔
Cheshire Fire & Police	✔	✔	✔	✔
Town & Parish Councils		✔	✔	✔
Cheshire Association of Local Councils (CHALC)	✔			
Universities/FE Colleges		✔		✔
Schools/Academies		✔		✔
Housing Trusts/Associations	✔	✔	✔	
Council owned companies	✔	✔	✔	
Payroll providers	✔	✔	✔	✔
Other employers			✔	✔

In addition to regular updates on scheme developments and administrative performance, the Forum has input into the design and development of the Monthly Interfacing solution which will allow employers to submit regular, on-line returns of membership and contribution data. This is a key element of the Fund's overall Data Improvement Strategy, which will not only address key requirements such as the General Data Protection Regulations and the Pensions Regulator's data quality standards; but will also drive greater processing efficiency, allowing the Fund to improve service delivery to members and tackle some long-standing casework backlogs.

The Forum was also consulted on changes to the Fund's Administration Strategy, including employer responsibilities and performance standards and future arrangements for monitoring and reporting compliance.

Fund officers also briefed on the following issues on which feedback and views from the Forum were sought:-

Guaranteed Minimum Pension (GMP) Reconciliation – regarding the potential impact on scheme members should rectification of pension in payment be required.

Member Retirement process – including the delays experienced by members in receiving their pensions caused by late or incorrect data from employers and payroll providers. The Forum was asked to review updated manager and employer guidance aimed at improving Fund performance in this area.

Project Chrysalis – the Forum received an overview of the major service improvement initiatives currently being implemented within the Pensions Team to address increasing demands and changing expectations.

Annual Benefit Statements – including the need for the Fund and employers to work together to achieve the Pensions Regulator's standards for the timely issuance of individual member statements.

Local Pension Board

The Local Pension Board prepares an Annual Report every year and this is included on the next page.

Local Pension Board – Annual Report 2018-19

Introduction

Welcome to the third Annual Report for the Local Pension Board (LPB) for the year ending 31 March 2019.

During 2018 the board went through a re-nomination process as four of the five members of the Board had been in post for 3 years, in accordance with the terms of reference. Nominations were sought for the posts and the outcome from this process was that the existing members were re-appointed into their roles, albeit with different terms of office to assist with continuity of members.

During the year the Board wanted to expand its knowledge and understanding and to learn from the experience of other Board's. In order to achieve this, the Chairman of the Cheshire Board instigated a meeting with all Board Chairs from other Funds within LGPS Central, the pool operator company.

This group met twice during the year and has also improved links with the Scheme Advisory Board by inviting a representative to the second meeting. The group will continue to meet twice a year to discuss common issues.

The Board have had a particular focus this year on improving the member experience in relation to administration casework. The initial focus has been on improving the timeliness of process retirement cases which is often delayed as the relevant documentation has not been completed ahead of time.

As a result of this focus the Fund has now developed retirement guides which contain clear checklists for both members and employers detailing the steps required on the journey to a member retiring. The guides will be rolled out to all employers following a pilot phase in early 2019.

The Board has also continued to monitor the Fund's performance on compliance with regulations and the Pensions Regulator's Code of Practice Number 14. In addition the Board have also monitored the Fund's approach to meeting the requirements of key projects including the GMP reconciliation with HMRC and the introduction of the Data Protection Act 2018.

The Board has met five times in the last year and members have attended joint training sessions with the Committee in order to maintain and develop knowledge and understanding in key areas which has allowed the Board to satisfy itself that the Fund has managed these key areas compliantly and effectively.

The Board places a great importance on being open and transparent. A wealth of information relating to the Board, including minutes of meetings, can be found on the Fund's website using the link below. There is also a facility for members to contact the Board should they have any questions/issues they would like to raise:
www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/pension-board/

A summary of the work undertaken by the Board, along with information about the work plan for the year ahead can be found below.

Peter Raynes
Local Pension Board Chairman

Details of Membership

The Board consists of five members, two member representatives and two employer representatives as well as an Independent Chair. All members are unpaid volunteers.

Many of the members had been in post since 2015 and so, in accordance with the Board's terms of Reference, a re-nomination process was carried out during 2018. The outcome of the process was that the four existing members who had been in place since 2015 were re-appointed.

The terms of office, however, have been split between two and three years to ensure continuity of membership. Further information, including biographies of each member is available on the website.

Type	Name	Organisation	Date Appointed	Term End Date
Employer	Adrienne Laing	The Challenge Academy Trust	1/4/17	31/3/20
Employer	Cllr Robert Bisset	Cheshire West and Chester Council	27/6/18	26/6/21
Member	Geoff Wright	UNISON	27/6/18	26/6/21
Member	Neil Harvey	GMB	27/6/18	26/6/20
Chairperson	Peter Raynes	Independent (non-voting)	27/6/18	26/6/21

Summary of 2018/19 and plans for 2019/20

Below is a summary of key achievements during the year and the Board's plans for the year ahead.

Joint Chairs Meetings

The Chairman of the Board and the Pension Fund Committee continue to meet on a quarterly basis to discuss common issues. This allows the Chairs to agree how issues should be taken forward thereby ensuring that the work of the Board complements and assists the Administering Authority, and avoids duplication of effort.

Pensions Consultative Forum

The Pensions Consultative Forum work with the Fund to ensure that it delivers an efficient service for all stakeholders, with particular emphasis on administration and communication. The Forum's membership is made up of representatives from the main employers and employer groups within the Fund.

As well as acting as the Chair of the Board, Peter Raynes is also the Chair of the PCF providing an important link between the Board and the Forum.

The Forum will be key to assisting the Fund in developing new ways of working which will improve efficiency for both the Fund and Employers.

Attendance at Committee Meetings / Joint Training

Given that the role of the Board is to assist the Fund in ensuring compliance with laws and regulations, which extends to include assurance that the Committee is carrying out its functions effectively, Board members will attend Committee meetings in an observer capacity as required.

The Board and Committee also attend joint training sessions on a variety of topics throughout the year.

Governance Review

During the year the Pension Fund commissioned the services of Barnett Waddingham to conduct a review of the governance arrangements within the Fund, including the role of the Board. The review found that the pension fund worked well and there were no material issues to be addressed. The review did, however, identify some specific issues relating to the Board, mainly relating to tidying up the Terms of Reference to reflect actual practice. Board members will consider the points raised in 2019/20 and determine whether any changes are required.

Performance Management Framework

At each meeting the Board is presented with a Performance Management Framework (PMF). The PMF captures key performance information from across the Fund, including administration, finance, HR, complaints, debt recovery and feedback from external sources.

The framework is updated on a quarterly basis and provides comparative information from prior quarters to allow the Board to determine the extent of any changes between the periods.

The framework will satisfy a number of purposes:

- It allows the Board to monitor performance against the outcomes identified in the Fund's Business Plan.
- It provides supporting evidence to demonstrate compliance with regulations and best practice, and;
- It provides a focus for further improvements.

The Board will review the framework on a quarterly basis and make any necessary recommendations to the Pension Fund Committee in order to improve the performance of the Fund. A summary of the PMF results are published along with the Local Pension Board meeting papers.

LGPS Central Board Chairs / Scheme Advisory Board

The Chairman of the Cheshire LPB arranged a meeting with the Chairs of all other Boards within LGPS Central. The meeting was arranged to gain a better understanding of how Boards are set up and how they operate.

At the first meeting in October 2018 the 'Chair's agreed that they would value a close relationship with the Scheme Advisory Board so that they could be sure that they were operating effectively and were considering the relevant issues.

A representative from SAB was invited to the February 2019 meeting. Bob Holloway attended on behalf of SAB and there was a useful discussion on a number of topics. SAB are now considering how this same level of engagement can be achieved with all Funds/Pools going forward.

SAB will be repeating the 2017 survey, which was designed to understand progress being made by Boards nationally, in 2019. The Cheshire Board Chairman was pleased to have been given the opportunity to comment upon the draft survey and that the comments have been accepted.

Local Government Association – Fundamentals Training

The Cheshire Pension Fund Local Pension Board has been recognised as a best practice leader in the LGPS.

As a result officers have been asked to present a slot on Day 3 of the 2019 Fundamentals training programme explaining how the Cheshire Board works, what topics it considers and how the Board has assisted the Fund to improve its efficiency and effectiveness.

The Pensions Regulator – Code of Practice

The Fund undertook a further review of its compliance with the Code of Practice and presented the results to the Board at the meeting in February. The Fund is largely compliant in most areas and did not identify any areas of major concern or requiring immediate attention.

There are, however, areas where further improvement is required in order to secure full compliance. The Board will continue to monitor the Fund's progress with this improvement plan.

Data Quality

Another key area of focus for the Board is to track the Fund's progress in improving the quality of data held by the Fund. The Fund complied with the TPR requirements to provide data scores for its common and scheme specific data in the 2018 Scheme Return.

Following this disclosure the Fund now repeats this exercise on a quarterly basis and reports the results to the Board so that they can track the improvements being made. As well as the scores the Board are also updated on the actions being taken to resolve the data queries on records which are not 100% compliant.

Board members are also regularly updated on all other measures which are taking place in order to improve data quality across the Fund.

Breaches Policy/Log

The Board continues to have a critical role in the Breaches process. The Breaches Log is updated on a monthly basis with any new breaches identified. In the first instance Officers investigate the breach (seeking expert opinion as and when required) and make a recommendation to the Board advising them whether Officers consider that the breach should be reported to the Pensions Regulator.

The Board then provide their own opinion within 3 days. Any cases which require reporting to the Regulator are also sent to the Director of Governance, who is the responsible person as set out in the breaches policy, for a final decision.

In addition to reviewing the breaches log on a monthly basis the Board also review the entire breaches log on a quarterly basis in order to identify any trends which require further investigation. The Breaches policy and Breaches Log are available on the Fund's website.

Member Engagement

The Board has a facility on the Fund's website to allow members to contact them with any questions. The Board received one question from a pensioner member via this facility during the year and provided a response.

2019/20 Work Plan

The Board will continue to monitor the Fund's progress in improving the data quality of the Fund and in meeting the requirements of GDPR. In addition, the Board will monitor progress on the various work strands designed to ensure that the Fund improves the efficiency of how it delivers the service going forward which includes critical developments to the administration database, changes to the way the team is structured and how the Fund interacts with its stakeholders.

The Board will continue with its compliance role in ensuring that Fund documents are produced and updated in line with statutory and best practice guidance. Examples of such documents are the Statement of Accounts, the Funding Strategy Statement, Investment Strategy Statement, Breaches Policy, Administration Strategy and Communications Policy.

The Board also undertake annual reviews of their own policies, such as the Terms of Reference and Code of Conduct Policy, to ensure that they remain fit for purpose.

This will allow the Pension Fund Committee to concentrate on making decisions safe in the knowledge that the Fund is compliant with statutory and best practice and that any areas for development will be highlighted to them by the Board.

Attendance at Meetings

The terms of reference for the Board state that there should a minimum of 2 meetings per year. However, at its first meeting members of the Board elected to meet a minimum of 4 times per year. There were 5 meetings held during 2018-19.

The table below summarises the meetings which have taken place including attendance by members of the Board.

Members	25 April 2018	8 June 2018	17 July 2018	6 November 2018	5 February 2019	Percentage
Peter Raynes	✔	✔	✔	✔	✔	100%
Cllr Rob Bisset	✔	✔	✔			60%
Adrienne Laing	✔	✔	✔	✔	✔	100%
Geoff Wright	✔	✔	✔	✔	✔	100%
Neil Harvey	✔		✔	✔	✔	80%

The meeting on the 8 June was dedicated to the review of the draft Statement of Accounts for 2017/18 to ensure that they had been produced in accordance with statutory requirements and best practice. This is an important part of the Fund's governance process for the production of the Statement of Accounts.

The meeting took place ahead of the Pension Fund Committee's own review of the draft accounts and provided assurance to the Committee that they could recommend the draft accounts to be presented to the Audit and Governance Committee.

Skills and Development Activities

The Board and Committee have again attended several joint training sessions during the year which, as well as developing Board members knowledge, have also helped the Board to gain assurance that the Committee decision making processes are robust and properly informed, and are in accordance with regulations and best practice.

A summary of the training provided for the Board, including attendance, during 2018-19 is shown below.

Date	Topic	Delivered by	Attendees
20 July 2018	Pooling Update National Governance Assessment	Officers Hymans Robertson	Peter Raynes Geoff Wright Neil Harvey
23 November 2018	Good Governance Project / National Confidence Assessment Equity Portfolio Review Managing risk in property portfolios	Hymans Robertson Mercer Patrizia	Peter Raynes Geoff Wright Neil Harvey
1 March 2019	Review of Fund Governance Investment Pooling Transition 2019 Actuarial Valuation	Barnett Waddingham Mercer Hymans Robertson	Peter Raynes

Board members will also attend external conferences and seminars in order to maintain knowledge and also to keep up to date with current issues facing the LGPS. The events which Board members have attended during the year include:

- Government Actuaries Department - Section 13 / Data Quality Seminar – 11 June 2018
- CIPFA / Barnett Waddingham – Local Pension Boards Annual Seminar – 27 June 2018
- LPB Spring Seminar – CIPFA/Barnet Waddingham – March 2019
- Annual Pensions Conference – CIPFA – 22 November 2018
- LGC Investment Seminar – 28 February – 1 March 2019
- LGPS Central – LPB Chairs Meetings - 10 December 2018 and 20 February 2019
- LGPS Central – Stakeholder Day – 27 February 2019
- Cross Pool Open Session – Scheme Advisory Board – 27 March 2018

Budget

The Board agreed a notional budget of £10k for 2018-19 to assist with its operation. This included costs for training, external advice, expenses and travel costs.

In its fourth year of operation the Board incurred costs of £3.1k with £1.9k spent on training and £1.2k on travel and subsistence costs.

If you would like further information regarding the Cheshire Pension Fund Local Pension Board or have any questions please visit our website: **www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/pension-board/**

Governance – review of effectiveness

During 2018/19 the Fund commissioned Barnett Waddingham to undertake an independent review of its governance arrangements. This included a 'desktop' review of governance policies and associated documentation, as well as attendance at meetings of the four main governance bodies (Pension Fund Committee, Investment Sub-Committee, Pensions Consultative Forum and Local Pensions Board) to observe them at work, and carry out interviews with individual members and advisors to collect individual feedback and experience. The overall conclusion of the review was that the current governance and decision making arrangements are 'effective, and considered to be among the most well informed', and whilst a number of improvement recommendations were made, no fundamental changes were proposed.

Additionally, an assessment of current practice has been undertaken against the CIPFA/SOLACE 'Delivering Good Governance Framework 2016'. The table in Annex 1 summarises the arrangements the Fund has in place to deliver the seven principles of good governance set out in the framework.

Member Training

In relation to elected Member Training, the Cheshire Pension Fund's objectives are to ensure that:

- Those persons charged with the financial management and decision-making with regard to the LGPS Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them;
- Those persons responsible for the day-to-day administration and running of the Fund are appropriately equipped with the knowledge and skills required to discharge their duties and responsibilities in relation to the Fund;
- Those persons responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based, and to manage any potential conflicts of interest

To help meet these objectives the Fund has published a Training Policy, which details the training strategy for members of the Pension Fund Committee, the Local Pension Board, and Senior Officers involved in the management of the Fund.

The Training Policy was reviewed and updated in 2015-16 and the revised policy was formally adopted by both the Pension Fund Committee and the Local Pension Board.

The Fund has adopted the CIPFA Knowledge and Skills Framework, and The Pensions Regulator's Code of Practice as the basis for assessing training and development requirements and for on-going delivery planning.

Training plans are based on the following key elements:-

	Training Plan	How delivered
Individual Training Needs	A training needs analysis, based on the CIPFA Knowledge and Skills Framework, will be developed for each member and officer. Training plans will be developed based on the priorities identified.	The Pensions Regulator – Trustee Toolkit (online learning) External courses e.g. LGA Fundamentals training (for new members). In-house training led by officers, external advisors or third party experts.
Corporate Training	Appropriate training will be provided at critical times to support specific decisions that the Committee need to make (i.e. valuation training, specific investment training)	In-house training days provided by officers and/or external providers Training as part of meetings External training events Attendance at seminars/conferences
Continued Awareness	Members and Officers will be required to maintain a general level of awareness of topical issues facing the wider pensions industry	Industry publications Member Briefing packs National press releases Attendance at conferences and seminars

Induction training is also provided for newly appointed members of the Pension Fund Committee and Local Pension Board to establish a clear understanding of the Fund's governance, policy and performance framework. As collaboration between the LGPS Central partner Funds develop, opportunities for joint training and shared learning will be explored.

During 2018-19 the following sessions were held for all members of the Pension Fund Committee and Local Pension Board :-

Date	Topic	Delivered by	Attendees	
20 July 2018	Pooling Update National Governance Assessment	Officers Hymans Robertson	Cllr Hogg Cllr Beckett Cllr Gahan Cllr Durham Cllr Findlow Cllr Baggot Cllr Corcoran	Cllr Wharton Cllr Bowden Paul Matthews Peter Raynes Geoff Wright Neil Harvey
23 November 2018	Good Governance Project / National Confidence Assessment Equity Portfolio Review Managing risk in property portfolios	Hymans Robertson Mercer Patrizia	Cllr Hogg Cllr Crowe Cllr Beckett Cllr Gahan	Cllr Findlow Cllr Durham Cllr Corcoran Cllr Wharton
1 March 2019	Review of Fund Governance Investment Pooling Transition 2019 Actuarial Valuation	Barnett Waddingham Mercer Hymans Robertson	Cllr Hogg Cllr Beckett Cllr Crowe Cllr Gahan	Cllr Findlow Cllr Baggot Paul Matthews Peter Raynes

The Pension Fund has designated the section 151 Officer to be responsible for ensuring that the policy in respect of training and education is implemented. In this capacity, he has issued the following statement of assurance :-

Statement of the section 151 Officer

As the officer nominated by the Pension Fund Committee responsible for ensuring that the authority's training policies and strategies are implemented, I can confirm that the officers and members charged with the financial management and decision-making of the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Mark Wynn
Chief Operating Officer
S151 Officer

Governance Policy Statement

May 2019

1. Introduction

Cheshire West and Chester Council is the Administering Authority for the Cheshire Pension Fund. Local Government Pension Scheme (LGPS) regulations require that Administering Authorities publish a Governance Policy Statement. This statement has been prepared by Cheshire West and Chester Council in consultation with appropriate interested persons.

2. Purpose of Governance Policy Statement

The LPGS regulations on governance policy statements require an Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- whether it delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- the terms, structure and operational procedures of the delegation,
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the frequency of any committee or sub-committee
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relating to the Local Pension Board

3. Governance of the Cheshire Pension Fund

Overall responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council (the Council) which has delegated the management and administration of the Fund to the section 151 Officer.

The Full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee.

The section 151 Officer is advised by the Pension Fund Committee and also takes appropriate advice from the Councils Head of Governance, the Fund Actuary and from the strategic Investment Advisor.

The Local Pension Board assists the Council to deliver efficient governance and administration of the Pension Fund responsibilities through the Pension Fund Committee

The Pension Fund Committee also receives recommendations from the Investment Sub Committee and the Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively.

The Terms of Reference for the Pension Fund Committee, Investment Sub-Committee, Local Pension Board and Pension Consultative Forum are set out in Appendix 1, along with details of membership and voting rights.

With effect from 1st April 2018, all LGPS administering authorities are required to enter into pooled arrangements for the management of their investment assets. The Council has entered into a joint agreement with Administering Authorities of the Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, Worcestershire and West Midlands Pension Funds to establish the LGPS Central pool.

The objectives of the pool are to:-

- meet the investment objective of the participating funds
- establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency
- develop internal investment management capabilities for the collective benefit of the Council's in order to provide wider investment choice and market competition
- create capacity to invest in asset classes which individual funds may find difficult to access
- stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector)
- act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship
- create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments.

The pool funds have established a wholly owned, arms-length investment management company (LGPS Central Ltd) to manage pooled assets through a range of collective investment funds.

LGPS Central Ltd is regulated by the Financial Conduct Authority (FCA) and is responsible for the appointment, monitoring and dismissal of fund managers, custody and safe-keeping of assets and the discharge of voting rights on behalf of the pool Funds.

A Joint Committee has been appointed to oversee the performance of the pool. It also makes recommendations to the pool Funds with regard to the development of common investment policies and approaches, consistent with the objectives set out above. The Chairman of the Cheshire Pension Fund Committee acts as a representative on the Joint Committee, which meets twice yearly.

As equal shareholders in LGPS Central Ltd., the pool Funds also exercise ownership rights over the company, holding twice yearly Shareholder Forum meetings to review company performance, and to decide reserve matters in accordance with the Companies Act, and the LGPS Central Ltd Shareholder Agreement.

The Council's Cabinet Member for Finance & Legal acts as the Cheshire Pension Fund's representative on the Shareholder Forum, to avoid any potential conflict between the Council's investment and ownership interests.

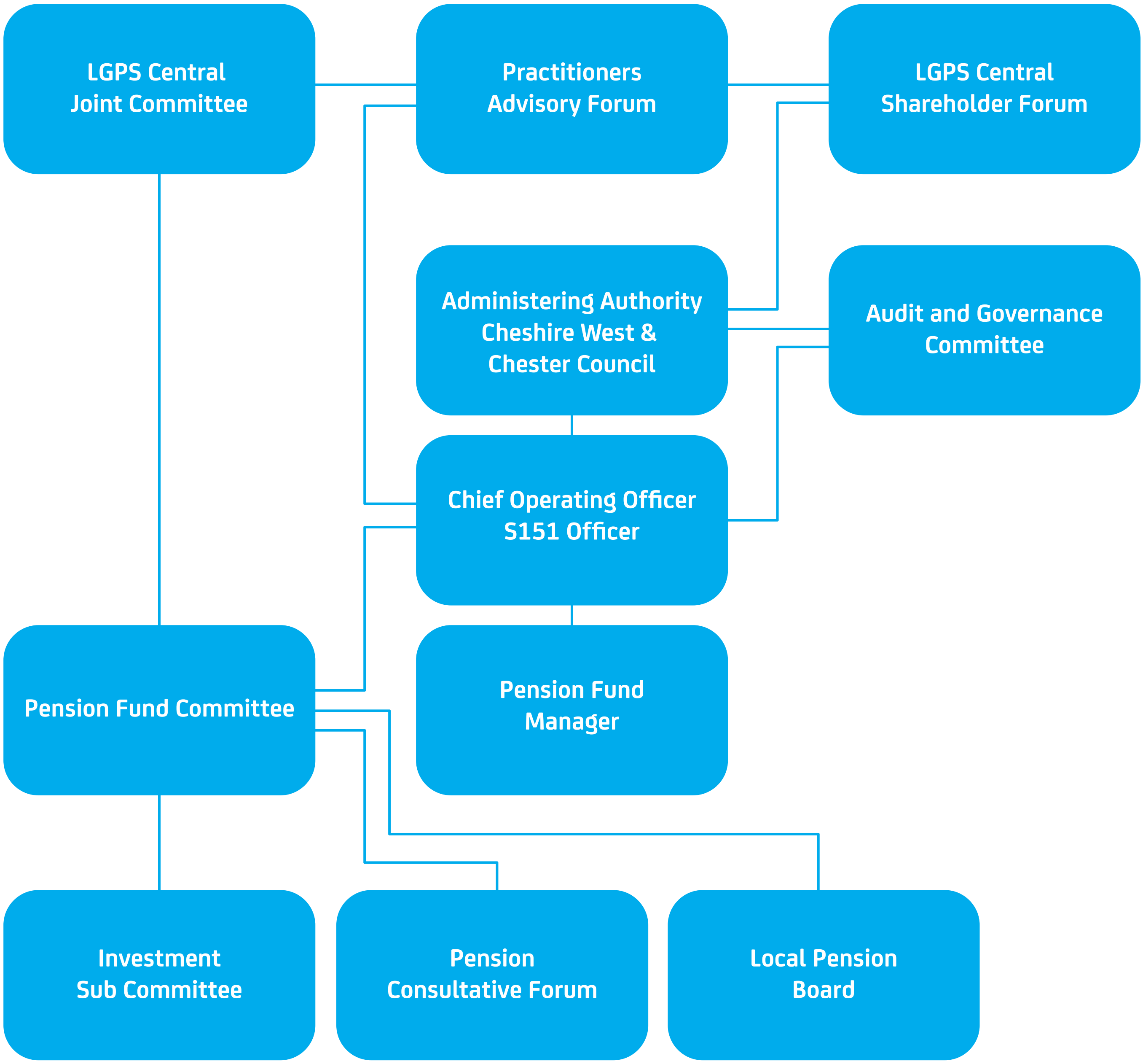
The Joint Committee and Shareholder Forum are supported by a joint officer group – the Practitioners Advisory Forum, which includes the s151 officers and senior pensions and investment officers from each of the pool Funds.

The Terms of Reference for the LGPS Central Joint Committee, Shareholder Forum and Practitioner Advisory Group are set out in Appendix B.

Individual pool Funds retain responsibility for determining investment strategy and overall asset allocation, and for pensions administration, member communication and local accountability.

The Council has agreed amended Terms of Reference for the Pension Fund Committee and Investment Sub-Committee to reflect the transfer of responsibilities to the pool. The transition will take place on a phased basis, over a period of 3-5 years. In the interim, the Pension Fund Committee and Investment Sub-Committee will continue to discharge their historical responsibilities in respect of non-transitioned, legacy assets (see Appendix A).

Cheshire Pension Fund Governance Arrangements



4. Governance Compliance Statement

LGPS Regulations require pension fund's to issue a statement confirming the extent to which their governance arrangements comply with guidance issued by the Secretary of State. The statement below confirms the mechanisms in place to satisfy each requirement.

Principle	Compliance	Evidence of Compliance
Structure		
The Management of the administration of benefits and strategic management of the Fund assets clearly rests with the main committee established by the appointing Council.	Partial	The Council has delegated responsibility for the administration of benefits and strategic management of the Fund to the Section 151 Officer, who is supported by the Pension Fund Committee. The Committee's key responsibilities are to advise the Section 151 Officer on the Management of the Fund. These arrangements ensure that Administering Authority and Non-Administering Authority representatives have equal status (and voting rights) on the main committee. Whilst these arrangements differ from that expected by the guidance, they have been independently assessed as sound and effective. Council Constitution, Pension Fund Committee (PFC) Terms of Reference
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.	Compliant	All participating employers are represented either on one or more of The Pension Fund Committee (PFC), the Local Pension Board (LPB) or Pensions Consultative Forum (PCF). Scheme members are represented by the nominated Trade Union representatives on all of the above. Pension Fund Committee, Local Pension Board and Pension Consultative Forum Terms of Reference.
Where a secondary Committee or Board has been established, the structure ensures effective communication across both levels.	Compliant	The ISC meet 4 times per year, before the PFC. Minutes from the ISC are presented to the PFC. The LPB meet 4 times per year after the meetings of the PFC. LPB Minutes are reviewed by the PFC and vice versa.
Representation		
That all key stakeholders are afforded the opportunity to be represented within the governance structure. These include: i) Scheme employers (including non-local government employers e.g. admitted bodies) ii) Scheme members (including deferred and pensioner scheme members) iii) Independent professional observers, and iv) Expert advisors (on an ad hoc basis)	Partial	The key stakeholders are represented within the governance structure as outlined in the relevant terms of reference, as follows: i) Major scheme employers (local Councils) are represented on the PFC and PCF. Non-local government employers are represented on the PCF. ii) Scheme members are represented on the PFC, LPB and PCF by nominated Trade Union representatives. iii) There is no formal representation for independent professional observers, but current governance arrangements have been independently assessed as effective, as they stand. iv) Expert actuarial and investment advisors regularly attend meetings of the PFC and ISC , other advisors attend on specific issues as and when required.

Principle	Compliance	Evidence of Compliance
Voting		
The policy on voting rights is clear and transparent.	Compliant	Voting rights are clearly set out in the terms of reference for each of the governance bodies.
Training / Facility Time / Expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority there is a clear policy on training, facility time and re-imbursement of expenses in respect of members involved in the decision making process.	Compliant	There is a clear published policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.
Where such a policy exists, it applies equally to all members of the main and sub committees and Board.	Compliant	The policy applies equally to all members of PFC, ISC and LPB
Meetings (Frequency / Quorum)		
The main Committee meets at least quarterly.	Compliant	The PFC meets quarterly with additional special meetings as and when required.
The Sub-Committee and Board meet at least four times per year and the meetings are synchronised with the dates when the main committee sits. The Consultative Forum will also meet up to a maximum of 4 times per year.	Compliant	Meetings take place quarterly and are synchronised with the PFC.
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees, Boards or forums have equal access to committee papers, documents and advice that is considered at meetings of the main committee.	Compliant	All ISC, LPB and PCF documents are reported to the PFC. The agenda papers and minutes of the PFC are published on the Fund's website.
Scope		
That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Cheshire West and Chester Council is fully compliant with this principle by bringing both investments, administration and benefits and wider governance issues under the remit of the PFC. The introduction of the ISC allowed the PFC to focus on the wider management of the fund and not just investments.
Publicity		
That the Administering Authority has published details of their governance arrangements in such a way, that those stakeholders with an interest in the way the scheme is governed, can express an interest to be part of those arrangements.	Compliant	Cheshire West and Chester Council is fully compliant with this principle by publishing statements in the Annual Report on our Website.

5. Contacts and Further Information

The Section 151 Officer (Mark Wynn) is responsible for the day to day management of the Cheshire Pension Fund including Fund investments, accounting and benefits administration.

The Cheshire Pension Fund is structured into three main teams:

Stakeholder Relations Manager
Nick Jones
Tel: 01244 972653
nick.jones@cheshirewestandchester.gov.uk

Finance and Investments Manager
Steve Wilcock
Tel: 01244 977507
steven.wilcock@cheshirewestandchester.gov.uk

Operations Manager
Heidi Catherall
Tel: 01244 972665
heidi.catherall@cheshirewestandchester.gov.uk

Pension Fund Website
Contains information about the Fund and includes all published documents **www.cheshirepensionfund.org**

Cheshire West and Chester Council Website
Contains information about the Council's constitution, scheme of delegation ,committee terms of reference and agenda papers and minutes, including those of the Audit & Governance Committee.
www.chesterwestandchester.gov.uk

You can also e-mail the office on:
pensions@cheshirewestandchester.gov.uk

or write to us at:
Cheshire Pension Fund, Cheshire West and Chester Council,
4 Civic Way, Ellesmere Port, CH65 0BE.

Appendix A: Terms of Reference

The Pension Fund Committee

The Pension Fund Committee's key responsibilities are to advise the s151 Officer on the management of the Cheshire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets, taking advice from an actuarial and strategic investment advisor. The Committee principally fulfil this responsibility by:

- Meeting quarterly, or otherwise as necessary, to effectively monitor the management and administration of the Fund;
- Monitoring investment policy and overall investment performance;
- Selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund.
- Determining what the Administering Authority requires the pool to provide to enable it to execute its local investment strategy effectively.
- Receiving and considering reports and recommendations from the Joint Committee, Shareholders Forum and Practitioners Advisory Forum, established to oversee the pool, and ensuring the Fund's investor rights and views are represented effectively.
- Identifying and managing risks associated with asset pooling
- Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling.
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively
- Reviewing the Funds governance arrangements and the effective use of its advisors to ensure good decision-making;
- Overseeing the Pensions Consultative Forum (PCF) arrangement and compliance with best practice;
- Receiving recommendation from the (PCF) on ways to improve the administration and communication between the scheme, its employers and members ; and
- Reviewing and advising on the development of an Investment Strategy Statement, Funding Strategy Statement, Communication Policy, Administration Policy, Governance Compliance Statement and publishing a Pension Fund Annual Report

On an interim basis, in respect of non-pooled, legacy assets; the Pension Fund Committee is also responsible for:-

- Overseeing the appointment and termination of investment managers
- Reviewing the performance benchmarks and targets for investment managers

The Committee receive recommendations from the Investment Sub-Committee, the Local Pension Board and the Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively.

Membership & Representation		
Cheshire West and Chester Council	Elected Members	4 (voting rights)
Cheshire East Council	Elected Members	4 (voting rights)
Warrington Borough Council	Elected Members	1 (voting rights)
Halton Borough Council	Elected Members	1 (voting rights)
Employee Representative	Union Representative	1 (non-voting rights)

Cheshire West and Chester Council as Administering Authority ensure that the correct political balance is maintained.

Decisions are made by a clear majority and the Chairman of the Committee has a casting vote should there be equality in the voting.

Amended terms of reference were approved by Council December 2016.

The Investment Sub-Committee

The Sub Committee is open to all members of the Full Committee and ensures that the Pension Fund Committee limited governance time is utilised in the most efficient manner, with this Sub-Committee focussing on more complex investment issues.

The Sub-Committee fulfils this responsibility by:-

- On a quarterly basis, reviewing the performance of the Pension Fund and the pool operator against the objectives, benchmarks and targets set
- After taking appropriate advice, identifying and implementing any tactical asset switches (within ranges prescribed by the Pension Fund Committee).
- Receiving reports from the Fund's investment managers and other service providers on issues that may impact the Fund's investment strategy and objectives and considering if, and to what extent, any recommendations to the Pension Fund Committee may be necessary to ensure the efficient and effective performance of the Pension Fund.

On an interim basis, in respect of non-pooled, legacy assets the Investment Sub-Committee is also responsible for :

- On a quarterly basis, reviewing the performance of Fund managers against the objectives, benchmarks and targets set
- Receiving and considering any investment manager or service provider issues escalated to the Sub-Committee by key officers

Membership & Representation		
Cheshire West and Chester Council	Elected Members	2
Cheshire East Council	Elected Members	2
Warrington or Halton Borough Council	Elected Members	1

Cheshire West and Chester Council as Administering Authority ensure that the correct political balance is maintained.

The ISC are not a decision making body and make recommendations to the main Pension Fund Committee.

Amended Terms of Reference approved by Council December 2016

The Local Pension Board

The role of an LGPS Board is defined by Public Service Pensions legislation and Regulations. The Board's aim is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS, including:

- Securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- Such other matters as the LGPS regulations may specify.

The Board will ensure it effectively and efficiently complies with the Guidance issued by the LGPS Scheme Advisory Board and may determine the areas it wishes to consider including:

- Meeting for a minimum of two occasions during a twelve month period.
- Reviewing regular compliance monitoring reports which shall include reports to and recommendations of the Committee and delegated decisions made under the Regulations.
- Monitoring complaints and performance on the administration and governance of the scheme.
- Reviewing the implementation of revised policies and procedures following changes to the Scheme.
- Reviewing the arrangements for the development of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- Reviewing the exercise of employer and Administering Authority discretions.
- Reviewing the outcome of internal and external audit reports, review the draft accounts and the scheme Annual Report.
- Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

Membership & Representation	
An Independent Chairperson (no voting rights)	1
2 employer representatives (with voting rights)	2
2 member representatives (with voting rights)	2

Terms of Reference approved by Local Pensions Board August 2015

Pension Consultative Forum

The Fund is keen for all stakeholders to participate in the efficient and effective administration of the Fund and achieves this through the Pension Consultative Forum which consists of employer representatives from Local Authorities, Council Owned Companies, Cheshire Police, Fire and Rescue Authorities, Parish and Town Councils, Housing Associations, Admitted Bodies, Academies, Colleges and the Trades Unions. The Forum allows the Fund's stakeholders to bring their own perspective to the management of the Fund. The Forum's key responsibilities are set out below.

The Forum determine the frequency of meetings, subject to a minimum of four meeting per year, or otherwise as necessary to:

- Consult on and review performance against the Fund's administration strategy to ensure that it clearly outlines all responsibilities of both the Fund and employers including any applicable charges/penalties for non-compliance;
- Consult on and review performance against the Fund's communication policy and suggest improvements for the efficient and effective flow of information between the Fund and employers
- Make and implement recommendations on the administration strategy and communication policy of the Fund
- Assist the Fund and employers to comply with all requirements of the Pensions Regulator's Code of Practice No 14 Governance and Administration in Public Sector Pension Schemes, in particular reporting breaches of the law and record keeping.

Membership & Representation	
A Chairperson (who may also be the Chairperson of the LPB)	1
An Employee Representative	1
Up to two representatives from Cheshire West and Chester Council	2
Up to two representatives from Cheshire East Council.	2
One representative each from Warrington and Halton Borough Councils	2
One employer representative from Cheshire Police, Cheshire Fire & Rescue, Academies, Colleges, Admitted Bodies, and the Housing Trusts.	1

Terms of Reference approved by Pensions Consultative Forum June 2016

Appendix B: LGPS Central Pool Governance

LGPS Central Joint Committee

The Joint Committee is a public forum for the Councils within the LGPS Central Pool (the Pool) to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The Joint Committee shall provide assistance, guidance and recommendations to the individual Councils in connection with the functions set out below taking into consideration the conflicting demands and interests of the participants within the Pool. The Joint Committee does not have delegated authority to make binding decisions on behalf of the participating Councils.

Membership

- The Joint Committee shall consist of one elected member from each Council.
- Each Council may nominate one or more elected member (s) to attend any meeting of the Joint Committee or its sub-committees in place of an appointed member from a Council, subject to prior notification being given to the Clerk to the Joint Committee or his or her nominee.
- Each Council may remove its appointed members or substitute members and appoint different members and substitutes by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each appointed member or substitute shall be entitled to remain on the Joint Committee for so long as the Council appointing them so wishes, but shall cease to be a member or substitute if he or she ceases to be a member of the appointing Council or if that Council removes the appointed member.
- Any casual vacancies will be filled as soon as reasonably practicable by the Council from which such vacancy arises by giving written notice to the Clerk to the Joint Committee or his or her nominee.
- Each member of the Joint Committee shall comply with any relevant codes of conduct of their Council when acting as a member of the Joint Committee.
- A Trade Union representative shall be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

Role and function

1. To provide oversight of the objectives of the Pool as listed below:
    - to meet the investment objectives of the participating LGPS funds;
    - to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
    - to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;
    - to create capacity to invest in asset classes which individual funds may find difficult to access;
    - to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
    - to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
    - to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
    - Following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central Ltd, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central Ltd to manage any non-eligible pension assets outside of such vehicle(s).
2. To provide oversight of the delivery of client service.
3. To provide oversight of delivery against the LGPS Central business case.
4. To deal with common investor issues, with a particular focus on Responsible Investment

The Practitioners' Advisory Forum (PAF) shall provide a central resource for advice, assistance, guidance and support for the Joint Committee and shall support the functions of the Joint Committee. PAF shall provide technical support at meetings of the Joint Committee and shall act as a conduit for the Joint Committee to communicate back to the respective Councils and/or direct to LGPS Central Ltd as appropriate.

Meetings

- The Clerk to the Joint Committee will be the Head of Paid Service or nominee of Cheshire West and Chester Council who will work within a budget set by the Councils.
- The Joint Committee will meet twice a year in June and December with the location to be rotated around the Shareholding Councils.
- The Clerk to the Joint Committee or his or her nominee will give

notice to the public of the time and place of the meeting in accordance with Part VA[1] of the Local Government Act 1972. At least five clear working days before a meeting, the clerk to the Joint Committee or his or her nominee will send a summons signed by the Clerk to the Joint Committee or his or her nominee electronically to every Member. The summons will give the date, time and place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

- Each Council within the LGPS Central Pool will publish a link on its own website to the relevant page on Cheshire West and Chester Council's website providing access to the Joint Committee's agendas and minutes.
- The Chair and Vice Chair of the Joint Committee will be elected by the Joint Committee from amongst its members and shall initially hold those offices until December 2019. Thereafter, the Chair and the Vice Chair of the Joint Committee will hold those offices until the first meeting held after 30 November in the following year. Both the initial and subsequent Chairs and Vice Chairs may be re-appointed to serve a further term or terms.
- If there is a quorum of members present but neither the Chair nor the Vice Chair is present at the meeting of the Joint Committee, the other members of the Joint Committee shall elect one of the members of the Joint Committee as Chair of the Joint Committee for that meeting only.
- The quorum of a meeting will be at least five members who are entitled to attend and vote.
- Each elected member shall have one vote on any recommendations. Any matter will be decided by a simple majority of those members of the Councils represented in the room at the time the question was put. In the case of an equality of votes the Chair shall have a second or casting vote but before exercising this, the Chair shall consider whether it is appropriate to defer the matter to the next meeting of the Joint Committee. The Chair shall take account of the governing principles to the LGPS Central pooling agreement when exercising the casting vote.
- The member appointed as a substitute shall have the same voting rights as the member for whom he or she is substituting and who does not attend. Where the appointed member attends the substitute member shall not have any right to vote after the conclusion of the item of business being discussed when the appointed member arrives, but may remain at the meeting as an observer.
- The Chair will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.
- The Clerk to the Joint Committee or his or her nominee shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall send them to the members of the Joint Committee for on-line approval within three weeks of the meeting. At the next meeting of the Joint Committee, the Chair shall move that the minutes of the previous meeting be ratified as a correct record. If this is agreed, the Chair of the Joint Committee shall sign the minutes.
- Any elected member of the Councils who is not a member of the Joint Committee may speak at a meeting of the Joint Committee if the Chair of the Joint Committee invites him or her to do so but an elected member of the Councils who is not a member of the Joint Committee shall not be entitled to vote at a meeting of the Joint Committee.
- Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to take action because of a disturbance. Copies of the agenda for meetings of the Joint Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of all of the Councils unless the Clerk to the Joint Committee determines that any report relates to items in which his or her opinion are likely not to be open to the public.
- In accordance with Part VA of the Local Government Act 1972, the Joint Committee shall exclude the public from its meetings whenever it is likely, in view of the nature of the business to be discussed or the nature of the proceedings that, if members of the public were present, confidential information would be disclosed to them in breach of the obligation of confidence.
- If any member of the public interrupts proceedings, the Chair will warn the person concerned. If they continue to interrupt, the Chair will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.
- If there is a general disturbance in any part of the meeting room open to the public, the Chair may call for that part to be cleared.
- Each Council will undertake the overview and scrutiny function on its own behalf in accordance with their constitutions.
- Items for inclusion in the meetings:
  1. Update on delivery against the objectives of the Pool
  2. Investment Performance & Cost Reporting
  3. Benchmark Reporting
  4. Service Level Agreement Reporting
  5. Update on delivery against the LGPS Central Business Case
  6. MHCLG & SAB Reporting
  7. Responsible Investment
  8. Investment Outlook
  9. Training/LGPS Central Events Programme
  10. Other Relevant Common Investor Issues

Terms of Reference Review

These terms of reference will be reviewed annually

[1] Meetings of councils and their committees are expected to be open to the public, except in the circumstances set out in Part VA of the Local Government Act 1972.

LGPS Central Shareholders' Forum

The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPS Central Ltd (the Company) and to represent the ownership rights and interests of the Shareholding Councils (the Councils) within the LGPS Central Pool (the Pool). The Shareholders' Forum is independent of the Company and its meetings are distinct from Company meetings, however members of the Shareholders' Forum will also represent the Councils at Company meetings.

The Councils are individual investors in the Company and each Council will have in place local arrangements to enable its Shareholder representative to vote at Company meetings. The Shareholders' Agreement ensures that the Councils act in a unified way, having agreed to a common set of principles and collective Shareholder discussions will take place in the Shareholders' Forum.

Decisive Shareholder influence over the Company, which is required to ensure that the Company is Teckal compliant, is demonstrated via the reserved matters which are contained in the Shareholders' Agreement.

Membership

Membership of the Shareholders' Forum will consist of one representative from each Council, to be determined locally by the individual Council. Representatives are likely to be elected members.

Each Council may nominate one or more representative (s) to attend any meeting of the Shareholders' Forum in place of an appointed representative from a Council.

Directors or representatives of the Company may be invited to attend Shareholder Forum meetings, in particular to present on any reserved matters which require authorisation by the Shareholders.

Role and function

I. To debate, discuss and seek to agree common responses to Company matters requiring authorization by the Shareholders. Matters requiring authorisation include:

- a Strategic Plan for each Financial Year
- an Annual Budget including:
  - I. an estimate of the working capital requirements of LGPS Central Ltd incorporated within a cashflow forecast;
  - II. a projected profit and loss account;
  - III. an operating budget (including estimated capital expenditure requirements and balance sheet forecast);
  - IV. a summary of business objectives; and
  - V. A financial report which includes an analysis of the results of LGPS Central Ltd and the established collective vehicles for the previous Financial Year compared with the Strategic Plan for that Financial Year, identifying variations in revenues, costs and other material matters.
- Reserved Matters; and
- Changes to the governance arrangements of the Company.

2. To procure the Board to formally review and report (the Structural Review) on the corporate structure of LGPS Central and any of its Group Companies and the operation of their respective boards of directors and board committees every six months from the date of the original Shareholders' Agreement (11th August 2017) until the third anniversary of the Agreement and, thereafter, on each anniversary of the Agreement.

   To consider the resulting Structural Review and any recommendations regarding more efficient governance, any reductions of costs and/or improvements of performance and seek to agree a common response to the recommendations requiring authorization.

3. To procure from LGPS Central Ltd and consider such financial information as is necessary to keep each Shareholder informed about how the business of LGPS Central Ltd is performing. This information will include:
   - quarterly management accounts and reports on operational effectiveness;
   - unaudited Annual Accounts;
   - audited Annual Accounts; a medium term Strategic Plan; and
   - a report on the company's progress against objectives/milestones set out in the Strategic Plan.
4. To procure from LGPS Central Ltd and consider other information relating to the operations and management of LGPS Central Ltd having regard to the Shared Objectives of the LGPS Central Pool and the duties and responsibilities of the Shareholders. Such information is likely to include:
   - staffing structures;
   - changes in key personnel;
   - internal controls;
   - compliance and regulatory matters;
   - customer feedback and complaints; and
   - staff surveys.

Practitioners' Advisory Forum

The Practitioners' Advisory Forum (PAF) shall provide a central resource for advice, assistance, guidance and support of the Shareholders' Forum and shall support the functions of the Shareholders' Forum. PAF shall provide technical support at meetings of the Shareholders' Forum and shall act as a conduit for the Shareholders' Forum to communicate back to the respective Councils and/or direct to LGPS Central Ltd. The host fund for PAF will coordinate the dates, agendas, backup papers, and attendance at meetings of the Shareholders' Forum with LGPS Central Ltd.

Meetings

The Shareholders' Forum will meet at least twice a year in February and September. The meetings will be private and will be held in Wolverhampton with the cost of holding the meetings shared amongst the Councils.

On the grounds of administrative convenience, meetings of the Shareholders' Forum shall, where possible, coincide with the Annual General Meeting and other General Meetings called by the Company. The Company's shareholder meetings will operate under company law and be subject to the provisions contained within the Shareholders' Agreement. Details of these provisions are attached in the Appendix.

The host fund for PAF shall arrange for written minutes to be taken at each meeting of the Shareholders' Forum and shall present them to the Shareholders' Forum at its next meeting for approval as a correct record.

The Chair of the Shareholders' Forum (who may or may not be a Shareholder representative) shall be appointed every twelve months by a majority decision of the Shareholders. A Shareholder Majority equates to holders of not less than 75% of the A Shares from time to time. The Chair may be removed or replaced by the Shareholders at any time before the end of the twelve months' appointment period by a majority decision of the Shareholders. The Chair of the Shareholders' Forum will not have a casting vote.

The quorum for LGPS Central Ltd Shareholder meetings is at least five Shareholder representatives who are entitled to attend and vote (either in person or by proxy) and the same shall apply to meetings of the Shareholders' Forum.

Items for inclusion in the meetings:

1. Consideration of Strategic Plan/Annual Budget/Structural Review
2. Consideration of Reserved Matters requiring authorisation
3. Financial Reporting (including delivery against the agreed budget, regulatory and working capital requirements)
4. Operational Reporting (including delivery against agreed objectives, target and service agreements)
5. Regulatory Issues & Risk Management
6. Any Other Relevant Shareholder Items

Terms of Reference Review

These Terms of Reference will be reviewed annually.

LGPS Central Practitioners' Advisory Forum (PAF)

The Practitioners' Advisory Forum is a working group of officers appointed by the Shareholding Councils (the Councils) within the LGPS Central Pool (the Pool) to support the delivery of the objectives of the Pool and to provide support for LGPS Central's Joint Committee and Shareholders' Forum. PAF will seek to manage the Pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the company, recognising that speaking with "one voice" will reduce the duplication of costs and resources and maximise the benefits of scale.

Membership

Membership of PAF will consist of at least one representative from each Shareholding Council, to be determined locally by the individual Council. Representatives are likely to include Section 151 and senior pension officers.

Role and function

1. PAF will support the delivery of the objectives of the Pool as listed below:
    - to meet the investment objectives of the participating LGPS funds;
    - to establish a collaborative platform through which the Councils can aggregate their pension assets with a view to providing scale economies and improved investment efficiency;
    - to develop internal investment management capabilities for the collective benefit of the Councils in order to provide wider investment choice and market competition;
    - to create capacity to invest in asset classes which individual funds may find difficult to access;
    - to stimulate innovation, and provide an opportunity for funds to engage with the investment industry in finding new and creative approaches to the funding challenges faced by the LGPS (and the wider pensions sector);
    - to act as a responsible, long term investor, using its influence to promote the highest standards of corporate stewardship;
    - to create a regional centre of excellence for investment management, able (in the long term) to offer services to other pension funds, charities and endowments; and
    - following transitioning arrangements, to invest each Shareholder's pension assets including any assets administered for and on behalf of other parties either through the collective investment vehicle(s) operated by LGPS Central, as the primary and exclusive collective investment vehicle(s) for all eligible pension assets, or by appointing LGPS Central to manage any non-eligible pension assets outside of such vehicle(s).
2. PAF will provide a central resource for advice, assistance, guidance and support for the Joint Committee and the Shareholders' Forum and for the Councils as a collective group of investors in the Pool.
3. PAF shall work with the Shareholders' Forum to support the functions of the Shareholders' Forum as set out in the Shareholders' Forum Terms of Reference.
4. PAF shall work with the Joint Committee to support the functions of the Joint Committee as set out in the Joint Committee's Terms of Reference.
5. PAF shall provide technical support at meetings of the Shareholders' Forum and the Joint Committee, for example by providing and delivering performance management reports for the Shareholders' Forum and the Joint Committee on all aspects relating to the provision of services by LGPS Central.
6. PAF shall act as a conduit for the Joint Committee and the Shareholders' Forum to communicate back to the respective Councils and/or direct to LGPS Central as appropriate.
7. PAF shall provide collective support for the responsibilities remaining with Partner Funds and shall explore opportunities for wider collaborative working between the Partner Funds.
8. PAF shall operate within any budget set by the Councils.

Host Authority

Derbyshire Pension Fund will act as a host fund for PAF for an initial period of eighteen months within a budget set by the Councils with the arrangements to be reviewed in June 2019. Host fund duties will include:

- Coordinating the dates, agendas, backup papers, and attendance at meetings of the Shareholders' Forum, the Joint Committee and PAF with LGPS Central & the clerk of the Joint Committee;
- Undertaking an initial review of LGPS Central's Annual Strategic Plan and Budget;
- Developing and maintaining the Partner Funds' Cost Savings Model; and
- Liaising between the Partner Funds, and on their collective behalf, with LGPS Central Ltd and other agencies when authorised to do so by the Partner Funds.

Working Groups

PAF shall set up working groups on either an interim or permanent basis according to requirements. Initial working groups will include:

- Investments
- Client Reporting
- Finance
- Responsible Investment
- Governance

Meetings

PAF shall meet on a monthly basis during the initial set-up period of LGPS Central Ltd; the frequency of meetings will be reviewed by PAF as appropriate.

The initial meetings will be held in Wolverhampton, then in Stafford from April 2018, with the cost of holding the meetings shared amongst the Councils. The Chair of the meeting will be rotated amongst the members of PAF. The Host Authority shall arrange for written minutes to be taken at each meeting of PAF and shall present them to PAF at its next meeting for approval as a correct record.

Meetings will be private and will be spilt into two parts: part one will include Partner Funds and representatives from LGPS Central Ltd; part two will be solely for Partner Funds. Items for inclusion in the meetings:

Part One

Progress Updates
Risks and Issues
Strategic Developments
Finance and Budget Updates
Sub-fund launch programme/Transition timetable
Feedback from Shareholder & Joint Committee Meetings
Cross Pool Working Updates
Reporting to DCLG & SAB
Performance Reporting
Service Level Agreement Reporting
Cost Transparency
Investment Updates/Investment Director Presentations
Responsible Investment

Part Two

Feedback from Working Groups
Client Service Arrangements
Transition Arrangements
Policy Reviews
Prospectus and Supplementary Agreement Reviews
Communications
Wider Partner Fund Issues

Decisions

Although PAF is not a decision making body, it will make joint recommendations to the Shareholders' Forum and to the Joint Committee and will present collective views to LGPS Central Ltd. On reserved matters requiring unanimous consent from the Shareholders, PAF will endeavour to agree consensus recommendations. Councils should endeavour to send at least one representative to each meeting of PAF. When it is not possible for a Council to be physically represented at a meeting of PAF, an email detailing its views on proposals should be sent to the Host Authority and the Chair of the meeting in advance of the meeting (catherine.bedford@derbyshire.gov.uk) and these views shall be presented by the Chair of the respective PAF meeting.

Terms of Reference Review

These Terms of Reference will be reviewed annually.

Approved by PAF 8th March 2018

Delivering Good Governance (Cipfa/Solace Framework)

Principle 1 : Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	
Supporting principles	**How we demonstrate in practice**
• Behaving with integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law	• Codes of Conduct – establish clear standards of behaviour for Pension Fund Committee members and Fund officers • Declarations of interest – standing item on all committee agenda, with all disclosures recorded. • Conflicts of Interest Policy – ensures impartiality of Local Pension Board members • THRIVE values – (Teamwork, Honesty, Respect, Innovation, Value for Money, Empowerment) underpin staff performance management framework • Breaches log – breach reporting and monitoring in place with regular quarterly updates to Local Pensions Board and Pension Fund Committee • Independent Dispute Resolution Process (IDRP) in place, ensures all complaints are dealt with impartially. • Investment Strategy Statement (ISS) and Responsible Investment Policy (RIP) set out Fund's approach to investment stewardship including how environmental, social and governance factors are taken into account in investment decision making and ongoing monitoring.
Principle 2 : Ensuring openness and comprehensive stakeholder engagement	
• Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively	• Communication & Engagement Strategy identifies key stakeholders, priority themes for engagement and communication media. • Website – all key policy documents, committee agenda papers and investment holding details published on Fund website. 24 hour on-line access to key membership information and forms. • Pension Consultative Forum – regular engagement with representatives from main employer groups to consult on Fund developments and gather feedback. • Employer meetings – at least one meeting per year held to update employers on Fund performance and • Customer Relationship Management approach under development to improve Fund/employer interface • Roadshows and 'drop-in' sessions for scheme members held annually • Staff Bulletin and team away-days to keep staff up to date and informed of key issues/developments and to provide an opportunity for feedback. • Customer Service training programme for all staff to support high standards of customer care. Customer Charter under development.

Principle 3: Delivering outcomes in terms of sustainable economic, social and environmental benefits	
Supporting principles	**How we demonstrate in practice**
• Defining outcomes • Defining sustainable economic, social and environmental benefits	• Pension Fund Business plan (approved annually) sets out long, medium and short term aims, objectives and target outcomes. • Staff are set clear performance objectives and delivery targets (linked to the Pension Fund Business plan) against which they are appraised. • Specific investment performance targets and benchmarks set for all investment portfolios, aligned to the Fund's long term funding strategy. • ISS and RI policy set out the Fund's approach to long term, sustainable investment.
Principle 4: Determining the interventions necessary to optimise the achievement of intended outcomes	
• Determining interventions • Planning interventions • Optimising achievement of intended outcomes	• Investment Risk/Performance trigger monitoring in place to prompt review of investment mandates and overall asset allocation when agreed thresholds are hit. • On-going review of employer covenants, indemnity bonds, guarantees etc to ensure exposure to employer default is managed proactively. • Business Continuity Plan in place and subject to regular review. • Fund Risk Register updated quarterly and control actions reviewed to mitigate potential threats to delivery of business plan objectives. • Project Chrysalis – major transformational change programme underway to modernise and improve service operating model in response to changing demands and expectations. • Systems development roadmap in place to ensure that the benefits of new technology are harnessed effectively in the delivery of planned outcomes. • Monthly monitoring and reporting of funding levels to assess whether existing investment allocations can be safely de-risked.
Principle 5: Developing the Fund's capacity including the capability of its leadership and individuals within it	
• Developing the Fund's capacity • Developing the capability of the Fund's leadership and individuals within it	• CIPFA Knowledge & Skills Framework used to systematically identify training and development needs for Pension Fund Committee and Local Pension Board members and senior officers. • Targetted induction training for new Pension Fund Committee and Local Pension Board Members. • Skills audit undertaken across the team to identify individual training and development needs for all staff and as a basis for personal development plans. • Career Grades introduced into the team structure, linked to professional training programme and the National Apprenticeship Scheme as a means of opening up structured learning opportunities and career 'pathways'. • Co-ordinated programme of Management & Leadership training being rolled out to all junior and middle managers. • Regular formal and informal collaboration and experience sharing with other LGPS Funds, to maximise capacity and resources.

Principle 6 :Managing risk and performance through robust internal control and strong public financial management	
Supporting principles	**How we demonstrate in practice**
• Managing risk • Managing performance • Robust internal control • Managing data • Strong public financial management	• Fund Risk Register in place and reviewed quarterly. • Quarterly reporting to Local Pension Board, Investment Sub-Committee and Pension Fund Committee on investment and budgetary performance, operational KPIs and progress against business plan delivery targets. • Staff have regular one to one supervisory meetings and formal six-monthly performance reviews • Independent internal and external audit review of internal control processes • Data quality management plan under development • Positive internal audit review/feedback on GDPR implementation
Principle 7: Implementing good practices in transparency, reporting and audit to deliver effective accountability	
• Implementing good practice in transparency • Implementing good practice in reporting • Assurance and effective accountability	• Fund website provides open, public access to all key policy documents, committee agenda papers/minutes, investment holdings. • Comprehensive Performance Management Framework developed to provide consistent reporting against key financial, non-financial and operational targets. • Plain English standards adopted for all Fund correspondence/communications • Annual Report reviewed and updated in the light of 2019 CIPFA Guidance • Full compliance with Freedom of Information disclosure requirements. • Independent review of Fund Governance arrangements to provide assurance regarding compliance and effectiveness. • Involvement at national level in development of guidance on Administrative Performance reporting.

Statement of Accounts 2018-19

Cheshire Pension Fund - Fund Account for the year ended 31 March 2019			
	Notes	**2018-19**	**2017-18**
		£000	**£000**
Contributions and Benefits			
Contributions Receivable			
From Employers		123,153	183,254
From Employees		36,829	36,062
Total Contributions Receivable	6/6a	**159,982**	**219,316**
Transfers in from Other Schemes	7	15,638	14,007
Benefits Payable			
Pensions		-148,638	-141,305
Lump Sums		-28,388	-27,591
Death Benefits		-4,065	-3,593
Total Benefits Payable	8	**-181,091**	**-172,489**
Payments to and on account of Leavers			
Refund of Contributions		-489	-586
Transfers to Other Schemes		-13,547	-20,278
	9	**-14,036**	**-20,864**
Net Additions / (withdrawals) from dealing with members		**-19,507**	**39,970**
Management Expenses	10/10a	-27,825	-30,826
Returns on Investments			
Investment Income	11	34,389	34,741
Taxes on Income	12	-419	-949
Profits and losses on disposal of investments and changes in the market value of investments	13f	261,953	315,168
Net Returns On Investments		295,923	348,960
Net Increase/ (Decrease) in the Fund During the Year		248,591	358,104
Opening Net Assets of the Scheme		5,355,219	4,997,115
Closing Net Assets of the Scheme		**5,603,810**	**5,355,219**

Cheshire Pension Fund - Net Assets Statement as at 31 March 2019			
	Notes	**2018-19**	**2017-18**
		£000	**£000**
Long Term Investments		1,315	0
Investment Assets			
Pooled Investment Vehicles	13/f, 18/19	3,566,402	3,131,979
Equities	13/f, 18/19	540,459	792,041
Absolute Return Funds	13b/f, 18/19	770,621	696,685
Investment Properties	16	396,370	352,701
Private Equity	13c/f 18/19	194,995	183,905
Loans	13d/f, 18/19	2,375	5,052
		5,472,537	**5,162,363**
Cash	13e/f, 18/19	112,070	169,882
Other Investment Balances	13f	4,504	4,284
	13f, 18/19	**5,589,111**	**5,336,529**
Investment Liabilities			
Derivative Contracts	14, 18/19	0	-30
Total Net Investments	17	**5,589,111**	**5,336,499**
Long Term Debtors	22	6,317	10,613
Current Assets	23		
Cash at Bank		2,440	2,382
Debtors		18,959	15,952
Current Liabilities	24		
Creditors		-10,157	-7,052
Receipts In Advance		-2,860	-3,175
Net Current Assets		8,382	8,107
Total Net Assets		**5,603,810**	**5,355,219**

Note 1 – Description of the Fund

The Cheshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Cheshire West and Chester Council (The Council). The Council is the reporting entity for this pension fund.

The following description is a summary only. For more detail, reference should be made to the Cheshire Pension Fund Annual Report and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

The scheme 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

The LGPS is a statutory, funded pension scheme. The LGPS is administered by the Council to provide pensions and other benefits for pensionable employees of Cheshire West and Chester, Cheshire East, Halton and Warrington Borough Councils and a range of other scheduled and admitted bodies within the County area. The Fund excludes provision for teachers, fire fighters and police officers as they come within other national pension schemes. A full list of the employers contributing into the Fund is shown at the end of the Fund's Statement of Accounts.

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council with lead officer responsibility delegated to the Section 151 Officer (Chief Operating Officer - Corporate Services), who undertakes the day to day management of the Fund. The Chief Operating Officer is advised, with regard to investment matters, by the Pension Fund Committee with external advice from Mercer. The Fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Council's Audit and Governance Committee.

The Local Pension Board was established under the Council's constitution with effect from the 1 April 2015. The role of the Board, as defined in regulations, is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS. The Board is comprised of two Employer (including one Cheshire West and Chester nominated Councillor) and two Member representatives, and one independent chair (non-voting).

The Cheshire Pension Fund operates four investment strategies each with different allocations to growth assets and diversifying and matching assets. At 1 April 2018 the four strategies were as follows:

Growth Strategy A	60% Growth / 40% Diversifying and Matching
Growth Strategy B	50% Growth / 50% Diversifying and Matching
Medium Growth Strategy	50% Growth / 50% Diversifying and Matching
Gilts Strategy	0% Growth / 100% Diversifying and Matching

To manage the Fund's assets in accordance with its investment strategy, the Council has 14 appointed external investment managers who each have specific responsibility for part of the Fund's investment portfolio. The fund is also in process of transferring assets into its asset pool LGPS Central Ltd and made its first transfer of £250m in 2018-19 from Baillie Gifford to LGPS Central Global Active Equity Fund. The Council uses the services of Bank of New York Asset Servicing to independently monitor the performance of the investment strategy and the contributions of individual managers. Performance is monitored against the Fund's tailored asset allocation benchmark rather than to a peer group benchmark.

Bank of New York Asset Servicing reported that for the year ending 31 March 2019 the Fund achieved a return from its investments of 5.5% (+6.3% in 2017-18) compared with the Fund's tailored benchmark return of +5.5% (+1.9% in 2017-18). For the three years ending 31 March 2019 the Fund achieved an annualised return of +10.2% per annum against the Fund's benchmark return of 7.6% per annum.

Membership

In accordance with the Governments Automatic Enrolment Legislation, eligible employees are automatically enrolled into the LGPS from their first day of employment, however membership of the LGPS is voluntary and employees are able to choose to remain in the scheme, opt out of the Scheme, re-join at a later date or to make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies (scheme employers), which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund; and
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking public sector authority functions following outsourcing to the private sector.

In the year to 31 March 2019 a total of 290 employer organisations including the Administering Authority itself, contributed into the Fund.

Cheshire Pension Fund	31-Mar-19	31-Mar-18
Number of employers making contributions into the fund	**290**	**283**
Number of employees in the scheme		
Cheshire West and Chester Council	8,073	8,015
Other employers	31,404	30,360
Total	**39,477**	**38,375**
Number of pensioners		
Cheshire West and Chester Council	2,568	2,345
Other employers	26,250	25,419
Total	**28,818**	**27,764**
Number of Deferred pensioners		
Cheshire West and Chester Council	4,340	4,117
Other employers	24,838	24,415
Total	**29,178**	**28,532**
Undecided Leavers	2,375	2,154
Total Membership	**99,848**	**96,825**

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. In addition to employee contributions, employers pay contributions into the Fund which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2016 which set employer contribution rates for the 3 year period ending 31 March 2020.

Benefits

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For details, please refer to the scheme handbook which is available from the Fund or visit the website www.cheshirepensionfund.org

Prior to 1 April 2014, Pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 final pensionable salary.	Each year worked is worth 1/60 final pensionable salary.
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Note 2 – Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018-19 financial year and its position as at year ending 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector on an ongoing basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is appended to the statement of accounts. Further information is included within Note 21 of these accounts.

The most significant change in accounting policy and presentation for 2018/19 is the introduction of IFRS9 Financial Instruments, replacing IAS39 Financial Instruments: Recognition and Measurement. This has introduced changes to the classification and measurement of financial assets, including the recognition of impairment.

a. Financial assets reported as "loans and receivables in 2017-18 have been reclassified as "amortised cost". Investment assets held as "fair value through profit/loss" continue to be classified in this manner, Note 18 reflects this change.

b. Impairment is recognised on an expected loss basis rather than when objective evidence of impairment has been identified. Notes 16 and 29 have been updated to reflect this change.

No balances required restating as a result of this change in accounting policy

The accounts contain a restatement in relation to Note 26- Key Management Personnel, this has been restated to exclude the pension liability element of the Director of Resources whose post was removed in 2014-15 following an organisational restructure. Although the pension liability for this post remains in the Fund, it is not required to be included in the disclosure above as this person is no longer a member of the Fund's Key Management Personnel.

The accounts have been prepared on a going concern basis.

Note 3 – Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employer's augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme regulations (see notes 7 and 9).

Individual transfers in/out are accounted for when they are received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 7).

Bulk (group) transfers are accounted for on a cash basis once terms have been agreed and payment made to/from the respective fund.

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Foreign income has been translated into sterling at the date of the transaction. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Fund account – expense items

d) 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.

e) Taxation

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. 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.

f) Management Expenses

The Code does not require any breakdown of pension fund administration expenses. However in the interest of greater transparency the Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016).

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are contractually agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Baillie Gifford
- Arrowgrass Capital Partners
- Winton Capital
- Darwin Property Investment

Performance related fees amounted to £3.6m in 2018-19 (£6.7m in 2017-18) for managers who outperformed the benchmark.

Where an investment manager's fee invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. The total of fees based on estimates in 2018-19 was £1.7m relating to fees due for the quarter ending 31 March 2019 (£1.8m in 2017-18).

Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Net Assets Statement

g) Financial assets

Investments in the Fund's asset pool are valued at £1.315m which is the transaction price i.e. cost of the investment. The Fund's asset pooling company LGPS Central Ltd, began to trade on 3 April 2018 therefore reliable trading results or profit forecasts are not yet available. Consequently the pension fund's view is that the market value of this investment as 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets with the exception of the loan to the pooling company are included in the financial statements on a fair value basis at the reporting date. Financial assets are included in the net assets statement on a fair value basis as 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. From this date any gains or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 18). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in the Practical Guidance on Investments Disclosures (PRAG/Investment Association 2016).

h) Stock Lending (Securities Lending)

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016 the Fund allows its stock to be lent provided that the total value of the securities loaned out does not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon.

In accordance with the securities lending agreement the collateral parameters are restricted to non-cash collateral securities, This being Fixed income securities issued or guaranteed by a set of 21 OECD countries which have to have a minimum rating of AA by S&P or Aa2 by Moody's rating agency as well as Supranational securities rated AAA/ Aaa from 6 issuers.

The Market value of the securities at year end is taken from prices from a number of reputable vendors in accordance to the Bank of New York Mellon pricing policy.

In addition LGPS Central Ltd operate a stock lending programme in respect of their equity funds such as the Global Active Equity Fund, in which the Cheshire Pension Fund invests.

i) Freehold and leasehold properties

The Scheme's freehold and leasehold investment properties were valued by an external valuer, Savills. The valuations were in accordance with the requirements of the RICS Valuation-Professional Standards. The valuation of each property was on the basis of Fair Value, subject to the following assumptions:

(i) For investment property: that the property would be sold subject to any existing leases.

(ii) For property held for development: that the property would be sold with vacant possession in its existing condition.

The valuers opinion of Fair Value was primarily derived using comparable recent market transactions on arm's length terms.

J) Derivatives

The Fund may use derivative financial instruments, predominantly to manage its exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value (note 13f).

The values of futures contracts are determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager.

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

k) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits, and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost i.e the outstanding principal receivable as at the year end date plus accrued interest.

m) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date, excluding creditors which are measured at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 Employee Benefits and relevant actuarial standards.

As permitted under the Code, the fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

o) Additional voluntary contributions

The Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. During 2018-19 Scottish Widows, Standard Life and Equitable Life were appointed as the Funds AVC providers.

Individual members AVC contributions are paid directly to the AVC provider by their respective 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 the movements in the year.

AVC's are not included in the accounts in accordance with section 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2009/3093) but are disclosed as a note only (Note 25).

p) Contingent assets and contingent liabilities

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.

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 the future events.

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

Note 4 – Critical judgements and key sources of estimation uncertainty

In the application of the Fund's accounting policies, which are described in Note 3, those charged with governance of the Fund are required to make judgements, estimates and assumptions about the values of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Note 4.1 – Critical Judgements in applying accounting policies

Pension Fund liability

The Pension Fund liability is calculated every three years by the Fund actuary, Hymans Robertson, with periodic updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19, the assumptions underpinning the valuation are given in the Actuarial Statement. The estimate is subject to significant variances based on changes to the underlying assumptions.

Investment in LGPS Central Ltd asset pool

The investment of £1.315m has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- LGPS Central Ltd did not commence trading until 3 April 2018
- No dividend to shareholders has been declared
- No published trading results are yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

Note 4.2 – Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains some estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors, however, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Private equity investments are valued at fair value in accordance with International Private Equity and British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £195m (£184m 2017-18). There is a risk that this investment may be under or overstated in the accounts.
Absolute Return funds	Absolute Return funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of absolute return funds in the financial statements is £771m (£697m in 2017-18). There is a risk that this investment may be under or overstated in the accounts.
Pension fund liability	The pension fund liability is calculated every three years by the Fund's actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in the actuarial calculation which is included within the Annual Report. This estimate is subject to significant variances based on changes to the underlying assumptions.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £400m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £380m.

Note 5 – Events after the Balance Sheet date

Following a procurement exercise, with effect from the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund. Members of the Fund with an existing AVC with Scottish Widows have been given the option to remain with Scottish Widows or transfer their AVC to Standard Life.

Note 6 – Contributions Receivable

	2018-19	2017-18
	£000	£000
Employees Normal Contributions	36,829	36,062
Employers Normal Contributions	110,210	106,715
Employers Deficit Funding	8,596	70,085
Employers Cost of Early Retirements (pension strain)	4,347	6,454
Total Employers Contributions	**123,153**	**183,254**
Total Contributions	**159,982**	**219,316**

The 2017-18 deficit funding figure of £70m included within total employers contributions of £183m includes payments of £45m from Cheshire East Council, £10.4m from Warrington Borough Council and £6.7m from Halton Borough Council who elected to pay their full 3 year deficit contribution relating to the period 2017-2020 as a lump sum.

The cost of early retirements represents the contributions relating to Employers meeting the capitalised costs of discretionary early retirements. The Fund recharges the Employers for such costs and the income received is made up of both one-off lump sum payments and instalments.

The accounts recognise the full cost due from early retirement contributions from scheme employers who have the option of paying over more than one year.

Note 6a – Analysis of Contributions Receivable

	2018-19		2017-18	
	Employers £000	Employees £000	Employers £000	Employees £000
Scheme Employers	85,143	25,887	143,891	25,052
Cheshire West & Chester Council	21,610	7,141	22,703	7,101
Community Admission Body	13,244	2,937	13,248	2,975
Transferee Admission Body	3,156	864	3,412	934
Total	**123,153**	**36,829**	**183,254**	**36,062**

Note 7 – Transfers in from other Pension Funds

	2018-19	2017-18
	£000	£000
Transfers from other Local Authorities	12,631	10,163
Transfers from other pension funds	3,007	3,844
Total	**15,638**	**14,007**

Note 8 – Benefits payable

	2018-19	2017-18
	£000	£000
Scheme Employers	112,470	106,499
Cheshire West & Chester Council	49,693	48,290
Community Admission Body	13,987	12,276
Transferee Admission Body	4,941	5,424
Total	**181,091**	**172,489**

Note 9 – Payment to and on account of leavers

	2018-19	2017-18
	£000	£000
Individual Transfers	13,547	20,278
Refunds to Members leaving service	489	586
Total	**14,036**	**20,864**

The transfer figure will vary year on year depending on the number of people that move to employers outside of the Fund and the value of the pension accrued for these individuals.

The refunds to members leaving the service relates to members who opted out of the scheme within two years of joining. The individual transfer figure represents the cash payments from the Fund in relation to individual scheme members' who have left the scheme and transferred their benefits to another pension provider.

Note 10 – Management Expenses

	2018-19	2017-18
	£000	£000
Investment management expenses	24,366	27,466
Administration costs	2,188	2,147
Oversight and governance costs	1,271	1,213
Total	**27,825**	**30,826**

No costs have been included for carried interest.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds of sales from investments (see Note 13f).

Note 10a – Investment Management Expenses

	2018-19	2017-18
	£000	£000
Management fees and expenses	20,372	20,379
Performance related fees	3,619	6,708
Custody fees	113	117
Transaction costs	262	262
Total	**24,366**	**27,466**

Note 10b – External Audit Costs

	2018-19	2017-18
	£000	£000
Payable in respect of external audit	23	29
Payable in respect of other services	2	4
Total	**25**	**33**

Fees in respect of other services relates to work completed in respect of the IAS19 process. The fee for 2017-18 was in respect of 2015-16 and 2016-17, the fee for 2018-19 relates to the charge for 2017-18.

Note 11 – Investment Income

	2018-19	2017-18
	£000	£000
Dividends from Equities	8,555	6,262
Net Rents from Properties	19,161	19,640
Income from Fixed Interest Securities	5,291	7,346
Income from Pooled Investment Vehicles:		
Property	421	708
Stock Lending	581	378
Interest from Cash Deposits	366	261
Other	14	146
Total	**34,389**	**34,741**

Note 12 – Taxes on income

	2018-19	2017-18
	£000	£000
Withholding tax - Equities	412	309
Withholding tax – Private Equity	7	640
Total	**419**	**949**

The Fund is exempt from UK income tax on interest and from capital gains tax on the profits resulting from the sale of investments. The Fund is exempt from United States withholding tax on dividends and can recover all or part of the withholding tax deducted in some other countries. The amount of withholding tax deducted from overseas dividends which the Fund is unable to reclaim in 2018-19 amounts to £419k and is shown as a tax charge, compared to £949k in 2017-18.

As Cheshire West and Chester Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses.

Note 13 – Investments

	2018-19	2017-18
Investment Assets	**£000**	**£000**
Equities		
Overseas Quoted	527,397	776,524
UK Quoted	13,062	14,202
UK Unquoted	1,315	1,315
Pooled Investments		
UK Government Index Linked Gilts	1,605,662	1,498,609
Fixed Income – Multi Strategy	996,010	743,395
UK Equity Listed	640,086	588,104
Overseas Equity Listed	250,229	0
Secured Loans	0	232,313
UK Property	65,500	60,604
Overseas Unit Trusts – Property	8,915	8,954
Absolute Return Funds	770,621	696,685
Investment Properties	396,370	352,701
Private Equity	194,995	183,905
Cash Deposits	112,070	169,882
Loans	2,375	5,052
Other investment balances:		
Outstanding dividends entitlements and withholding tax claims	4,504	4,284
Total	**5,589,111**	**5,336,529**
Investment Liabilities		
Derivative Contracts:		
Forward currency contracts	0	-30
Total	**5,589,111**	**5,336,499**

Cash balances were high in 2017-18 as they contained £25m pending investment in Arrowgrass and £45m in Blackstone.

During the year the Fund disinvested £99m from Baillie Gifford with a corresponding investment of £19m in LGIM Index linked gilts and £29m in Bluebay, and the remaining balance was held in cash pending investment in the new year. This reflected a standard rebalancing within the portfolio to bring actual asset allocations back within an agreed threshold.

As part of the Government's asset pooling initiative, the Fund also disinvested £250m from Baillie Gifford and transferred it to the LGPS Central Active Equity Fund which is a pooled investment fund made up of three managers Harris, Schroder and Union.

These changes have impacted upon the year on year comparison figures for UK listed and overseas listed equities, UK Government Index Linked Gilts, Fixed Income and Absolute Return funds.

Note 13a – Fixed Income Multi Strategy

The Fund has invested in three pooled fixed income investment vehicles managed separately by Janus Henderson Investors, BlueBay and M&G. During the year the Fund invested an additional £29m with Bluebay as part of a rebalancing exercise and a new commitment was made to the M&G Alpha Opportunities Fund. The market value invested with each manager as at the 31 March 2019 was; £352m in Janus Henderson Investors (£353m in 2017-18), £410m (£390m in 2017-18) in Bluebay and £236m in M&G Alpha Opportunities Fund (Nil in 2017-18). The underlying assets of these pooled vehicles are invested by the managers in diversified portfolios of a wide range of fixed income assets including Government Bonds (UK and Overseas), Corporate Bonds, High Yield Bonds, Emerging Market Bonds, Asset and Mortgage Backed Securities, Secured Loans and currency. Within these mandates managers may use derivative instruments to manage its exposure to specific risks arising from its investment activities.

Note 13b – Absolute Return Funds

	Strategy	2018-19	2017-18
		£000	£000
Blackstone	Hedge Fund of Funds	346,058	295,388
Arrowgrass Capital Partners	Multi Strategy Hedge Fund	260,424	236,238
Winton Capital	Multi Strategy Hedge Fund	164,139	165,059
Total		**770,621**	**696,685**

Note 13c – Private Equity

	Number of Funds	2018-19	2017-18
		£000	£000
Adams Street Partners	18	81,995	78,067
Pantheon Ventures	10	111,580	104,367
Lexington	1	1,420	1,471
Total	**29**	**194,995**	**183,905**

Note 13d – Loans

The Fund has committed £50m to the M&G UK Financing Fund which is a limited partnership whose investment objective was to take advantage of difficulties in the UK banking sector and lend monies to UK FTSE350 companies through senior debt and equity linked instruments. As at the 31st March 2019 £32m of this commitment had been drawn down and the Fund had received £37m in distributions. The market value as at 31 March 2019 was £1.660m (31 March 2018 £2.176m).

The Fund has also committed £30m to the M&G Debt Opportunities Fund which aims to take advantage of discrete market opportunities that arise over time. As at the 31 March 2019 the full £30m of the commitment had been drawn down. The market value as at 31 March 2019 was £30k (31 March 2018 £2.191m). The reduction in the value of this investment reflects that the Fund has received distributions of paid in capital and profit.

Also included in loans is £685k loan advanced to LGPS Central Ltd and interest accrued on the loan for the year totalling £43k. The loan is held at amortised cost in the statement of accounts at a value of £728k at 31 March 2019 (31 March 2018 £685k).

Note 13e – Cash

	2018-19	2017-18
	£000	£000
Cash Deposits	20,193	47,193
Cash Instruments	91,877	122,689
Total	**112,070**	**169,882**

Note 13f – Reconciliation of movements in Investments and Derivatives

	Fair Value at 31 March 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	**Fair Value at 31 March 2019**
	£000	£000	£000	£000	**£000**
Pooled Investment Vehicles	**3,131,979**	540,451	-237,742	131,714	**3,566,402**
Equities	**792,041**	130,444	-467,645	86,934	**541,774**
Absolute Return Funds	**696,685**	1,254,910	-1,192,673	11,699	**770,621**
Investment Properties	**352,701**	39,455	0	4,214	**396,370**
Private Equity	**183,905**	29,389	-46,160	27,861	**194,995**
Loans	**5,052**	0	-2,665	-12	**2,375**
	5,162,363	1,994,649	-1,946,885	262,410	**5,472,537**
Derivative Contracts:	**0**	3	-2	-1	**0**
	5,162,363	1,994,652	-1,946,887	262,409	**5,472,537**
Cash and Cash Equivalents	**169,882**		-57,355	-456	**112,070**
	5,332,245	1,994,652	-2,004,242	261,953	**5,584,607**
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	**4,284**				**4,504**
	5,336,529	**1,994,652**	**-2,004,242**	**261,953**	**5,589,111**
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	**-30**				**0**
Net Investments	**5,336,499**	**1,994,652**	**-2,004,242**	**261,953**	**5,589,111**

	Fair Value at 31 March 2017	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Fair value	Fair Value at 31 March 2018
	£000	£000	£000	£000	**£000**
Pooled Investment Vehicles	**2,592,362**	710,293	-249,140	78,464	**3,131,979**
Equities	**1,001,050**	113,210	-476,667	154,448	**792,041**
Absolute Return Funds	**724,581**	142,478	-206,132	35,758	**696,685**
Investment Properties	**293,350**	52,015	-18,451	25,787	**352,701**
Private Equity	**201,246**	21,366	-40,162	1,455	**183,905**
Loans	**18,379**	691	-16,485	2,467	**5,052**
	4,830,968	1,040,053	-1,007,037	298,379	**5,162,363**
Derivative Contracts:	**0**	10	-6	-4	**0**
	4,830,968	1,040,063	-1,007,043	298,375	**5,162,363**
Cash and Cash Equivalents	**144,096**	8,993		16,793	**169,882**
	4,975,064	1,049,056	-1,007,043	315,168	**5,332,245**
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	**5,387**				**4,284**
	4,980,451	**1,049,056**	**-1,007,043**	**315,168**	**5,336,529**
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	**-139**				**-30**
Net Investments	**4,980,312**	**1,049,056**	**-1,007,043**	**315,168**	**5,336,499**

Note 14 – Analysis of Derivatives

	Asset	Liability	Asset	Liability
	2018-19	2018-19	2017-18	2017-18
	£000	£000	£000	£000
Forward Foreign Exchange Contracts	0	0	0	-30
Total	**0**	**0**	**0**	**-30**

2017-18 Forward Foreign Exchange Contracts

Contract	Settlement Date	Currency Bought	Currency Sold	Asset	Liability
		£000	£000	£000	£000
Forward OTC		5,666 GBP	8,000 USD	0	-30
Total Derivatives				0	-30

The Fund did not undertake any currency hedging activity in 2018-19.

Note 15 – Stock Lending

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016 the Fund allows its' stock to be lent provided that the total value of the securities loaned out does not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. During the year ended 31 March 2019 the Fund earned £581k (£378k 2017-18) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £61.9m (£80.4m 2017-18) and the value of collateral held was £66m (£85m 2017-18).

Note 16 Property Holdings

The fund's investment in property portfolio comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are below:

Note 16a Property Income

	2018-19	2017-18
	£000	£000
Rental Income	22,536	21,708
Rental Income Accruals	-15	-32
Rental Adjustment on Sale	-121	585
Direct Operating Expenses	-3,239	-2,621
Balance at the end of the year	**19,161**	**19,640**

Note 16b - Fair Value of Investment Properties

	2018-19	2017-18
	£000	£000
Balance at the start of the year	352,701	293,350
Additions	40,272	49,075
Disposals	0	-12,550
Net gain/loss on fair value	3,397	22,826
Balance at the end of the year	**396,370**	**352,701**

The Fund bought two properties in the year, both were office buildings based in London.

At the year-end there were no amounts of restrictions on the realisability of investment property or the remittance of income on proceeds of disposals.

Contractual obligations for development, repairs and maintenance amounted to £3.9m (£2.2m in 2017-18). There were no obligations to purchase new properties.

Note 16c – Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating an appropriate investment return.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund (and reflected in the Net Assets Statement).

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age profile of lease income	2018-19	2017-18
	£000	£000
No later than one year	1,924	921
Between one and five years	4,649	8,091
Later than five years	10,757	11,794
Total	**17,330**	**20,806**

The above disclosures have been reduced by a credit loss allowance of 3% per annum reflecting the fund's expected loss from late or non-recovery of rents from tenants. This has been based on the funds own historic experience but also information on similar properties received from the funds property letting agents.

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

Note 17 – Investment by Fund Manager

	2018-19	2018-19	2017-18	2017-18
	£000	%	£000	%
Investments managed by LGPS Central Limited Asset Pool:				
Harris	88,431	1.6	0	0.0
Union	84,077	1.5	0	0.0
Schroders	77,721	1.4	0	0.0
LGPS Central Limited Asset Pool	2,043	0.0	2,000	0.0
Total	**252,272**	**4.5**	**2,000**	**0.0**
Investments managed outside of LGPS Central Limited Asset Pool:				
Legal & General	2,245,747	40.2	2,086,680	39.1
Baillie Gifford & Co	549,518	9.8	804,519	15.1
Bluebay	409,743	7.3	390,436	7.3
Patrizia	407,008	7.3	362,947	6.8
Janus Henderson	352,271	6.3	352,959	6.6
Blackstone	346,058	6.2	295,388	5.5
Arrowgrass Capital Partners	260,424	4.7	236,239	4.4
Arrowgrass Capital Partners Cash Account	0	0.0	25,000	0.5
M&G Investments	237,245	4.2	238,380	4.5
Winton Capital	164,139	2.9	165,059	3.1
Pantheon Ventures	111,580	2.0	104,367	2.0
Adams Street Partners	81,995	1.5	78,067	1.5
Darwin	65,500	1.2	60,604	1.1
Och Ziff Capital Management	0	0.0	5,531	0.1
Fidelity (Money Market)	38,264	0.7	42,400	0.8
Deutsche Bank (Money Market)	40,578	0.7	42,682	0.8
Bank of New York Mellon	25,207	0.5	41,577	0.8
Lexington Capital Partners	1,420	0.0	1,471	0.0
GMO	142	0.0	193	0.0
Total	**5,336,839**	**95.5**	**5,334,499**	**100.0**
Total	**5,589,111**	**100.0**	**5,336,499**	**100.0**

During the year the Fund invested £25m in Arrowgrass Capital Partners and Blackstone as a result of a rebalancing exercise approved in late 2017-18.

A further rebalancing exercise in this year led to the Fund also disinvesting £99m from Baillie Gifford with a corresponding investment of £19m in LGIM Index linked gilts and £29m in Bluebay and the remaining balance was held in cash pending investment in the new year.

As part of the government's asset pooling initiative the Fund also disinvested £250m from Baillie Gifford and transferred it to the LGPS Central Global Active Equity Fund which is a pooled investment fund made up of three managers Harris, Schroder and Union.

Note 17a – Concentrations of Investments

The CIPFA Code of Practice requires disclosure where there is a concentration of investment which exceeds 5% of the total value of the net assets of the scheme. Six investments fall into this category as follows:

Security Description	Market Value	% of Total Fund	Market Value	% of Total Fund
	31-Mar-19		31-Mar-18	
	£000		£000	
Legal & General - Over 5 Yr Index Linked Gilts	1,605,661	28.73%	1,498,609	28.08%
Bluebay - Total Return Diversified Fund	409,743	7.33%	390,436	7.32%
Janus Henderson - Total Return Bond	352,271	6.30%	352,959	6.61%
Blackstone Partners - Class A1 Initial Series	346,058	6.19%	295,388	5.54%
Legal & General - World Equity Index	324,201	5.80%	291,804	5.47%
Legal & General - FTSE RAFI AW 3000 Equity Index	315,885	5.65%	296,300	5.55%

Note 18 – Fair Value – Basis of Valuation

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

Description of Assets	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at market value based on current yields	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Pooled investments - absolute return funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occuring 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
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Colliers International in accordance with the RICS valuation professional standards	Existing lease terms and rentals. Independent market research. Nature of tenancies. Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occuring 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

Sensitivity of Assets Valued at Level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio value as at 31 March 2019. Any subjectivity related to the investment value is incorporated into the valuation.

Note 18a – Fair Value Hierarchy

The valuation of investment assets and liabilities has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Fair value measurement defines an active market as a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis, as well as the reporting date. Products classified as level 1 comprise listed equities, exchange traded futures, options and an element of absolute return funds.

Level 2

Assets and liabilities at level 2 are those whose values are based on quoted market prices that are not as active as level 1 markets or based on models whose inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Products classified as level 2 comprise bonds and loans, less liquid and restricted equity securities, absolute return funds and over the counter derivatives.

Level 3

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

Such instruments would primarily include private equity investments and also some elements of the absolute return fund investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Estimated market values or cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in absolute return funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent external audit of the individual funds.

The following table provides an analysis of the assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable. The table does not reconcile back to the net assets figure as it excludes items which are valued at amortised cost (i.e. loans and receivables).

Note 18a – Assets carried at fair value

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial and Non-financial Assets				
Fair value through profit and loss	1,383,389	3,380,434	706,714	5,470,537
Total Assets	**1,383,389**	**3,380,434**	**706,714**	**5,470,537**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	0	0	0	0
Total Financial Liabilities	**0**	**0**	**0**	**0**
Net Assets	**1,383,389**	**3,380,434**	**706,714**	**5,470,537**

The following assets have been carried at cost:

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments in LGPS Central Ltd	0	0	1,315	1,315
Investments held at cost	**0**	**0**	**1,315**	**1,315**

The comparative tables for 31 March 2018 have been amended within level 3 to split out the Investment in LGPS Central Ltd which was also valued at cost in 2017-18.

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial and Non-financial Assets				
Fair value through profit and loss	1,375,904	3,176,581	608,563	5,161,048
Total Assets	**1,375,904**	**3,176,581**	**608,563**	**5,161,048**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss		-30		-30
Total Financial Liabilities	**0**	**-30**	**0**	**-30**
Net Assets	**1,375,904**	**3,176,551**	**608,563**	**5,161,018**

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Investments in LGPS Central Ltd	0	0	1,315	1,315
Investments held at cost	**0**	**0**	**1,315**	**1,315**

Note 18b – Transfers between levels 1 and 2

No assets were transferred between level 1 and 2 during the year.

Note 18c – Reconciliation of fair value measurements within level 3

	Market Value 1 April 2018 Restated	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains /(Losses)	Realised Gains /(Losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed income	10,212					25,436		35,648
Secured Loans	-	1,690						1,690
Absolute return funds	66,462					15,208		81,670
Private equity	179,188					12,147		191,335
Property	352,701			40,272			3,398	396,371
Total	**608,563**	**1,690**	**-**	**40,272**	**-**	**52,791**	**3,398**	**706,714**

The market value at 1 April 2018 is restated from the closing balance shown in the 2017-18 Statement of Accounts to exclude the investment in LGPS Central Ltd valued at cost.

Note 18d – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the market value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
	31 March 2019			31 March 2018		
	£000	£000	£000	£000	£000	£000
Financial Assets						
Pooled Investments	3,566,402			3,131,979		
Equities	541,774			792,041		
Absolute Return Funds	770,621			696,685		
Private Equity	194,995			183,905		
Loans	1,690	728		5,052		
Cash		111,042			169,295	
Other Investment balances		4,147			3,970	
Debtors		27,716			28,947	
	5,075,482	**143,633**		**4,809,662**	**202,212**	
Financial Liabilities						
Derivative contracts	0			-30		
Creditors			-10,117			-7,052
TOTAL	**5,075,482**	**143,633**	**-10,117**	**4,809,632**	**202,212**	**-7,052**

Note 18e – Net Gains and Losses on Financial Instruments

	2018-19	2017-18
	£000	£000
Financial Assets		
Fair value through profit and loss	258,208	270,125
Amortised cost- unrealised gains	0	19,311
Financial Liabilities		
Fair value through profit and loss	-1	-434
Amortised cost- unrealised losses	-468	
Total	**257,739**	**289,002**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 19 – Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce risk exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Risk management policies were established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and in market changes.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). Whether those changes were caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Funds investment strategy.

Other price risk - sensitivity analysis

In consultation with the Fund's investment advisers and, following analysis of historical data and expected investment return movement during the financial year, the administering authority has determined that the following movements in market price risk are reasonably possible for the 2019-20 reporting period:

Asset Type	Potential market movements
	% (+ / -)
Private Equity	25.8
Global Equities - Emerging	29.4
Global Equities - Developed	19.4
UK Equities	17.8
Property Unit Trusts	14.8
High Yield	10.2
Absolute Return Funds	7.9
Corporate Bonds	3.5
Government Bonds	8.6
Cash	4.2

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value at 31 March 2019	Percentage Change	Change in Value on increase	Change in Value on decrease
	£000	%	£000	£000
Government Bonds	2,015,405	8.6	173,325	-173,325
Global Equities - Developed	1,094,504	19.4	212,334	-212,334
Absolute Return Funds	770,621	7.9	60,879	-60,879
Corporate Bonds	417,771	3.5	14,622	-14,622
Global Equities - Emerging	246,358	29.4	72,429	-72,429
High Yield	235,685	10.2	24,040	-24,040
Private Equity	194,995	25.8	50,309	-50,309
Cash	126,546	4.2	5,315	-5,315
UK Equities	74,409	17.8	13,245	-13,245
Property Unit Trusts	8,915	14.8	1,319	-1,319
Investment Income Due	4,147	0.0	0	0
Equities - LGPS Central Ltd	1,315	0.0	0	0
Loans - LGPS Central Ltd	728	0.0	0	0
Net Derivative Assets	0	0.0	0	0
Total assets available to pay benefits	**5,191,399**		**627,817**	**-627,817**

The above table excludes direct property.

Interest rate risk

The Fund invests in a number of interest bearing instruments such as Government bonds, corporate bonds and secured loans for the primary purpose of obtaining a return on those investments. These investments were subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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

Asset Type	2018-19	2017-18
	£000	£000
Corporate and Government Bonds	2,603,230	2,242,004
Cash and cash equivalents	33,254	59,814
Cash balances	78,816	85,068
Total	**2,715,300**	**2,386,886**

Interest rate risk sensitivity analysis

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

The £2,603m fair value of the bond mandates managed by Janus Henderson Investors, BlueBay, Legal and General and M & G Alpha Opportunities Fund are particularly sensitive to movements in interest rates. This sensitivity is measured by their duration of 5.84, 4.33, 24.7 and 4.24 years respectively.

A 1% increase in the prevailing level of interest rates would decrease the aggregate fair value of these mandates by £444.9m (£402.5m in 2017-18). Likewise a 1% decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

The UK Financing Fund loans and Debt Opportunities Fund managed by M and G are typically structured with a floating rate payment structure, whereby a fixed basis point spread is paid over the prevailing reference rate, typically 3 month LIBOR or EURIBOR. As a result, there is negligible interest rate risk involved in these investments. However, the total interest earned on investments will vary from time to time with changes in the underlying reference rate.

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. A 100 basis points (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

Asset Type	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		33,254		
Cash Balances		78,816		
Fixed Income- M&G	4.24	235,555	9,988	-9,988
Fixed Income - Janus Henderson	5.84	352,271	20,573	-20,573
Fixed Income - BlueBay	4.33	409,743	17,742	-17,742
Fixed Income - Legal and General	24.7	1,605,661	396,598	-396,598
Total change in assets available		**2,715,300**	**444,901**	**-444,901**

Asset Type	Duration	Carrying amount at 31 March 2018	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		84,814		
Cash Balances		85,068		
Fixed Income - Janus Henderson	4.9	352,959	17,648	-17,648
Fixed Income - BlueBay	3.56	390,436	11,713	-11,713
Fixed Income - Legal and General	24.9	1,498,609	373,154	-373,154
Total change in assets available		**2,411,886**	**402,515**	**-402,515**

Income Source	Duration	Carrying amount at 31 March 2019	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	366	1	-1
Fixed Income Securities		3,732		
Total change in assets available		**4,098**	**1**	**-1**

Income Source	Duration	Carrying amount at 31 March 2018	Effect of Asset Values	
			+100 BPS	-100 BPS
Cash deposit / cash and cash equivalents	0.25	261	1	-1
Fixed Income Securities		7,346		
Total change in assets available		**7,607**	**1**	**-1**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

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

The Fund's liabilities are denominated in sterling but as part of its investment strategy the Fund invests in assets denominated in foreign currencies, which exposes the Fund to the risk of movement in exchange rates. The Fund's investment managers may at their own discretion hedge part or all of the foreign exchange risk inherent in their portfolio.

The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following tables summarise the Fund's net currency exposure, after hedging, as at 31 March 2019 and 31 March 2018:

Currency Exposure - Asset Type	Gross Exposure	Hedging Exposure	Net Exposure
2018-19	**£000**	**£000**	**£000**
Overseas Listed Equities	782,198		782,198
Overseas Unquoted Securities	194,995		194,995
Absolute Return Funds Overseas Fixed Interest	0	-4	-4
Overseas Unit Trusts	9,076		9,076
Total	**986,269**	**-4**	**986,265**

Currency Exposure - Asset Type	Gross Exposure	Hedging Exposure	Net Exposure
2017-18	**£000**	**£000**	**£000**
Overseas Listed Equities	786,252		786,252
Overseas Unquoted Securities	183,903		183,903
Absolute Return Funds Overseas Fixed Interest	5,531	-5,789	-258
Overseas Unit Trusts	9,115		9,115
Total	**984,801**	**-5,789**	**979,012**

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the fund's adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows.

Net Currency Exposure - Asset Type		Asset Values	Change to net Assets available to pay benefits	
		2018-19	+13%	-13%
		£000	£000	£000
Overseas Listed Equities:		**782,198**	**101,685**	**-101,685**
	Of which from United States Dollar	363,007	47,191	-47,191
	Of which from Japanese Yen	16,970	2,206	-2,206
	Of which from Hong Kong Dollar	44,319	5,761	-5,761
	Of which from Swedish Krona	3,567	464	-464
	Of which from Swiss Franc	5,294	688	-688
	Of which from Danish Krone	2,788	362	-362
	Of which from South African Rand	11,430	1,486	-1,486
	Of which from other currencies	334,823	43,527	-43,527
Overseas Unquoted Securities:		**194,995**	**25,349**	**-25,349**
	Of which from USD	178,161	23,161	-23,161
	Of which from EUR	16,834	2,188	-2,188
Absolute Return Funds Overseas:				
	Of which from USD*	-4	0	0
Overseas Unit Trusts:				
	Of which from EUR	9,076	1,180	-1,180
Total		**986,265**	**128,214**	**-128,214**

Net Currency Exposure - Asset Type		Asset Values	Change to net Assets available to pay benefits	
		2017-18	+13%	-13%
		£000	£000	£000
Overseas Listed Equities:		**786,251**	**102,215**	**-102,215**
	Of which from United States Dollar	527,936	68,632	-68,632
	Of which from Japanese Yen	29,307	3,810	-3,810
	Of which from Hong Kong Dollar	53,520	6,958	-6,958
	Of which from Swedish Krona	12,482	1,623	-1,623
	Of which from Swiss Franc	10,321	1,342	-1,342
	Of which from Danish Krone	4,850	631	-631
	Of which from South African Rand	15,990	2,079	-2,079
	Of which from other currencies	131,845	17,140	-17,140
Overseas Unquoted Securities:		**183,903**	**23,907**	**-23,907**
	Of which from USD	162,015	21,062	-21,062
	Of which from EUR	21,888	2,845	-2,845
Absolute Return Funds Overseas:				
	Of which from USD*	-258	-33	33
Overseas Unit Trusts:				
	Of which from EUR	9,115	1,185	-1,185
Total		**979,011**	**127,274**	**-127,274**

*The Fund previously hedged its US Dollar exposure for assets held by Och Ziff.

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the market value of the fund's financial assets and liabilities.

In essence the Fund's investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The primary credit risk to the Fund is through its fixed interest instruments managed by Legal and General, Janus Henderson Investors, BlueBay and the M & G Alpha Opportunities Fund. However, the majority of the Funds fixed income assets are investment grade quality (above BBB rated) sovereign or corporate bonds rated.

Multi Asset

The Fund’s aggregate exposure to credit risk through these three mandates as measured by the credit rating of external agencies is summarised in the table below:

S&P Quality Rating	Fair Value	% of Fair Value of Fixed Income Assets
	2018-19	
	£000	**£000**
AAA	135,147	5.0
AA	1,639,968	64.0
A	86,634	3.0
BBB	341,092	13.0
Below BBB	308,004	12.0
Cash	61,632	0.0
NR	2,959	2.0
Loans	27,794	1.0
Total	**2,603,230**	**100.0**

S&P Quality Rating	Fair Value	% of Fair Value of Fixed Income Assets
	2017-18	
	£000	**£000**
AAA	90,005	4.0
AA	1,529,578	68.0
A	85,759	4.0
BBB	91,783	4.0
Below BBB	325,654	15.0
Cash	93,852	4.0
NR	6,667	0.0
Loans	18,707	1.0
Total	**2,242,005**	**100.0**

Secured Loans

During 2018-19 the Fund transferred its investment in the M & G European Loan Fund to a multi strategy fixed income investment in M & G Alpha Opportunities Fund. The investment vehicles managed by Janus Henderson, Bluebay and M & G Alpha Opportunities all have the ability to invest in secured loans, however their exposure to credit risk is covered in the above multi asset disclosure. The below disclosure relates solely to the Funds previous investment in the M &G European Loan Fund.

2017-18	Fair Value	% of Fair Value of Assets
Rating	**£000**	
BB+	6,969	3.0
BB	18,585	8.0
BB-	46,463	20.0
B+	39,493	17.0
B	95,248	41.0
B-	23,231	10.0
NR	2,323	1.0
Total	**232,312**	**100.0**

Deposits were not made with banks and financial institutions unless they were rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AA ratings from a leading ratings agency.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in the Fund's history. The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £78.8m (31 March 2018 £85.1m) and was held in the Deutsche Bank and Fidelity money market accounts. The remainder of the cash was held by the fund's custodian, Bank of New York Mellon with a small amount of cash in transit which was held by the fund's property investment manager.

2018-19	Moodys Rating	£000	% of cash balances
Counterparty			
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	32,227	28.8
Fidelity Worldwide Investment (Money Market)	Aaa-mf	38,263	34.1
Deutsche Bank Advisors (Money Market)	A3	40,552	36.2
Cash in Transit	NR	1,028	0.9
Total		**112,070**	**100.0**

2017-18	Moodys Rating	£000	% of cash balances
Counterparty			
Bank of New York Mellon (Money Market Cash / Cash Accounts)	P-1	84,227	49.6
Fidelity Worldwide Investment (Money Market)	Aaa-mf	42,400	25.0
Deutsche Bank Advisors (Money Market)	Baa2	42,668	25.1
Cash in Transit	NR	587	0.3
Total		**169,882**	**100.0**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. Illiquid assets can include assets where a) there are no highly liquid active markets, such as investment properties and private equity or b) individual fund structures, where the Fund's investment is locked in for a specific period or where the investment manager may have the ability to 'gate' or limit investors withdrawal from the fund. As at 31 March 2019 the value of illiquid assets was £204m, which represented 3.65% of the total fund assets (31 March 2018 £199m which represented 3.72% of the total fund assets).

In terms of liquidity risk, the Fund had £112.1m (2017-18 £169.9m) of cash balances as at 31 March 2019 and net current assets of £8.3m (-£8.1m in 2017-18). The Funds net cash flow, before taking account of investments and excluding management expenses, as at 31 March 2019 was -£19.5m (+£39.7m in 2017-18) income from investments support the negative cash flow for the year to ensure there is no significant risk that the Fund will be unable to meet its current commitments.

All current liabilities are due to be paid in less than one year.

Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Council measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Fund prepares periodic cash flow forecasts to understand and manage the timing of cash flows. The appropriate strategic level of cash balances to be held is a central consideration in preparing the Fund's annual investment strategy.

The Council keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions were considered formally at the triennial valuation.

The Council seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Stock Lending

The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. The credit rating of the collateral accepted is summarised below.

	Fair Value of collateral	% of Fair Value of collateral 31 March 2019	Fair Value of collateral	% of Fair Value of collateral 31 March 2018
	31 March 2019		31 March 2018	
Moody's rating	**£000**	**%**	**£000**	**%**
Aaa	22,395	34	15,823	19
Aa1	2,370	4	2,576	3
Aa2	41,230	62	66,576	78
Grand Total	**65,995**	**100**	**84,975**	**100**
Value of Stock on Loan	**61,928**		**80,364**	

During the year ended 31 March 2019 the Fund earned £581k (£378k 2017-18) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £61.9m (£80.4m 2017-18) and the value of collateral held was £66m (£85m 2017-18).

Note 20 – Funding Arrangements

In line with the LGPS Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure long-term solvency of the fund and of the share of the Fund attributable to individual employers;
- To ensure that sufficient funds are available to meet all members/dependants' benefits as they fall due for payment;
- To ensure that employer contribution rates are reasonably stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;
- To reflect the different characteristics of different employers in determining contributions rates;
- To have 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 risk to other employers including tax raising employers from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2016 valuation, the fund was assessed as 90% funded (82% at the March 2013 valuation). This corresponded to a deficit of £467m (2013 valuation: £723m) at that time.

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 Funding Strategy Statement. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in the Funding Strategy Statement.

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

The principal assumptions were:

Financial assumptions	Real
Discount rate	3.80%
Salary increase assumption	2.40%
Benefit Increase assumption (CPI)	2.10%

Longevity assumptions:

Assumed life expectancy at age 65	Current Pensioners	
	Male	Female
Current Pensioners	22.3 Years	24.5 Years
Future Pensioners*	23.9 Years	26.5 Years

* Aged 45 at 2016 valuation

Note 21 – Actuarial value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018-19 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 Accounting and Reporting by Retirement Benefit Plans refers to as the actuarial present value of promised retirement benefits. There are three options for disclosure.

The Fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

Note 22 – Long Term Assets

	2018-19	2017-18
	£000	£000
Long Term Debtors:		
Contributions due - Employers	5,828	10,143
Reimbursement of lifetime tax allowances	254	0
Sundry Debtors	235	470
Total	**6,317**	**10,613**

The Fund has long term debtors for early retirement contributions from scheme employers who have the option of paying over five years, The sundry debtors figure relates to a settlement from Magistrates Courts of £2.351m which is being paid in equal instalments over 10 years (the first payment of £277k was received in 2010-11), discounted at 3.76%. Both have been included at present value.

Note 23 – Current Assets

	2018-19	2017-18
	£000	£000
Current Debtors and cash:		
Contributions due - Employers	15,114	12,167
Contributions Due - Employees	2,950	2,843
Sundry Debtors	1,262	1,115
Provision for Doubtful Debt	-367	-173
Cash balances	2,440	2,382
Total	**21,399**	**18,334**

The current debtors figures includes contributions which were due in March but not received until after the year end and, outstanding dividend entitlements and recoverable withholding tax claims relating to investments.

Note 24 – Current Liabilities

	2018-19	2017-18
	£000	£000
Sundry Creditors	7,530	4,790
Benefits Payable	2,587	2,262
Provisions	40	0
Receipts in Advance	2,860	3,175
Total	**13,017**	**10,227**

Note 25 – Additional Voluntary Contributions (AVCs)

During 2018-19 the AVC providers to the members of the Fund were Scottish Widows, Standard Life and Equitable Life. From the 1 April 2019 Standard Life were appointed as the sole AVC provider for the Fund.

The AVCs are invested separately from the Fund's main assets and used to acquire additional pension benefits and therefore are not included in the Fund's accounts in accordance with regulation 4 (1) (a) of the LGPS (Management and Investment of Funds) Regulations 2016. Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year.

A summary of the information provided by Scottish Widows, Standard Life and Equitable Life for the year to 31 March 2019 is shown below, along with a prior year comparator.

	Scottish Widows	Standard Life	Equitable Life	Total
	£000	£000	£000	£000
Contributions received in year 2019	723	308	2	**1,033**
Contributions received in year 2018	420	268	2	**690**
Fair value at 31 Mar 2019	3,210	3,023	509	**6,742**
Fair value at 31 Mar 2018	3,243	2,779	509	**6,531**

With effect from the 1 April 2019 Standard Life replaced Scottish Widows as the Fund's AVC provider. Members of the Fund with an existing AVC with Scottish Widows have all been given the option to transfer their AVC to Standard Life. Standard Life will be the Funds only AVC provider that new members can pay into with effect from 1 April 2019.

Note 26 – Related Party Transactions

The Fund is administered by Cheshire West and Chester Council. Consequently there is a strong relationship between the Council and the Fund. The majority of the Fund's cash is invested with the Fund's investment managers or directly with external financial institutions. The Fund has its own specific bank account however some of the Fund's transactions (Accounts Payable and Income) are processed through corporate systems and are paid in the first instance through the Council's corporate bank accounts. The Fund repays cash due to the Council for such transactions plus any interest charges on a monthly basis. In 2018-19 the Fund paid £2.2k to the Council for interest accrued on these balances.

The Council is one of the largest employers and contributed £22.1m into the Fund in 2018-19 (2017-18 £20.9m). At the year end, a balance of £12.999m (2017-18 £13.513m) was due to the Fund from the Council, primarily relating to early retirement costs which will be repaid over more than one year and also contributions which were paid in April but became due in March. A balance of £1.5m was owed to the Council (2017-18 £0.9m owing from the Council) for Fund transactions processed through the Administering Authority's accounts payable and receivable systems.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands including Cheshire. It is jointly owned in equal shares by the eight administering authorities participating in the Pool.

In 2017-18 the fund invested £1,315k in share capital and granted a loan of £685k to LGPS Central Ltd. In 2018-19 interest of £43k accrued on the loan balance to give a balance at the end of the year of £728k, the share capital was valued at cost at the end of the year at £1,315k. Investments managed by LGPS Central ltd as at 31 March 2019 are disclosed in Note 17 to the accounts. Further transfers totalling approximately £585m from existing investment assets into LGPS Central Ltd were approved by the Pension Fund Committee in March 2019 these are expected to take place in 2019-20, no contractual commitment was in place as at 31 March 2019.

During the year the Fund incurred charges for the running costs of LGPS Central Ltd totalling £861k (2017-18: Nil) set up costs nil (2017-18 £426k). The Fund also received a refund of the set up costs paid to LGPS Central Ltd in 2016-17 and 2017-18 of £502k.

Investment management fees of £46k (2017-18 Nil) were incurred on the Fund's investments managed by LGPS Central Ltd.

The Administering Authority incurred costs of £2.188m to administer the Fund in 2018-19 (2017-18 £2.147m) as well as £1.271m for oversight and governance costs (2017-18 £1.213m) and these costs were recharged to the Pension Fund. Note 10 provides an analysis of these costs. These are related party transactions as Cheshire West and Chester Council is also a member body of the Pension Fund.

The Fund has not made any employer related investment at any time during the period.

Specific declarations have been received from Pension Fund Committee and Local Pension Board Members regarding membership of and transactions with any parties related to the Pension Fund.

A number of Members act as Councillors or Board Members of particular employers who maintain a conventional employer relationship with the Fund. Employer representatives for the Local Pension Board will also act as Trustees for employers of the Fund.

The value of transactions with each of these related parties, namely routine monthly payments to the Fund of employer's and employee's contributions is determined by the Local Government Pension Scheme Regulations, and as such no related party transactions have been declared.

A register of outside bodies that Members are appointed to, along with a register of interests is available on the Internet for Cheshire West and Chester, Cheshire East, Warrington and Halton Councils.

Details of the membership of the Local Pension Board are available on the Fund's website.

Governance

Responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council with lead officer responsibility delegated to the Chief Operating Officer, who undertakes the day to day management of the Fund. The Chief Operating Officer is advised, with regard to investment matters, by the Pension Fund Committee and external advice from Mercer. The fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee.

The Local Pension Board was established under the Council's constitution with effect from the 1 April 2015. The role of the Board, as defined in regulations, is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS.

From January 2004 elected members who were offered membership of the Scheme under their respective Council's scheme of allowances were eligible to join the Scheme. From the introduction of the new scheme in 2014 Councillors in England could only continue to accrue rights until the end of the term of office which they were serving on 1st April 2014. As a consequence all councillors ceased membership of the scheme from 12th May 2015 including those members of the Pension Fund Committee who had been active members of the Scheme.

There are six members of the Committee who are in receipt of pension benefits from the Fund (Councillor M. Hogg, Councillor C. Gahan, Councillor B. Crowe, Councillor D. Beckett, Councillor P. Findlow and Councillor M. Wharton). In addition, Committee member Councillor Corcoran has a deferred pension and Committee member P. Matthews was an active member of the Fund as at 31 March 2019.

There are three members of the Local Pension Board who were active members of the Fund as at 31 March 2019; G. Wright, N. Harvey and A Laing. P. Raynes also has a deferred pension with the Fund.

Each member of the Committee and Board is required to declare their interests at each meeting and sign an annual declaration form which is published on the fund's website.

As the Fund forms part of the LGPS it does not strictly have trustees. The members of the Committee do not receive any fees in relation to their specific responsibilities as members of the Committee, although they may be reimbursed for any out of pocket expenses incurred whilst discharging their Committee role.

Similarly the members of the Board do not receive any fees in relation to their specific responsibilities as members of the Board, although they may be reimbursed for any out of pocket expenses incurred whilst discharging their role.

Key Management Personnel

The key management personnel of the Fund are the Chief Operating Officer and the Pension Fund Manager.

The combined financial value of their relationship with the fund (in accordance with IAS24 Related Party Disclosures) is set out below:

	31-Mar-19	31-Mar-18
		Restated
	£000	**£000**
Short term benefits	112	108
Long term/post-retirement benefits	2,356	2,090
Total	**2,468**	**2,198**

The 31 March 2018 figure has been restated to exclude the pension liability element of the Director of Resources whose post was removed in 2014-15 following an organisational restructure. Although the pension liability for this post remains in the Fund, it is not required to be included in the disclosure above as this person is no longer a member of the Fund's Key Management Personnel.

The long term/post-retirement benefits are calculated on an IAS19 basis and will be affected by the assumption used for the calculation which can vary from year to year.

Note 27 – Contingent Liabilities and Contractual Commitments

The Fund has contractual commitments to the value of £679m (2017-18 £559m) in private equity funds.

During 2018-19 the Fund made new commitments to three private equity funds. $79m to Pantheon split $55m to the Global Select 2018 Fund, $8m to the Global Co-investment Opportunities IV Fund and $16m to the Global Secondary Fund 6. The Fund also made another $26m investment to the Adams Street Partners Secondaries 6 Fund and a £22m commitment to the LGPS Central Global Equity Fund 2018. This additional investment will help the Fund address its existing underweight allocation to the vintage years 2009 to 2015, thereby further diversifying the private equity portfolio.

As at 31 March 2019 the Fund had actually invested £409m (2017-18 £369m) and therefore had an outstanding commitment of £270m (2017-18 £190m). As the Pantheon and Adams Street Partner funds are denominated in US Dollars and Euros the commitment in Sterling is subject to changes due to currency fluctuations.

Note 28 – Contingent Assets

There are 25 admitted bodies in the Cheshire Pension Fund who hold insurance bonds to guard against the possibility of being unable to meet their pension obligations, along with an additional 13 employers with Parent Company Guarantees or Deeds of Guarantee in place. The bonds or guarantees are drawn in favour of the Council as administering authority for the Fund and payment will only be triggered in the event of employer default.

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £7m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.1m. This issue is still progressing through the courts.

Note 29 –Impairment of Financial Assets

During 2018-19 the Fund has recognised expected credit losses of £367k (£173k in 2017-18) for possible and actual non-recovery of rental income on its investment properties.

Note 30 – Investment Strategy Statement

TThe Investment Strategy Statement (ISS) sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high level risk register, and has been designed to be informative for all stakeholders. The Investment Strategy Statement replaces the Fund's Statement of Investment Principles.

A full copy of the ISS can be obtained from the Pensions Section, Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP or from the Fund's website at: **www.cheshirepensionfund.org**

Note 31 – Funding Strategy Statement

Under the LGPS Regulations 2013 (as amended) administering authorities are required to prepare a Funding Strategy Statement (FSS).

Fund members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members (net of returns from the Fund's investments). The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Strategy Statement for the Cheshire Pension Fund can be obtained from the Pensions Section, Cheshire West and Chester Council, HQ, Nicholas Street, Chester, CH1 2NP or from the Fund's website at: **www.cheshirepensionfund.org**

Pension Fund Accounts Reporting Requirement

Introduction

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

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

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

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

Present value of promised retirement benefits

Year ended	31 March 2019	31 March 2018
Active members (£m)	3,854	3,129
Deferred members (£m)	1,220	1,139
Pensioners (£m)	2,373	2,352
Total (£m)	**7,447***	**6,620**

* Includes £22m for the estimated impact of the recent 'McCloud' ruling and £3m for the estimated impact of GMP indexation changes.

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

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £531m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

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

Longevity assumptions

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

	Males	Females
Current pensioners	22.3 years	24.5 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.9 years	26.5 years

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

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate Monetary amount (£)
0.5% p.a. increase in the Pension Increase Rate	8%	578
0.5% p.a. increase in the Salary Increase Rate	2%	157
0.5% p.a. decrease in the Real Discount Rate	10%	758

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:

Pete MacRae

Peter MacRae FFA
For and on behalf of Hymans Robertson LLP
3 July 2019

Cheshire Pension Fund ("the Fund") Actuarial Statement for 2018/19

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 December 2018. In summary, the key funding principles are 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;
- ensure that employer contribution rates are reasonably stable where appropriate;
- 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);
- 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
- use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around at least a 66% likelihood chance of full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £4,153 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 2016 valuation was £467 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

Financial assumptions	31 March 2016
Discount rate	3.8%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	22.3 years	24.5 years
Future pensioners*	23.9 years	26.5 years

*Aged 45 at the 2016 Valuation.

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

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. As such, there has been a positive impact on the funding position.

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

Gemma Sefton FFA
For and on behalf of Hymans Robertson LLP
26 April 2019

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

List of employers contributing into the Fund in 2018-19

Employer Name	Strategy	Employees	Employers	Total
Scheme Employers				
Cheshire Magistrates Courts	D	-	41,900.00	41,900.00
Cheshire West and Chester Council	B	7,140,923.64	21,610,010.73	28,750,934.37
Cheshire East Council	A	6,285,464.30	17,287,974.44	23,573,438.74
Cheshire Fire Authority	B	249,955.15	772,796.45	1,022,751.60
Halton Borough Council	B	3,642,537.48	11,186,923.22	14,829,460.70
Warrington Borough Transport	B	5,317.05	22,102.57	27,419.62
Warrington Borough Council	B	4,871,321.97	15,071,513.45	19,942,835.42
NW Fire Control Limited	B	136,526.79	424,530.08	561,056.87
Alderley Edge Parish Council	B	3,379.62	11,813.15	15,192.77
Northwich Town Council	B	18,796.48	69,570.55	88,367.03
Winsford Town Council	B	9,431.75	33,410.09	42,841.84
Nantwich Town Council	B	26,348.50	87,955.16	114,303.66
Knutsford Town Council	B	8,516.44	28,795.86	37,312.30
Penketh Parish Council	B	8,348.99	29,121.58	37,470.57
Bollington Town Council	B	4,472.06	15,931.70	20,403.76
Middlewich Town Council	B	11,855.94	37,047.36	48,903.30
Poynton Town Council	B	11,773.06	40,325.18	52,098.24
Disley Parish Council	B	3,963.51	13,962.22	17,925.73
Winwick Parish Council	B	2,579.33	9,626.38	12,205.71
Prestbury Parish Council	B	299.91	1,111.38	1,411.29
Nether Alderley Parish Council	B	481.92	1,750.98	2,232.90
Birchwood Town Council	B	7,940.04	28,640.37	36,580.41
Grappenhall and Thelwall Parish Council	B	4,799.14	16,071.55	20,870.69
Odd Rode Parish Council	B	1,944.11	6,026.64	7,970.75
Congleton Town Council	B	33,870.17	105,746.12	139,616.29
Frodsham Town Council	B	1,845.49	6,994.75	8,840.24
Sandbach Town Council	B	12,577.95	38,640.65	51,218.60
Police and Crime Commissioner	B	2,679,329.92	8,211,637.74	10,890,967.66

Employer Name	Strategy	Employees	Employers	Total
Priestley Sixth Form College	B	81,112.06	305,968.17	387,080.23
Macclesfield College	B	135,761.60	471,058.95	606,820.55
West Cheshire College	B	-	3,937.57	3,937.57
Reaseheath College	B	435,081.91	1,428,629.58	1,863,711.49
Sir John Deanes College	B	81,701.48	259,631.85	341,333.33
Mid Cheshire College	B	-	5,558.74	5,558.74
The Catholic High School Chester	B	42,806.46	167,375.10	210,181.56
Wade Deacon High School	B	94,663.93	309,408.43	404,072.36
Rudheath Primary School	B	16,741.91	68,251.10	84,993.01
Birchwood High School	B	54,206.53	177,952.75	232,159.28
Penketh High School	B	53,504.13	204,120.69	257,624.82
Worth Primary School	A	8,394.31	39,540.23	47,934.54
St Thomas More Catholic High School	A	27,654.61	128,516.16	156,170.77
Stapeley Broad Lane	A	13,629.37	62,761.98	76,391.35
St Martins Academy	B	7,321.29	22,683.08	30,004.37
Leighton Academy	A	29,585.51	146,392.75	175,978.26
Grosvenor Park CoE Academy	B	10,358.34	38,438.96	48,797.30
Cloughwood School	B	27,692.50	108,244.55	135,937.05
Holmes Chapel Primary School	A	20,638.38	89,996.98	110,635.36
Whirley Primary School	A	11,186.98	58,145.46	69,332.44
Alsager School	A	65,315.17	630,511.80	695,826.97
Sir William Stanier Community School	A	54,924.35	258,888.16	313,812.51
Over Hall Community School	B	19,411.12	73,046.74	92,457.86
Ash Grove Academy	A	30,470.51	116,050.03	146,520.54
Cranberry Academy	A	9,733.68	51,196.32	60,930.00
St Michaels Community Academy	A	32,146.56	142,154.88	174,301.44
Crewe Town Council	B	11,014.38	33,008.58	44,022.96
Adelaide School	A	27,249.19	138,339.93	165,589.12
Parkroyal Community School	A	31,472.84	136,168.97	167,641.81
Vivo Care Services Limited	B	445,558.58	1,687,113.38	2,132,671.96

Employer Name	Strategy	Employees	Employers	Total
The Quinta Primary School	A	15,952.55	72,396.62	88,349.17
Weaverham Primary Academy	B	8,975.23	37,686.37	46,661.60
Cavendish High Academy	B	38,710.18	137,100.36	175,810.54
Wistaston Academy	A	26,201.95	98,141.53	124,343.48
Appleton Parish Council	B	3,047.62	10,923.40	13,971.02
Stockton Heath Parish Council	B	2,006.14	7,557.19	9,563.33
Orbitas Bereavement Services	A	45,430.40	137,528.74	182,959.14
The Hermitage Trust	A	14,203.87	75,141.85	89,345.72
Tytherington School	A	50,405.70	246,242.87	296,648.57
Pear Tree School	A	14,324.56	75,803.50	90,128.06
The Oak View Primary Academy	B	17,871.02	61,628.38	79,499.40
Bridgewater Park Primary School	B	9,207.84	31,215.26	40,423.10
Mersey Gateway Crossing Board	B	16,594.22	56,164.01	72,758.23
Marlfields Primary Academy	A	11,908.70	58,193.70	70,102.40
St Bernards RC Primary School	B	11,255.29	44,557.20	55,812.49
Black Firs Primary School	A	20,435.30	86,110.48	106,545.78
Smallwood CoE Primary	A	8,492.46	45,306.45	53,798.91
Nether Alderley Primary School	A	2,960.94	16,042.64	19,003.58
Broken Cross Primary Academy	A	8,665.61	45,766.16	54,431.77
Mossley CoE Primary School	A	19,534.89	102,443.56	121,978.45
Ormiston Chadwick Academy	B	37,730.53	138,316.11	176,046.64
Bridgewater High School	B	81,761.75	296,149.00	377,910.75
Transport Services Solutions Limited	A	56,616.84	154,881.44	211,498.28
Riverside College	B	204,781.28	862,869.95	1,067,651.23
Poulton with Fearnhead Parish Council	B	2,190.36	8,043.96	10,234.32
University CoE Academy	B	52,454.86	180,911.33	233,366.19
Neston Town Council	B	5,540.41	17,279.50	22,819.91
Fallibroome Academy	A	82,969.20	351,802.93	434,772.13
Brine Leas High School	A	60,317.11	252,715.80	313,032.91
Ormiston Bolingbroke Academy	B	47,198.98	154,627.25	201,826.23

Employer Name	Strategy	Employees	Employers	Total
Winsford E-Act Academy	B	53,103.16	216,273.50	269,376.66
Sandbach High School & Sixth Form	A	48,738.75	208,000.03	256,738.78
Christleton High School	B	55,772.27	205,826.01	261,598.28
Bishops Blue Coat CoE High School	B	58,473.15	198,095.22	256,568.37
Congleton High School	A	55,431.33	246,194.29	301,625.62
Delamere Academy	B	8,192.19	33,812.36	42,004.55
Mottram St Andrew Primary Academy	A	12,628.20	63,528.03	76,156.23
Brio Leisure (CWaC CIC)	B	243,716.34	841,151.96	1,084,868.30
The Heath Academy	B	79,989.02	270,505.34	350,494.36
Palacefields Academy	B	14,265.92	55,134.19	69,400.11
Macclesfield Academy	A	29,219.23	145,639.54	174,858.77
Lacey Green Primary School	A	17,650.03	78,105.26	95,755.29
Holmes Chapel Comprehensive School	A	71,172.42	287,663.97	358,836.39
Wilmslow Town Council	B	5,010.18	13,797.09	18,807.27
University Chester Academy Trust	B	22,041.66	320,534.11	342,575.77
Rudheath Senior Academy	B	23,461.72	96,451.16	119,912.88
Knutsford Academy	A	41,709.37	207,943.11	249,652.48
Alsager Town Council	B	10,029.00	35,397.70	45,426.70
Neston High School	B	68,001.81	271,827.41	339,829.22
Sandymoor School	B	25,845.20	81,085.38	106,930.58
Tarporley High School and Sixth Form College	B	40,901.23	155,982.16	196,883.39
Eaton Bank Academy	A	34,818.94	171,584.32	206,403.26
Lymm High School	B	101,858.17	394,489.63	496,347.80
County High School Leftwich	B	40,611.02	170,860.54	211,471.56
Kelsall Primary School	B	15,378.30	57,373.05	72,751.35
Handforth Parish Council	B	1,654.92	5,423.04	7,077.96
King's Leadership Academy	B	42,104.60	140,587.34	182,691.94
Holmes Chapel Parish Council	B	2,007.48	7,188.04	9,195.52
Lymm Parish Council	B	2,428.73	8,925.82	11,354.55
Padgate Academy	B	29,404.29	113,455.07	142,859.36

Employer Name	Strategy	Employees	Employers	Total
Great Sankey High School	B	78,733.35	250,201.72	328,935.07
All Hallows Catholic College	A	44,943.00	198,365.50	243,308.50
Beamont Collegiate Academy	B	46,726.67	176,561.69	223,288.36
Wistaston Parish Council	B	915.47	3,361.80	4,277.27
Middlewich Joint Cemetry	B	160.84	601.77	762.61
Wistaston Church Lane Academy	A	17,960.73	88,322.04	106,282.77
Boughton Heath Academy	B	9,161.11	38,689.45	47,850.56
Mill View Primary School	B	12,121.17	51,208.29	63,329.46
Widnes Academy	B	10,895.98	42,198.37	53,094.35
Hungerford Primary	A	41,582.99	187,743.88	229,326.87
St Paul's Catholic Primary School	A	8,640.48	43,647.29	52,287.77
St Alban's Catholic Primary School	A	10,860.85	54,349.34	65,210.19
Sandbach Primary Academy	A	7,284.16	38,855.43	46,139.59
Peover Superior Endowed Primary School	A	4,038.95	21,593.23	25,632.18
Ivy Bank Primary School	A	35,755.83	172,129.74	207,885.57
St Marys Catholic Primary School	A	9,624.01	49,660.67	59,284.68
St Augustines Catholic Primary School	B	4,396.23	17,280.56	21,676.79
Shavington Academy	A	31,415.05	155,456.83	186,871.88
The Berkeley Academy	A	20,891.43	108,969.08	129,860.51
Willaston Primary Academy	A	12,072.35	62,621.62	74,693.97
The Russett School	B	38,508.83	156,507.20	195,016.03
The Fermaine Academy	B	5,678.56	17,235.26	22,913.82
Macclesfield Town Council	B	7,365.69	21,700.60	29,066.29
Nantwich Academy	A	10,876.79	57,291.56	68,168.35
Shavington Primary School	A	20,635.96	81,867.46	102,503.42
Upton Priory School	A	26,799.07	140,136.38	166,935.45
The Oaks Academy	A	23,433.46	180,607.94	204,041.40
UTC - Warrington	B	16,492.27	53,073.62	69,565.89
Delamere and Oakmere Parish Council	A	301.90	1,169.14	1,471.04
Victoria Road Primary School	B	16,324.52	72,968.84	89,293.36

Employer Name	Strategy	Employees	Employers	Total
Wheelock Primary School	A	13,464.94	63,588.03	77,052.97
Monks Coppenhall Academy	A	33,692.78	174,347.22	208,040.00
Marlborough Primary School	A	17,842.73	93,995.56	111,838.29
Hartford Parish Council	B	1,114.32	3,899.70	5,014.02
Crewe Engineering UTC	A	7,641.65	36,153.86	43,795.51
Acton CE Primary Academy	A	7,641.82	39,792.71	47,434.53
Calveley Primary Academy	A	5,256.80	27,567.05	32,823.85
Highfields Community Primary	B	11,980.12	62,908.18	74,888.30
St Johns Wood Community School	A	8,272.72	40,799.33	49,072.05
Gorseybank Primary School	A	14,100.27	71,984.85	86,085.12
Wilmslow Academy	A	18,936.36	100,341.79	119,278.15
Daresbury Primary School	B	7,782.75	29,585.19	37,367.94
Underwood West Academy	A	40,648.32	221,407.49	262,055.81
Adlington Primary Academy	A	4,164.06	22,567.01	26,731.07
Bruche Primaryn School	B	12,423.33	49,596.16	62,019.49
Evelyn Street Primary School	B	33,554.31	127,146.71	160,701.02
Penketh Primary School	B	10,798.16	42,722.08	53,520.24
Bunbury Aldersey CoE Primary School	A	9,506.95	54,025.27	63,532.22
Queens Park High School	B	22,884.71	107,445.00	130,329.71
Great Sankey Primary School	B	12,357.29	50,782.93	63,140.22
St Oswalds Worleston Primary School	A	7,140.74	35,297.30	42,438.04
Warmingham CoE Primary School	A	3,338.11	21,527.78	24,865.89
Sir Thomas Boteler High School	B	39,161.20	148,485.36	187,646.56
Offley Primary Academy	A	18,811.05	106,919.57	125,730.62
Barnton Primary School	B	27,156.56	118,726.13	145,882.69
Cheshire College South and West	B	440,476.03	1,715,189.45	2,155,665.48
Kingsmead Parish Council	B	733.38	2,845.89	3,579.27
Wybunbury Delves Primary School	A	10,611.22	64,038.70	74,649.92
Gawsworth Primary School	A	9,475.68	53,035.61	62,511.29
Beamont Primary School	B	26,017.91	105,251.52	131,269.43

Employer Name	Strategy	Employees	Employers	Total
Warrington and Vale Royal College	B	267,215.89	1,603,619.34	1,870,835.23
Puss Bank School	A	23,671.41	139,729.94	163,401.35
Burtonwood Community Primary School	B	9,326.02	37,846.79	47,172.81
Chapelford Village Primary School	B	25,251.01	94,359.49	119,610.50
Park Road Community Primary School	B	8,696.61	35,370.52	44,067.13
Westbrook Old Hall Primary School	B	16,679.28	68,145.04	84,824.32
The Grange School	B	66,703.68	264,039.08	330,742.76
New Horizons School	B	12,794.31	47,950.36	60,744.67
Upton Heath CoE Primary School	B	18,090.98	77,387.73	95,478.71
Little Sutton CoE Primary School	B	9,697.41	41,762.55	51,459.96
Clutton CoE Primary School	B	6,469.92	26,891.09	33,361.01
Brereton CoE Primary School	A	9,081.32	51,137.77	60,219.09
Excalibur Primary School	A	10,435.63	57,561.63	67,997.26
Pikemere School	A	10,070.74	56,855.13	66,925.87
Weston Village Primary School	A	11,882.68	64,582.81	76,465.49
Penketh South Primary School	B	10,723.30	43,707.19	54,430.49
Parklands Community Primary School	B	15,524.18	68,484.59	84,008.77
Wolverham Primary and Nursery School	B	27,254.64	119,084.37	146,339.01
Childer Thornton Primary School	B	9,177.23	59,192.18	68,369.41
Brookfields School	B	19,007.47	79,726.36	98,733.83
Alderman Bolton Community Primary School	B	21,426.86	88,587.33	110,014.19
Lostock Hall Primary School	A	2,344.32	13,522.65	15,866.97
Glazebury Primary School	B	2,512.98	10,246.37	12,759.35
Hollins Green St Helens CoE Primary School	B	2,566.22	10,537.85	13,104.07
Poynton High School	A	18,552.15	99,314.66	117,866.81
Egerton Primary School	A	5,873.83	33,018.25	38,892.08
Grange Community Nursery and Primary School	B	4,383.20	19,084.31	23,467.51
Astbury St Marys CoE Primary School	A	875.13	4,996.32	5,871.45
Handforth Grange Community Primary School	A	3,099.91	17,593.71	20,693.62
Sub Total		**31,398,275.09**	**101,212,089.57**	**132,610,364.66**

Employer Name	Strategy	Employees	Employers	Total
Admitted Bodies				
ANSA Environmental Services	A	463,959.07	1,500,271.05	1,964,230.12
Everybody Sport and Recreation	A	228,056.12	697,534.45	925,590.57
Livewire	B	266,252.75	857,848.79	1,124,101.54
Warrington Cultural Trust	B	42,684.44	144,323.72	187,008.16
Canal and River Trust (Waterways Trust)	C	1,109.21	8,316.00	9,425.21
Cheshire Community Action	B	2,244.96	39,538.88	41,783.84
Adoption Matters	B	135,019.62	438,174.83	573,194.45
Warrington Voluntary Action	A	2,372.88	11,254.88	13,627.76
Vision Support	C	-	29,000.04	29,000.04
David Lewis Centre	C	550.08	755,619.53	756,169.61
Warrington Housing Association	B	77,796.44	265,471.84	343,268.28
Cheshire and Warrington Sports Partnership	B	10,298.28	28,382.38	38,680.66
Care Quality Commission	C	2,739.06	50,474.36	53,213.42
Norton Priory Museum Trust	B	13,206.79	41,012.40	54,219.19
Youth Federation	C	-	6,999.96	6,999.96
The King's School Chester	B	10,655.34	110,590.16	121,245.50
University Of Chester	B	1,216,981.22	4,162,234.01	5,379,215.23
Silk Museum Trust	A	4,146.99	28,310.60	32,457.59
Deafness Support Network	C	6,229.90	148,961.59	155,191.49
Warrington Community Living	B	-	121,458.37	121,458.37
Belong Limited	C	4,089.12	615,644.09	619,733.21
Cheshire CC Sports Club	C	1,300.01	9,461.25	10,761.26
PlusDane (Cheshire) Housing Association	B	96,018.84	480,324.51	576,343.35
Sandbach School	B	59,713.91	209,307.45	269,021.36
Weaver Vale Housing Trust	B	489,647.51	2,100,386.42	2,590,033.93
Hochtief	B	809.67	2,429.07	3,238.74
Tarmac Trading Limited	B	9,317.84	47,570.05	56,887.89
ISS Facility Services Ltd	B	1,262.22	-	1,262.22
Halton Housing Trust	C	320,658.33	990,986.47	1,311,644.80

Employer Name	Strategy	Employees	Employers	Total
Cheshire Peaks and Plains	B	113,908.54	478,374.10	592,282.64
School Food Company Ltd	B	327.84	-	327.84
Eric Wright EP Schools	B	588.58	1,808.99	2,397.57
Goldengates Housing Trust	B	285,932.40	1,321,643.17	1,607,575.57
Innovate Ltd Tytherington	B	298.16	43.43	341.59
Hall Cleaning Services	B	770.00	-	770.00
Compass (Chartwells Ltd)	B	691.68	-	691.68
Aspens Services Ltd - Brine Leas	B	971.50	848.38	1,819.88
Ringway Jacobs	B	69,206.82	-	69,206.82
RM Estates Ltd	B	2,602.36	6,562.32	9,164.68
Kier	B	55,452.32	224,360.82	279,813.14
Dataspire	B	1,711.84	2,508.68	4,220.52
Ringway Infrastructure	B	44,995.35	-	44,995.35
HQ Theatres	B	4,395.72	16,713.72	21,109.44
Bulloughs Collegiate	B	1,390.07	-	1,390.07
Catering Academy - Warrington	B	1,074.72	6,355.44	7,430.16
Catering Academy - CoE Academy	B	3,051.71	6,351.38	9,403.09
Catering Academy - Weaverham	B	604.01	2,602.72	3,206.73
Catalyst Choices	B	227,925.85	536,568.24	764,494.09
Sanctuary Housing Association	C	237,366.46	1,825,464.99	2,062,831.45
Superclean - Ashdene	A	242.22	1,620.82	1,863.04
Superclean - Alsager	A	360.05	1,953.90	2,313.95
Turning Point Services Ltd	B	4,094.37	4,724.26	8,818.63
Liverpool Mutual Homes (Torus 62 LMH)	B	4,340.87	17,897.75	22,238.62
Civicance Ltd	A	66,719.99	180,274.49	246,994.48
Mack Trading (Heaton Park) Limited	B	2,752.40	10,192.81	12,945.21
Taylor Shaw - Bridgemere	A	219.12	-	219.12
Bulloughs - Lymm	B	1,027.42	-	1,027.42
QWest Services Limited	B	70,795.80	326,357.45	397,153.25
Riverside Truck Rental Ltd	B	1,913.34	8,771.76	10,685.10

Employer Name	Strategy	Employees	Employers	Total
Your Housing Group	B	3,797.29	6,017.28	9,814.57
Edsential	B	281,633.64	1,078,577.63	1,360,211.27
Skills and Growth Company	A	76,727.30	184,730.43	261,457.73
Churchill Services Ltd	B	771.33	3,085.35	3,856.68
Bridgewater High School Trading	B	330.62	1,376.98	1,707.60
PAM East	A	2,210.16	8,368.97	10,579.13
PAM West	B	2,729.55	8,511.41	11,240.96
The Guinness Partnership	B	126,792.44	524,277.33	651,069.77
Avenue Services (NW) Ltd	B	11,543.56	40,777.94	52,321.50
West Cheshire Facilities Management	B	549.46	2,977.38	3,526.84
Midshire Catering Ltd	A	418.77	2,436.43	2,855.20
ENGIE	B	1,455.23	6,372.84	7,828.07
Keys Care Limited	A	14,060.81	45,517.20	59,578.01
ForHousing	B	104,476.59	546,918.03	651,394.62
CG Cleaning - Great Sankey	B	406.54	1,722.31	2,128.85
Novus Networks Ltd	A	351.80	1,807.52	2,159.32
CWP NHS Trust	B	25,067.90	130,990.63	156,058.53
A M Services	A	1,393.53	7,170.38	8,563.91
Caterlink (Sandbach)	A	8,132.33	45,063.80	53,196.13
Caterlink (Ruskin)	A	709.25	3,542.25	4,251.50
Aspens Services - Upton by Chester	B	242.87	1,439.21	1,682.08
Verve People	B	1,531.16	9,298.35	10,829.51
Torus 62	C	86,320.74	381,772.57	468,093.31
Torus 62 (ComMutual)	C	4,672.95	15,710.06	20,383.01
Sub Total		**5,429,177.93**	**21,942,349.05**	**27,371,526.98**
Overall Total		**36,827,453.02**	**123,154,438.62**	**159,981,891.64**

Scheme Advisory Board Disclosures Board Summary Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board.

1) The table below provides a summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are actively contributing (made contributions into the Fund in 2018-19) and ceased contributing (made no contributions into the Fund in 2018-19).

2018-19	Actively Contributing	Ceased Contributing	Total
Scheduled Body	209	31	240
Admitted Body	81	75	156
Totals	**290**	**106**	**396**

2) The table below provides an analysis of fund assets as at 31 March 2019

	UK	Non-UK	Global	Total
	£000	**£000**	**£000**	**£000**
Equities	14,377		527,398	541,775
Bonds	352,271		2,905,719	3,257,990
Property (direct holdings)	461,870			461,870
Alternatives	247,609	920,064	47,733	1,215,406
Cash	79,843		32,227	112,070
Total	**1,155,970**	**920.064**	**3,513,077**	**5,589,111**

3) The table below provides an analysis of investment income accrued as at the 31 March 2019

	UK	Non-UK	Global	Total
	£000	**£000**	**£000**	**£000**
Equities			8,569	8,569
Alternatives	5,960	465		6,425
Property (direct holdings)	19,164			19,164
Cash	357		-126	231
Total	**25,481**	**465**	**8,443**	**34,389**

Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Cheshire Pension Fund ("the Fund"), which is administered by Cheshire West and Chester 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 February 2017.

1.2 What is the Cheshire 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 Cheshire Pension Fund, 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 of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (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, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

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

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers. 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 Christine Mann, Pension Fund Manager in the first instance.
Email: **christine.mann@cheshirewestandchester.gov.uk**
Tel: **01244 972188**.

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

In essence this is a three-step process:

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

2.2 How does the actuary set each employer's contribution rate?

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

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors.

The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does contribution rate vary for different employers?

All three steps in Section 2.1 are considered when setting contributions (more details are given in Section 3 and Appendix D).

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

For some employers it may be agreed to pool contributions, see 3.4. Any costs of non ill-health early retirements must be paid by the employer, see 3.6. Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

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

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

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

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

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; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing (covenant) of the employer, i.e. its ability to meet its long term funding commitments through the use of an external credit rating provider.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, financial standing, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has confidence that an employer will be able to meet its funding commitments then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that then employer will be able to meet its funding commitments or withstand a significant change in its funding commitments then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund.

With this in mind, the Fund's three-step process identifies the key issues:

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

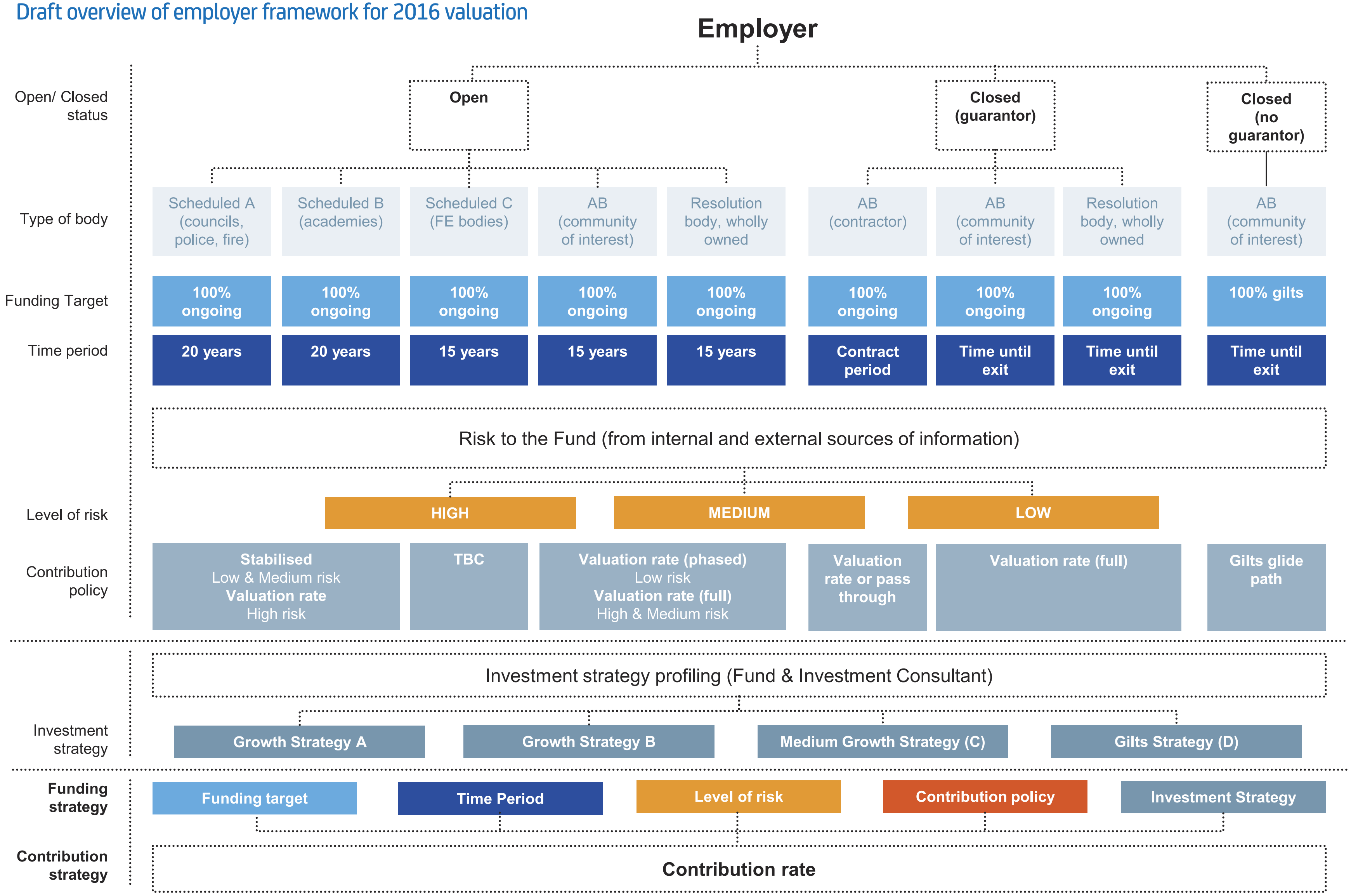
  Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term may lead to higher contributions in the long term; and
- it may take longer to reach their funding target, all other things being equal.
- Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.
- Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities, Police, Fire	Further Education Establishments	Academies	Open to new entrants	Closed to new entrants	(All)
Type of employer	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 years	15 years	Outstanding contract term
Secondary rate – Note (d)	Monetary amount for 4 main Councils ,% of payroll for P&TCs	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	TBC - Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However reductions may be permitted by the Administering Authority on a case by case basis	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	On employer by employer basis	On employer by employer basis	On employer by employer basis	On employer by employer basis	On employer by employer basis	On employer by employer basis
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	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
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 generally 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 (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Draft overview of employer framework for 2016 valuation



Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

The Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields 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 with the objective of reducing, but not entirely eliminating, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

If an employer's contributions are set to target a higher funding target, the Administering Authority may move the employer's assets to a lower risk investment strategy.

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 (e.g. due to outsourcing or redundancies), 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 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Tax Raising or Precepting	"Mature" Tax Raising or Precepting	Higher/Further Education Establishments	Academy
Max cont increase	+0.5% of pay	+1.5%	+2.0%	Same as LEA school
Max cont decrease	-0.5% of pay	-0.5%	-0.5%	Same as LEA school

All percentage of pay figures are based on the employer's actual payroll and contributions in payment as at 31 March 2016 and are assumed to increase in line with the pay increase assumption.

The stabilisation criteria and limits apply for the period 1st April 2017 to 31 March 2020 and will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

The review will take into account the employer's membership profiles, actual payroll and contributions in payment at the time of the review and also any issues surrounding employer security, and other relevant factors. Any material changes to any of the above may result in a revision to the stabilisation criteria and limits

The Administering authority reserves the right to review the stabilisation criteria and limits at any point before 31 March 2019 if there are material events for example (but not limited to) significant reductions in active membership or changes in the nature of the employer (perhaps due to Government restructuring or policy changes).

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority 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. This expectation does not apply to contractors.

A maximum time horizon of 20 years is reserved only for employers with tax raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies.

For other employers who remain open to active membership the maximum time horizon is 15 years.

The maximum time horizon for all contractors is the outstanding contract term.

For employers who are closed to new entrants or with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 15 years. Note this period is likely to reduce at each subsequent valuation.

Note (d) (Secondary rate)

In general, the Secondary contribution rate for each employer covering the three year period until the next valuation will be set as a monetary amount as the default.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms:

- a 2 in 3 or 66% minimum probability is required for employers with tax raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies
- a 3 in 4 or 75% minimum probability is generally required if the employer does not have tax-raising powers or an explicit guarantee from a central government department e.g. DFE guarantee for academies
- a 2 in 3 or 66% minimum probability may be applied for employers who can evidence a tax raising body as a guarantor or other sufficient security backing its funding position

The Fund reserves the right to change or set alternative minimum probabilities if the circumstances of the employer change, for example (but not limited to) the Fund believes the employer poses a greater risk of being unable to meet its long term funding commitment than other employers 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:

a) The academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT. The underlying funding position of each academy within the MAT will continue to be tracked.

b) The 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;

c) The academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The academy's initial contribution rate will be as per the ceding council's rate and the council's stabilisation parameters will apply;

e) Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance or any changes to Government policy, for example if the current provision of a DfE guarantee that the Department will meet any outstanding LGPS liabilities on Academy Trust closure is removed, reduced or becomes insufficient to meet potential risks to the Fund . Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies (TABs): For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be monitored and reassessed on an annual basis by the Administering Authority. However, it is the responsibility of the letting employer to ensure that the level of security provided remains adequate, as the letting employer is the guarantor of last resort should the TAB default. See also Note (i) below.

Community Admission Bodies (CABs): 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 or provide a form of security as above. The sponsoring Scheduled Body may also require the CAB to provide some form of security, such as a bond.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

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

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place and as if they were any other employer within the Cheshire Pension Fund. It will then be up to the awarding authority and the contractor to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place

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

- For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:
- Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;
- Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due. This will be considered on a case by case basis subject to approval by the guarantor and is within the terms of the guarantee;
- Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund, at its absolute discretion may allow spreading the payment over a period acceptable to the Fund. This will be considered on case by case basis and the Fund may require some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

3.4 Pooled contributions

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. However, from time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

Community Admission Bodies and Transferee Admission Bodies are not permitted to participate in a pool.

With the advice of the Actuary the Administering Authority has allowed Parish and Town Councils to pool for the purposes of setting contributions. The underlying funding position of each Parish and Town Council continues to be tracked.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility may include a reduced rate of contribution or an extended time horizon.

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

Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining the age at which they can take their benefits without incurring a reduction (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). 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 5 years

Designating Employers - up to 3 years

Academies - up to 3 years

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).

Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation.

The Administering Authority receives a cash figure from the actuary for this 'ill health allowance' that is built into each employer's contribution rate for the three years covered by the actuarial valuation (i.e. for the period 1/4/17 – 31/3/20 for the 2016 valuation). Where an employer does not take out ill-health insurance, they will be invoiced for any cumulative ill-health retirement costs over the three year period that are above their allowance.

3.8 External Ill health insurance

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 cost of is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or inform the Administering Authority 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 on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period and may also require the provision of a suitable security or guarantee. 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, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (to be replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

Currently there are four investment strategies in the Fund, with a range of allocation to growth assets. More detail of these strategies are set out in the Statement of Investment Principles (to be replaced by an Investment Strategy Statement

Employers are allocated by the Administering Authority and the Fund's Strategic Investment Advisor to the investment strategy which is most appropriate given the employer's funding objective and current funding position.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford; 24
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, monthly. It reports this to the regular Pensions Committee meetings, and also to employers from time to time.

The estimated funding level of any employer in the Fund can be provided by the Administering Authority within 5 business days of request

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- "to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible;** and
- to take a **prudent longer-term view** of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website www.cheshirepensionfund.org;
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A summary issued to all Fund members;
- A full copy [included in/linked from] 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. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles / Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.cheshirepensionfund.org.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. 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.

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). 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.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG 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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps below are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, e.g. investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability** of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

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

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

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

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

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

Individual asset shares are calculated on a monthly basis by the Fund Actuary using the HEAT system. This system uses monthly income and expenditure amounts split by each employer.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investment strategies. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has carried out modelling to test the suitability of the investment return assumption for each of the Fund's investment strategies.

The results of this analysis have allowed the Administering Authority to evidence the appropriateness of the assumption for future investment returns earned by the Fund over the long term.

As the Fund runs four investment strategies the assumption was analysed for each in turn. For each of the strategies with an allocation to growth assets the assumption will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). The analysis showed that for each strategy's current growth allocation, the probability of achieving a return of 1.6% per annum over the gilt yield was deemed appropriate by the Administering Authority. In nominal terms this equates to an expected investment return of 3.8% per annum.

For the gilts only investment strategy, the assumed investment return is set to be the gilt yield at the time of the valuation (this is the same as that used at the 2013 valuation). . In nominal terms this equates to an expected investment return of 2.2% per annum

In the opinion of the Fund actuary, based on each of the current investment strategies of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

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

1. 1% p.a. until 31 March 2020, followed by
2. the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

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

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach is minimal. 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.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions / basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, 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 their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, 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.
Guarantee / guarantor	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Investment Strategy Statement 2019

1. Introduction

This is the Investment Strategy Statement (the "Statement") of Cheshire Pension Fund (the "Fund") as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations").

The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement (ISS) S is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high level risk register, and has been designed to be informative for all stakeholders. This document has replaced the Fund's Statement of Investment Principles, which was published prior to 2016.

In preparing this Statement, the Fund has consulted with such persons as it considers appropriate and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.

This statement will be reviewed at least triennially or more frequently if appropriate.

Any feedback or comments on this document should be addressed to the Pension Fund Manager and emailed to pensions@cheshirewestandchester.gov.uk.

2. Investment Objectives and Beliefs

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund's investment beliefs which help to inform the investment strategy are as follows:

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Investing over the long term provides opportunities to improve returns
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives
- Environmental, Social and Governance are important factors for the selection and sustainability of investment returns over the long term
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore improve Fund returns.
- High conviction active management adds value to returns over the long term.

3. Investment Strategy and the Process for Ensuring Suitability of Investments.

Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the number of employers in the Fund has increased significantly in recent years meaning that there are groups of employers with different underlying characteristics and with different long term funding objectives.

In order that the Fund delivers on its key objectives (ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long term funding objective whilst increasing certainty of cost), the Fund operates four distinct investment strategies.

Each investment strategy has its own strategic asset allocation benchmark. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating required long-term returns, whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. The Fund undertakes a fundamental review of the strategic asset allocation every three years following actuarial valuations. The Fund also monitors compliance with this statement at least quarterly and monitors progress towards the long term funding objective for relevant groups of employers at least monthly.

The strategic asset allocation at 1 April 2018 for each of the four investment strategies is shown in table 1.

Table 1 – Strategic Asset Allocation

		Investment Strategy (%)			
Asset Class	**Investment Objective**	**Growth A**	**Growth B**	**Medium growth**	**Gilts**
Growth		**60**	**50**	**50**	-
Equity	- Exposure to global equity markets. - Outperform global equity markets - Contains high conviction active strategy with meaningful outperformance target.	30	20	20	-
Absolute Return	- Exposure to global equity markets. - Outperform global equity markets - Contains high conviction active strategy with meaningful outperformance target.	15	15	15	-
Liquid Alternatives	- Long term returns in excess of public equity markets - Access to assets that provide link to inflation	15	15	15	-
Diversifying & Matching		**40**	**50**	**50**	-
Diversifying Fixed Income	- Unconstrained exposure to fixed income - Focus on return generation - Flexible duration	20	20	20	-
Liability Aware	- Access to assets which provide liability matching characteristics such as movements in interest rates and inflation	20	30	30	100

The Fund allows asset allocations to fluctuate around the target allocations subject to the tolerances set out in table 2 overleaf.

In addition to the fundamental review of the strategic asset allocation undertaken every three years, the Fund monitors progress of employers within Growth Strategies A&B on a monthly basis. This gives the Fund the opportunity to adjust the strategic asset allocation in the event that a group of employers are ahead or behind their funding plan. This is an important mechanism used by the Fund to ensure that each employer continues to take the appropriate level of investment risk, giving each the best opportunity possible to achieve its long term funding objective whilst increasing certainly of cost. The progress of employers in Medium Growth Strategy and Gilts Strategy is monitored every three years as these employers are already invested in their "target funding plan".

A full explanation of the process undertaken to assess employer funding progress is provided in the Fund's Investment Risk Management document which is published on the website.

Table 2 - Tolerance Ranges

Asset class	Growth Strategy A and Growth Strategy B	Medium Growth
Equities	+/-5%	+/- 2.5%
Absolute Return	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Illiquid Alternatives	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)	+/-2.5% (rebalancing dependent on magnitude, cost and liquidity)
Diversifying Fixed Income	+/-2.5%	+/-2.5%
Liability Aware Assets	+/-2.5%	+/-2.5%

The maximum percentage of assets to be held in each asset class is set out in table 3.

Table 3 – Maximum Allocations

Asset class	Growth Strategies A&B[1]	Medium Growth
Equities	25.0%	25.0%
Absolute Return	17.5%	17.5%
Illiquid Alternatives	17.5%	17.5%
Diversifying Fixed Income	22.5%	22.5%
Liability Aware Assets	32.5%	32.5%

Infrastructure

The Fund is committed to increasing its exposure to infrastructure assets where this will align with the overarching strategic investment strategy. Infrastructure investing comes in many forms and the Fund's investment strategy enables the potential for infrastructure to be included within both the Illiquid Alternatives and Diversifying Fixed Income portfolios. The Fund's long term aspiration is to target an infrastructure allocation of up to 10% of Fund assets and this will be explored further by the Fund through its work with LGPS Central.

[1] Maximum allocations for Growth Strategy A and B reflect the maximum allocation that would apply where the investment strategy is on the last step as part of the risk management framework i.e. has moved through the 97% funding level trigger (see the Risk Management/De-risking Strategy on the Fund's website for further details).

A fundamental review of the strategic asset allocation is undertaken every three years following the actuarial valuation that provides the assurance that the investment strategy is aligned to the long term funding plan. This review utilises both qualitative and quantitative analysis, and covers;

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- A reassessment of the pace of de-risking in line with the risk management process described above.
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

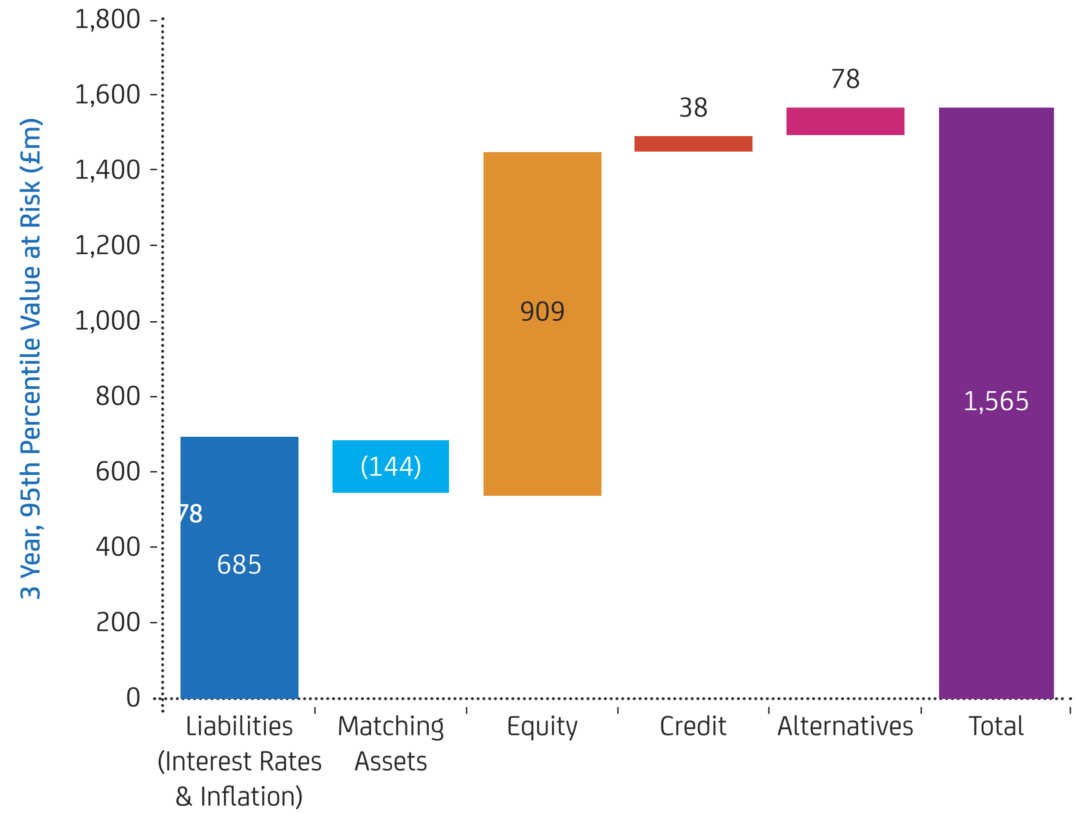
The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review which is undertaken every three years. The Fund's approach to risk is informed by the Pension Fund Committee, its professional advisors and officers of the Fund.

The key risks that the Fund is exposed to can be grouped under the following headings: investment, funding, operational and governance. These risks are identified, measured, monitored and managed on an active basis with the Pension Fund Manager being responsible for the oversight of this process.

These risks are summarised as follows:

A. Investment Risk

The Fund uses Risk Attribution Analysis to better understand the order of magnitude of the main investment risks the Fund is facing and to inform decision making and resource planning. The chart below shows the VaR (Value at Risk, essentially the increase in the deficit that would occur in a 1-in-20 downside event) facing the Fund, split into major risk categories.



This is purely an illustration of the potential downside risk at a point in time (in this case 31 March 2018) and helps the Fund to prioritise its resources towards the areas of greatest risk.

As an additional illustration of risk, table 4 below shows how a range of events could impact the Fund:

Table 4 – Sensitivity Analysis

Event	Event movement	Impact on Deficit
Fall in equity markets	20% fall in equities	c.£484m
Rise in Inflation	1% increase in inflation	c.£650m
Fall in interest rates	1% fall in interest rates	c.£746m[2]
Active Manager underperformance	3% underperformance from all active managers	c.£71m

As shown in both the Value-at-Risk attribution chart and the sensitivity analysis, the highest allocation of investment risk currently relates to interest rate and inflation.

Interest Rate and Inflation – The investment strategy recognises risk and looks to increase the allocation to assets that provide protection against falling rates and rising inflation expectations when affordable to do so, which is considered appropriate in the context of the Fund's position as a long term investor.

Equities – The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Fund believes that the extra returns that are expected to be generated by equities over the long term compensates for the risk involved in equity investing. The investment strategy is diversified which helps to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives – The risks associated with investing in alternative asset classes including absolute return, property and private equity are relevant considerations when assessing the overall level of risk within the investment strategy. The Fund believes that over the long term alternative asset classes will provide a level of return that compensates for the inherent risk. The additional level of diversification provided by these assets helps to reduce the Fund's reliance on equity returns. At a whole Fund level, investing in alternative asset classes reduces the overall level of risk.

Active Manager Risk – The Fund undertakes extensive due diligence on its appointed investment managers and formally monitors performance on a quarterly basis. This process is overseen by the Investment Sub Committee and is advised by Officers and the Fund's advisors.

Liquidity risk: The Fund invests in both liquid and illiquid assets meaning that not all assets can be realised in at short notice. Given the long term investment horizon, the Fund accepts some liquidity risk given the potential for higher returns. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets in order to make day to day payments of benefits. Around 80% of fund assets are highly liquid.

Exchange rate risk: The Fund as a long term investor can tolerate some short term currency fluctuations, however this is managed carefully by its investment managers who are monitored against Sterling benchmarks and therefore use hedging techniques to contain this risk.

B. Funding Risk

The Fund's investment strategy is a fundamental part of ensuring that the risk of deterioration in funding level is managed effectively. Employer contribution strategies are aligned to the investment strategy, there are however a number of factors that could lead to a disconnect between the investment and contribution strategies. These risks are set out below:

Demographic risks - The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Fund monitors the maturity of the membership base closely. A more mature membership base would mean that there were a greater number of pensioner members receiving benefits than active members paying contributions. The projected maturity of the membership base is factored into the investment strategy in order to ensure that as the membership base matures, the fund is invested in the appropriate level of income generative investments or investments that are realisable at short notice and at low cost.

C. Operational Risk

Operational risks arise through the implementation of the Fund's investment strategy. These risks are set out below:

Transition risk – The Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

[2] Based on 2016 valuation report

Custody risk – The Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or when being traded. It does this through the use of a global custodian for custody of assets, the use of formal contractual arrangements for all investments and maintaining independent investment accounting records.

Credit default risk – A counterparty related to a Fund investment could fail to meet its contractual obligations. The Fund monitors this through robust internal compliance arrangements where applicable, contractual requirement for investment managers to manage counterparty risk on the Fund's behalf and robust due diligence prior to making any investment.

D. Governance Risk

Good governance is an essential part of the Fund's investment strategy and the Fund therefore identifies **poor governance** as a potential risk that can have a detrimental effect on the funding level and the deficit. The Fund ensures that its decision making process is robust and transparent and this is documented in the Governance Compliance Statement which is published on the Fund's website.

Environmental, Social and Governance risks – The Fund's investment strategy contains its own policy on Responsible Investment. Non-compliance with this policy would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes. Further information on the Fund's approach to managing this risk is provided within the Responsible Investment Policy which is published on the Fund's website and as an appendix to this document.

5. Approach to asset pooling

LGPS Central Ltd has been set up as an arms-length company, accredited by the Financial Conduct Authority, to manage the pooled investment assets of eight LGPS funds across the centre of England. The Cheshire Pension Fund is one of the eight partner funds, all of whom hold equal shares in the company. LGPS Central started trading on 3rd April 2018 and all partner funds will gradually start to migrate assets to the company over the next few years. The Fund is participating in the LGPS Central pool with the belief that the Fund will benefit from lower investments costs achieved through the aggregation of assets. In addition, the Fund will have greater access to a broader range of investable asset classes, including new and innovative products and services. LGPS Central and the partner funds have put in place a robust governance framework to ensure the company operates effectively and delivers timely and transparent reporting to shareholders and client funds.

The Fund will retain full responsibility and control over its strategic investment allocation policy with LGPS Central being responsible for implementing the strategy via the engagement and dismissal of managers and the day to day monitoring of manager investment performance. Subject to satisfactory due diligence and value for money considerations being satisfied, the Fund intends to invest all its assets with LGPS Central but will maintain some cash balances locally.

6. Responsible Investment

The Cheshire Pension Fund is a long term investor aiming to deliver a sustainable Pension Fund for all stakeholders.

Cheshire West and Chester Council as the administering authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in this Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund's core principles of responsible investment are:

1. We will apply long-term thinking to deliver long-term sustainable returns.
2. We will seek sustainable returns from well-governed assets.
3. We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

The way in which the Fund ensures that these core principles are met, and how it monitors its own performance is provided within the Responsible Investment Policy.

7. Myners Principles

Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented at appendix A.

8. Advice taken

In creating this statement, the Fund has taken advice from its Officers and its Investment Consultant. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Fund has taken advice from its Investment Consultant, Mercer, and the Scheme Actuary, Hymans Robertson. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

Appendix A - Compliance with Myners Principles of good investment governance

Principle	Evidence of Compliance
Principle 1 effective decision making: Administering authorities should ensure: • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	**Compliant** Decisions are taken by the Section 151 Officer of the Administering Authority, advised by the Pension Fund Committee. The Section 151 Officer and the Committee has support from Council officers with sufficient experience to assist them. The Fund is also advised by professional actuarial and investment advisers. The Committee makes robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.
Principle 2 clear objectives: • An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The Fund has established investment objectives which take account of the nature of Fund liabilities and the contribution strategy. The objectives are set based on advice from the Fund Actuary and Strategic Investment Advisor which informs the overall risk budget for the Fund. The overarching objective is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3 risk and liabilities: • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Compliant** The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The Pension Fund Committee and Council officers challenged the contribution strategy with the Actuary, in order that it takes into account of risk factors for the Fund including strength of covenant. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle	Evidence of Compliance
Principle 4 Performance assessment: • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Partially compliant** The performance of the Fund and its individual managers are monitored on a regular basis. The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money. The Pension Fund Committee does not yet have a formal process in place to measure its own effectiveness.
Principle 5 responsible ownership: Administering authorities should: • adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents. • include a statement of their policy on responsible ownership in the Investment Strategy Statement. • report periodically to scheme members on the discharge of such responsibilities.	**Compliant** The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf and all relevant managers comply. This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership. The Fund will publish an annual summary of voting and engagement activity.
Principle 6 responsible ownership: Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • should provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Fund maintains minutes of all Pension Fund Committee meetings and documents all key decisions through the EDN and ODN process. Minutes are available on the Fund website. The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings. The Investment Strategy Statement is published on the Fund's website and is available to members on request. Other information on the Scheme is available to members on the Fund's website.

Glossary of Terms

Absolute return

A fund that aims to achieve a positive return irrespective of movements in the equity and bond markets.

Alternatives

Typically seen as an "unconventional" asset class – i.e. an asset class, other than traditional asset classes such as equities, bonds, property and cash.

Bonds

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Seen as a good "matching" asset for a pension scheme.

De-risking

Moving from growth to matching assets to reduce risk.

Diversifying fixed income

A bond like investment that is return seeking and provides a different source of return other than equities.

Equities

A share in a company. Seen as a "risky" or "growth" asset from a pension scheme perspective.

Flight path

The expected change in the Fund's funding position over time, allowing for contributions and investment returns.

Funding basis

The assumptions used by the Scheme Actuary to place a value on the Fund's liabilities (the value of the benefits to be paid out of the Fund).

Funding level

The difference in the value of the Fund's assets and liabilities. Assesses the financial health of the Fund.

Illiquid alternatives

An asset which is not easily traded (i.e. cannot be converted into cash quickly and with minimal impact to the price received)

Liquid asset

An asset which is easily traded (i.e. can be converted into cash quickly and with minimal impact to the price received)

Stochastic modelling

Stochastic modelling is a form of financial modelling that includes one or more random variables. The purpose of such modelling is to estimate how probable outcomes are within a forecast to predict conditions for different situations.

Target funding plan

The "targeted" investment strategy assuming a favourable funding position has been reached. It should be noted that whilst a specific asset allocation may be targeted, in practice this may change over time depending upon market opportunities and Fund specific events (e.g. make-up of the liability profile – proportion of pensioners / non pensioners etc).

Trigger point

Instigates a change in the growth / defensive split of the Fund based on the Fund's funding position at a point in time.

Responsible Investment Policy

1. Introduction

The Cheshire Pension Fund ("the Fund") is a long term investor aiming to deliver a sustainable Pension Fund for all stakeholders.

Cheshire West and Chester Council ("the Council") as the administering authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

2. What is our policy on Responsible Investment?

The Fund's core principles of responsible investment are:

1. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
2. We will seek **sustainable returns** from **well-governed assets**.
3. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

3. What will we do to ensure that these core principles are met?

Core Principle	Associated Actions
We will apply long-term thinking to deliver long-term sustainable returns	The Fund's long-term investment objectives will be detailed in the Investment Strategy Statement. - The Fund will set longer-term performance objectives for its investment managers. - The Fund will seek to ensure that its long term interests are aligned with that of its investment managers on all issues including on ESG considerations. - Policies relating to ESG will be considered as part of the Fund's long term investment planning process, following a thorough and robust investment appraisal.
We will seek sustainable returns from well-governed assets	The Fund will apply a robust approach to stewardship, linked to the Fund's belief that engagement can positively and effectively influence behaviours. - The Fund will engage with companies when engagement will add value to the Fund. - The Fund is committed to compliance with the UK Stewardship Code[1] and working within the spirit of the United Nations Principles of Responsible Investment ("UNIPRI"). - We will hold our investment managers to account to ensure compliance with this policy. - The Fund is committed to collective engagement through its membership of the Local Authority Pension Fund Forum (LAPFF), the LGPS Central pool and other opportunities that arise from time to time. - The Fund will exercise its voting rights in all markets where practicable.
We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.	The Fund will consider the potential financial impact of ESG related issues on an ongoing basis (e.g. climate change or executive remuneration). - The Fund will consider the potential financial impact of investment opportunities that arise from ESG related factors (e.g. investment in renewable energies or housing infrastructure). - The Fund will consider investment opportunities that have positive impacts and recognises that the changing external environment presents new opportunities i.e. Renewable energy and social impact investments.

[1] The Fund is committed to the UK Stewardship Code and is developing a statement of compliance for assessment by the Financial Reporting Council. A draft statement is included in Appendix 1.

4. How will we monitor our performance on Responsible Investment?

The Fund will ultimately be **transparent and accountable** in terms of its performance on Responsible Investment. This will be achieved through the following approach:

- The Fund will publish its Investment Strategy Statement on its website in line with the scheme regulations.
- Decisions relating to the setting of investment policy will be explained.
- The Fund will publish its RI policy on its website. This policy will be reviewed on an ongoing basis and formally consulted on at least every three years.
- The Fund will monitor closely its appointed investment managers whom the Fund rely on to implement its RI policy.
- The Fund will undertake an annual review of corporate governance, voting and engagement activity undertaken by the Fund and its underlying managers.
- The Fund will publish an annual summary of voting and engagement activity
- The Fund will ensure that its decision makers are properly trained and kept abreast of ESG issues in order to make informed decisions.
- The Fund will include ESG as standing item on Pensions Investment Sub Committee (or equivalent) agendas (with a view to reporting on manager performance in relation to ESG investing, and noting any hot topics / issues arising).
- The Fund will undertake a fundamental review of any specific ESG issues that are considered by the Investment Sub Committee to be of potentially material financial impact.
- The Fund will consider and respond to feedback from stakeholders in relation to issues of concern.

5. Responsible Investment and LGPS Central

From 1 April 2018 the implementation of the Fund's investment strategy will be undertaken by LGPS Central, an investment management company set up by 8 Local Authorities (including Cheshire West and Chester Council) in line with the latest scheme regulations. The Fund will seek to ensure that LGPS Central is set up in order to deliver objectives of this policy alongside that of the other Funds involved.

It is expected that the Fund's ability invest in a responsible way will be enhanced through LGPS Central due to the inherent benefits of scale, collectivism and innovation that will result from the project.

6. Engagement versus Exclusion

Cheshire Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Fund believes that this influence would be lost through a divestment or screening approach. The Fund actively engages with companies through its investment managers and membership of the Local Authority Pension Fund Forum ("LAPFF").

Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk.

7. Exercise of Voting Rights

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund delegates responsibility for voting to its appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the fund, investment manager's quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. This is reported to the Investment Sub Committee on a quarterly basis and any exceptions or examples non-compliance are addressed directly with the Fund's managers.

The Fund is committed to the UK Stewardship Code and is developing a statement of compliance for assessment by the Financial Reporting Council. A draft statement is included in Appendix 1.

Appendix 1 - Stewardship Code Compliance - Draft Statement

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

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as detailed in the Investment Strategy Statement

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

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

Principle 3: Institutional investors should monitor their investee companies.

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

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

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. The Fund intends to consider whether there are any themes that it would like to prioritise in relation to engagement activity and will escalate its activity; On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF in the first instance but will also involve investment managers and where possible other like-minded investors.

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

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

The Fund will do everything practicable in order to bring its influence to bear including working collaboratively with Public and Private Sector pension schemes in order to exert influence as shareholders on relevant issues.

The Fund will report the outcomes of this collective engagement to the Pension Fund Committee.

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

The Fund is reliant on the investment managers' own policies, although it expects managers to vote in line with the Combined Code. The Fund expects managers to exercise all votes associated with its equity holdings.

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

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

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

The Fund will report on its stewardship activity to the Committee annually.

In addition, quarterly reports of voting actions are posted on the Fund's website.

The Fund will provide an annual report on how the Fund satisfies it's UK Stewardship Code obligations requirements.

Communications and Engagement Strategy

March 2019

Introduction

This is the Communication and Engagement Strategy of the Cheshire Pension Fund ("The Fund"), administered by Cheshire West and Chester Council.

It has been reviewed and developed following consultation with employers, The Pensions Consultative Forum, the Local Pension Board, the Pension Fund Committee and other interested stakeholders.

The Statement sets out:

- who we communicate with
- what we communicate
- how we communicate
- when we communicate
- how the effectiveness of communications is monitored.

Regulatory Framework

This Statement has been produced in accordance with the Local Government Pension Scheme Regulations 2013. These require the Fund to prepare, publish and regularly review a communications strategy statement.

The Fund must also meet its communication obligations under the Occupational Pension Schemes (Disclosure of Information Regulations) 1996.

Objectives

We recognise that communicating and engaging with customers and stakeholders is a critical activity for the Fund. We have established communication practices that exceed the minimum standards required by the regulatory framework.

We have identified the following key objectives:

- Provide clear and timely communication to our customers and stakeholders to enable them to make informed decisions regarding pension matters.
- Promote the LGPS as an attractive benefit to scheme members and an important recruitment tool for employers.
- To support employers in fulfilling their roles and responsibilities, achieve value for money, improve data quality and provide excellent customer experience.
- Deliver the communication strategy in a cost effective way and encourage the use of technology and partnership working.
- Recognise the requirement for different methods of communication for different customers and stakeholders.
- Promote the effective stewardship, administration and governance of the Cheshire Pension Fund.
- Publicise our successes, and account openly and transparently for our performance and decisions.
- Evaluate the effectiveness of the communication objectives and seek continuous improvement in the way the fund communicates.
- Treat information security with importance and in line with the current data protection legislation.

Who we communicate with

Key Customers and Stakeholders

The Fund communicates with a diverse group of customers and stakeholders. For the purposes of this communications strategy statement, we have categorised these into the following key audience groups.

- Scheme Members and prospective Scheme Members;
- Scheme Employers and prospective Scheme Employers;
- Pension Fund Staff;
- Elected Members & Local Pension Board; and Local tax payers and the public;
- Other Bodies (e.g. Central Government, HMRC, LGPS Scheme Advisory Board).

The Communication Strategy recognises that the objectives and key messages to these groups will differ and also recognises that different styles and methods of communication will suit the different audience groups.

The Fund will use the most effective communication medium for each audience group and will adapt its communication where possible following feedback from its audience.

What we communicate

The Fund has identified a number of medium term objectives and messages for the key audience groups. This provides a framework and consistent 'theme' for all communication to each of the groups.

The objectives and key messages to the audience groups may change over time and may be reactive to events for example a change in the regulations or the benefits package. The Communications Strategy Statement and its objectives will be reviewed and updated at least annually or if there are material changes to the scheme.

The Fund will also seek advice and views from the Local Pension Board, the Pension Fund Committee and the Pensions Consultative Forum in keeping this document under review and agreeing and setting an annual communications plan or specific targeted communication campaigns.

Appendix 1 provides more details about the objectives and key messages for the main audience groups – members and scheme employers.

How and when we communicate

The Fund provides its customers and stakeholders with a comprehensive range of standard communication outputs and strives to use the most effective communication medium for each audience group and adapt its communication where possible following feedback.

Appendix 2 provides more details about the range of communications outputs that the Fund produces as a core offering for its various audience groups.

Delivery of Communications

Effective communication is the responsibility of each member of staff of the Cheshire Pension Fund. All staff are expected to complete the Council's Plain English ilearn training module and to take individual responsibility for ensuring that all the Fund's literature and communications are clear, concise and meet the principles of Plain English.

Communications are delivered through any combination of:

- In-house Pension Fund Resources
- Cheshire West and Chester Council resources
- External providers/suppliers
- Joint working with other LGPS funds.

Impact of Major Projects on the Communication Strategy

Appendices 1 and 2 provide details of the Fund's current core communication offering. The business plan for years 2019-2021 contain a number of specific projects and initiatives that either specifically target improving communication with stakeholders or alternatively will require a significant amount of communication support or resources.

Some of the key projects are detailed below:

Monthly Interfacing

The Fund is implementing a major change to the way it receives membership and contribution data from employers. By moving to electronic uploads of Monthly Interface files in a standardised format.

Monthly Interfacing will provide some significant benefits:

- Improved accuracy and quality of data
- Improved operational and process efficiency
- Improved and more regular contribution reconciliation Better member service
- More secure data transfer

Monthly Interfacing will be phased in from Q1 2019 with the aspiration that all employers will be up and running on the new system by 1 April 2020. There will be a significant communication challenge to engage with and support all employers to make the switchover as smooth as possible.

The introduction of monthly interfacing will have a significant impact on how the Fund interacts with employers. Particularly around identifying data issues on a more regular and consistent monthly basis compared to the current high volume of queries that fall out of the annual year end exercise.

Once monthly interfacing has become fully operational and embedded, the Communications strategy will be reviewed again in 2020 to reflect any necessary changes.

Administration Strategy Review and Relaunch

The Fund is currently consulting on revisions to the Pension Administration Strategy (PAS) with the target of a soft launch on 1 April 2019.

The PAS sets out the expected levels of performance of the Fund and scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where non-compliance occurs.

There is an expectation of a 6 month transitional period prior to imposing charges or penalties. The Fund and employers will use this transitional period to develop or improve processes and address the causes of any potential non-compliance.

In the short to medium term there could be increased demand for communication, training and support from employers to help them meet the expected performance targets set out in the PAS.

Once the performance management framework set out in the PAS becomes fully operational and embedded, the Communication Strategy will be reviewed and updated to reflect the revised operating model.

New Operating Model

The Fund has recently restructured and is transitioning to a new operational model emphasising the importance of being customer facing and a multifunctional approach to case work. One of the fundamental changes will be the introduction of an employer facing Client Relationship Manager (CRM) Model.

Each employer will have a dedicated CRM who will be their first point of call for all pension related matters. The CRM will also provide feedback and support the employer in meeting their performance targets under the new PAS.

The role of the CRM, the communications and regularity of performance reporting that they will provide employers will be developed out in 2019/20 in conjunction with the transition period towards full implementation of the PAS.

Again, once the performance management framework set out in the PAS and the new operation model becomes fully embedded, the Communication Strategy will be reviewed and updated to reflect the revised operating model.

Customer service and demand management

The Fund are also working on a number of projects to improve customer service and online availability and also help reduce demand on the volume of queries directed into the office.

Website Review

A major review and redesign of the Fund's website has been commissioned and will be implemented in 2019/20. This will include a fundamental review of the members journey and experience through the website. With the objective of improving the personalisation of the members journey and the Fund's communications to more closely reflect career and life events.

The primary objective being that the website will become the default channel and source of information for member and employer queries.

Plain English Review of all member/employer literature

Linked to the website review will be a structured review in line with Plain English principles of the information and literature relating to the key processes for members and employers.

Member Self-Serve

The Fund has agreed a roadmap with its pension administration software provider to introduce member self-serve. This will allow members to view their own personal data, and perform benefit estimates and access documents, such as their annual benefit statements in an efficient, flexible and secure way.

This should improve the access members have to their pension benefits and related information and reduce printing and postage costs.

Telephone call handling improvements

The Fund has commissioned a project to introduce a call handling solution that will direct customers to the most efficient solution to their query including redirecting them to use the website and online forms as the first point of contact if appropriate. But recognising that an online solution may not be suitable for all customers.

Appendix 1: Objectives and Key Messages – Members and Employers

Audience Group	Objective	Message
Active Members	• Promote the LGPS as an attractive benefit to members • Improve the understanding of how the LGPS works • Improve business efficiency and customer experience	• Promote the full benefit package the LGPS offers • What it costs the member • Employer also pays in to the scheme on the members behalf • Thinking of leaving? Consider the 50:50 option • Understanding and planning for retirement • Keep personal details up to date • Encourage the use of technology
Prospective Members	• Improve take up of the LGPS, but acknowledging and respecting that prospective scheme members have the right to choose whether they join or not • Promote the LGPS as an attractive benefit to members • Improve the understanding of how the LGPS works	• Promote the full benefit package the LGPS offers • Opt outs can re-join the scheme • What it costs the member • Employer also pays in to the scheme on the members behalf • Can join the 50:50 option • Impact of auto-enrolment
Deferred Members (including opt outs)	• Inform scheme members of their pension rights and benefits • Promote the LGPS as an attractive benefit to members • Improve the understanding of how the LGPS works • Improve business efficiency and customer experience	• Promote the full benefit package the LGPS offers • Opt outs can re-join the scheme • What it costs the member • Employer also pays in to the scheme on the members behalf • Can join the 50:50 option • Understanding and planning for retirement • Impact of auto-enrolment • Keep personal details up to date • Encourage the use of technology
Pensioner Members	• Improve business efficiency and customer experience	• Pensions Increase • Pay Dates • Keep personal details up to date • Dependants pension and nomination process • Keep personal details up to date • Encourage the use of technology • Contact Tax Office/payroll provider with tax/payroll queries
Employers	• Provide clear and timely communication to our customers and stakeholders to enable them to make informed decisions regarding pension matters. • Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers. • To support employers in fulfilling their roles and responsibilities, achieve value for money, improve data quality and provide and excellent customer experience • Deliver the communication strategy in a cost effective way and encourage the use of technology and partnership working • Promote the effective management, administration and governance of the Cheshire Pension Fund. • Treat information security with importance and in line with the current data protection legislation	• Employers have a responsibility to provide employees with information about the LGPS. • Employers should promote the LGPS • Employers should understand how the Scheme works • Employers should understand the impact of any changes in legislation • Employers must deliver their LGPS responsibilities and comply with their statutory obligations as a scheme employer • Employers have a responsibility to provide accurate and timely data and meet their responsibilities in Administration Strategy • Employers should engage with the Pension Fund as earlier as possible if outsourcing any staff • The Pension Fund is managed and administered efficiently within a robust governance framework

Appendix 2: How and when we currently communicate

Description	Service
Active Members	
Scheme Booklet	A booklet describing scheme benefits with explanatory notes is available on the website. A link to this document is provided by employers to all new starters. The booklet is revised to reflect legislation changes and all new active members receive a copy from their employer.
Employee Factsheets	The booklet is supported by a range of Employee Factsheets that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from our website.
Annual Benefit Statements	Once a year we send all members a benefit statement direct to their home address. This summarises the basic information we hold about them such as date of birth, hours of work, pay for pension purposes and gives estimates of the current and future value of the member's benefits.
Newsletter – Your Pension	Each year to accompany the Annual Benefit Statement a newsletter is produced which keeps the members updated on the LGPS and gives information about their Annual Benefit Statement.
Website	The core information about the Scheme is held on our website. (www.cheshirepensionfund.org) There is a dedicated area for active members. We also publish news updates as soon as is practical. This enables members to gain information as it becomes available. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download. Plus links to other organisations e. g. AVC providers.
Pension Road shows	We run information sessions in members' places of work. These are run on request in conjunction with employers. These Road shows can be run on a surgery basis with appointments for members and prospective members. This is particularly useful for employers with small numbers of staff. We run more specialist sessions for members that may be affected by issues such as restructure and the effect this could have on their pension benefits.
Pre-Retirement Courses	Attendance at Face to face meetings, organised by a number of our employers that aim to explain the options available for members approaching retirement.
Ad Hoc Meetings	Ad hoc meetings will be held from time to time for various groups of members. These may be defined by type of member (contributor or retired) or location (for a specific employer or group of employers). The timing of these meetings will be dictated either by requests from employers or the need to consult and notify members of any changes that occur.
Customer Services	A dedicated Customer Services phone number for scheme members is operated by experienced staff of the Cheshire Pension Fund administration team. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
Requests for information	Respond to requests for information providing accurate, timely and informative details of the Local Government Pension Scheme in the most appropriate method.
Annual Reports and Accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31st March each year and are published on the website. A summary of the Funds Report and Accounts is issued to all active scheme members on an annual basis.

Description	Service
Deferred Members	
Annual Benefit Statement	A yearly summary of each member's details held including a current valuation of their deferred pension benefits. This is sent by post to their home address. This also acts as a prompt for members to notify us on any changes in circumstances including current nominations. Undelivered statements which are returned to the Fund allow us to trace missing members before their benefits are due for payment.
Newsletter	An annual newsletter is published on the website to accompany the Benefit Statement. This provides members with any relevant news or changes.
Website	A dedicated section on the Funds' website is available for deferred members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all members to contact the Fund using an electronic form.
Helpdesk	Deferred members can contact the Fund helpdesk to discuss any issues or specific points regarding their membership. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
E-mail and Post	The Fund readily accepts written correspondence received by E-mail and Post. It has a designated e-mail account with automatic acknowledgement and postal address.
Retirement Packs	A retirement pack consisting of an information factsheet, a statement of benefits and forms for completion and return is sent to members as part of the retirement process. This provides all relevant information to allow a smooth transition from Deferred Membership to Pensioner.
Pensioners	
Pay Advice and P60	Pay advices are issued at least three times per year in March, April and May. This coincides with the annual pensions increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £1. Returned pay advice alerts the Fund to a change in circumstances, allowing us to trace missing members. Each member will receive a P60 by post by the end of May each year.
Newsletter	An annual pensioners newsletter "Cheshire Chat" is published online. This provides pension members with details such as the annual rate of pensions' increase, relevant changes to legislation, National Fraud Initiative and other news including how to contact the Fund or pensioner payroll contacts.
Website	A dedicated section on the Funds' website is available for pension members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all pensioner members to contact the Fund using an electronic form.
Pension Helpdesk	Pensioners can contact the Fund helpdesk to discuss any issues or specific points regarding their pension. A dedicated payroll helpline is also available allowing pensioners to make tax and pay enquiries.
E-mail and Post	Pensioners can also send correspondence including changes of details such as address or bank details to both the Fund and the pension payroll by E-mail and Post.

Description	Service
Employers	
Pensions Consultative Forum	The Pension Consultative Forum is a body representative of the major employers in the Fund, the Councils, Police and Fire and Rescue, Colleges and Housing Trusts. Meetings are held at least four times a year with the primary focus on reviewing how the Administration Authority is delivering its administration and management responsibilities.
Website	A password protected section on the Funds website is available for our employers. This provides detailed and informative links allowing employers to be kept up to date with the latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documentation and tools. Plus links to other organisations e. g. Local Government Employers.
Employers guide	An administration manual is issued to all employers and provides all the information needed to take part effectively in the scheme. Regular updates to this manual are provided as the scheme rules change.
Employer Newsletter	A newsletter providing legislation, operational items, technical updates and support is issued to Employers on a regular basis (a minimum of four publications a year)
Employer Welcome Pack	Employer "Welcome" pack setting out details of the process for joining the Fund is issued to all new Employers.
Employer Training	Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer.
Employer Meeting	A forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters annually plus ad hoc meetings where business warrants.
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet and additional information leaflets.
Administration Forms	Standard forms with guidance notes to notify the Fund of key events affecting pension benefits.
Annual report and accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31st March each year and are published on the website.

Description	Service
Pension Fund Staff	
Induction	All new members of staff attend a Pensions induction course. Individual development plans are in place.
Training	Staff have individual Personal Development Plans and regular appraisals. They also attend internal, and where appropriate, external courses. Staff also hold a regular series of "Lunch and Learn" sessions covering topical issues
Performance Management	All Cheshire West and Chester Council employees are subject to the Council's performance management framework. Within this framework each employee is set an individual performance plan with objectives and competencies to be achieved, Measurement of performance/ratings, Development plan, Career Aspirations.
Pensions Qualifications	All staff are encouraged and supported to attain professional qualifications.
Service Plan	The Pensions Section has an Operational Plan which is actively managed and discussed in regular Management Team meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly.
Pensions Leadership Team	Regular (at minimum monthly meetings) to discuss strategic plans and operational issues.
Section and Team Meetings	All members of staff attend regular Section and Team Meetings.
Intranet	All Pensions staff have access to the intranet containing procedure instructions, regular briefings, newsletter etc. Thus ensuring that information is available to all staff at their work location in a timely and efficient way.
Internet	Staff have access to the internet where this is required as part of their job.
Email	All members of the Team have an individual email account, allowing us to communicate efficiently and effectively.
Staff bulletin	A monthly staff bulletin is produced and distributed to all staff. This covers issues relating to the management of the Fund and the Council, the wider LGPS and pension landscape and other topical issues.

Description	Service
Other organisations: The Fund regularly needs to communicate effectively with its partners and other organisations.	
Prospective Employers	The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information required to facilitate a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as contractors providing a service to a Scheme Employer.
Pension Fund Committee	The Pension Fund Committee meet at least quarterly and the Fund supports the Committee's governance responsibilities by producing agendas, agenda Items, minutes, discussion papers and briefing notes. All Committee papers are distributed electronically one week before the Committee meeting. Topics regularly communicated to the Committee are Investment issues, Funding Level updates, Administration, Governance, Business Plan and Risk management and Audit. The Committee have a dedicated SharePoint site where key information about the Fund and topical pensions information are shared. Members also receive a monthly briefing back. The Fund publishes a Committee members training plan and members receive formal training at least 4 times a year, as well as attending a number of national conferences and seminars to ensure that they are fully informed to fully undertake their responsibilities. The Fund has developed an electronic decision making approval protocol to expedite decision making outside of the quarterly meeting cycle. The section 151 Officer and the Pension Fund Manager are in regular contact with the Chair of the Committee outside of the formal meetings, and ensure that the Committee are kept informed of issues that affect the Fund.
Local Pension Board	The Local Pension Board meet at least quarterly and the Fund supports the Boards governance and advisory responsibilities by producing agendas, agenda Items, minutes, discussion papers and briefing notes. All Board Committee papers are distributed electronically one week before the meeting. Topics typically focus on Administration, Governance, Communication, the Business Plan and Risk management and Audit reports. The Board have a dedicated SharePoint site where key information about the Fund and topical information pension information are shared. Members also receive a regular briefing back. The Board have a training plan and members receive formal training at least 4 times a year, as well as attending a number of national conferences and seminars to ensure that they are suitably informed to undertake their responsibilities.
Administering Authority's Senior Management	The Pension Fund Manager meets the section 151 Officer regularly to provide information to evaluate the administration, management and governance of the Pension Fund. The section 151 Officer receives the quarterly Committee minutes, agenda and agenda items as a matter of course. The Fund communicates and consults with senior management on changes to regulations, policies and procedures that affect the Pension Fund, employers and the Administering Authority.

Description	Service
Other organisations: Continued	
LGPS Central Ltd	Cheshire West and Chester Council is a shareholder of LGPS Central Limited, an FCA regulated company created to manage a pool of investment assets for 8 partner LGPS funds. The Council has a dual role as both a shareholder of the company and an investor in the pool. The Cabinet Member for Legal and Finance represents the Council at six monthly meetings of the Shareholder Forum, which is the supervisory body of the Company. The Chairman of the Cheshire Pension Fund Committee represents the Fund on the LGPS Central Joint Committee which meets twice yearly and deals with wider investor issues including investment performance issues. LGPS Central also has its own website that publishes information about the company and papers and minutes of the LGPS Central Joint Committee.
Professional Advisors	The Fund's management team meets with and has regular dialogue with its advisers (such as actuarial and investment advisors) to secure information and advice over a wide range of issues relating to the Fund.
Ministry for Housing, Communities and Local Government (MHCLG)	The owners of the LGPS, responsible for drafting and laying the LGPS regulations before Parliament. Cheshire Pension Fund responds to consultations and draft legislation and shares its response with employers and scheme members via the website.
Department for Work and Pensions (DWP)	Communication in relation to the contracting out details of scheme members and combined pension benefit forecasts.
LGPS Scheme Advisory Board (SAB)	The SAB provides advice to MHCLG, LGPS Funds and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We liaise with the SAB as appropriate and respond to surveys/consultations on request.
Trade Unions (TU)	A TU representative attends both the Pension Fund Committee and the Pension Consultative Forum in a non-voting capacity to represent employees.
HM Revenue and Customs (HMRC)	Cheshire Pension Fund ensures it pays all benefits in compliance with both the Lifetime Allowance and Annual Allowance.
Regional Pension Officers Groups	The Fund is represented at various regional groups e.g. the Shrewsbury Pension Officers Group (SPOG) and the LGPS Central Pensions Group which meets regularly to discuss all aspects of the LGPS. Knowledge sharing and collaborative working are key features of this groups discussions.
Chartered Institute of Public Finance and Accountancy (CIPFA)	The Fund is a member of the CIPFA Pensions Administration Benchmarking Club. We provide information on membership numbers and administration costs to benchmark our costs and service with all members and specified members of the Club.
Government Actuary's Department (GAD)	As actuarial advisors to the Government, GAD issue guidance and publish valuations across the LGPS. We provide data on request to GAD to enable them to perform their functions. We also respond to any consultations/surveys on request

Contacts and Further Information

In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows:

Funding Strategy Statement (FSS)

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. The FSS statement sets out how we have balanced the conflicting aims of:

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

Governance Policy Statement

The Governance Policy Statement sets out the Governance arrangements of Cheshire West and Chester Council in administering the Cheshire Pension Fund

It sets out how the Council delegates its responsibilities, the terms, structure and operational procedures of the delegation including duties and terms of reference and stakeholder representation.

Governance Compliance Statement

The Policy defines to what extent the Fund complies with the best practice governance arrangements laid down by central government, including voting rights, stakeholder representation, and frequency of meetings, access to papers and any areas of non-compliance.

Investment Strategy Statement (ISS)

The ISS sets out the current investment strategy of the Fund and provides transparency in relation to how the Fund's investments are managed.

It sets out the Fund's

- Investment Objectives and Beliefs
- Investment Strategy and the Process for Ensuring Suitability of Investments
- Strategic Asset Allocation
- Risk measurement and management framework
- Approach to asset pooling and
- Approach to Responsible Investment

The Fund also publishes its investment holdings on the website and updates this on a quarterly basis.

All of the documents are available on the Fund's website:
http://www.cheshirepensionfund.org/?page_id=763

GDPR

New standards of data protection regulations came into force on 25 May 2018 called the General Data Protection Regulations (GDPR), now supplemented in UK legislation under the Data Protection Act 2018. As an organisation in the UK who holds and processes personal data, Cheshire Pension Fund has put in place plans to ensure we are compliant.

We have prepared a Privacy Notice in our capacity as the Administering Authority and data controller of your pension benefits, which gives details of our responsibilities and obligations including what information is held, who it is shared with and what your rights are in relation to accessing this data

More details can be found on our website:
http://www.cheshirepensionfund.org/information-governance/

For queries relating to the Communication Strategy, or for more information regarding the Cheshire Pension Fund, please contact our helpdesk as follows:

Tel: **01244 976000**

Or Email: **pensions@cheshirewestandchester.gov.uk**

Or visit our website: **www.cheshirepensionfund.org**

Or write to us at: **Cheshire Pension Fund,
Cheshire West and Chester Council, Council Offices,
4 Civic Way, Ellesmere Port, CH65 0BE.**

To promote accessibility for all, this document can be made available in other formats upon request.

Independent auditor's report

Independent auditor's report to the members of Cheshire West and Chester Council on the consistency of the pension fund financial statements of Cheshire Pension Fund included in the Pension Fund Annual Report

Opinion

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

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

Pension Fund Annual Report – Pension fund financial statements

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

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 26 July 2019.

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 2018/19.

Auditor's responsibility

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

Use of our report

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

John Farrar
John Farrar, Key Audit Partner

For and on behalf of Grant Thornton UK LLP,
Local Auditor Manchester

26 July 2019

Contacts and Further Information

For more information about the Cheshire Pension Fund, please contact our helpdesk as follows:
Tel: 01244 976000 **Email:** pensions@cheshirewestandchester.gov.uk **Or use our Website:** www.cheshirepensionfund.org

Alternatively, you can contact a member of the Pensions Management Team as follows:
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