



Annual Report  
for the City of London Corporation  
Pension Fund

*Year ended 31 March 2016*

Scheme Registration No. PSTR00330366RQ

**City of London Corporation Annual Report  
for the Pension Fund**

*Year ended 31 March 2016*

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For further copies or for more information please contact:

The Chamberlain  
City of London Corporation  
Guildhall, PO Box 270  
London EC2P 2EJ

**MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**  
**For the year ended 31 March 2016**

**Scheme Registration Number:** PSTR00330366RQ

**Administering Authority:** City of London Corporation  
 Guildhall, P.O. Box 270  
 London EC2P 2EJ

**Scheme Administrator:** Peter Kane MA, MSc, CPFA  
 Chamberlain of London  
 Guildhall, P.O. Box 270  
 London EC2P 2EJ

**Actuary:** Barnett Waddingham LLP  
 163 West George Street  
 Glasgow G2 2JJ

**Financial Investment Board Members: (Responsible for investment matters)**

<b>Member</b>	<b>Attendance (6 meetings)</b>
Andrew Stratton McMurtrie, JP, (Deputy Chairman until October 2015, Chairman from October 2015)	6
Nicholas Michael Bensted-Smith, JP (Deputy Chairman from October 2015)	6
Roger Arthur Holden Chadwick	3
Henry Nicholas Almroth Colthurst	5
Simon D'Olier Duckworth, OBE, DL	3
Tom Hoffman	5
Robert Picton Seymour Howard, (Alderman) (Chairman until October 2015 when he left the board returned January 2016)	3
Clare James MA	2
James Henry George Pollard (Deputy)	2
James de Sausmarez (appointed June 2015)	4
Ian Christopher Norman Seaton	6
Philip Woodhouse	3

**Secretary to the Committee:** Philippa Sewell

## **Establishment Committee (Responsible for personnel and establishment matters)**

<b>Member</b>	<b>Attendance (9 meetings)</b>
Deputy John Alfred Barker OBE (Chairman to 23 April 2015 when he left the Committee)	0
Deputy the Reverend Stephen Decatur Haines MA (Deputy Chairman until 29 April 2015 Chairman from 29 April 2015)	9
Edward Lord OBE JP (Deputy Chairman from 29 April 2015)	9
Randall Keith Anderson (from 23 July 2015)	6
Nigel Kenneth Challis MA FCA FCIS (Hons)	6
Deputy William Harry Dove MBE JP	6
Alderman Peter Estlin (from 23 April 2015)	6
Deputy Kevin Malcolm Everett DSc	3
Deputy Jamie Ingham Clark	7
Jeremy Paul Mayhew MA MBA	8
Wendy Mead	6
Sylvia Doreen Moys	9
Deputy Joyce Carruthers Nash OBE	9
Barbara Patricia Newman CBE	7
Dhruv Patel (to 12 June 2015)	2
Deputy Richard David Regan OBE	6
Elizabeth Rogula	6
Angela Mary Starling	9
Philip Woodhouse	7
Alderman Alan Colin Drake Yarrow (to 23 April 2015)	0

**Secretary to the Committee:** Chris Braithwaite

### **Investment Managers:**

Artemis Investment Management Ltd  
Cassini House, 57 St James's Street, London SW1A 1LD

Carnegie Fund Services SA  
PO Box 1141 L-1011, Luxembourg

GMO UK Ltd - until in June 2016  
1 London Bridge, London SE1 9BG

Natixis International Funds (Harris Associates) – From December 2015  
One Carter Lane, London, EC4V 5ER

Southeastern Asset Management Inc - until in June 2015  
6410 Poplar Avenue, Suite 906, Memphis, TN 38119, USA

Veritas Asset Management LLP  
90 Long Acre, London WC2E 9RA

Wellington Management International  
80 Victoria Street, London SW1

Pyrford International Plc  
79 Grosvenor Street, London W1K 3JU

Ruffer LLP  
80 Victoria Street, London SW1E 5JL

Standard Life Investments Ltd  
1 George Street, Edinburgh EH2 2LL

Ares Management LLC (Private Equity)  
2000 Avenue of the Stars 12th Floor Los Angeles California 90067

Coller International Partner VII LP  
33 Cavendish Square, London W1G 0TT

Crestview Partners LLC (Private Equity)  
667 Madison Avenue, New York, NY 10065

Environmental Technologies Fund Manager LLP (Private Equity)  
20 Berkeley Square, London W1J 6EQ

Exponent Private Equity LLP,  
12 Henrietta Street, London WC2E 8LH

Frontier Capital (Private Equity)  
1111 Metropolitan Avenue - Suite 1050 - Charlotte, NC 28204

NCM Management (UK) Ltd (Barings English Growth Fund)  
Schomberg House, 80-82 Pall Mall, London SW1Y 5HF

New Mountain Capital, LLC  
Seventh Avenue, 49<sup>th</sup> Floor, New York NY 10019

Standard Life Investments Private Equity Ltd  
1 George Street, Edinburgh EH2 2LL

Warburg Pincus LLC  
450 Lexington Avenue, New York NY10017-3911

YFM Equity Partners Ltd  
4 Cavendish Square, London, W1G 0PG

IFM Global Infrastructure (UK) LP  
3<sup>rd</sup> Floor, 60 Gresham Street, London EC2V 1BB

DIF Infrastructure IV Cooperatief U.A  
WTC Schipol Airport, Tower D, 10<sup>th</sup> Floor  
Schipol Boulevard 269, 1118 BH Schipol, Netherlands

**Custodian:**

Bank of New York Mellon  
The Bank of New York Mellon Centre  
One Canada Square  
London EC14 5AL

**Investment Consultant:**

Aon Hewitt Limited (until 30/09/2016)  
8 Devonshire Square,  
London EC2M 4PL

Mercer Ltd (from 1/10/2016)  
Quartermile One, 15 Lauriston Place,  
Edinburgh EH3 9EP

**Performance Measurement:**

State Street Investment Analytics (formerly WM Performance Services)  
525 Ferry Road, Edinburgh EH5 2AW

**Bankers:**

Lloyds Bank  
City Office, P.O. Box 72, Bailey Drive,  
Gillingham Business Park, Kent ME8 0LS

**Legal Advisor:**

Comptroller and City Solicitor  
City of London Corporation, Guildhall, P.O. Box 270, London EC2P 2EJ

**AVC Providers:**

Prudential  
Laurence Pountney Hill, London, EC4R 0HH

Standard Life  
Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH

**Independent Auditor:**

BDO LLP  
55 Baker Street  
London W1U 7EU

## **Financial Performance**

### **Introduction**

The Fund account includes details of the contributions receivable by the Scheme and benefits payable. During 2015/16 there was a net outflow from Members of £6.2m (2014/15: Net Outflow £10.0m). Net returns on investments amounted to a loss of £15.3m (2014/15: increase of £87.4m)

The net assets of the Fund as at 31 March 2016 amounted to £802.2m (2014/15: £823.7m). Further details are shown in the Fund Account and Net Assets Statement on pages 27 and 28.

The City of London Corporation invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund's Investment Consultant to September 2015 was Aon Hewitt Limited. As of 1 October 2015 the Fund's Investment Consultant is Mercer Ltd.

During 2015/16 the Financial Investment Board decided to move the investment held by Southeastern Asset Management to Harris Associates (part of Natixis International Funds). This transaction was completed in December 2015. They also agreed to move the investment held by GMO to Lindsell Train and Majedie. This transaction was completed in June 2016. As at 31 March 2016, twenty-two external Managers managed the Fund's investments:

- Artemis Investment Management Ltd (UK Equity)
- GMO UK Ltd (UK Equity)
- Carnegie Fund Services SA (Global Equity)
- Natixis International Funds (Harris Associates – Global Equity) from December 2015
- Veritas Asset Management LLP (Global Equity)
- Wellington Management International Ltd (Global Equity)
- Pyrford International Plc (Multi Asset)
- Ruffer LLP (Multi-Asset)
- Standard Life Investments Ltd (Multi Asset)
- IFM Global Infrastructure (UK) LP (Infrastructure)
- DIF Infrastructure IV Cooperatief U.A (Infrastructure)
- Ares Management LLC (Private Equity)
- Collier International Partners (Private Equity)
- Crestview Partners LLC (Private Equity)
- Environmental Technologies Fund Manager LLP (Private Equity)
- Exponent Private Equity LLP (Private Equity)
- Frontier Capital (Private Equity)
- NCM Management (UK) Ltd (Private Equity – Barings English Growth Fund)
- New Mountain Capital LLC (Private Equity)
- Standard Life Investments Private Equity Ltd (Private Equity)
- Warburg Pincus PE (Private Equity)
- YFM Partners (Private Equity)

Any surplus cash holding within the Pension Fund is managed internally.

The Pension Fund is a shareholder in London CIV Limited.

## **Tax Status**

The Scheme is a ‘registered pension scheme’ for tax purposes.

## **Membership of Outside Bodies**

The City is a member of the Pensions & Lifetime Savings Association (formerly the National Association of Pension Funds), the Local Authority Pension Fund Forum and the Pension Fund Investment Forum, meetings and conferences of which are usually attended by Members and/or Officers.

## **Risk Management**

Risks in relation to the Pension Fund are included within the overall consideration of risk within the Chamberlain’s Department in accordance with the City of London Corporation’s risk management framework. The main risk applicable to the Pension Fund relates to potential reductions in investment income and investment valuations which could impact on funding levels and on employers’ contributions to the Fund, which could affect the City Corporation’s ability to set balanced budgets. The Chamberlain’s departmental risk register is reviewed regularly by the Finance Committee, on a quarterly basis.



## SCHEME ADMINISTRATION REPORT

The City of London Pension Fund is part of the national Local Government Pension Scheme. The Fund is administered in-house by the City of London Corporation on behalf of the participating employers.

As at the end of March 2016 the City of London Pension Fund had:

- 11 active employers
- 3,856 pensioner members
- 4,248 active members
- 4,452 deferred members

The eleven active employers include the City of London, the Museum of London, the Irish Society and the City Academy. Ten Transfer Admitted Bodies are part of the City of London fund following the TUPE transfer of staff to a contractor, three of these no longer have any active members.

Teachers, Judges and Police Officers have their own pension schemes and are not included in the Fund.

### The Pensions Team

All aspects of the pensions administration service is contained within one team entirely focused on pensions matters. The team structure delivers benefits as experience and skills are widely shared within the team, extending resilience and breadth of knowledge.

2015/16 has been a period of change after 3 of the team left, including one retirement. This has provided the opportunity for internal promotions. Investment in the team has continued via internal and external courses and qualifications, formal training, mentoring and support.

A standard appraisal process is operated across the team, linked into the Chamberlain's Department Business Plan. The team produces its own regular newsletter.

Pensions Administration Manager: Charlie Partridge, Tel: 020 7332 1133

Pensions email: [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk)

Pensions Payroll email: [pensionspayroll@cityoflondon.gov.uk](mailto:pensionspayroll@cityoflondon.gov.uk)

Website: <http://www.yourpension.org.uk/CityofLondon>

### Administration Key Performance Indicators - 2015/16

Task	Target	CoL Result 2015/16	CoL Result 2014/15
Payment of actual retirement benefit	5 days	91.23%	91.20%
Process refund and make payment	5 days	96.05%	92.42%
Statement notifying estimate of retirement benefit	10 days	94.11%	94.46%
Letter detailing transfer-in credit	20 days	80.81%	93.10%
Transfer-out payment	20 days	97.30%	100.00%
Answer general correspondence	10 days	85.65%	90.75%
Payment of Death Grant	5 days	95.87%	100.00%
Letter notifying amount of dependant's benefits	5 days	99.18%	98.20%

The performance indicators are derived from the in-house pension's system software, which has a work flow measurement facility included.

## **The Local Government Pension Scheme**

The Local Government Pension Scheme (or the LGPS) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. The LGPS in brief:

- provides salary related defined benefits not dependent upon investment performance – ultimately the local authority, and local tax payers, are the final guarantors;
- is regulated by Parliament;
- is administered through 89 regional pension funds in England & Wales; and
- 5 million members nationally.

## **Scheme Benefits**

The main provisions of the LGPS scheme are as follows:

- The scheme provides a guaranteed pension. The scheme from the 1<sup>st</sup> April 2014 became a Career Average Revalued Earnings (CARE) scheme with benefits building at a rate of 1/49<sup>th</sup> of Pay plus an annual revaluation in line with increase in CPI. The Final Salary link was retained for all benefits prior to 31 March 2014 (1/60<sup>th</sup> of final pay for each year of membership in the scheme after 31 March 2008 and membership to 31 March 2008 calculated as 1/80<sup>th</sup> pension plus 3/80<sup>ths</sup> lump sum).
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate, i.e. for every £1 of pension given up the member gets £12 lump sum on retirement.
- Benefits prior to 31 March 2014 continue to be calculated on final pay, being the best one of the last three years' pay.
- Retirement age for future benefits is now State Pension Age, with protections for older members, but with the right to take pension from age 55 with a reductions.
- Flexible retirement with employer consent is permitted from age 55.
- Immediate payment of pension benefits following redundancy / efficiency retirement on or after age 55.
- A three-tier ill health benefits system.
- A death grant of three times pay for death in service; five times pension if a deferred beneficiary dies; and 10 times pension less pension already paid if a pensioner dies before age 75.
- Spouses' and Civil Partners pensions are generally based on a 1/160<sup>th</sup> accrual rate. Co-habiting partners pension will also be based on a 1/160<sup>th</sup> accrual rate but on post 5 April 1988 membership only.
- Members can buy extra scheme pension up to a maximum of £6,500 or they can pay Additional Voluntary Contributions (AVC's).
- Employers can grant extra pension of up to £6,675.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

## **Membership**

Employees must normally have a contract of employment for three months or more in order to be eligible for membership. Membership of the Scheme is then compulsory but eligible employees are free to choose whether to remain in the Scheme or make their own personal pension arrangements outside the Scheme.

## Contributions

Employees and employers contribute to the scheme.

### Employees:

Members of the LGPS pay a contribution rate dependant on the salary band they fall in to.

The contribution rate employees pay depends on their salary. The bands and contribution rates for 2015/16 are set out in the table below.

### Band Range Contribution Rates:

Band	Range	Contribution Rate
1	£0 - £13,600	5.5%
2	£13,601 - £21,200	5.8%
3	£21,201 - £34,400	6.5%
4	£34,401 - £43,500	6.8%
5	£43,501 - £60,700	8.5%
6	£60,701 - £86,000	9.9%
7	£86,001 - £101,200	10.5%
8	£101,201 - £151,800	11.4%
9	over £151,800	12.5%

There is also a 50/50 section of the scheme where members can elect to pay half the above contributions for a return of half the normal benefit accrual.

### Employers:

The contribution rates paid by employers are variable and are determined by the Pension Fund's Actuary.

### Communications During the Year.

- Annual Benefits Statements were issued to all active and deferred members.
- Newsletters
- Pre-retirement seminars were presented to scheme members approaching retirement.
- Introduction to Pensions Insight lunch-time sessions were run with the aim of providing new entrants with information about the LGPS.
- Insight lunches were also run covering "top-up" options available.
- Information, forms and useful links to websites providing further information on the LGPS were maintained on the City of London's pension's website.
- Pensions presentations covering tax regime changes were also provided.

### Appeals

A problem or question about LGPS membership or benefits should initially be addressed to the Pensions Administration Manager at the address stated on page 64 The Pensions Administration team then seeks to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If an employee or ex-employee is still dissatisfied with any decision made in relation to the Scheme they have the right to have their complaint independently reviewed under the Internal Disputes Resolution Procedure.

### Internal Dispute Resolution Procedure (IDRP)

The dispute procedure is in two stages. Each stage must be completed before moving on to the next:

### **First Stage**

This involves referring the case to the specified person within six months of a decision. This is a person appointed by the employer - but he/she will have had no previous involvement in the case. If he/she feels the complaint is justified, he/she will issue a new decision, which will be binding on the scheme administrators. However, he/she can only overturn the original decision if in his/her opinion it was legally incorrect.

### **Second Stage**

If the individual is not satisfied with the specified person's decision, the second stage is to make a written appeal, within six months, to the administering authority. Like the specified person, the administering authority can only correct legal errors. The decision would normally be made within two months and once again it would be binding on the scheme.

In 2015/16 there was one IDRP appeal case that was not allowed at Stage 1.

If an appellant remains dissatisfied, they can refer their case to the Pensions Ombudsman, whose address is 11 Belgrave Road, London SW1V 1RB. The Ombudsman is less restricted in his powers and can consider wider issues than the strictly legal ones, such as whether a case has been handled fairly or reasonably. However, all stages of the IDRP must be dealt with before he would consider a case.

No appeals were made to the Ombudsman.

### **Further Assistance**

**The Pensions Advisory Service (TPAS)** is a free and independent advisory service specifically designed to help people with their pension problems. TPAS may be contacted directly at 11 Belgrave Road, London SW1V 1RB, telephone 0845 601 2923. In cases where a complaint or dispute cannot be resolved after the intervention of TPAS, an application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at the address above or telephone 0207 834 9144.

**The Pensions Regulator** is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW, telephone 0870 6063636.

**The Pension Tracing Service** holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. This tracing service can be contacted at: The Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA, telephone 0845 6002 537.

## **STATEMENT OF RESPONSIBILITIES for the STATEMENT OF ACCOUNTS**

### **The City of London's Responsibilities**

The City of London is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

### **The Chamberlain of London's Responsibilities**

The Chamberlain is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the SORP").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority code.

The Chamberlain has also:

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

### **Chamberlain's Certificate**

I certify that the Statement of Accounts present fairly the financial position of the Pension Fund of the City of London at 31 March 2016 and its income and expenditure for the year then ended.



Peter Kane  
Chamberlain of London  
Date: 23/9/2016

## **Adoption of the Pension Fund Accounts**

The Pension Fund Accounts were approved by the Finance Committee on 19 July 2016 and signed on its behalf by:



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Jeremy Mayhew  
Chairman of the Finance Committee

Date: 23/9/16



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Roger Chadwick  
Deputy Chairman of the  
Finance Committee

Date: 23/9/16

## **INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE CITY OF LONDON CORPORATION ON THE PENSION FUND FINANCIAL STATEMENTS**

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of the City of London Corporation in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our work has been undertaken so that we might state to the members of the Corporation those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Corporation's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chamberlain and the auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chamberlain is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the City of London Accounts for the City Fund and Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the management and financial performance report, scheme administration report, actuarial valuation report on the fund, policy and governance compliance statement, benchmarking report, funding strategy statement, statement of investment principles and communications strategy.

We conducted our work in accordance with Auditor Guidance Note 07 Auditor Reporting issued by the National Audit Office. Our reports on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements, including the pension fund financial statements.

### **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of City of London Accounts for the City Fund and Pension Fund for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

*BDO LLP*

Leigh Lloyd-Thomas  
For and on behalf of BDO LLP, Appointed Auditor  
London, UK  
27 September 2016

# CITY OF LONDON CORPORATION PENSION FUND

ACTUARY'S STATEMENT AS AT 31 MARCH 2016

26 May 2016  
Barnett Waddingham



## **Introduction**

The last full triennial valuation of the City of London Corporation Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014. The report is available from the Chamberlain's Department.

## **2013 valuation results**

The 2013 valuation certified a common contribution rate of 17.0% of pensionable pay to be paid by each employing body participating in the City of London Corporation Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## **Contribution rates**

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

## **Asset value and funding level**

The smoothed market value of the Fund's assets as at 31 March 2013 for valuation purposes was £701.8m which represented 85% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment. The market value of the Fund's assets as at 31 March 2013 was £709m.

## Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	7.0% p.a. until 2016 then 6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	1.0% p.a. until 2016 and 4.2% p.a. thereafter
Mortality	95% of the S1PA tables with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.25% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 75% of the maximum possible amount of pension into cash

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017.

Graeme Muir FFA  
Partner, Barnett Waddingham LLP

## **POLICY AND GOVERNANCE COMPLIANCE STATEMENT**

### **The Scheme**

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded scheme, with employee contribution rates ranging from 5.5% to 12.5% and employer rates variable depending on the funding level assessed every three years by the fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Consumer Price Index (CPI) for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority

### **The Financial Investment Board**

The Court of Common Council and the Investment Committee have delegated the investment management of the scheme to the Financial Investment Board which decides on the investment policy most suitable to meet the liabilities of the scheme and has ultimate responsibility for investment strategy. The Court of Common Council is responsible for appointing Members to serve on the Investment Committee, which in April of each year makes appointments to its Financial Investment Board. The Financial Investment Board comprises twelve to fourteen Members of the Investment Committee.

The Financial Investment Board operates under a framework of corporate governance and undertakes its responsibilities with reference to the Standing Orders and Financial Regulations adopted by the Court of Common Council which prescribe all activities relating to the conduct of its business.

The Board's responsibilities with regard to the Pension Fund are:

- to approve the appointment of and to monitor the performance of Investment Managers;
- to review the investment strategy for the securities investments;
- to authorise investments and approve the overall parameters within which the Investment Fund Managers will be authorised to operate;
- to invest all new monies;
- to invest such other sums as are from time to time allocated for this purpose; and
- to monitor the activities of the Chamberlain in connection with his treasury management role.

All meetings of the Board are open to the public, although they are excluded when confidential matters on the agenda are discussed. Currently, the Board meets five times a year. Additional special meetings of the Board can be held if the need arises. The minutes of the Financial Investment Board are presented to the following meeting of the Investment Committee, and are posted on the City of London Corporation's website.

The principal officers of the City of London Corporation have certain statutory and formal responsibilities. The Financial Investment Board obtains and considers advice from the

Chamberlain and other Corporation Officers, and as necessary from the Fund actuary, the independent investment adviser and its Investment Managers. The Board has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The composition of the Financial Investment Board does not include representatives of Scheduled Bodies, Admitted Body employers, Unions or Employees, or Pensioners. Also, in view of the experience and expertise across the Board, its Members do not at present generally undertake 'Trustee Training'.

The Board reviews this policy statement annually, with a revised document being re-published following any material change in the above arrangements.

An assessment of the City of London Corporation's Compliance with best practice principles as set out by the Department for Communities and Local Government follows.

**CITY OF LONDON CORPORATION PENSION FUND**  
**ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES**

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
A	Structure	<i>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i>	Yes, although there is a split committee responsibility. Management and administration of benefits rests with Establishment Committee. Investment management is responsibility of the Financial Investment Board.
		<i>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i>	No. Representatives of scheduled bodies, admitted body employers, unions, employees or pensioners are not included on either Establishment or Financial Investment Board.
		<i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	Reports and decisions are communicated between Committees as appropriate.
		<i>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	Not applicable as no secondary committee or panel exists.

	Principle	Narrative from Guidance Note	Full Compliance?
B	Representation	<p>(a) <i>that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</i>  <i>These include:</i></p> <p>(i) <i>employing authorities (including non-scheme employers, e.g. admitted bodies)</i>  (ii) <i>scheme members (including deferred and pensioner scheme members)</i>  (iii) <i>where appropriate, independent professional observers</i>  (iv) <i>expert advisers</i></p>	<p>No ) Representatives of scheduled or admitted bodies, scheme members or pensioners are not included in committee structure.  ) Fund does not have independent professional observer.</p> <p>Yes Aon Hewitt was the investment consultant until 30 September 2015. From 1 October 2015, the investment consultant is Mercer Ltd. The investment consultant attends all meetings of the Financial Investment Board.</p>
C	Selection and Role of Lay Members	<p>(a) <i>that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.(It is the role of the administering authority to make places available for lay members (i.e. non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)</i></p> <p>(b) <i>that at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</i></p>	<p>No - not applicable as lay members are not currently included in the composition of either the Establishment Committee or the Financial Investment Board.</p> <p>Yes - this is standard practice at all Committee meetings.</p>

	Principle	Narrative from Guidance Note	Full Compliance?
D	Voting	<i>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes - Each member holds one vote on the respective committee. No other bodies or groups are represented.
E	Training / Facility Time / Expenses	<i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i> <i>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i> <i>(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.</i>	Yes - Members are generally well versed in investment matters and there is no formal training policy, although individual sessions are conducted on request.
F	Meetings - Frequency	<i>(a) that an administering authority's main committee or committees meet at least quarterly.</i>	Yes
		<i>(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	Yes - We have two Committees responsible for Pensions Administration and Investments, not a single main Committee.
		<i>(c) that an administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Not applicable as no outside forum exists.

	Principle	Narrative from Guidance Note	Full Compliance?
G	Access	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.</i>	Yes - Agenda papers, etc, provided to the Establishment and Financial Investment Board are available to all Members.
H	Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Partial – Whilst the Fund does not currently use an independent professional observers, officers monitor and advise on governance issues and report to the appropriate committee
I	Publicity	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Partial - Governance Statements and Annual Accounts are posted on the City of London website and policy documents and information is circulated to scheme members on a regular basis.



## **FUND ACCOUNT AND NET ASSET STATEMENT**

### **for the year ended 31 March 2016**

The City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the Local Government Pension Scheme (LGPS).

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined by the City of London.

#### **Accounting Policies**

- i. The pension fund statements have been prepared in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended), the LGPS (Management and Investment of Funds) Regulations 2009, and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).
- ii. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- iii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iv. Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid-market price. Other quoted investments are also valued on the basis of the bid-market value quoted on the relevant stock market.
- v. Unquoted securities in the form of private equity and infrastructure holdings are valued by the individual investment managers at the year-end in accordance with generally accepted guidelines. The ability to realise these holdings is limited until they reach maturity, and thus their values are difficult to establish as they are not readily traded and have been included on an estimated basis.
- vi. The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end. This interest is included separately within accrued investment income.
- vii. Acquisition costs are included in the purchase costs of investments.
- viii. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.
- ix. The cost of administration is charged directly to the fund.
- x. Income due from equities is accounted for on the date stocks are quoted ex-dividend.
- xi. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.
- xii. Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- xiii. Income from other investments is accounted for on an accruals basis.
- xiv. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.

- xv. When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.
- xvi. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- xvii. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- xviii. Under the rules of the Scheme, members may receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- xix. Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before year end, and where the amount of the transfer can be determined with reasonable certainty. There were no group transfers in respect of staff in 2015/16.
- xx. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- xxi. Receipts to meet the augmentation costs of early retirements are included as other income.

**Fund Account and Net Assets Statement  
for the year ended 31 March 2016**

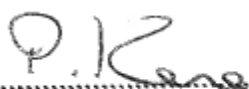
**Fund Account for the year ended 31 March 2016**

2014/15 £m		Notes	2015/16 £m
	<b>Contributions and benefits</b>		
(29.7)	Contributions receivable	2	(30.9)
(2.8)	Transfers in		(3.7)
(0.4)	Other Income		(1.5)
(32.9)			(36.1)
40.7	Benefits Payable	3	39.9
1.5	Payments to and on account of leavers	4	1.8
0.7	Administrative Expenses	5	0.6
42.9			42.3
10.0	Net deductions		6.2
	<b>Returns on investments</b>		
(5.2)	Income from Investments	6	(0.4)
(86.3)	Change in market value of investment (realised and unrealised)		9.3
4.1	Investment Management Expenses	7	6.4
(87.4)	Net Loss on Investment		15.3
(77.4)	<b>Net decrease in the fund during the year</b>		21.5
(746.3)	Opening net assets of the scheme		(823.7)
(823.7)	<b>Closing net assets of the scheme</b>		<b>(802.2)</b>

**Net Assets Statement as at 31 March 2016**

2014/15 £m		Notes	2015/16 £m
(817.0)	Investment assets	8-13	(801.2)
	Current Assets		
(7.5)	Cash and cash equivalents	14	(1.9)
	Current liabilities		
0.8	Creditors	15	0.9
(823.7)	<b>Net assets</b>		<b>(802.2)</b>

The Net Assets Statement does not take account of liabilities to pay pensions and other benefits after the period end.

  
.....  
Dr Peter Kane, Chamberlain of London

Date: 23/09/2016

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future which are dealt with in the periodic actuarial valuation. The last actuarial valuation was carried out as at 31 March 2013 and should be read in conjunction with these financial statements. Statements arising from the valuation can be found on pages 17 to 18.

## Notes to the Pension Fund Account and Net Assets Statement

### 1. Membership of the Fund

	2015/16				2014/15
	Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	Total	Total
	No.	No.	No.	No.	No.
CITY OF LONDON	3,908	3,576	3,745	11,229	10,924
SCHEDULED BODIES:					
Museum of London	235	227	564	1,026	981
Magistrates Court	0	20	17	37	37
Probation Committee	0	0	0	0	3
	235	247	581	1,063	1,021
ADMITTED BODIES:					
Irish Society	4	11	2	17	17
Parking Committee for London	0	9	3	12	12
Guildhall Club	0	5	5	10	10
City Academy - Southwark	65	3	97	165	150
Sir John Cass (Brookwood)	1	0	1	2	2
AMEY (Enterprise)	7	4	4	15	15
Evil & Jones Limited	0	0	1	1	1
London CIV	5	0	0	5	0
Westminster Drugs Project	3	0	0	3	0
Agilisys	16	0	10	26	28
Agilisys (police)	2	1	0	3	0
Bouygues (EDTE)	0	0	2	2	2
Cook & Butler	2	0	0	2	3
1SC Guarding Limited	0	0	1	1	1
	105	33	126	264	241
<b>GRAND TOTAL</b>	<b>4,248</b>	<b>3,856</b>	<b>4,452</b>	<b>12,556</b>	<b>12,186</b>

## 2. Contributions

		2015/16	2014/15
		£m	(Re-stated) £m
Employers:			
Scheduled bodies	City of London	(19.98)	(19.22)
	Museum of London	(1.00)	(0.94)
Admitted bodies	Irish Society	(0.03)	(0.03)
	Guildhall Club	(0.01)	(0.01)
	Agilisys	(0.18)	(0.18)
	City Academy - Southwark	(0.27)	(0.25)
	Other	(0.06)	(0.06)
		(21.53)	(20.69)
Employees of:			
Scheduled bodies	City of London	(8.59)	(8.35)
	Museum of London	(0.49)	(0.47)
Admitted bodies	Irish Society	(0.01)	(0.01)
	Guildhall Club	0.00	0.00
	Agilisys	(0.08)	(0.08)
	City Academy - Southwark	(0.10)	(0.10)
	Other	(0.03)	(0.03)
		(9.30)	(9.04)
<b>Total Contributions</b>		<b>(30.83)</b>	<b>(29.73)</b>

AVC's are Additional Voluntary Contributions and are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and are then paid directly to the Fund Managers – Prudential, Equitable and Standard Life Investments. AVC's of £0.67m were paid in 2015/16 (2014/15: £0.50m).

In accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, these AVCs are not included in the statements of the Pension Fund Accounts.

### 3. Benefits

	2015/16 £m	2014/15 £m
<b>Total Benefits Paid</b>		
Retired Employees		
Pensions	29.5	28.2
Lump sums	6.7	8.1
Lump sum on death	0.6	1.3
Widows' or Widowers' pensions	3.0	3.0
Children's pensions	0.1	0.1
	<b>39.9</b>	<b>40.7</b>

	2015/16 £m	2014/15 £m
<b>Benefits Paid Comprises</b>		
Scheduled Bodies	39.8	40.6
Admitted Bodies	0.1	0.1
	<b>39.9</b>	<b>40.7</b>

### 4. Payments to and on account of leavers

	2015/16 £m	2014/15 £m
Individual Transfers Out	1.8	1.5

### 5. Administrative expenses

	2015/16 £m	2014/15 £m
Central administration	0.5	0.5
Computer costs	0.1	0.2
	<b>0.6</b>	<b>0.7</b>

Audit fees of £21,000 have been charged to the Pension Fund (2014/15: £21,000).

## 6. Income from investments

	2015/16 £m	2014/15 £m
Fixed Interest :		
UK	0.0	(1.4)
Overseas	0.0	(0.6)
UK equities	0.0	(1.2)
Overseas equities	(0.2)	(2.0)
Withholding tax on overseas equities	0.0	0.2
Infrastructure	(0.1)	0.0
Interest on Cash Instruments	(0.1)	(0.2)
	<b>(0.4)</b>	<b>(5.2)</b>

Investment income of £0.4m (2014/15:£5.2m) reflects the former investments the Pension Fund had in principally segregated equity and bond funds and income from the Private Equities and Infrastructure funds.

The revised investment policies of the Pension Fund are focussed on pooled vehicles and private equity investments. Dividends and interest are traditionally not paid across on these types of investments, but the value of the investments in the pooled vehicles is expected to increase more than with funds invested in segregated equities and bonds.

Where the shortfall of the Net Deductions on Contributions and Benefits Paid was previously covered by the investment income, it is intended to sell a part of the pooled vehicles as necessary to cover any shortfalls. There are no limitations imposed by the fund managers on the selling of these pooled vehicle funds.

## 7. Investment Management Expenses

In 2015/16, the City of London Pension Fund incurred investment management expenses of £6.1m (2014/15:£4.1m) and actuarial fees of £5k (2014/15:£40,000).



## 8. Investment Assets

The table below shows the movement in Market Values by asset type between 1 April 2015 and 31 March 2016.

	<b>Market Value at 01/04/2015</b>	<b>Purchases at Cost</b>	<b>Sales Proceeds</b>	<b>Net gain/loss)</b>	<b>Market Value at 31/03/2016</b>
<b>Managed Investments</b>					
Pooled Units					
UK	(162.7)	0.0	10.1	6.0	(146.6)
Global	(641.5)	(145.7)	172.3	9.4	(605.5)
Private Equity	(11.5)	(5.7)	3.4	(1.5)	(15.3)
Infrastructure	0.0	(29.6)	0.9	(3.9)	(32.6)
<b>Total Managed Investments</b>	(815.7)	(181.0)	186.7	10.0	(800.0)
Fund Managers Cash	(0.3)	145.6	(144.6)	(0.7)	0.0
Accrued Income	(1.2)				(1.2)
Investment Receivable	0.0				(0.2)
Investment Liability	0.2				0.2
<b>Total Investment Assets</b>	(817.0)				(801.2)

## 9. Fair Value of Financial Instruments

### a. Classification of Financial Instruments

	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>
<b>Financial Assets</b>		
Pooled Investments	(752.1)	(804.2)
Private Equity	(15.3)	(11.5)
Infrastructure	(32.6)	0.0
Cash	0.0	(0.3)
Debtors	(1.4)	(1.2)
	(801.4)	(817.2)
<b>Financial Liabilities</b>		
Creditors	0.2	0.2
	0.2	0.2
	<b>(801.2)</b>	<b>(817.0)</b>

b. Net (Gains) and Losses on Financial Instruments

	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>
Financial Assets		
Fair value through profit and loss	9.3	(86.4)
Financial Liabilities		
Fair value through profit and loss	0.0	0.0
	<b>9.3</b>	<b>(86.4)</b>

c. Fair Value

	<b>31 March 2016 £m</b>	<b>31 March 2016 £m</b>	<b>31 March 2015 £m</b>	<b>31 March 2015 £m</b>
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
Financial Assets				
Fair value through profit and loss	(800.0)	(800.0)	(816.0)	(816.0)
Loans and receivables	(1.4)	(1.4)	(1.2)	(1.2)
	<b>(801.4)</b>	<b>(801.4)</b>	<b>(817.2)</b>	<b>(817.2)</b>
Financial Liabilities				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.2	0.2	0.2	0.2
	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

Valuation of Financial Instruments Carried at Fair Value

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

**Level 1**

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

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

**Level 2**

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

### Level 3

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

Such instruments would include unquoted equity investments and hedge funds 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 City of London Pension 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. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

The next table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	<b>Quoted Market Price Level 1 £m</b>	<b>Using Observable Inputs Level 2 £m</b>	<b>With Significant Unobservable Inputs Level 3 £m</b>	<b>Total £m</b>
<b>Financial Assets</b>				
Fair value through profit and loss	(752.1)	0.0	(47.9)	(800.0)
Loans and receivables	(1.4)	0.0	0.0	(1.4)
	<b>(753.5)</b>	<b>0.0</b>	<b>(47.9)</b>	<b>(801.4)</b>
<b>Financial Liabilities</b>				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.2	0.0	0.0	0.2
	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Net Financial Assets</b>	<b>(753.3)</b>	<b>0.0</b>	<b>(47.9)</b>	<b>(801.2)</b>

**Values as at 31 March 2015**

	<b>Quoted Market Price Level 1 £m</b>	<b>Using Observable Inputs Level 2 £m</b>	<b>With Significant Unobservable Inputs Level 3 £m</b>	<b>Total  £m</b>
<b>Financial Assets</b>				
Fair value through profit and loss	(804.5)	0.0	(11.5)	(816.0)
Loans and receivables	(1.2)	0.0	0.0	(1.2)
	<b>(805.7)</b>	<b>0.0</b>	<b>(11.5)</b>	<b>(817.2)</b>
<b>Financial Liabilities</b>				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.2	0.0	0.0	0.2
	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Net Financial Assets</b>	<b>(805.5)</b>	<b>0.0</b>	<b>(11.5)</b>	<b>(817.0)</b>

## 10. Movements in Investment Assets

	Value at 01/04/2015 £m	Purchases at Cost £m	Sales Proceeds £m	Net (gain) /loss £m	Value at 31/03/2016 £m
<b>Equity Pooled Vehicles :</b>					
Artemis Pooled	(81.6)	0.0	5.2	0.6	(75.8)
Carnegie Pooled	(100.5)	(24.4)	30.5	1.1	(93.3)
GMO Pooled	(81.1)	0.0	4.9	5.4	(70.8)
Harris Pooled	0.0	(72.6)	0.2	2.3	(70.1)
Southeastern Pooled	(85.9)	0.0	82.2	3.7	0.0
Veritas Pooled	(92.1)	(24.0)	28.8	(5.8)	(93.1)
Wellington Pooled	(92.5)	(24.5)	29.8	5.3	(81.9)
<b>Multi-Asset Pooled Vehicles :</b>					
Pyrford	(122.7)	0.0	0.4	(2.7)	(125.0)
Ruffer	(78.7)	0.0	0.4	2.2	(76.1)
Standard Life	(69.1)	0.0	0.0	3.3	(65.8)
London CIV	0.0	(0.2)	0.0	0.0	(0.2)
<b>Private Equity Funds :</b>					
Ares	(0.5)	(0.8)	0.1	0.6	(0.6)
Coller	0.0	(0.3)	0.1	(0.1)	(0.3)
Crestview	(0.4)	(0.6)	0.0	0.0	(1.0)
Environmental Technologies	(1.0)	0.0	0.1	0.1	(0.8)
Exponent	(0.4)	(0.7)	0.2	(0.1)	(1.0)
Frontier	0.0	(1.2)	0.1	(0.2)	(1.3)
New Mountain	(0.6)	(0.9)	0.1	(0.4)	(1.8)
Standard Life	(7.2)	(0.9)	2.6	(1.2)	(6.7)
Warburg Pincus	0.0	(0.2)	0.0	0.0	(0.2)
Yorkshire Fund Managers	(1.4)	(0.1)	0.1	(0.2)	(1.6)
<b>Infrastructure Funds :</b>					
DIF	0.0	(2.8)	0.5	(0.1)	(2.4)
IFM	0.0	(26.8)	0.4	(3.8)	(30.2)
<b>Total Investments</b>	<b>(815.7)</b>	<b>(181.0)</b>	<b>186.7</b>	<b>10.0</b>	<b>(800.0)</b>
Fund Managers Cash	(0.3)	145.6	(144.6)	(0.7)	0.0
Accrued Income	(1.2)				(1.2)
Investment Receivable	0.0				(0.2)
Investment Liability	0.2				0.2
<b>Closing Balance</b>	<b>(817.0)</b>				<b>(801.2)</b>

## 11. Risk and Risk Management

The Pension Fund has as its main priority the security of its investments enabling it to meet its liabilities by paying any benefits due to its members. It is therefore important to manage the overall investment risk and in so doing to minimise the possibilities of a decreasing market value of its assets.

The fund's investments are actively managed by nine main external fund managers who are charged with the responsibility to increase asset values, whilst maintaining market risk to acceptable levels. They achieve this mainly through diversification of stock portfolios across several geographical locations and various industrial sectors and asset classes. The managers' investing practices are controlled by pre-defined levels of tolerance.

Concentration risk is also controlled and monitored with a maximum proportion cap over the levels held in individual stocks as a set percentage of each manager's overall portfolio of stocks.

As part of each of the external fund managers' investing there is also a strict adherence to the principles of liquidity risk management in order to ensure cash flow requirements are met as and when they fall due.

All of the investing policies and practices are reviewed regularly after thorough consideration of economic and market conditions, and overall care is taken to identify, manage and control exposure to the price movements of several categories of investments.

## 12. Sensitivity Analysis

By taking the data available from the past three financial years, and making considered predictions of expected returns, in consultation with State Street Analytics, which is the firm the City of London uses for performance measurement, the following movements in market price risk would have been reasonably possible as at 31 March 2016.

### Potential Market Movements

<b>Asset Type</b>	<b>% Change</b>
UK Equities	9.72%
Global Equities	10.28%
Multi-Asset	3.65%
Infrastructure	5.52%
Cash	0.01%

The potential percentage allowance for changes in asset values is within a one-standard deviation tolerance. Taking these changes, the potential increase/decrease in the market prices of the fund's assets is derived, and provides a range of possible net asset values which would be available to meet the fund's liabilities.

## Price Risk 2014/15

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Equities				
UK	149.2	9.72	163.7	134.7
Global	351.1	10.28	387.2	315.0
	500.3			
Multi-Asset	267.1	3.65	276.8	257.4
Infrastructure	32.6	5.52	34.4	30.8
Cash	-	0.01	-	-
<b>Total Assets</b>	<b>800.0</b>			

The percentage change for equities includes a grouping of listed and private equities and the equity funds categorised elsewhere as pooled unit trusts. The percentage change for bonds includes a grouping of government and corporate fixed interest securities. Separate consideration of the individual asset types is not available.

## Currency Risk

This represents the risk of foreign exchange rate movements affecting the value of the various asset classes held in non-sterling currencies. The following table summarises the position as at 31 March 2016.

Currency	Value £m	Change %	Value on Increase £m	Value on Decrease £m
North America Investments	277.5	7.43	298.1	256.9
Europe Ex UK Investments	108.8	6.46	115.8	101.8
Asia Pacific Investments	57.8	8.06	62.5	53.1
Emerging Investments	21.5	6.79	23.0	20.0
<b>Overseas Total</b>	<b>465.6</b>		<b>499.4</b>	<b>431.8</b>
UK Investments & Cash	334.4			
<b>Overall</b>	<b>800.0</b>			

The following analyses show a comparison of the same sensitivities but for the year ending 31 March 2015.

#### Potential Market Movements

Asset Type	% Change
UK Equities	9.04%
Global Equities	10.40%
Multi-Asset	3.22%
Cash	0.02%

#### Price Risk

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Equities				
UK	164.1	9.04	178.9	149.3
Overseas	381.1	10.40	420.7	341.5
	545.2			
Multi-Asset	270.5	3.22	279.2	261.8
Infrastructure]	-	-		
Cash	0.3	0.02	0.3	0.3
<b>Total Assets</b>	<b>816.0</b>			

#### Currency Risk

Currency	Value £m	Change %	Value on Increase £m	Value on Decrease £m
North America Investments	269.8	7.41	289.8	249.8
Europe Ex UK Investments	120.7	3.78	125.3	116.1
Asia Pacific Investments	79.0	7.29	84.8	73.2
Emerging Investments	31.9	6.80	33.8	29.7
<b>Overseas Total</b>	<b>501.4</b>		<b>533.6</b>	<b>468.9</b>
UK Investments & Cash	314.6	-		
<b>Overall</b>	<b>816.0</b>			



### 13. Independent Custodian

The independent custodian, Bank of New York Mellon, is responsible for its own compliance with prevailing legislation, providing monthly accounting data summarising details of all investment transactions during the period, settlement of all investment transactions, collection of income and tax reclaims.

### 14. Current assets

Current assets represent cash balances of £1.9m.

### 15. Current liabilities

Current liabilities represent accruals for investment management expenses and custodian fees.

### 16. Statement of Investment Principles

The City of London has prepared a Statement of Investment Principles, which governs decisions relating to investments and this is included in the more detailed publication available from the Chamberlain.

### 17. Funded Obligation of the Overall Pension Fund

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£m</b>	<b>£m</b>
Present Value of the defined benefit obligation*	1,311.3	1,352.5
Fair Value of Fund Assets (bid value)	800.8	804.2
Net Liability	510.5	548.3

\* The present value of funded obligation consist of £1,273.7m in respect of vested obligations and £37.6m in respect of non-vested obligations (2014/15: £1,229.8m and £122.7m respectively)

The above figures have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers, the actuary has adopted methods and assumptions that are consistent with IAS19. The figures presented are prepared only for the purposes of IAS19 and will therefore differ from the results of the 2013 triennial funding valuation.

<b>Assumptions as at</b>	<b>31 March 2016</b>		<b>31 March 2015</b>	
	<b>%pa</b>	<b>Real% pa</b>	<b>% pa</b>	<b>Real % pa</b>
RPI increase	3.2	0.0	3.2	0.0
CPI increase	2.3	(0.9)	2.4	(0.8)
Salary increase	3.8	0.6	3.9	0.7
Pension increase	2.3	(0.9)	2.4	(0.8)
Discount Rate	3.6	0.4	3.3	0.1

### 18. Post Balance Sheet Events

In June 2016, the holdings in the UK pooled vehicle managed by GMO were divested and most of the funds reinvested in two new fund managers, Lindsell Train and Majedie. Of the divested funds, £5m was not reinvested, but retained in the Pension Fund bank account to meet shortfalls in benefits payable net of incoming resources in 2016-17.

### 19. Actuarial liability

Disclosures in relation to the overall scheme which satisfy the requirements of a defined benefit pension scheme are given below for information. The information is not used to determine the employer's

pension's contribution rates. This is calculated at the triennial valuation and updated by any subsequent interim valuations.

### ***Assets and Liabilities in Relation to Retirement Benefits***

a. Reconciliation of present value of the scheme liabilities

<b>To 31 March 2016</b>		
	<b>2015/16 £M</b>	<b>2014/15 £M</b>
1 April	(1,352.5)	(1,147.7)
Current service cost		
- Employers share	(37.1)	(27.9)
- Employees Share	(9.7)	(8.8)
Interest Cost	(44.2)	(49.9)
Change in Financial Assumptions	96.1	(156.4)
Past service costs including curtailments	(1.8)	(0.3)
Estimated Benefits Paid Net of Transfers In	37.9	38.5
<b>31 March</b>	<b>(1,311.3)</b>	<b>(1,352.5)</b>

b. Reconciliation of fair value of the scheme assets

<b>To 31 March 2016</b>		
	<b>2015/16 £M</b>	<b>2014/15 £M</b>
1 April	804.2	725.7
Interest on Assets	26.4	31.7
Return on Assets less Interest	(22.5)	56.8
Contributions by Scheme Participants	9.6	8.8
Est Benefits paid plus unfunded net of transfers in	(37.9)	(38.5)
Administration Expenses	(0.5)	(0.5)
Contributions by Employer including Unfunded	21.5	20.2
<b>31 March</b>	<b>800.8</b>	<b>804.2</b>

### ***Basis for Estimating Assets and Liabilities***

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham) using the projected unit method, based upon the latest full valuation of the scheme as at 31 March 2013 and updated to the balance sheet date. The main assumptions used in the calculations are set out below.

	<b>2015/16</b>	<b>2014/15</b>
Mortality assumptions:		
Life expectancy in years from age 65		
Retiring today		
Men	23.0	22.9
Women	25.4	25.3
Retiring in 20 years		
Men	24.8	24.7
Women	27.3	27.2
Price Increases	2.3%	2.4%
Salary Increases	3.8%	3.9%
Pension Increases	2.3%	2.4%
Discount Rate	3.6%	3.3%
Take-up of option to convert annual pension into retirement lump sum	75.0%	75.0%

Scheme assets consist of the following categories, by proportion of the total assets held:

	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>%</b>	<b>%</b>
Equity investments	63	84
Gilts	n/a	14
Cash	0	2
Infrastructure	4	n/a
Absolute Return Portfolio	33	n/a
	<b>100</b>	<b>100</b>

## BENCHMARKING REPORT

### Pension Fund Investment Performance

The investment performance of the Pension Fund is subject to regular monitoring by City Officers, the independent investment adviser and the Financial Investment Board. In addition, an independent financial monitoring service is provided by WM Performance Services, a StateStreet business. The Pension Fund investment performance is benchmarked against the WM Local Authority Universe (ex-property). This Universe is the largest available Universe of UK Local Authority Pension Funds and is the most comprehensive representation of the UK Local Authority Pension Funds. In addition the Financial Investment board has set an absolute return target of 7% pa.

Similarly, individual Fund Manager Performance is monitored in the same way with financial returns being analysed against the nearest comparable benchmark.

	<b>2015/16 %</b>	<b>Last 3 Years % p.a.</b>	<b>Last 5 Years % p.a.</b>
<b>Pension Fund Returns</b>			
Fund Return	-1.7	+5.2	+6.6
LA Universe Benchmark ex property	-0.4	+5.4	+7.1
Relative Return	-1.3	-0.2	-0.5
Absolute return Benchmark (7% pa)	+7.0	+7.0	+7.0
Relative Return	-8.7	-1.8	-0.4

### Individual Fund Manager Performance

With effect from February 2014, the equity fund manager structure changed. One fund manager engagement was discontinued and three new fund managers were added. The funds were moved from segregated mandates to pooled mandates.

In December 2014 the mandate for Pyrford International Ltd was moved from a segregated account to a pooled account and a new multi asset manager, Ruffer LLP, was added.

In May 2015, a planned investment in IfM, an infrastructure manager was completed.

In June 2015 funds were moved from one global manager (Southeastern) and temporarily reinvested with the remaining three global managers. Subsequently Harris Associates were appointed as a new global fund manager and the temporarily invested funds transferred to them in December 2015.

The table below shows the performance of the individual fund managers. There is no historic performance for either Harris Associates or IfM.

	<b>2015/16 %</b>
<b>Artemis</b> - Portfolio Return (UK Equity) - Benchmark (FTSE All Share) - Relative Return	-1.7 -3.9 +2.3
<b>Carnegie</b> - Portfolio Return (Global) - Benchmark (MSCI AC World) - Relative Return	-1.7 -1.2 -0.6
<b>GMO</b> - Portfolio return (UK Equity) - Benchmark (FTSE All Share) - Relative Return	-7.5 -3.9 -3.7
<b>Pyrford</b> Portfolio Return (Multi-Asset) - Benchmark (RPI + 4%) - Relative Return	+1.9 +5.6 -3.5
<b>Ruffer</b> - Portfolio Return (Multi-Asset) - Benchmark (RPI + 4%) - Relative Return	-3.7 +5.6 -8.8
<b>Standard Life GARS</b> - Portfolio Return (Multi-Asset) - Benchmark (GBP 6 month LIBOR +5%) - Relative Return	-4.5 +5.6 -9.6
<b>Veritas</b> - Portfolio return (Global) - Benchmark (FTSE All Share) - Relative Return	+5.7 -0.3 +6.0
<b>Wellington</b> - Portfolio Return (Global) - Benchmark (MSCJ AC World) - Relative Return	-5.3 -1.2 -4.1

## **FUNDING STRATEGY STATEMENT**

### **Introduction**

This is the Funding Strategy Statement (FSS) of the Corporation of London Pension Fund ("the Pension Fund"), which is administered by the Corporation of London as the Administering Authority. It has been prepared in collaboration with the Fund's actuary and after consultation with the Fund's employers and investment consultant.

### **Regulatory Framework**

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. 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 FSS forms part of a framework which includes:-

- the Local Government Pension Scheme Regulations as amended from time to time;
- the Rates and Adjustments Certificate, which is appended to the Fund's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, 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.

### **Purpose of the Funding Strategy Statement in policy terms**

The Department for Communities and Local Government 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. This statement, therefore, sets out how the Corporation has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

### **Aims and purpose of the Pension Fund.**

The aims of the Fund are to:-

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- manage employers' liabilities effectively;
- ensure that sufficient resources are available to meet all liabilities as they fall due; and

- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:-

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

### **Responsibilities of the key parties**

The sound management of the pension fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the fund, the following may be considered to be of particular relevance for inclusion as a specific reference:-

#### **The Administering Authority should:-**

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- notify employers of the expected timing of key events and actions related to completion of the valuation process;
- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP.

#### **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;
- 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;
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

#### **The Fund actuary should:-**

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS;
- agree a timetable for the valuation process with the administering authority to provide timely advice and results; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

## Solvency issues and key funding levels

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the rate or volatility of variations in employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments.

As stated above, the purpose of the funding strategy is to draw these issues together to seek to achieve a funding level close to 100% over a reasonable period of time and within the prudential framework in which the Fund operates.

The Pension Fund, unlike many administering authorities in the LGPS, contains only eleven active employers but nevertheless the Corporation is cognisant of the need to adopt a balanced approach to potential deficit recovery in order to ensure a smoothed and balanced approach. This approach recognises that individual employers need to consider carefully the impact of higher contribution rates against their ability to maintain current service levels and/or raise additional revenue to finance forecast deficits. Previously, a period equal to the remaining working lifetime of active members has been adopted, i.e., approximately twelve years. However, in view of the need to ensure a smoothed and stepped plan of recovery whilst providing a minimal impact on Corporation resources and those of the other admitted and scheduled bodies within the Pension Fund, the 2013 valuation has been based on deficit recovery of 20 years.

The balanced approach to recovery referred to above has been formulated after the outcome of the 2013 valuation was established. The underlying funding principles have been based on the following assumptions:-

### Financial Assumptions

	March 2013	
	% p.a.	Real % p.a.
Discount Rate	6.0	2.5
Retail Price Inflation	3.5	0.0
Pay Increases	4.2	0.7
Consumer Price Inflation	2.7	(0.8)
Pension Increases	3.0	0.5

### Staff Turnover and Requirements

Employers will manage early retirement costs to minimise extra costs falling on the Pension Fund.

The capitalised cost of early retirements, other than on ill-health terms, before age 60 or achievement of the extant *Rule of 85* if later, will be funded by the employer.

### Longevity

Life expectancy is based upon national tables adjusted to reflect local experience

### Contribution Phasing

The employer's contribution rate applicable to its employees is 17.5% for the financial years 2014/15, 2015/16 and 2016/17.



## **Deficit Recovery Period**

With effect from 1 April 2013 the deficit recovery period has been set at 20 years.

## **Links to investment policy**

Funding and investment strategy are inextricably linked. Investment strategy is set after taking investment advice, to reflect the liabilities of the fund and these may be set to achieve the funding strategy. Details of the Corporation's investment strategy are contained in its SIP.

The Corporation does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of each sub-fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions.

The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset resulting apportionment is capable of verification but not to audit standard.

The current investment strategy is set out in the published Statement of Investment Principles.

## **Key risks and controls**

The Corporation has an active risk management programme in place to control key financial, demographic, regulatory, and governance risks. This is summarised in Annex 1.

## **Monitoring and review**

The performance of the Fund is monitored regularly.

The key funding principles will be monitored on an annual basis by the Financial Investment Board and a statement of significant variance will be incorporated into the actuarial report as part of the Corporation's annual report and accounts.

# ANNEX 1

Risk Details	Risk Owner/ Lead Officer	Existing Controls	Current Risk		Planned Action	Net Risk		
			Likelihood	Impact			Impact	Risk Status & Direction
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Corporate Treasurer	Anticipate long-term return on a prudent basis to reduce risk of under-performing.  Analyse progress at three yearly valuations and the consequent impact on employers.  Inter-valuation roll-forward of liabilities between formal valuations, monitored on an annual basis against returns .	3	4	Continued application of existing controls	2	3	A ↔
Active investment manager under-performance relative to mandate requirement over medium term	Corporate Treasurer	Regular investment monitoring.  Analysis against assumptions under-pinning the valuation.	3	3	Continued application of existing controls	2	2	G ↔
Changing patterns in relation to early retirement.	Chamberlain	Employers are charged the extra capital cost of non ill health retirements on each decision.  Employer ill health retirement experience is monitored between valuations.	4	3	Continued application of existing controls	1	3	G ↔

KEY	1	2	3	4	<u>Control Evaluation:</u> <b>R</b> : Urgent action required to reduce rating <b>A</b> : Action required to maintain or reduce rating <b>G</b> : Action required to maintain rating
Likelihood	Rare	Unlikely	Possible	Likely	
Impact	Minor	Serious	Major	Extreme	
* <b>Direction</b> relates to change in assessment since last review (up/down/no change)					

# **CITY OF LONDON PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES**

## **1. Introduction**

The purpose of the Statement of Investment Principles ('the Statement') is to document the principles, policies and beliefs by which the City of London Corporation's Investment Committee (working through the Financial Investment Board ('the Board')) manages the City of London Pension Fund's ('the Fund') assets. The document takes account of:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- The requirements of the Pensions Act 2004
- The requirements of the Occupational Pension Schemes (Investment) Regulations 2005
- The principles of the Myners Code
- CIPFA guidance

The Local Government Pension Scheme ('LGPS'), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

The City of London Corporation is the Adminstrating Authority for the Fund.

The Financial Investment Board consulted with and received advice from the Fund's investment consultant, Mercer, on this statement.

There are close links between this statement and two other statements. The Funding Strategy Statement ('FSS') sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund.

A copy of this Statement will be sent to each investment manager hired by the Fund, the auditor, the actuary and the investment consultant.

The Statement will be reviewed annually and when there is a significant change in the Fund's circumstances.

## **2. Governance**

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- on-going monitoring and evaluation of the investment arrangements.

The Financial Investment Board is made up of between 12-14 Members of the Investment Committee, comprising elected councillors.

The Financial Investment Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Financial Investment Board recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), together with local Council Tax Payers.

## **2.1 Advice and Consultation**

Members of the Board receive independent investment advice from the following source:

- Aon Hewitt (to 30/09/2015) and Mercer (from 01/10/2015) – analysis and advice of a technical nature in relation to all investment related aspects of the Fund including (but not limited to) portfolio construction, manager monitoring and appointment, and interpretation of performance measurement information.

The Chamberlain has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Board, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

## **2.2 Liabilities**

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary or average salary of members. The Fund is a contributory defined benefit arrangement, with active members and contributing employing authorities.

The value of the Fund's on-going liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund's investment policy are:

- the expected rate of return on assets / discount rate
- price inflation
- salary escalation for active members' pre 2014 benefits

## **2.3 Maturity and Cashflow**

The Fund remains open to new members and new accruals. Contributions are received from both active members and employing authorities. Active members contribute on a tiered system. Employing authorities contributions are determined based on advice from the Fund's actuary based on the triennial valuation. The maturity profile is such that pension payments from the Fund now exceed contribution income paid into the Fund and investment income is required to meet the annual outgo from the Fund. At some stage the assets may also start to need to be realised to meet pension payments and the Fund actuary keeps this position under review.

### **3. Objectives**

The Fund's primary long term investment objective is to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities; and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers.

### **4. Risks**

The Financial Investment Board regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Financial Investment Board has considered the following key risks:

- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk; and
- custody risk.

Following each actuarial valuation, the Board will conduct an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Board considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Board to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions, etc), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and/or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the on-going risk management for the Fund.

Further information can be found in Note 9 (page 33) of the accounts.

## **5. Strategic Asset Allocation**

The Board regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Board retains direct responsibility for this decision which is made on the advice of their investment adviser.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Board formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments; and
- the suitability of particular investment and types of investment.
- 

The Board will consider a full range of investment opportunities including:

- quoted and unquoted private equity;
- government and non-government bonds;
- property; and
- hedge funds and other alternative investments.

The Board further considers the legality of all investments for compliance with the LGPS.

The Board determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund's actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund's objectives.

### **5.1 Expected return on investments**

The study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and are based on Mercer's Capital Market Assumptions as at 31 March 2016.

<b>Asset class</b>	<b>10 Year Expected Return %</b>	<b>10 Year Volatility %</b>
Developed Global Equity (Fx hedged)	6.0	17.3
Emerging Market Equity	7.5	29.4
UK Property	4.5	14.7
UK Gilts (>15 year)	1.5	10.4
UK Investment Grade Corporate Bonds	2.7	4.1
UK Index-Linked Gilts (>5 year)	1.2	8.5
Global Fund of Hedge Funds	3.7	8.0
Global Private Equity	8.3	24.1

## **5.2 Current Strategy**

The investment style is to appoint expert fund managers with clear performance targets aligned to the Fund's requirements. In order to achieve this objective and to ensure diversification by asset class and style, the City of London Corporation has a number of investment managers. The aim is to invest assets to ensure that the benefits promised are provided as far as can reasonably be expected. The asset allocation selected is designed to achieve a higher return than the minimum required while managing risk against the need to meet the Fund's liabilities. The Board receives annual funding updates from the Actuary.

## **5.3 Currency hedging policy**

The Board considers currency risk as an unrewarded risk – one that is expected to increase the volatility of the Fund, but not increase return. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable. The Fund's investment consultant, Mercer, will provide advice on the level and timing of any future currency hedging programme.

## **6. Implementation**

The Board has appointed investment managers to manage the Fund's investments as set out in Appendix A on page 58.

The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met.

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives and risk limits as well as information on permissible investments.

## **6.1 Selection and realisation of investment**

Each investment manager has full discretion in terms of stock selection within the constraints agreed with each manager. The majority of investments held within the Fund are pooled investments with daily liquidity. The City's Private Equity and Infrastructure investments are relatively illiquid and may take longer to realise, if required.

The current list (as at 31 March 2016) of investment managers and pooled funds used with a view to implementing the above strategy is set out in the Appendix A to this document. The Appendix is included for information only, and does not form part of the Statement of Investment Principles.

## **6.2 Security lending**

The Fund does not have a security lending policy in place.

## **6.3 Custody**

The Board regards the safekeeping of the Fund's assets as of paramount importance and has appointed BNY Mellon asset servicing company as global custodian and record-keeper of the Fund's asset.

# **7. Review and Control**

The Board are satisfied that they have adequate resources to monitor the investment arrangements.

## **7.1 Performance Measurement**

The Board monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the Fund and asset classes together with supporting analysis.
- The performance of the total Fund and the managers is also measured against the nearest comparator index (or appropriate aggregation of indices) and where applicable peer group benchmarks.

## **7.2 Service Provider Monitoring**

The Board reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

# **8. Environmental, Social and Governance and Exercise of Rights**

The Fund has an overriding fiduciary duty to maximise investment returns for the benefit of the pension fund members and considers proactive engagement with the companies in which it invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies.



The Board expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance.

The Fund expects companies to:

- demonstrate a positive response to all matters of social responsibility;
- take environmental matters seriously and produce an environmental policy on how their impact can be minimised;
- monitor environmental impacts and take all reasonable and practical steps to reduce environmental damage;
- make regular and detailed reports of progress on environmental issues available to shareholders;
- openly discuss the environmental impacts of their business with shareholders;
- establish procedures that will incrementally reduce their environmental impact; and
- comply with all environmental and other relevant legislation and seek to anticipate future legislative requirements.

The Fund is also a member of the Local Authorities Pension Fund Forum (LAPFF) which seeks to combine like-minded bodies to promote the above issues. At present, 70 local authorities are members of this forum, with a combined asset value in excess £175bn.

## **8.1 Myners Investment Principles**

Details to the extent to which the Board complies with the six Myners principles and the extent to which management and investment arrangements at the City comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply are set out in Appendix B on page 60.

## **9. Investment Manager**

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective written contracts.

## Investment Managers

Fund assets are invested in portfolios managed by external investment managers shown in the table below. They are benchmarked against the indicated indices. The table shows whether portfolios are managed on a segregated or pooled basis, and their performance target. Based on expert advice, investment managers may be replaced at any time and this list may not always be current.

This appendix shows the position at 31 March 2016. It has been appended to the Statement of Investment Principles for information only, and does not form part of the Statement

Active Portfolios			
Investment Manager	Asset Class	Comparator Index	Segregated or Pooled
Artemis Investment Management Ltd	UK equity	FTSE All Share	Pooled
Grantham, Mayo, Van Otterloo & Co. (GMO) <sup>(i)</sup>	UK equity	FTSE All Share	Pooled
Carnegie Fund Services	Global equities	MSCI AC World	Pooled
Natixis International Funds (Harris Associates) <sup>(ii)</sup> (from Dec 2015)	Global Equities	MSCI World	Pooled
Southeastern Asset Management <sup>(iii)</sup> (until June 2015)	Global equities	MSCI World	Pooled
Veritas Asset Management	Global equities	MSCI World	Pooled
Wellington Management International	Global equities	MSCI AC World	Pooled
Pyrford International	Multi-asset	RPI +4%	Pooled
Ruffer LLP	Multi-asset	RPI +4%	Pooled
Standard Life Investments	Multi-asset	6 Month LIBOR	Pooled
IFM Global Infrastructure (UK) LP	Infrastructure	RPI +4%	Pooled
DIF Infrastructure IV Cooperatief UA	Infrastructure	RPI + 4%	Pooled
Ares Special Situations Fund IV	Private equity	Broad public equities index	Pooled
Collier International Partners VII	Private equity	Broad public equities index	Pooled
Crestview Partners III LP	Private equity	Broad public equities index	Pooled
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index	Pooled
Frontier Fund IV	Private equity	Broad public equities index	Pooled
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index	Pooled
New Mountain Capital LLC	Private equity	Broad public equities index	Pooled
NCM Management (UK) Ltd	Private equity	Broad public equities index	Pooled
Standard Life Investments Private Equity Ltd	Private equity	Broad public equities index	Pooled
YFM Equity Partners	Private equity	Broad public equities index	Pooled
Warburg Pincus PE XII	Private equity	Broad public equities index	Pooled

**Notes:**

- (i) A decision has been taken to remove GMO and redistribute monies across two new UK fund managers – Majedie and Lindsell Train. This transaction was completed in June 2016.
- (ii) Southeastern were removed as a fund manager in May 2016 and their funds were redistributed across the remaining global equity managers. In October 2015 Harris Associates were appointed as a replacement global fund manager and funds were transferred to them in December 2015.

## Appendix B

Principle	Comply or explain	Comment/Examples	Development Needs
<b>1. Effective decision making</b> Administrating authorities should ensure that: <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.</li> </ul>	Comply	Financial Investment Board takes decisions relating to setting investment objectives and strategic asset allocation, and the appointment of investment managers. Board members and officers participate in training, as appropriate, attend educational seminars and receive occasional papers and presentations at Committee meetings. The training requirements of new Board members are addressed and appropriate training programmes made available if necessary.	
<b>2. Clear objectives</b> <ul style="list-style-type: none"> <li>• 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 administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</li> </ul>	Comply	A Fund specific investment objective is set to maintain a funding level at, or close to, 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process. Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.	
<b>3. Risk and liabilities</b>	Comply	Asset/Liability review is carried out every three years and	

<ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>		the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant.	
<p><b>4. Performance assessment</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisers.</li> <li>• 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.</li> </ul>	Partial compliance – Fund needs to develop monitoring procedures for own effectiveness.	Target performance and risk are explicitly included in manager contracts and formal and rigorous performance appraisal procedures at both officer and member level are carried out on at least a quarterly basis.	Consideration to be given to developing monitoring procedures for advice of consultants and effectiveness of the Board.

<p><b>5. Reasonable ownership</b> Administrating authorities should:</p> <ul style="list-style-type: none"> <li>• adopt or ensure their investment managers adopt the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents;</li> <li>• include a statement of their policy on responsible ownership in the statement of investment principles;</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p>Partial compliance – Fund needs to develop reporting procedures for Members.</p>	<p>The Statement includes a statement on responsible ownership.</p> <p>Managers are required to engage with companies on socially responsible issues and voting at company meetings is effected through their instructions to the custodian.</p>	<p>Consideration to be given to develop reporting procedures on the discharge of this responsibility to Members of the Fund.</p>
<p><b>6. Transparency and reporting</b> Administrating authorities should:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p>Comply</p>	<p>A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communication Policy Statement and Annual report and accounts. These documents are available in full on the City Corporation's website.</p>	

# **The Local Government Pension Scheme**

## **City of London Pension Fund Communication Policy**

Effective communication between the City of London as the Administering Authority and its stakeholders is essential to the delivery of the pensions service. This document sets out the aims and the target audiences of the policy and the method of delivery (application) of the policy.

### **AIMS**

Accuracy & Timeliness	Information needs to be compliant with legislation and supplied at an appropriate time.
Effective Information	Messages need to be clear and understood by target audience.
Accessible	Communication should be available to all and should meet the needs of a wide range of recipients.

### **AUDIENCES**

- Scheme Members and Potential Members.
- Pensioners and Deferred Members.
- City of London Departmental Personnel and Administration.
- Other Employers Within the Fund
- Establishment Committee
- Staff

### **APPLICATION**

#### **Scheme Members and Potential Members**

Scheme Guides –	Available to all eligible employees via website, direct mail or email.
Forms and leaflets –	Available on our website and appropriate forms supplied to all new employees and leavers via personnel/administration officers.
Newsletters –	Produced as appropriate and in particular as scheme changes occur.
Annual Benefit Statements –	Pension Statements supplied to those scheme members who are active at year end (31 <sup>st</sup> March) as soon as possible after year end.
Presentations –	One-off seminars, regular pension “top-up” sessions, insight lunches and pre-retirement courses.
Induction –	Supply support to the Employers Induction courses as appropriate.
Intranet & Internet –	Provide news on scheme changes, develop and maintain internet with links to relevant sites. Publicise website updates and newsletters via the Intranet.

### Pensioners and Deferred Pensioners.

Pensioners should be supplied with monthly payslips as appropriate, Newsletters and annual pensions increase letters. Deferred Pensions will be provided with an annual benefit statement. Both will be supplied with information on scheme changes as they affect the appropriate category of ex-scheme member.

### City of London Personnel and Payroll.

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations – Personnel Group meeting updates and individual departmental sessions as appropriate.

### Other Employers within the fund.

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations for appropriate personnel staff, committees & groups of employees.

### Committee

Reports - Update Committee on scheme changes and developments and provide reports in a clear and accurate manner in order that appropriate responses and actions follow.

Presentations - Provide Committee with updates where appropriate.

### Staff

Provide updates and information on scheme and legislative changes.

Team Meetings – Maintain staff's awareness and knowledge via monthly meetings and one-off sessions as appropriate.

### General Communication

Letters, emails and phone calls answered clearly, accurately and timely.

If you wish to contact the City of London Pensions Office:  
Write: Pensions Manager, City Of London, Guildhall, London EC2P 2EJ  
Telephone: 020 7332 1133  
Email: [Pensions@cityoflondon.gov.uk](mailto:Pensions@cityoflondon.gov.uk)  
Website: [www.yourpension.org.uk/cityoflondon](http://www.yourpension.org.uk/cityoflondon)

This Policy Statement Will Be Kept Under Review.



## GLOSSARY OF TERMS

**Actuarial Valuation** - a review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

**Actuarial gains and losses** - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. the actuarial assumptions have changed.

**Actuary** - an independent qualified consultant who carries out the Actuarial Valuation and who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

**Administering Authority** - a local authority required to maintain a pension fund under LGPS regulations.

**Asset allocation** - the apportionment of a fund's assets between asset classes and/or markets.

**Benchmark** - a 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

**Bond** - a certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

**Career Average Revalued Earnings (CARE) Scheme** – A defined benefit pension scheme with benefits based on earnings and membership. Income is based on a proportion of earnings adjusted for inflation.

**Current asset** - an asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

**Current liability** - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**Current service cost (pensions)** - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Curtailement (pensions)** - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity; and

- b. termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Custodian** - safekeeping of securities by a financial institution. The custodian will keep a register of holdings and will collect income and distribute monies according to client instructions.

**Defined benefit scheme** - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme** - a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Equities** - ownership positions (shares) in companies that can be traded on public markets, often producing income that is paid in the form of dividends.

**Expected rate of return on pensions assets** - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Final Salary Scheme** – A defined benefit pension scheme with benefits based on earnings and membership. Income is based on a proportion of final salary.

**Fund Managers** - appointed by the Investment Sub Finance Committee to carry out day-to-day investment decisions for the Fund within the terms of their Investment Management Agreement.

**Index** - a benchmark for the performance of a group of shares or bonds.

**Interest cost (pensions)** - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investment adviser** - a professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

**Investment properties** - interest in land or buildings that are held for investment potential.

**Mandate** - a set of instructions given to the Fund Manager by the client as to how a fund is to be managed (e.g. targets for performance or the Manager may be prohibited from investing in certain stocks or sectors).

**Outperformance / underperformance** - the difference in returns gained by a particular fund against the 'average' fund or an index or benchmark over a specified time period.

**Past service cost (pensions)** - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Performance** - a measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the benchmark.

**Portfolio** - term used to describe all investments held.

**Private equity** - investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

**Projected unit method** - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a. the benefits for pensions and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b. the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**Risk** - generally taken to mean the variability of returns.

**Scheme liabilities** - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Securities** - investment in company shares, fixed interest or index-linked stocks.

**Vested rights** - in relation to a defined benefit pension scheme, these are:

- a. for active members, benefits to which they would unconditionally be entitled to on leaving the scheme;
- b. for deferred pensioners, their preserved benefits; and
- c. for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.