



# **Annual Report**

## **London Borough of Enfield Pension Fund 2017/18**

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## 1. Chair's Foreword—Cllr Toby Simon

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It is my pleasure, as Chair of the Pension Policy & Investment Committee (PP&IC) to introduce the London Borough of Enfield Pension Fund Annual Report and Accounts for 2017/18. The Committee has overall responsibility for all aspects of the Pension Fund. The Fund also benefits from the support of the Local Pension Board which brings together employee and employer representatives.

During the year, the value of the Fund increased by 20 million; as at 31 March 2018 the Fund value is now in excess of a billion pounds, at £1,099 million. The Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers and Fund managers to ensure the Fund's investments are being managed effectively.

It is pleasing report that since the last actuarial valuation in 2016/17 that the actuarial position has continued to give reflecting the continued strong financial returns strong gains in financial markets, to an estimated funding level of 95% (Based on the fund's our 31 December position).

Enfield's relatively low exposure to equities has meant the Fund has lagged the LGPS average in 2017/18. Nevertheless, the Fund's longer term performance continues to be strong. We are convinced this strategy continues to give the Enfield Fund a long-term edge over the traditional LGPS fund. However, we are currently reviewing our strategy, following the outcome of the 2016 valuation, to ensure that it is still appropriate.

The Fund is committed to the Local Authority Pension Fund Forum (LAPFF) and its role in good corporate governance and we implement its recommendations if relevant to us. We seek to be responsible investors by looking to engage with companies and make changes from within rather than adopting an opt-out approach; but as most of our holdings are in pooled funds we have limited scope for direct action. I have represented LAPFF at a number of company Annual General Meetings where I raised issues including climate change, directors' remuneration and diversity.

The Fund has been active in the transfer of equity investment management into the London Collective Investment Vehicle (LCIV) to gain efficiencies and fee reductions. The Fund has also benefitted from lower fees negotiated by the LCIV on our equity managers without affecting performance. Preparatory work has been undertaken to transfer further assets into LCIV during 2018/19.



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## 2. Investment report

### Objectives

The Pension Policy & Investment Committee's overarching objective is to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided.

In setting investment strategy, the Committee first considered the lowest risk asset allocation that it could adopt in relation to the Fund's liabilities. The asset allocation strategy it has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Fund's liabilities.

### The Strategy

The current target asset allocation strategy chosen to meet the objective above is set out in the table below. The suitability of the target asset allocation is monitored as the liabilities and market conditions develop, and the actual asset allocation will not exactly reflect the target weights at any particular point in time. The Committee monitors the actual asset allocation versus the target weighting.

Asset Class	Actual Position 31 March 2018 %	Target Weighting %	Expected Return (per annum)	Control Range
Equities (including Private Equity)	47	40	8-11%	±10%
Bonds	22	29	4-5%	±10%
Hedge Funds	14	15	9-11%	±5%
Property (UK)	7	10	9%	±5%
Infrastructure/PFI	4	6	9%	±3%
Cash	6	-	-	-
<b>Total</b>	<b>100</b>	<b>100</b>		

Source: Annual Accounts 17/18 & ISS

The asset allocation strategy has been determined with regard to the actuarial characteristics of the Fund, in particular the strength of the funding position and the liability profile. The Fund's policy is to make the assumptions that:

- Other asset classes will outperform bonds over the long term;
- Active fund management can be expected to add value; and
- Returns from other asset classes will be more volatile than bond returns when considered relative to the Fund's liabilities.

The Fund recognises the potential volatility in individual asset class returns, particularly relative to the Fund's liabilities, it has therefore decided to diversify across a wide range of asset classes.

## Market returns in 2017/18 & Longer term returns%

	2017/18 %	3yrs % p.a.	5yrs %p.a.	10yrs %p.a.	20yrs %p.a.
<b>Equities:</b>					
UK	1.4	5.8	7.0	7.2	5.3
Non UK	5.5	11.4	11.7	9.7	-
North America	2.6	12.5	14.7	12.6	-
Europe	5.2	10.2	10.9	7.5	-
Japan	8.4	12.2	12.6	9.2	-
Pacific (ex Japan)	2.6	8.9	6.9	9.1	-
Emerging Markets	8.8	10.1	7.5	7.2	-
Global	4.8	10.4	11.6	9.1	-
<b>Total Equities</b>	<b>4.3</b>	<b>9.7</b>	<b>10.2</b>	<b>8.8</b>	<b>6.6</b>
<b>Bonds:</b>					
Global	2.4	-	-	-	
UK bonds	1.4	4.1	4.8	6.6	-
UK Government	2.5				
UK Corporate	2.0				
UK Indexed Linked	0.2	6.5	6.8	8.0	-
Overseas bonds	0.1	6.2	4.1	6.3	-
Absolute Return	2.7	-	-	-	-
<b>Total Bonds</b>	<b>1.4</b>	<b>4.6</b>	<b>5.0</b>	<b>6.9</b>	<b>6.4</b>
<b>Alternatives</b>					
Private Equity	8.9	14.1	12.6	8.0	-
Hedge Funds	6.2	5.4	5.6	3.4	-
Infrastructure	2.2	9.5	8.1	-	-
Property	9.8	9.0	10.8	5.1	7.8
Diversified Growth	1.6	1.9			
Cash	-0.2	0.33.7	-0-7	1.4	3.2
<b>Total Fund Average</b>					
Range of results	4.5	8.3	8.8	7.7	6.5
Top quartile	4.7	8.3	9.3	9.1	6.5
Median	4.0	7.7	8.5	7.5	6.1
Bottom quartile	3.0	7.0	7.8	7.1	5.8

Source: PIRC – 2017/18 Annual Review



## **Fund Manager Structure**

The fund manager structure and investment objectives for each fund manager (“mandates”) are as follows:

<b>Fund manager</b>	<b>Investment objectives</b>
<b>BlackRock Advisers UK Ltd</b> (Passively Managed Global Equity, UK Equity and UK Bond Portfolios)	<i>To perform in line with the prescribed Equity and Bond indices.</i>
<b>Trilogy Global Advisors</b> (Actively Managed Global Equity Portfolio)	<i>To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.</i>
<b>MFS</b> (Actively Managed Global Equity Portfolio)	<i>To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.</i>
<b>RREEF Management</b> (Active UK Property Fund)	<i>To achieve a return of at least 4.5% per annum, net of all fees and costs, above the UK Retail Prices Index over 5 to 10 years.</i>
<b>Legal &amp; General Investment Management Ltd</b> (Active UK Property Fund)	<i>To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods.</i>
<b>Gruss</b> (Events driven)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>York Capital Management</b> (Distressed Debt Fund)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Davidson Kempner</b> (Events driven)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Lansdowne Partners</b> (Long/Short UK Equities Hedge Fund)	<i>To generate an absolute return. The benchmark is the FTSE All Share index</i>
<b>Adam Street Partners</b> (Private Equity Portfolio)	<i>To outperform the MSCI World Index.</i>
<b>Western Asset Management</b> (Actively Managed Bond Portfolio)	<i>To outperform the benchmark (composed of a mixture of bond indices) by 0.75% pa gross of fees over rolling three-year periods.</i>
<b>International Public Partnerships Limited</b> (Private Finance Initiative)	<i>To achieve a return of at least 4.5% per annum.</i>
<b>M&amp;G</b> Inflation Opportunities Fund	<i>To outperform the Retail Price Index by 2.5% per annum on a rolling five year basis.</i>
<b>Insight Bond Fund</b> Absolute bond return	<i>3 month LIBOR +4% per annum over rolling three period.</i>
<b>Brockton</b> Opportunistic property	<i>15% net IRR and 1.5xnet multiple</i>
<b>CFM-Stratus</b> Muti asset strategy	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Antin</b> European Infrastructure Fund	<i>15% gross IRR with a gross yield target of 5% p.a.</i>

## **Fund Value**

The Pension Fund has continued to benefit from its strategy of having a diversified investment strategy which is less dependent on the world equity markets than the average local authority pension fund. The Enfield Fund increased by 2% in 2017/18.

During the year the Fund dismissed Markham Rae following its inability to meet the Fund's performance requirements

### **Fund Value over 10 Years as at 31<sup>st</sup> March**

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
534	442	572	610	647	731	775	888	916	1,078	1,099

Source: Annual Accounts

## **Performance of Fund against other Local Government Pension Schemes (LGPS)**

### **Fund performance**

The continued out-performance of equities has continued to hurt the Enfield performance in relation to other LGPS funds. Nevertheless, longer term performance continues to be in the top quartile for longer term time periods.

	1 year	3 years	5 years	10 years	20 years	30 Years
% p.a.	2.7	10.4	11.2	9.0	6.8	9.9
Ranking	71	19	19	33	24	11

Source: PIRC

**The L.A. average asset allocation as at 31<sup>st</sup> March 2018 compared to the Enfield Fund**

	<b>Local Authority Average</b>	<b>Enfield</b>	<b>Difference</b>
	%	%	%
<b>Equities (including private equity)</b>	<b>55</b>	<b>47</b>	<b>-8</b>
<b>Bonds</b>	<b>18</b>	<b>22</b>	<b>+4</b>
<b>Property</b>	<b>9</b>	<b>7</b>	<b>-2</b>
<b>Alternatives</b>	<b>11</b>	<b>18</b>	<b>+7</b>
<b>Diversified Growth</b>	<b>4</b>	<b>-</b>	<b>-4</b>
<b>Cash</b>	<b>3</b>	<b>6</b>	<b>+3</b>
	<b>100</b>	<b>100</b>	

Source PIRC/Annual Accounts

**Analysis of Enfield Fund assets as at 31 March 2018**

	<b>UK</b>	<b>Non-UK</b>	<b>Global</b>	<b>Total</b>
	£000	£000	£000	£000
<b>Bonds</b>	<b>8,383</b>	<b>73,961</b>	<b>-</b>	<b>82,344</b>
<b>Equities</b>	<b>47,659</b>	<b>144,906</b>	<b>-</b>	<b>192,565</b>
<b>Pooled Funds</b>	<b>129,916</b>	<b>-</b>	<b>490,257</b>	<b>620,173</b>
<b>Pooled Property</b>	<b>67,887</b>	<b>-</b>	<b>-</b>	<b>67,887</b>
<b>Private equity</b>	<b>5,888</b>	<b>-</b>	<b>57,445</b>	<b>63,333</b>
<b>Derivatives</b>	<b>364</b>			<b>364</b>
	<b>260,097</b>	<b>218,867</b>	<b>547,702</b>	<b>1,026,666</b>

Source: Annual Accounts 17/18 Note 14B

### **3. Corporate Governance**

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#### **Introduction**

Whilst the London Borough of Enfield Pension Fund is governed by Statute, there is an amount of discretion in the regulations for pension funds within the Local Government Pension Scheme to manage their own affairs. The London Borough of Enfield Pension Fund has established its own corporate governance model that reflects the best practice from both private sector and local government schemes.

The London Borough of Enfield, as the Administering Authority of the Pension Fund, has delegated responsibility for the management of the Pension Fund to the Pensions Committee and during the current financial year the chart overleaf sets out the way in which the Fund was governed.

The Government's principles for the management of final salary schemes requires funds to draw up a forward-looking business plan, including a training plan for both the trustees and officers involved in their management and administration.

The Council has a Pension Policy & Investment Committee which sets the investment strategy objective and oversees the management of the Pension Fund. It also considers all investment decisions regarding the Fund. The Committee recognised that to meet the increasing demands and complexities of the Fund, it would be appropriate to appoint an independent pension advisor to help members 'test' the advice of its investment consultant and to provide support for new areas of investment.

All operational decisions to implement these policies are delegated to the Council's Executive Director of Resources

#### **The Role of the Pension Policy & Investment Committee**

The Pension Policy & Investment Committee consists of five members appointed by the Full Council who are responsible for the administration of the London Borough of Enfield Pension Fund in accordance with Statutory Regulations. The Committee meets a minimum of four times a year.

#### **Governance of the Pension Fund Investments**

The Committee considers the Fund's investment strategy and asset allocation of the Fund's portfolio. The Committee appointed an independent pension fund advisor, Carolan Dobson, to also sit on the Committee to give expert advice, support members, and to clarify the many complex technical issues that arise from such a diversified fund. The Committee meets quarterly to review investment strategy and to receive reports on investment activity undertaken in the previous period. One of its important tasks is to monitor the performance of the Fund's managers in conjunction with our professional advisors Aon Hewitt, independent advisor and officers.

The Committee is responsible for: -

- The governance of the London Borough of Enfield Pension Fund in accordance with statutory regulations
- Appointing the Fund's Actuary
- Approving all admissions into the Fund
- The submission to Full Council of an Annual Report outlining the work of the Committee
- Overseeing communications with Fund Members
- Corporate Governance issues and matters relating to socially responsible investments
- Overseeing compliance with the Myners report (a report that sets out six principles of good practice within pension schemes)
- Appointing (and, when necessary, dismissing) Investment Managers
- Monitoring the performance of Investment Managers and the Investments made
- Setting and reviewing the overall investment strategy of the fund
- Appointing (and, when necessary, dismissing) Investment Consultant
- Approving and reviewing the cost of Investment Management
- Maintaining the Investment Strategy Statement; and
- Setting performance objectives for the fund

#### **Committee Members Attendance Pension Policy & Investment Committee 2017/18**

<b>Pension Policy &amp; Investment Committee</b>	<b>22 May 17</b>	<b>26 June 17</b>	<b>6 Sept 17</b>	<b>20 Nov 17</b>	<b>19 Feb 18</b>
Cllr D Levy (Vice Chair)	P	P	P	P	P
Cllr T Neville	P	P	P	A	P
Cllr D Pearce	A	A	A	A	A
Cllr T Simon (Chair)	P	P	P	P	P
Cllr A Sitkin	P	A	A	A	A
Cllr D Taylor	P	P	P	P	P

Note: P: Present, A: - Absence.

### Overview of the Scheme

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and (Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by London Borough of Enfield to provide pensions and other benefits for pensionable employees of London Borough of Enfield and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Enfield Pension Policy & Investment Committee, which is a committee of London Borough of Enfield.

The London Borough of Enfield is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2017/18 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.

- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.  
Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014, although it should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

### **Who belongs to the Enfield Pension Fund?**

The London Borough of Enfield Fund Pension Fund consists of the employees of Enfield Council and the following bodies.

	Number of contributors	Pensioners	Deferred Members	Frozen /Undecided
<b>London Borough of Enfield</b>	<b>5,742</b>	<b>4,880</b>	<b>4,297</b>	<b>3,272</b>
<b>Scheduled Bodies</b>				
Capel Manor College	150	47	147	123
Oasis Hadley Academy	83	5	34	95
Oasis Enfield Academy	132	6	77	130
Aylward Academy	45	8	9	24
Nightingale Academy	27	11	23	32
Kingsmead Academy	42	10	14	17
Enfield Grammar Academy	49	7	4	13
Southgate College	55	103	134	24
Enfield Learning Trust	229	1	2	7
ARK John Keats Academy	42		1	18
Meridian Angel Primary School	14			6
Ivy Learning Trust	219			
Cuckoo Hall Academy Trust	146	11	6	60
Edmonton County Academy	93	1	1	2
Enfield College		40	47	10
<b>Subtotal – Scheduled Bodies</b>	<b>1,326</b>	<b>250</b>	<b>499</b>	<b>561</b>
<b>Admitted Bodies</b>				
Enfield Voluntary Groups	5	4	2	1
Fitzpatrick		9	14	2
NORSE	49	19	41	20
Churchill			1	
Metropolitan Support Trust		1	2	2
Fusion Lifestyle	8	6	30	
Kier Group Services			1	
Sodexo	6	1		
Hughes Gardner			1	
Equion Facilities Management		2		
Outward Housing	1	5	1	12
Olive .Dining		5		1
Elior UK	9			
REED Momena	4			1
Birkin - Winchmore	2		2	
BDI Securities UK Ltd	1			



Independence & Wellbeing	232	6		11
<b>Subtotal – Admitted Bodies</b>	<b>317</b>	<b>58</b>	<b>95</b>	<b>50</b>
<b>Total Membership</b>	<b>7,385</b>	<b>5,188</b>	<b>4,891</b>	<b>3,883</b>

## Membership Trends

	31 March 2014	31 March 2015	31 March 2016	March 31 2017	March 31 2018
<b>Current Employees</b>	6,868	7,090	7,312	7,447	7,385
<b>Pensioners</b>	4,427	4,675	4,964	5,265	5,188
<b>Deferred Benefits*</b>	5,760	6,598	6,598	7,978	8,774
	<b>17,055</b>	<b>18,363</b>	<b>18,874</b>	<b>20,690</b>	<b>21,347</b>

## Actives Age

Age	Female	Male	Total
Under 20	10	6	16
20-24	144	56	200
25-29	310	128	438
30-34	402	144	546
35-39	607	178	785
40-44	682	201	883
45-49	862	198	1,060
50-54	1,119	262	1,381
55-59	978	224	1,202
60-64	519	168	687
65-69	91	53	144
70-74	27	13	40
75- 85	2	1	3
<b>Grand Total</b>	<b>5,753</b>	<b>1,632</b>	<b>7,385</b>

Pensioner Age			
Age	Female	Male	Total
Up to 39	23	23	46
40-44	2	2	4
45-49	6	8	14
50-54	18	16	34
55-59	136	46	182
60-64	533	236	769
65-69	781	405	1,186
70-74	718	390	1,108
75-79	498	229	727
80-84	363	178	541
85-89	220	141	361
90-94	117	55	172
95-99	27	9	36
100-106	8	0	8
<b>Grand Total</b>	<b>3,450</b>	<b>1,738</b>	<b>5,188</b>

Costs of Fund Administration		
	£000's	£ per member
Pension administration	432	20.23
Payroll costs	137	6.41
IT/software costs	154	7.21
Actuary	48	2.26
Other costs	2	0.11
<b>Total Costs</b>	<b>773</b>	<b>36.22</b>

Pension Fund Budget - 2017-2018				
2017/18		2018/19	2019/20	2020/21
Actual		Estimate	Estimate	Estimate
£000		£000	£000	£000
9,589	Employee contributions	9,600	9,600	9,700
33,273	Employer contributions	33,600	34,000	34,500
863	Early retirements	1,000	1,000	1,000
1,844	Transfers in	4,000	4,000	4,000
<b>45,569</b>	<b>Total Income</b>	<b>48,200</b>	<b>48,600</b>	<b>49,200</b>
-31,985	Pensions	-33,500	-35,700	-37,500
-6,754	Retirement/death grants	-5,000	-5,000	-5,000
-6,289	Transfers out	-4,500	-4,500	-4,500
-773	Admin costs	-750	-800	-850
-391	Oversight & Governance	-400	-450	-500
<b>-46,192</b>	<b>Total Expenditure</b>	<b>-44,150</b>	<b>-46,450</b>	<b>-48,350</b>
<b>-623</b>	<b>Net Surplus/(Deficit)</b>	<b>4,050</b>	<b>2,150</b>	<b>850</b>
<b>23.9%</b>	<b>Employers contribution %</b>	<b>24.4%</b>	<b>24.8%</b>	<b>24.8%*</b>

## Corporate Governance

The Fund's Corporate Governance is set out in the Fund's Investment Strategy Statement. This publication is available through Paul Reddaway email [paul.reddaway@enfield.gov.uk](mailto:paul.reddaway@enfield.gov.uk).

## Employers Summary

Statute specifies that contributions must be paid into the fund by the 19<sup>th</sup> day of the following month to that which they relate. The Pension Regulations allows for interest to be levied on contributions that are not paid on time, There were 6 late payments during 2017/18, but were considered as minor breaches & payments were received within the month, so this power was not exercised.

Payments made by employers into the Pension Fund during 2017/18 (including analysis of late payments)

£000's	April	May	June	July	August	September	October	November	December	January	February	March
Enfield	2,334	2,289	2,298	2,245	2,229	2,415	2,267	2,283	2,290	2,295	2,274	2,655
Latymer School	22	21	23	22	23	23	24	23	23	23	24	22
Capel Manor	37	33	33	34	33	34	34	39	29	34	34	36
Oasis Enfield Academy	56	56	57	56	54	54	55	67	58	56	57	58
Oasis Hadley Academy	20	20	20	21	20	20	20	20	20	21	20	20
Aylward Academy	23	15	17	18	17	17	16	17	17	16	15	16
Nightingale Academy	14	9	9	10	10	9	8	9	8	8	9	9
Kingsmead Academy	18	19	21	17	17	18	18	18	18	17	16	17
Enfield Grammar Academy	13	15	15	15	16	14	15	15	15	13	14	15
Edmonton County Academy	28	28	27	28	27	29	26	27	27	31	28	31
Southgate School Academy	17	17	17	18	18	18	17	18	18	18	18	19
Enfield Learning Trust	52	52	53	50	50	50	49	61	60	87	93	72
Ark John Keats Academy	5	6	5	5	5	6	5	6	6	5	6	5
Meridian Angel Primary School	2	2	3	3	3	3	2	3	3	3	0	2
Ivy Learning Trust	0	0	0	0	0	30	30	32	31	32	35	30
Cuckoo Hall Academy Trust	35	35	40	37	37	38	38	36	37	37	35	39
Elior UK	2	2	2	2	1	2	2	2	2	2	2	21
Reed Momena	2	1	2	2	1	2	3	2	1	2	2	19
Sodexo	1	2	1	2	1	1	2	2	1	2	2	2
Fusion Lifestyle	3	3	3	2	3	3	2	3	3	2	3	3
OutWard Housing	0	0	1	1	0	1	0	0	1	0	0	1
Independence & Wellbeing	49	47	59	64	64	66	66	70	73	88	77	79
Voluntary Bodies	3	3	3	3	3	3	3	3	4	3	3	3
BDI	0	0	1	0	1	0	1	0	0	0	0	0
Birkin Cleaning	0	0	1	0	0	1	0	1	0	1	0	14
NORSE	6	5	5	7	5	5	5	3	3	5	4	-8
Metropolitan Support Trust	0	0	1	0	0	1	0	0	0	0	0	0

Note: red blocks refer to late payments. Strain costs added into Enfield March payment

## **Risk Management Review**

### **Risk Register**

The benefits of successful risk management are clear for the Fund: improved financial performance, better delivery of services, and improved Fund governance and compliance.

There are four general approaches to treating risk: avoid, reduce, transfer or accept:

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk.
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

The Risk Register for the Pension Fund sets out the nature of the individual risks for the Fund with an assessment of level of risk. Risks fall into the following categories:

- High risk (red) – need for early action intervention where possible;
- Medium risk (amber) – action is required in the near future; and
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

The Pension Board reviews the Pension Fund Risk Register and the controls in place to determine if there is any need to re-categorise existing risks or to add new, previously unidentified risks.

The key risks identified as being high following the latest review are:

- Increasing longevity
- Regulatory
- Poor investment performance
- Reliance on third party operations
- Counterparty risks

The Board recognises that whilst the above high risks relate primarily to external risk, measures are in place to monitor and manage these risks.

These include:

- Monitoring longevity and ongoing discussions with the Fund Actuary on how best to manage the impact on the Fund from people living longer;
- Monitoring regulatory changes and responding to consultations on future changes;
- Quarterly monitoring of investment performance and regular reviews of asset allocation to ensure that it remains appropriate for the Fund taking into account the appropriate investment advice from the Pension Fund Consultants;
- Contract monitoring and performance reviews; and
- Ensuring counterparties have adequate ratings and internal controls in place.

Within the Statement of Accounts, note 17 provides analysis of the extent of risks arising from financial instruments, quantifying the impact of a range of investment risks, including market risk, interest rate risk and currency risk.

This provides readers of the accounts with an overview of the impact of market movements, including increases and decreases under the scenarios where standard deviations apply.

## **6. Pension Fund Advisers and Other Service Providers**

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During 2017/18 the following provided services to the Pension Fund:

### **Custodial Services**

State Street Bank and Trust Company, 20 Churchill Place, Canary Wharf, London, E14 5HJ

### **Actuarial Services**

Aon Hewitt Limited, 25, Marsh Street, Bristol, BS1 4AQ

### **Investment Consultancy and Advice Services**

Aon Hewitt Limited, 122 Leadenhall Street London, EN3 4AW

### **Independent Fund Advisor**

Carolann Dobson

### **Fund Administrator**

Julie Barker London Borough of Enfield [Julie.barker@enfield.gov.uk](mailto:Julie.barker@enfield.gov.uk)

### **Pension Fund Performance Measurement**

PIRC Suite 8.02, Exchange Tower 2, Harbour Exchange Square, Isle of Dogs, London E14 9GE

### **External Auditors**

BDO LLP, 16 The Havens, Ipswich IP3 9SJ.

### **Legal Services**

Legal services were provided in-house by the Enfield Council

### **AVC Provider**

Prudential

Email: [natalie.read@prudential.co.uk](mailto:natalie.read@prudential.co.uk) or call on 0845 2680440.

### **Corporate Governance**

Local Authority Pension Forum (LAPF) - Proxy Voting  
Pensions Lifetime Savings Association (PLSA)

### **The Fund's Bankers**

HSBC PLC

1st Floor, 60 Queen Victoria Street, London, EC4N 4TR

### **Fund Accountant**

Paul Reddaway, London Borough of Enfield  
[paul.reddaway@enfield.gov.uk](mailto:paul.reddaway@enfield.gov.uk)

If you have any comments on the Annual Report, please call 020 8379 4730,  
Email: [paul.reddaway@enfield.gov.uk](mailto:paul.reddaway@enfield.gov.uk) or write to the following address:

London Borough of Enfield Pension Fund, Civic centre,  
Finance Department, Silver Street, Enfield EN1 3XF

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## Section 2: Financial Statements

LONDON BOROUGH OF ENFIELD PENSION FUND ACCOUNT			
2016/17 £000s		Notes	2017/18 £000s
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
40,681	Contributions	7	43,725
181	Transfers in from other pension funds	8	1,844
<b>40,862</b>			<b>45,569</b>
(40,069)	Benefits payable	9	(38,739)
(1,038)	Payments to and on account of leavers	10	(6,289)
<b>(41,107)</b>			<b>(45,028)</b>
<b>(245)</b>	<b>Net additions/(withdrawals) from dealings with members</b>		<b>541</b>
(8,144)	Management expenses	11	(9,289)
<b>(8,389)</b>	<b>Net additional/(withdrawals) including fund management</b>		<b>(8,748)</b>
	<b>Returns on investments</b>		
9,852	Investment income	12	11,339
(321)	Taxes on income	13	(592)
161,032	Profit & losses on disposal of investments and changes in the market value of investments	14A	18,518
<b>170,563</b>	<b>Net returns on investments</b>		<b>29,265</b>
162,174	<b>Net change in assets available for benefits during the year</b>		20,517
916,311	<b>Opening net assets of the scheme</b>		1,078,485
<b>1,078,485</b>	<b>Closing net assets of the scheme</b>		<b>1,099,002</b>

NET ASSETS STATEMENT FOR YEAR ENDED 31 MARCH 2018			
2016/17 £000s		Notes	2017/18 £000s
1,022,550	Investment assets	14	1,026,666
(21)	Investment liabilities		(148)
<b>1,022,529</b>	<b>Total net investments</b>		<b>1,026,518</b>
54,406	<b>Cash deposits</b>	14	69,956
2,310	Other investment balances -assets		2,346
(896)	Other investment balances - liabilities		(476)
<b>1,078,349</b>	<b>Other investment balances</b>	14	<b>1,098,344</b>
499	<b>Current assets</b>	21	1,081
(363)	<b>Current liabilities</b>	22	(423)
<b>1,078,485</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,099,002</b>

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Signed:



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## 1. Description of the Fund

The Enfield Pension Fund ('the fund') is part of the LGPS and is administered by London Borough of Enfield. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Enfield Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme.

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended).
- the Local Government Pension Scheme (Transitional Provisions, Savings and (Amendment) Regulations 2014 (as amended).
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by London Borough of Enfield to provide pensions and other benefits for pensionable employees of London Borough of Enfield and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Enfield Pension Policy & Investment Committee, which is a committee of London Borough of Enfield.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the fund include the following:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 33 employer organisations within the fund (including the Council itself), and 21,347 individual members, as detailed below. A full analysis is included

<b>Enfield Pension Fund</b>	<b>31 March 2017</b>	<b>31 March 2018</b>
Number of employers with active members	7,447	7,385
Number of pensioners	5,265	5,188
Deferred pensioners	4,889	4,891
Frozen/undecided	3,089	3,883
<b>Total number of members in pension scheme</b>	<b>20,690</b>	<b>21,347</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 9.9% to 25.0% of pensionable pay.

#### **d) Benefits**

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

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

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

## **2. Basis of preparation**

The statement of accounts summarises the fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The 2017/18 statement of accounts has been prepared in accordance with the CIPFA exemplified accounts. This has meant the 2016/17 disclosure notes have been reformatted to reflect the CIPFA Code of Practice.

## **3. Summary of significant accounting policies**

### **Fund account – revenue recognition**

#### **a) Contribution income**

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

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

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

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### **c) Investment income**

i) **Interest income** Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

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

### **Fund account – expense items**

#### **d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### **e) Taxation**

The fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

#### **f) Management expenses**

The Code does not require any breakdown of pension fund administrative expenses, however, it requires the disclosure of investment management transaction costs. For greater transparency, the fund discloses its pension fund management expenses in accordance with the CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016), which shows the breakdown of administrative expenses, including transaction costs.

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

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

iii) **Investment management expenses** All investment management expenses are accounted for on an accruals basis.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related. Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account.

## **Net assets statement**

### **g) Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### **Foreign currency transactions**

#### **h) Dividends**

Interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

#### **i) Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see Note 15).

#### **j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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

#### **k) Financial liabilities**

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

#### **l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

#### **m) Additional voluntary contributions**

The Enfield Pension Fund provides an additional voluntary contribution (AVC) scheme for its employers and are specifically for providing additional benefits for individual contributors. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

#### **n) Contingent assets and contingent liabilities**

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

### **4: Critical judgements in applying accounting policies**

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#### **Pension fund liability**

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

### **5. Assumptions made about the future and other major sources of estimation uncertainty**

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Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual results could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.



Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 20)</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: a. 1% increase in the discount rate assumption would result in a decrease in the pension liability of £173m a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £43m a three-year increase in assumed life expectancy would increase the liability by approximately £61m.
<b>Private equity investments (Note 16)</b>	Private equity investments are valued at fair value in accordance with generally accepted accounting principles (GAAP). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £63m in the financial statements. There is a risk that this investment may be under-or overstated in the accounts. Given a tolerance of +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/- £3 million.
<b>Private equity property investments (Note 16)</b>	The estimate of the value of the investment in Portfolio Companies and Intermediate Vehicles requires considerable judgment and estimation techniques. The valuation methodologies are considered to be consistent with the International Private Equity and Venture Capital Valuation Guidelines.	Given a tolerance of +/-5% around the effect of variations in the factors supporting the valuation would be an increase or decrease in the value of held property of £0.4m, on a fair value of £8.1m.

#### NOTE 6: EVENTS AFTER THE REPORTING DATE

Following the conclusion of the external audit there are no post balance events requiring to be reported.

## NOTE 7: CONTRIBUTIONS

### By category

2016/17 £000s		2017/18 £000s
9,614	Employees' contributions	9,589
	Employers' contributions:-	
22,833	Normal	25,762
6,870	Deficit recovery contributions	7,511
1,364	Augmentation contributions	863
<b>31,067</b>	<b>Total employers' contributions</b>	<b>34,136</b>
<b>40,681</b>		<b>43,725</b>

### By authority

2016/17 £000s		2017/18 £000s
35,101	Administering authority	36,533
4,842	Scheduled bodies	5,825
738	Admitted bodies	1,367
<b>40,681</b>		<b>43,725</b>

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17 £000s		2017/18 £000s
181	Individual transfers	1,844
<b>181</b>		<b>1,844</b>

## NOTE 9: BENEFITS PAYABLE

### By category

2016/17 £000s		2017/18 £000s
(30,239)	Pensions	(31,985)
(8,390)	Commutation and lump sum retirement benefits	(5,982)
(1,440)	Lump sum death benefits	(772)
<b>(40,069)</b>		<b>(38,739)</b>

### By authority

2016/17 £000s		2017/18 £000s
(37,787)	Administration authority	(36,812)
(1,789)	Scheduled bodies	(1,444)
(493)	Admitted bodies	(483)
<b>(40,069)</b>		<b>(38,739)</b>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

2016/17 £000s		2017/18 £000s
(129)	Refunds to members leaving service	(132)
(909)	Individual transfers	(6,157)
<b>(1,038)</b>		<b>(6,289)</b>

**NOTE 11: MANAGEMENT EXPENSES**

2016/17 £000s		2017/18 £000s
(673)	Administrative costs	(773)
(344)	Oversight and governance costs	(391)
(7,127)	Investment management expenses	(8,125)
<b>(8,144)</b>		<b>(9,289)</b>

**NOTE 11A: INVESTMENT MANAGEMENT EXPENSES**

2016/17 £000s		2017/18 £000s
(6,760)	Management fees	(6,589)
-	Performance related fees	(588)
(162)	Transaction costs	(893)
(73)	Custody fees	(39)
(132)	Other	(16)
<b>(7,127)</b>		<b>(8,125)</b>

**NOTE 12: INVESTMENT INCOME**

2016/17 £000s		2017/18 £000s
4,089	Income from equities	4,800
3,570	Income from bonds	3,248
946	Pooled property investments	1,643
529	Pooled investments – unit trusts and other managed funds	1,329
718	Interest on cash deposits	319
<b>9,852</b>		<b>11,339</b>

**NOTE 13: TAXES ON INCOME**

2016/17 £000s		2017/18 £000s
	<i>Withholding tax</i>	
-	Income from equities	(315)
(321)	Pooled investments – unit trusts and other managed funds	(277)
<b>(321)</b>		<b>(592)</b>

**NOTE 13B: EXTERNAL AUDIT FEES**

2016/17 £000s		2017/18 £000s
25	Paid in respect of external audit (excluding VAT)	25
<b>25</b>		<b>25</b>

## NOTE 14: INVESTMENTS

Market value 31 March 2017 £000s		Market value 31 March 2018 £000s
	<b>Investments</b>	
80,870	Fixed interest securities	82,344
182,276	Equities	192,565
624,293	Pooled investments	620,173
65,535	Pooled property investments	67,887
69,314	Private equity	63,333
	<b>Derivative contracts:</b>	
168	- Futures	262
94	- Forward currency contracts	102
<b>1,022,550</b>	<b>Total investment assets</b>	<b>1,026,666</b>
54,406	Cash deposits	69,956
2,054	Investment income due	2,346
256	Amounts receivable for sales	-
<b>1,079,266</b>	<b>Total investment assets</b>	<b>1,098,968</b>
	<b>Investment liabilities</b>	
	<b>Derivative contracts:</b>	
(9)	- Futures	(89)
(12)	- Forward currency contracts	(59)
(731)	Investment expenditure due	(476)
(165)	Amounts payable for purchases	-
<b>(917)</b>	<b>Total investment liabilities</b>	<b>(624)</b>
<b>1,078,349</b>	<b>Net investment assets</b>	<b>1,098,344</b>

# NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

	Market value 1 April 2017	Purchases	Sales	Managem't fees in Market value	Change in market value	Market value 31 March 2018
Period 2017/18	£000s	£000s	£000s	£000s	£000s	£000s
Fixed interest securities	80,870	17,127	-14,006	-	-1,647	82,344
Equities	182,277	75,462	-64,152	-	-1,022	192,565
Pooled investments	624,292	78,901	-94,290	-3,948	15,218	620,173
Pooled property	65,535	-	-1,517	-3	3,872	67,887
Private equity	69,314	13,789	-20,279	-2,291	2,800	63,333
	<b>1,022,287</b>	<b>185,279</b>	<b>-194,244</b>	<b>-6,242</b>	<b>19,221</b>	<b>1,026,302</b>
<b>Derivatives contracts:</b>						
Futures	159	739	-553	-	-172	173
Options	-	20	-	-	-20	-
Forward foreign exchange	82	417	-732	-	276	43
	<b>241</b>	<b>1,176</b>	<b>-1,285</b>	<b>-</b>	<b>84</b>	<b>216</b>
	<b>1,022,529</b>	<b>185,455</b>	<b>-195,529</b>	<b>-6,242</b>	<b>19,305</b>	<b>1,026,518</b>
<b>Other investment balances</b>						
Cash deposits	54,406				-780	69,956
Pending sales on investment	256					-
Investment income due	2,054				-7	2,346
Spot FX contracts	-					
Pending purchases on investments	(165)					
Other investment expenses	(731)					(476)
<b>Net investment assets</b>	<b>1,078,349</b>				<b>18,518</b>	<b>1,098,344</b>

Purchases and sales of derivatives are recognised in Note 14A above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

	Market value 1 April 2016	Purchases	Sales	Managem't fees in Market value	Change in market value	Market value 31 March 2017
<b>Period 2016/17</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Bonds	81,605	15,076	-24,640		8,829	80,870
Equities	142,357	65,735	-65,093		39,278	182,277
Pooled investments	518,772	137,244	-123,963	-3,424	95,664	624,293
Pooled property	64,758			-480	1,257	65,535
Private equity	71,676	8,965	-25,290	-1,165	15,127	69,313
	<b>879,168</b>	<b>227,020</b>	<b>-238,986</b>	<b>-5,069</b>	<b>160,155</b>	<b>1,022,288</b>
<b>Derivatives contracts:</b>						
Futures	8	8,712	-8,878		317	159
Forward foreign exchange	(208)	52,299	-50,555		-1,454	82
	<b>(200)</b>	<b>61011</b>	<b>-59,433</b>	<b>0</b>	<b>-1,136</b>	<b>241</b>
	<b>878,968</b>	<b>288,031</b>	<b>-298,419</b>	<b>-5,069</b>	<b>159,018</b>	<b>1,022,529</b>
<b>Other investment balances</b>						
Cash deposits	36,781				2,014	54,406
Pending sales on investment	362					256
Investment income due	1,561					2,054
Pending purchases on investments	(165)					(731)
Other investment expenses						(165)
<b>Net investment assets</b>	<b>917,507</b>				<b>161,032</b>	<b>1,078,349</b>

# **NOTE 14B: ANALYSIS OF INVESTMENTS**

<b>Market value 31 March 2017 £000s</b>		<b>Market value 31 March 2018 £000s</b>
	<b>Bonds</b>	
	<b>UK</b>	
6,258	Public sector quoted	4,531
3,589	Corporate quoted	3,852
	<b>Overseas</b>	
34,963	Public sector quoted	38,155
36,060	Corporate quoted	35,806
<b>80,870</b>		<b>82,344</b>
	<b>Equities</b>	
41,247	UK –quoted	47,659
141,030	Overseas –quoted	144,906
<b>182,277</b>		<b>192,565</b>
	<b>Pooled funds –additional analysis</b>	
86,530	Indexed linked securities	86,301
298,676	Equities	310,071
52,478	Developed markets equity long short fund	55,672
69,439	Events driven fund hedge fund	65,238
17,844	Global macro fund hedge fund	-
40,739	Inflation opportunities hedge fund	43,615
32,651	Absolute bond fund hedge fund	32,693
25,935	Multi-strategy equity hedge fund	26,583
<b>624,292</b>		<b>620,173</b>
	<b>Pooled property investments</b>	
65,535	UK property investments	67,887
<b>65,535</b>		<b>67,887</b>
	<b>Private equity</b>	
10,822	Opportunistic property	5,888
-	European infrastructure	2,178
58,492	Fund of Funds global private equity	55,267
<b>68,314</b>		<b>63,333</b>
	<b>Derivatives- Assets</b>	
168	Futures	262
94	Forward foreign exchange	102
<b>262</b>		<b>364</b>
<b>1,022,550</b>	<b>Total Investment Assets</b>	<b>1,026,666</b>
54,406	Cash deposits	69,956
256	Investment income due	2,346
2,054	Amounts receivable from sales	-
<b>1,079,266</b>		<b>1,098,968</b>
	<b>Investment liabilities</b>	
(9)	Derivatives- futures	(89)
(12)	Derivatives- forward foreign exchanges	(59)
(731)	Amounts payable for purchases	-
(165)	Investment expenses	(476)
<b>(917)</b>		<b>(624)</b>
<b>1,078,349</b>	<b>Net investment assets</b>	<b>1,098,344</b>

# NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value31 March 2017			Market value31 March 2018	
£000s			£000s	%
		<b>Fixed income securities</b>		
84,975	7.9%	Western Asset	86,598	7.9%
		<b>Equities</b>		
156,092	14.5%	Trilogy	161,997	14.7%
33,665	3.1%	International Public Partnerships	38,456	3.5%
		<b>Pooled investments</b>		
86,530	8.0%	Blackrock indexed linked bonds	86,301	7.9%
11,144	1.0%	Blackrock UK passive fund	11,295	1.0%
135,502	12.6%	Blackrock Global passive	138,611	12.6%
10,983	1.0%	Blackrock emerging markets	12,202	1.1%
95,485	8.9%	MFS global equities	96,434	8.8%
45,591	4.2%	LCIV Baillie Gifford global equities	51,528	4.7%
52,478	4.9%	Lansdowne hedge fund	55,672	5.1%
18,827	1.7%	York Capital hedge fund	18,950	1.7%
8,466	0.8%	Brevan Howard hedge fund	-	-
40,739	3.8%	M&G inflation opportunities	43,616	4.0%
32,651	3.0%	Insight hedge fund	32,693	3.0%
26,683	2.5%	Davidson Kempner hedge fund	24,983	2.3%
23,929	2.2%	Gruss hedge fund	21,305	1.9%
25,935	2.4%	CFM hedge fund	26,583	2.4%
9,378	0.9%	Markham Rae hedge fund	-	-
		<b>Pooled property</b>		
1,846	0.2%	RREEF commercial property	339	-
34,218	3.2%	Blackrock commercial property	36,087	3.3%
29,471	2.7%	Legal & General commercial prop.	31,886	2.9%
		<b>Private equity</b>		
58,492	5.4%	Adam St Partners fund of funds	55,267	5.0%
91	-	Antin European infrastructure	2,178	0.2%
10,822	1.0%	Brockton opportunistic property	5,888	0.5%
		<b>Cash &amp; accruals</b>		
21,476	2.0%	Goldman Sachs cash	35,161	3.2%
23,576	2.2%	Northern Trust cash	24,755	2.3%
35	-	Blackrock cash	35	-
(731)	(0.1%)	Enfield Investment accruals	(476)	-
<b>1,078,349</b>	<b>100.0%</b>		<b>1,098,344</b>	<b>100.0%</b>

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

Security	Market value 31 March 2017 £000s	% of total Fund	Market value 31 March 2018 £000s	% of total Fund
Trilogy global equities	156,092	14.5%	161,997	14.8%
Blackrock –global equities	135,502	12.6%	138,611	12.7%
MFS –global equities	95,485	8.9%	96,434	8.8%
Western Asset – corporate bonds	84,976	7.9%	86,598	7.9%
Blackrock – indexed linked bonds	86,530	8.0%	86,300	7.9%
Adam Street Partners – private equity	58,492	5.4%	55,672	5.1%
Lansdowne – equity hedge fund	52,478	4.9%	55,267	5.1%

## NOTE 14D: STOCK LENDING

The Fund's investment strategy does not permit stock lending.



## NOTE 15: ANALYSIS OF DERIVATIVES

### Objectives and policies for holding derivatives

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

#### a) Futures

The fund had to hold cash assets towards the end of the year in order to meet an expected peak in retirements. The pension fund committee did not want this cash to be 'out of the market' and so bought index-based futures contracts which had an underlying economic value broadly equivalent to the cash held in anticipation of the cash outflow for year-end retirements. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

#### b) Forward foreign currency

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity and bond portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the relevant fund manager currency programme in place managed by the global custodian, and hedges a proportion of the overseas holdings

#### Open forward currency contracts

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
1 to 6 months	GBP	2,334	EUR	(2,643)	14	-
1 to 6 months	USD	400	GBP	(287)	-	(2)
1 to 6 months	GBP	2,801	USD	(3,960)	4	(22)
1 to 6 months	GBP	1,582	SEK	(17,592)	84	-
1 to 6 months	SEK	9,469	GBP	(842)	-	(35)
Open forward currency contracts at 31 March 2018					102	(59)
Net forward currency contracts at 31 March 2018						43
<b>Prior year comparative</b>						
Open forward currency contracts at 31 March 2017					94	(12)
Net forward currency contracts at 31 March 2017						82

#### Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market value 31 March 2017	Economic exposure	Market value 31 March 2018
Assets		£000s	£000s	£000s	£000s
UK Fixed income	Less than a year	10,717	160	12,773	239
Overseas fixed income	Less than a year	3,839	8	3,327	23
<b>Total assets</b>			<b>168</b>		<b>262</b>
Overseas fixed income	Less than a year	(1,413)	(9)	(3,952)	(89)
<b>Total liabilities</b>			<b>(9)</b>		<b>(89)</b>
<b>Net Futures</b>			<b>159</b>		<b>173</b>

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable & unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Futures and options in UK bonds</b>	Level 1	Published exchange prices at the year-end	Not required	Not required
<b>Unquoted bonds</b>	Level 2	Average of broker prices	Not required	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Overseas bond options</b>	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
<b>Pooled investments – overseas unit trusts and property funds</b>	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
<b>Pooled investments – hedge funds</b>	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
<b>Property held in a limited partnership</b>	Level 3		Existing lease terms and rentals Independent market research Nature of tenancies Covenant	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market

			strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	prices
<b>Private equity</b>	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above are likely to be accurate to 10% within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018

Description of asset	Assessed valuation range (+/-) %	Value at 31 March 2018 £000s	Value on increase £000 £000s	Value on decrease £000s
Pooled investments – hedge funds	10%	8,831	9,714	7,948
UK opportunistic property	10%	5,888	6,477	5,299
European Infrastructure	10%	2,178	2,374	1,942
Private equity fund of funds	10%	55,267	60,793	49,741
<b>Total</b>		<b>72,164</b>	<b>79,358</b>	<b>64,930</b>

### NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

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

#### Level 2

Assets and liabilities 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.

#### Level 3

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

The following 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.

Quoted market price	Using observable inputs	With significant unobservable inputs
------------------------	-------------------------------	---

<b>Values at 31 March 2018</b>	<b>Level 1 £000s</b>	<b>Level 2 £000s</b>	<b>Level 3 £000s</b>	<b>Total £000s</b>
Financial assets at fair value	274,909	679,593	72,164	<b>1,026,666</b>
Financial liabilities at fair value	-	(148)	-	<b>(148)</b>
<b>Net investment assets</b>	<b>274,909</b>	<b>679,445</b>	<b>72,164</b>	<b>1,026,518</b>

	<b>Quoted market price</b>	<b>Using observable inputs</b>	<b>With significant unobservable inputs</b>	
<b>Values at 31 March 2017</b>	<b>Level 1 £000s</b>	<b>Level 2 £000s</b>	<b>Level 3 £000s</b>	<b>Total £000s</b>
Financial assets at fair value	263,147	690,089	69,314	<b>1,022,550</b>
Financial liabilities at fair value	-	(21)	-	<b>(21)</b>
<b>Net investment assets</b>	<b>263,147</b>	<b>690,068</b>	<b>69,314</b>	<b>1,022,529</b>

**NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2**

There has been no movement during 2017/18.

## NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market value 1 April 2017	Transfers in/out of level	Purchases during the year	Sales during the year	Unrealised gains/losses	Realised gains/losses	Market value 31 March 2018
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Property	10,822	-	3,633	-9,034	-2,803	3,270	5,888
Infrastructure	-	-	2,404	-	-226	-	2,178
Venture capital	58,492	-	10,156	-11,244	-8,767	6,630	55,267
Hedge funds*		8,831	-	-	-	-	8,831
	<b>69,314</b>	<b>8,831</b>	<b>16,193</b>	<b>-20,278</b>	<b>-11,796</b>	<b>9,900</b>	<b>72,164</b>

\*An assessment has been made of pooled vehicle hedge funds that have underlying assets that are level 3.

## NOTE 17: FINANCIAL INSTRUMENTS

### NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period

31 March 2017			31 March 2018		
Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
£000s	£000s	£000s	£000s	£000s	£000s
<b>Financial assets</b>			<b>Financial assets</b>		
80,870			Bonds	82,344	
182,276			Equities	192,565	
624,293			Pooled investments	620,173	
65,535			Pooled property	67,887	
69,314			Private equity	63,333	
262			Derivative contracts	364	
	54,406		Cash deposits	-	70,390
	1,846		Other investment balances	-	1,606
	499		Trade debtors	-	606
<b>1,022,550</b>	<b>56,751</b>	<b>-</b>	<b>Total financial assets</b>	<b>1,026,666</b>	<b>72,602</b>
<b>Financial liabilities</b>			<b>Financial liabilities</b>		
(21)			Derivative contracts	(148)	
		(896)	Other investment balances		(476)
		(363)	Trade creditors		(423)
<b>(21)</b>	<b>-</b>	<b>(1,259)</b>	<b>Total financial liabilities</b>	<b>(148)</b>	<b>- (899)</b>
<b>1,022,529</b>	<b>56,751</b>	<b>(1,259)</b>	<b>Grand total</b>	<b>1,026,518</b>	<b>72,602 (899)</b>

**NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

31 March 2017 £000s		31 March 2018 £000s
	<b>Financial assets</b>	
159,018	Designated at fair value through profit & loss	19,305
2,014	Loans & receivables	(787)
<b>161,032</b>	<b>Total</b>	<b>18,518</b>

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

**NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS****Risk and risk management**

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

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**a) Market risk**

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

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

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

The fund manages these risks in two ways:

1. the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

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

**Other price risk**

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for

shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

#### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period (based on assumption made in September 2017 on data provided by the Fund's investment consultant. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-) 2017/18	Potential market movements (+/-) 2016/17
Fixed income government bond	1.4%	4.0%
Inflation-linked government bonds	1.2%	4.0%
Investment grade corporate bonds	2.2%	4.0%
Equities	6.5%	9.0%
Private equity	8.7%	9.0%
Real estate	5.5%	5.0%
Hedge funds	3.7%	4.0%

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value at 31 March 2018 £000	Potential value on increase £000	Potential value on decrease £000
Fixed income government bond	42,686	+598	-598
Inflation-linked government bonds	86,301	+1,036	-1,036
Investment grade corporate bonds	39,658	+872	-872
Equities	502,636	+32,671	-32,671
Private equity	63,333	+5,510	-5,510
Real estate	67,887	+3,734	-3,734
Hedge funds	223,801	+8,281	-8,281
Cash & accruals	72,042	-	-
	<b>1,098,344</b>	<b>+52,702</b>	<b>-52,702</b>

Asset type	Value at 31 March 2017	Potential value on increase	Potential value on decrease
	£000	£000	£000
Fixed income government bond	41,221	+1,649	-1,649
Inflation-linked government bonds	86,530	+3,461	-3,461
Investment grade corporate bonds	39,649	+1,586	-1,586
Equities	480,953	+43,286	-43,286
Private equity	58,492	+5,264	-5,264
Real estate	76,357	+3,818	-3,818
Hedge funds	239,086	+9,563	-9,563
Cash & accruals	56,061	-	-
<b>Total</b>	<b>1,078,349</b>	<b>+68,627</b>	<b>-68,627</b>

### Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

Assets exposed to interest rate risk	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash & cash equivalents	69,956	700	70,656	69,256
Cash balances	435	4	439	431
Bonds	168,644	1,686	170,330	166,958
<b>Total</b>	<b>239,035</b>	<b>2,390</b>	<b>241,425</b>	<b>236,645</b>

Assets exposed to interest rate risk	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash & cash equivalents	54,406	544	54,950	53,862
Cash balances	30	-	30	30
Bonds	167,400	1,674	169,074	165,726
<b>Total</b>	<b>221,836</b>	<b>2,218</b>	<b>224,054</b>	<b>219,618</b>

Income exposed to interest	Amount	Potential	Value on	Value on
----------------------------	--------	-----------	----------	----------



rate risk	receivable as at 31 March 2018 £000	movement on 1% change in interest rates £000	increase £000	decrease £000
Cash & cash equivalents	321	3	324	318
Cash balances	-	-	-	-
Bonds	3,217	32	3,249	3,185
<b>Total</b>	<b>3,538</b>	<b>35</b>	<b>3,573</b>	<b>3,503</b>

Income exposed to interest rate risk	Amount receivable as at 31 March 2017 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	718	7	725	711
Cash balances	-	-	-	-
Bonds	3,569	36	3,605	3,533
<b>Total</b>	<b>4,287</b>	<b>43</b>	<b>4,330</b>	<b>4,244</b>

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

### Currency risk

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

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

### Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 10%.

A 10% fluctuation in the currency is considered reasonable. This analysis assumes that all other variables, in particular interest rates, remain constant.

Assets exposed to currency risk	Assets value as at 31 March 2018 £000	Potential movement £000	Value on increase £000	Value on decrease £000
Canadian dollar	1,079	108	1,187	971
Danish Krone	4,091	409	4,500	3,682
Euro	34,661	3,466	38,127	31,195
Hong Kong	7,993	799	8,792	7,194
Japanese Yen	18,787	1,879	20,666	16,908
Swedish Krona	5	1	6	4
Norwegian Krone	611	61	672	550
Swiss Franc	1,153	115	1,268	1,038
US Dollar	222,875	22,288	245,163	200,587
	<b>291,255</b>	<b>29,126</b>	<b>320,381</b>	<b>262,129</b>

Assets value	Potential	Value on	Value on
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<b>Assets exposed to currency risk</b>	<b>as at 31 March 2017</b>	<b>movement</b>	<b>increase</b>	<b>decrease</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Australian Dollar	979	49	1,028	930
Brazilian Real	2,473	124	2,597	2,349
China Renminbi	2,508	125	2,633	2,383
Danish Krone	713	36	749	677
Euro	53,850	2,693	56,543	51,157
Hong Kong Dollar	1,972	99	2,071	1,873
Indian Rupee	4,467	223	4,690	4,244
Japanese Yen	18,078	904	18,982	17,174
Mexican Peso	665	33	698	632
Norwegian Krone	767	38	805	729
Russian Rouble	840	42	882	798
Singapore Dollar	1,117	56	1,173	1,061
South Korean Won	6,457	323	6,780	6,134
Swedish Krona	1,846	92	1,938	1,754
Swiss Franc	2,210	111	2,321	2,099
Taiwan Dollar	1,939	97	2,036	1,842
US Dollar	225,462	11,272	236,734	214,190
	<b>326,343</b>	<b>16,317</b>	<b>342,660</b>	<b>310,026</b>

#### **b) Credit risk**

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

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

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

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2018 was £70.4m (31 March 2017: £54.4m). This was held with the following institutions:

	Rating	Balances as at 31 March 2018 £000	Balances as at 31 March 2017 £000
<b>Money market funds</b>			
Goldman Sachs money market fund	AAAm	35,161	21,472
Blackrock money market fund	AAAm	35	35
<b>Bank current accounts</b>			
HSBC	AA-	434	30
Cash held by fund managers and custodian	AA-	34,760	32,899
		<b>70,390</b>	<b>54,436</b>

**c) Liquidity risk** Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

**d) Refinancing risk** The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its investment strategy

## **NOTE 19: FUNDING ARRANGEMENTS**

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

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the fund was assessed as 87% funded.

## Financial assumptions

The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates are shown in note 20 in the financial assumption section

<b>Discount rate for periods in service</b>	
Scheduled body funding target	4.5%pa
Orphan body funding target	4.1%pa
<b>Discount rate for periods after leaving service</b>	
Scheduled body funding target	4.5%pa
Orphan body funding target	2.5%pa
Rate of inflationary pay increases	3.5%pa
Rate of increase to pension accounts	2.0%pa
Rate of increases in pensions in payment	2.0%pa

## Demographic assumptions

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P Light mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

<b>Life expectancy from age 65 as valuation date</b>	<b>Males</b>	<b>Females</b>
Current pensioners aged 65 at the valuation date	24.3	26.9
Future pensioners aged 45 at the valuation date	26.3	29.2

## NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Enfield Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

- a) The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £916.3M) covering 87% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- b) The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
  - 17.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 5.1% of pensionable pay (or £7.8M in 2017/18, and increasing by 3.5% p.a. thereafter).
- c) In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 27 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities

arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

- d) The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, was agreed with the Administering Authority reflecting the employers' circumstances.
- e) The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

<b>Discount rate for periods in service</b>	
Scheduled body funding target *	4.5%pa
Orphan body funding target	4.1%pa
<b>Discount rate for periods after leaving service</b>	
Scheduled body funding target*	4.5%pa
Orphan body funding target	2.5%pa
Rate of inflationary pay increases	3.5%pa
Rate of increase to pension accounts	2.0%pa
Rate of increases in pensions in payment	2.0%pa

*\* The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

*In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.*

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P Light mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	<b>Men</b>	<b>Women</b>
Current pensioners aged 65 at the valuation date	24.3	26.9
Future pensioners aged 45 at the valuation date	26.3	29.2

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

- f) The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- g) The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 27 March 2017. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- h) Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material. In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is

anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes.

- i) This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, London Borough of Enfield, the Administering Authority of the Fund, in respect of this Statement.

- j) The actuarial valuation report as at 31 March 2016 is available from the Fund's website at the following address:

<https://new.enfield.gov.uk/pensions/wp-content/uploads/2017/10/London-Borough-of-Enfield-Pension-Fund-Actuarial-valuation-as-at-31-March-2016-.pdf>

#### NOTE 21: CURRENT ASSETS

31 March 2017 £000s		31 March 2018 £000s
	<b>Debtors</b>	
84	Contributions due - employees	120
264	Contributions due - employers	382
51	Sundry debtors	145
70	Prepayments	-
<b>469</b>		<b>647</b>
	<b>Cash balances</b>	
30	Current account	434
<b>499</b>		<b>1,081</b>

#### Analysis of debtors

31 March 2017 £000s		31 March 2018 £000s
-	Central government bodies	-
121	Local authorities	145
348	Public corporations	502
-	Other entities & individuals	-
<b>469</b>		<b>647</b>

## NOTE 22: CURRENT LIABILITIES

31 March 2017 £000s		31 March 2018 £000s
(325)	Sundry creditors	-
(38)	Benefits payable	(423)
<b>(363)</b>		<b>(423)</b>

### Analysis of creditors

31 March 2017 £000s		31 March 2018 £000s
-	Central government bodies	-
(325)	Other local authorities	(423)
-	Public corporations	-
(38)	Other entities & individuals	-
<b>(363)</b>		<b>(423)</b>

## NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Fund by the AVC provider are disclosed within transfers-in.

The current provider is Prudential. Funds held are summarised below:

	Opening Balance at 1 <sup>st</sup> April 17	Contributions & Transfers	Sums Paid Out	Investment Return	Closing Balance at 31 March 2018
	£000s	£000s	£000s	£000s	£000s
With profits cash accumulation	1,163	256	-181	43	1,281
Cash statement	-	34	-21	-	13
Deposit fund statement	807	434	-300	3	944
Discretionary fund	627	164	-171	19	639
	<b>2,597</b>	<b>888</b>	<b>-673</b>	<b>65</b>	<b>2,877</b>

## NOTE 24: AGENCY SERVICES

The Enfield Pension Fund does not use any agency services to administer the pension service.

## NOTE 25: RELATED PARTY TRANSACTIONS

### London Borough of Enfield

The Enfield Pension Fund is administered by the London Borough of Enfield. Consequently there is a strong relationship between the Council and the Pension fund.

During the reporting period, the Council incurred costs of £775k (2016/17: £673k) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The Council is also the single largest employer of members of the pension fund and contributed £36.5m to the fund in 2017/18 (2016/17: £35.1m). At year end the London Borough of Enfield owed the Pension Fund £44k (-£215K in 2016/17).

Scheduled and admitted bodies owed the Fund £501k (£400k in 2016/17) from employer & employee contributions. All payments were received by 19<sup>th</sup> April 2018.

### **Governance**

The Enfield Council has decided that Councillors should not be allowed to join the LGPS scheme and receive pension benefits from the Fund. Councillor Taylor, a member of the Pension Policy & Investment Committee, is also a Governor of Capel Manor, a scheduled body. Councillor Simon's wife is a pensioner within the Fund and is a trustee with the ELT academy at scheduled body.

No allowances are paid to Members directly in respect of the Pension Policy & Investment Committee. The Chair of the Pension Policy & Investment Committee however, is paid a special responsibility allowance.

During the year, no member or Council Officer with direct responsibility for pension fund issues had undertaken any declarable material transactions with the Pension Fund. Each member of the Pension Committee is required to declare their interests at meetings.

### **NOTE 25A: KEY MANAGEMENT PERSONNEL**

The key management personnel of the fund are the Pension manager, Head of Finance and the Head of Exchequer Services. As required by paragraph 3.9.4.2 of the CIPFA code of practice 2017/18 the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year.

31 March 2017 £000s		31 March 2018 £000s
62	Short-term benefits	119
192	Post-employment benefits	41
<b>254</b>		<b>160</b>

### **NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

Outstanding capital commitments (investments) at 31 March 2018 totalled £68.5m (31 March 2017: £77.8m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

### **NOTE 27: CONTINGENT ASSETS**

There were no contingent assets recognised during the year

### **NOTE 28: IMPAIRMENT LOSSES**

There were no impairments recognised during the year.



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## Section 3: Statutory Statements

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### Funding Strategy Statement (FSS)

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#### 1. Introduction

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

It has been reviewed by the Administering Authority in collaboration with the Fund’s Actuary, Aon Hewitt. This revised version replaces the previous FSS and is effective from 31 March 2017.

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#### 1.1 Regulatory Framework

Scheme 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 currently 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.

This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the ‘LGPS Regulations’). The Statement describes London Borough of Enfield’s strategy, in its capacity as Administering Authority, for the funding of the London Borough of Enfield Pension Fund.

As required by Regulation 58(4)(a), the Statement has been prepared having regard to guidance published by CIPFA in September 2016.

In accordance with Regulation 58(3), all employers participating within the London Borough of Enfield Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund’s Statement of Investment Principles / Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

#### 1.2 Review of FSS

The FSS is reviewed in detail at least every three years ahead of the triennial valuation being completed. The next anticipated full review will fall due to be completed by 31 March 2020. Annex 1 is updated more frequently to reflect any changes to employers.

The Administering Authority will monitor the funding position of the Fund on a regular basis between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Paul Reddaway in the first instance at [paul.reddaway@enfield.gov.uk](mailto:paul.reddaway@enfield.gov.uk) or on 020 8379 4730.

## 2. Purpose

### 2.1 Purpose of FSS

The Department of Communities & Local Government (DCLG) stated that the purpose of the FSS is to set out the processes by which the Administering Authority:

- *“establishes a **clear and transparent fund-specific funding strategy**, that will identify how employers’ pension liabilities are best met going forward;*
- *supports desirability of maintaining as nearly constant a **primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013;***
- *ensures that the regulatory requirements to set contributions so as to ensure the **solvency and long-term cost efficiency** of the Fund are met;*
- *takes a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence of the funding basis.

### 2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfers in and investment income; and
- pays scheme benefits, transfers out, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations.

Three objectives of a funded scheme are:

- to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative;
- not to unnecessarily restrain the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk; and
- to help employers recognise and manage pension liabilities as they accrue, with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.

Therefore it is the aim of the Fund to enable employer contribution levels to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers alike.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex 1.

## **2.3 Aims of the Funding Policy**

The objectives of the Fund's funding policy include the following:

- to comply with regulation 62 of the LGPS Regulations, and specifically:
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to ensure the long-term solvency and long term cost efficiency of the Fund as a whole and the solvency of each of the sub-funds notionally allocated to individual employers, which should be assessed in light of the risk profile of the Fund and Employers;
- to minimise the degree of short-term change in the level of employers' contributions where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employees, to the extent that this is practical and cost effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

### 3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*” or the primary contribution rate; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s funding target, the “*past service adjustment*”. If there is a surplus there may be a contribution reduction. If there is a deficit, there may be a contribution addition, with the surplus or deficit spread over an appropriate period. This is known as the secondary contribution.

The Fund’s Actuary is required by the regulations to report the *Primary Contribution Rate*<sup>1</sup>, for all employers collectively at each triennial valuation. There is no universally agreed interpretation of the composition of the Primary Rate across Local Government Pension Scheme Funds. For the purpose of publishing a Primary Contribution Rate, the aggregate future service rate is used.

The Fund’s Actuary is also required to adjust the Primary Contribution Rate for circumstances which are deemed “peculiar” to an individual employer<sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay, and this is referred to as the Secondary employer contribution requirement.

In effect, the *Primary Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer, or pool, together with individual past service adjustments according to employer (or pool) -specific spreading and phasing periods.

Any costs of early retirements, other than on the grounds of ill-health, must be paid as lump sum payments at the time of the employer’s decision in addition to

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<sup>1</sup> See Regulation 62(5)

<sup>2</sup> See Regulation 62(7)

the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss their intentions with the Administering Authority before making any additional capital payments.

### **3.2 Funding Principle**

The Fund is financed on the principle that it seeks to provide funds sufficient to enable payment of 100% of the benefits promised.

### **3.3 Funding Targets**

#### **Risk Based Approach**

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

#### **Solvency Target and Funding Target**

#### **Solvency and Funding Success**

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term, using appropriate actuarial assumptions.. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, appropriate actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded within a reasonable timeframe. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance (80%) is defined as the Probability of Maintaining Solvency.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Probability of Maintaining Solvency will typically be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

### **Probability of Funding Success**

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers, and asset-liability modelling carried out by the Fund Actuary.

Consistent with the aim of enabling employers' total contribution levels to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that create an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

### **Funding Target**

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is

instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

The discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is just below a 70% chance that the Fund would reach or exceed its Solvency Target after 25 years.

Consistent with the aim of enabling employers' contribution levels to be kept as nearly constant as possible:

- Primary contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

### **Application to different types of body**

Some comments on the principles used to derive the Solvency and Funding Target for different bodies in the Fund are set out below.

### **Scheduled Bodies and certain other bodies of sound covenant**

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and for certain other bodies which are long term in nature e.g. Admission Bodies with a subsumption commitment from such Scheduled Bodies.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such

bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

### **Admission Bodies and certain other bodies whose participation is limited**

For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or for the employer to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

## **3.4 Full funding**

The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit.

## **3.5 Ongoing Funding Basis**

### **Demographic assumptions**

The demographic assumptions are intended to be best estimates of future experience in the Fund having regard to past experience in the Fund as advised by the Fund Actuary.

It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. The Administering Authority, in discussions with the Actuary, keeps the longevity experience of the Fund members under review. Contributions are likely to increase in future if longevity



exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profile of employers.

### **Financial assumptions**

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that the assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

The problem is that these types of investment are expected to provide higher yields because they are less predictable – the higher yield being the price of that unpredictability. It is therefore imprudent to take advance credit for too much of these extra returns in advance of them actually materialising.

Higher employers' contribution rates would be expected to result if no advance credit was taken. The Administering Authority and the Fund Actuary have therefore agreed that it is sufficiently prudent and consistent with the Regulations to take advance credit for some of the anticipated extra returns, but not all.

## **3.6 Primary or Future Service Contribution Rates**

The Primary (future service) element of the employer contribution requirement is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service.

The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted.

Employers should note that only certain employers have the power not to automatically admit all eligible new staff to the Fund, e.g. certain Admission Bodies depending on the terms of their Admission Agreements and employment contracts.

## **3.7 Adjustments for Individual Employers**

### **Notional sub-funds**

In order to establish contribution levels for individual employers, or groups of employers, it is convenient to notionally subdivide the Fund as a whole between the employers, or group of employers where grouping operates, as if each employer had its own notional sub-fund within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or group of assets by any individual employer or group of employers.

### **Roll-forward of notional sub-funds**

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The Fund Actuary will assume an estimated cashflow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains

and losses methods are less precise than use of cashflows and involve calculation of gains and losses relative to the surplus or deficit exhibited at the previous valuation. Having established an expected surplus or deficit at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

- Analysis of gains and losses methods will also be used where the results of the cashflow approach appears to give unreliable results, perhaps because of unknown internal transfers.

## **Fund maturity**

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay, the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate over the longer term. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate as used in the calculations, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

## **Attribution of investment income**

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

### **3.8 Stability of Employer Contributions**

#### **3.8.1 Recovery and Trajectory Periods**

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Where a valuation reveals that the employer or employer group's sub-fund is in surplus or deficiency against the Funding Target, employers' contribution rates will be adjusted to target restoration of full funding over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

In the event of a surplus the Administering Authority may at its discretion opt to retain that surplus in the employer's sub-fund (i.e. base that employer's contribution on the primary contribution rate alone without any deduction to reflect surplus) or may determine the deduction for surplus so as to target a funding level of higher than 100% at the end of the Recovery Period. At the 2016 valuation the policy adopted by the Administering Authority for employers in surplus is to target a funding level of 105% at the end of the Recovery Period.

The Trajectory Period and the Recovery Period are not necessarily equal. The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery and Trajectory Periods and has agreed with the Fund Actuary a limit of 30 years for both, for employers which are assessed by the Administering Authority as being long term secure employers.

The Administering Authority's policy is normally to set Recovery Periods for each employer which are as short as possible within this framework, whilst attempting to maintain stability of contribution levels where possible. An exception applies for academies – see subsection 3.9.7. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

### **3.8.2 *Grouped contributions***

In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped, which other employers it

is grouped with, and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate on an ungrouped basis. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Best Value Admission Bodies continue to be ineligible for grouping.

Where employers are grouped for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

### **3.8.3 *Stepping***

Again, consistent with the desirability of keeping employer contribution levels as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three annual steps will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

### **3.8.4 *Long-term cost efficiency***

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes where applicable;
- The investment return required to achieve full funding over the recovery period; and

- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund's investment strategy.

### **3.8.5 Inter-valuation funding calculations**

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

## **3.9 Special Circumstances related to certain employers**

- 3.9.1 **Interim reviews** Regulation 64(4) of the LGPS Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to cease at some point in the future, and for the Fund Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to Admission Bodies is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For Transferee Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally

review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

### **3.9.2 Guarantors**

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

### **3.9.3 Bonds and other securitisation**

Paragraph 6 of Schedule 2 Part 3 of the LGPS Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the Administering Authority (and Scheme Employer in the case of a Transferee Admission Body admitted under paragraph 1 (d)(i) of that part of the Regulations), an assessment taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party.



Where for any reason it is not desirable for an Admission Body to enter into an indemnity bond, the Admission Body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of that admission body.

The Administering Authority's approach in this area is as follows:

- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the LGPS Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond from the Admission Body, if any. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor confirms their agreement to the level of bond cover proposed, the Administering Authority will be happy to supply a separate document (provided by the Fund Actuary) to the Admission Body setting out the level of cover that the Administering Authority and Scheme Employer/Guarantor consider suitable. Again, this should not be construed as advice relevant to the Admission Body on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.
- In the case of Transferee Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations or Transferee Admission Bodies admitted under that Part of the Regulations where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant and Community Admission Bodies where there is no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. As such, the Administering Authority will obtain some "standard" calculations from the Fund Actuary to assist them to form a view on what level of bond would be satisfactory. The Administering Authority will be pleased to supply this calculation to the Scheme Employer or Guarantor, where relevant, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor, where relevant, confirms their agreement to the

level of bond proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/Guarantor, where relevant, consider suitable, but this should not be constructed as advice relevant to the Admission Body on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer or Guarantor, where relevant, to jointly review the required cover with it regularly, at least once a year.

#### **3.9.4 Subsumed liabilities**

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

#### **3.9.5 Orphan liabilities**

Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the notional assets of the other employers participating in the Fund.

#### **3.9.6 Cessation of participation**

Where an employer ceases participation, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation (which will take into account other circumstances peculiar to that employer). In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

### **3.9.7 Academies**

Academies are scheduled bodies and, as such, have an automatic right to join the LGPS. Guidance has been issued by the Secretaries of State for Education and Communities and Local Government but in practice differing approaches are being taken when setting the funding strategy for academies.

In future for a new academy conversion while the London Borough of Enfield's sub-fund is in deficit, the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Enfield Group sub-fund retaining liability for former employees;
- Allocate a share of assets from the London Borough of Enfield's sub-fund to the new academy's sub-fund based on what is known as a "prioritised share of fund" approach. This means that the academy will inherit an appropriate share of the deficit attributable at conversion to the London Borough of Enfield's former employees as well as the academy's own employees.
- Set contribution levels in line with the London Borough of Enfield's contribution rate, provided this leads to a Recovery Period for the Academy which is no longer than the Recovery Period for the London Borough of Enfield. In the latter case the Recovery Period would be set to coincide with the Recovery Period for the London Borough of Enfield and a contribution level determined accordingly.

The Administering Authority will review the above approach if the London Borough of Enfield's sub-fund is found to be in surplus at a subsequent valuation.

For academies which have already converted and whose sub-fund at a subsequent valuation is in deficit (where the London Borough of Enfield's sub-fund is also in deficit at that valuation), the contribution levels for the academy will normally be set in line with the London Borough of Enfield's rate provided this leads to a Recovery Period not longer than the relevant period for the London Borough of Enfield (in which case the Recovery Period will be set to coincide with the Recovery Period for the London Borough of Enfield).

### **3.9.8 Admission Bodies with 10 members or fewer**

In the case of an Admission Body which has 10 members or fewer (active members, deferred pensioners and pensioners) at a triennial valuation date or on its admission to the Fund between valuations, the Administering Authority may at its sole discretion permit/require the employer to pay the same long-term total % of pay contribution rate as applies for the London Borough of Enfield.

The above approach (which can involve higher/lower contribution levels being required than might be the case if the contributions were set on an employer-specific basis) is adopted in the interests of simple and cost-effective administration, having weighed up the advantages of the approach against the associated risks. The Administering Authority will keep the approach under review at future valuations.

## **3.10 Early Retirement Costs**

### **3.10.1 Non Ill-Health retirements**

The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires early (see below) with no reduction to their benefit, or receives an enhanced pension on retirement. The current costs of these are calculated by reference to formulae and factors provided by the Actuary.

In broad terms it is assumed that members' benefits on retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age, other than on ill-health grounds, are deemed to have retired early. The additional costs of premature retirement are calculated by reference to this age.

## **4. Links to investment strategy**

Funding and investment strategy are inextricably linked. The investment

strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

#### **4.1 Investment strategy**

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles / Investment Strategy Statement.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property.

The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The lowest risk strategy is not necessarily likely to be the most cost-effective strategy in the long-term.

The Fund's benchmark includes a significant holding in equities and other growth assets, in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently operate different investment strategies for different employers.

#### **4.2 Consistency with funding bases**

The Administering Authority recognises that future experience and investment returns cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target, the more likely that outcome will sit towards the favourable end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the Probability of Funding Success is less than 65% the Administering Authority will

not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying low risk position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

#### **4.3 Balance between risk and reward**

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

Enabling employers to follow alternative investment strategies would require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies would need to be assessed against the costs.

#### **4.4 Intervaluation Monitoring of Funding Position**

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of regular monitoring.

### **5. Key Risks & Controls**

#### **5.1 Types of Risk**

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks most likely to impact upon the funding strategy are summarised below under the following headings:

- Investment
- Employer
- Liquidity and maturity
- Liability
- Regulatory and compliance;
- Recovery period; and
- Stepping.

## 5.2 Investment Risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Commission regular funding updates for the Fund as a whole, on an approximate basis. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations.</i>
Systematic risk with the possibility of interlinked and simultaneous financial market volatility	<i>Regular review of investments and appropriateness of asset classes</i>
Insufficient funds to meet liabilities as they fall due	<i>Regular review of cash flows with 3 year forecast based on best cases estimates</i>
Inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon	<i>Commission regular funding updates for the Fund as a whole, on an approximate basis. Comparison with other LGPS . Use of GAD section 13 report</i>
Counterparty failure	<i>Regular review of managers to ensure they are meeting investment benchmarks</i>
Inappropriate long-term investment strategy	<i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<i>Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.</i>
Active investment manager under-performance relative to benchmark	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i>
Pay and price inflation significantly more than anticipated	<i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above,</i>



	<p><i>gives early warning.</i></p> <p><i>Some investment in index-linked bonds also helps to mitigate this risk.</i></p> <p><i>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i></p>
Effect of possible increase in employers' contribution rate on service delivery and admission/scheduled bodies	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p>

### 5.3 Employer Risk

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
These risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.	<p><i>The Administering Authority will put in place a funding strategy statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admitted) and other pension fund stakeholders.</i></p> <p><i>The Administering Authority will also consider building up a knowledge base on their admitted bodies and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and use this information to inform the Funding Strategy Statement.</i></p>



## 5.4 Liquidity and maturity Risk

Risk	Summary of Control Mechanisms
<p>The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfer of responsibility between different public sector bodies; scheme changes which might lead to increased opt-outs; the implications of spending cuts – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.</p>	<p><i>To mitigate this risk the Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations and deficit contributions may be expressed in monetary amounts (see Annex 1).</i></p> <p><i>In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes. It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements to avoid failing to commission the Fund Actuary to carry out an exit valuation for a departing Admission Body and losing the opportunity to call in a debt.</i></p>
<p>There is also a risk of employers ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p><i>The risk is mitigated by seeking a funding guarantee from another scheme employer, or external body, wherever possible and alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. The Administering Authority also vets prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from the extra cost of early retirements on redundancy if the employer failed.</i></p>

## 5.5 Liability Risk

Risk	Summary of Control Mechanisms
<p>The main risks include inflation, life expectancy and other demographic changes, interest rate and wage and salary inflation which will all impact on future liabilities.</p>	<p><i>The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.</i></p> <p><i>If significant liability changes become apparent between valuations, the Administering Authority will notify all employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admission Bodies.</i></p>

## 5.6 Regulatory and compliance risk

Risk	Summary of Control Mechanisms
<p>The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.</p>	<p><i>The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.</i></p>

## 5.7 Recovery Period

Risk	Summary of Control Mechanisms
Permitting surpluses or deficits to be eliminated over a Recovery Period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements, and/ or that the objective of long-term cost efficiency is not met.	<i>The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.</i>

## 5.8 Stepping

Risk	Summary of Control Mechanisms
Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process, and/or that the objective of long-term cost efficiency is not met.	<i>The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.</i>

## **Annex 1 – Responsibilities of Key Parties**

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The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are set out below.

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

- operate the pension fund
- collect investment income and other amounts due to the Fund as set out in the LGPS Regulations including employer and employee contributions;
- pay from the Fund the relevant entitlements as set out in the relevant Regulations;
- invest surplus monies in accordance with the Investment Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- take measures as set out in the regulations to safeguard the Fund against consequences of employer default;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain a FSS and a Statement of Investment Principles (SIP) / Investment Strategy Statement (ISS), both after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/ISS as appropriate;
- effectively manage any potential conflicts of interest arising from its dual role both as Administering Authority and as Scheme Employer; and
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.

### ***The Individual Employers should:***

- deduct contributions from employees' pay correctly;
- pay all ongoing contributions, including their own as determined by the Fund Actuary, promptly by the due date;

- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- pay any exit payments as required in the event of their ceasing participation in the Fund; and
- note and if desired respond to any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles / Investment Strategy Statement or other policies.

***The Fund Actuary should prepare advice and calculations and provide advice on:***

- funding strategy and the preparation of the Funding Strategy Statement ;
- will prepare actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations;
- bulk transfers, individual benefit-related matters such as pension strain costs, compensatory added years costs, etc;
- valuations of exiting employers, i.e. on the cessation of admission agreements or when an employer ceases to employ active members; and
- bonds and other forms of security for the Administering Authority against the financial effect on the Fund and of the employer's default.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Administration Regulations.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.



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## **Section 3: Statutory Statements**

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### **INVESTMENT STRATEGY STATEMENT**

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#### **1. Introduction**

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Enfield Pension Fund adopted by Enfield Council (the Council) in its capacity as Administering Authority of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pension Policy & Investment Committee (“the Committee”) “all the powers and duties of the Council in relation to its functions as Administering Authority except for those matters delegated to other committees of the Council or to an officer.”

1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers and the Pension Board. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

#### **2. Statutory background**

2.1 Regulation 7(1) of the Regulations requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

#### **3. Directions by the Secretary of State**

3.1 Regulation 8 of the Regulations enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department of Communities and Local Government.

3.2 The Secretary of State’s power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

#### **4. Advisers**

4.1 Regulation 7 of the Regulations requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Pension Policy & Investment Committee and Council officers such advice is taken from:

- Aon Hewitt Ltd – investment consultancy
- Independent consultant member with Fund management experience

- .Actuarial advice, which can have implications for the investment strategy, is provided by Aon Hewitt Ltd.

## **5. Objective of the Fund**

5.1 The objective of the Fund is to provide pension and lump sum benefits for scheme members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

5.2 The target investment strategy is designed to have an expected return in excess of the discount rate while achieving a level of risk the Committee considers to be appropriate. The aim is to ensure contribution rates are set at a level to attain 100% funding within the timescale agreed with the Fund Actuary and set out in the Funding Strategy Statement.

## **6 Investment beliefs**

6.1 The Fund's fundamental investment beliefs which inform its strategy and guide its decision making are:

- The Fund has a paramount duty to seek to obtain the best possible return on its investments taking into account a properly considered level of risk
- A well-governed and well-managed pension fund will be rewarded by good investment performance in the long term
- Strategic asset allocation is the most significant factor in investment returns and risk; risk is only taken when the Fund believes a commensurate long term reward will be realised
- Asset allocation structure should be strongly influenced by the quantum and nature of the Fund's liabilities and the Funding Strategy Statement
- Since the lifetime of the liabilities is very long the time horizon of the investment strategy should be similarly long term
- Risk of underperformance by active equity managers is mitigated by allocating a significant portion of the Fund's assets to other asset classes
- Long-term financial performance of companies in which the Fund invests is likely to be enhanced if they follow good practice in their environmental, social and governance policies
- Costs need to be properly managed and transparent

## **7 The suitability of particular investments and types of investments**

7.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

7.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility, risk and the nature of the Fund's liabilities.

7.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members) and the liabilities arising therefrom, together with



the level of disclosed surplus or deficit (relative to the funding bases used) and the Fund's projected cash flow requirements.

7.4 Following the triennial valuation in 2013 the Panel, as advised by Aon Hewitt, considered its investment strategy alongside its funding objective and agreed the following structure:

<b>Asset Class</b>	<b>Management Approach</b>	<b>Target Weight %</b>	<b>Control Range %</b>
<b>Equities (including Private Equity)</b>	<b>Active/Passive</b>	<b>40</b>	<b>± 10%</b>
<b>Bonds</b>	<b>Active/Passive</b>	<b>29</b>	<b>± 10%</b>
<b>Commercial Property</b>	<b>Active</b>	<b>10</b>	<b>± 5%</b>
<b>Hedge Funds</b>	<b>Active</b>	<b>15</b>	<b>± 5%</b>
<b>Infrastructure</b>	<b>Active</b>	<b>6</b>	<b>± 3%</b>
<b>Overall Fund</b>		<b>100</b>	

7.5 The most significant rationale of the structure is to invest the majority of the Fund assets in “growth assets” i.e. those expected to generate ‘excess’ returns over the long term. The structure also includes an allocation to “matching” assets, such as index bonds, gilts and corporate bonds. The investments in property and infrastructure provide diversification whilst the hedge fund protects the Fund on the downside by targeting absolute returns. This strategy is aimed to provide in excess of the discount rate used to value liabilities in the triennial valuation.

7.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

7.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from within the target range. If such a deviation occurs, a rebalancing exercise is carried out to ensure that the allocation remains within the range set.

7.8 It is intended that the Fund's investment strategy will be reviewed at least every three years, following actuarial valuations of the Fund. The investment strategy review will typically involve the Panel, in conjunction with its advisers, undertaking an in-depth Asset Liability Modelling exercise to understand the risks within the Fund's current investment strategy and establish other potentially suitable investment strategies for the Fund in the future. This approach was adopted following the 2013 triennial valuation.

7.9 The results of the 2016 valuation showed a 87% funding level which has since improved to 96%. The intention is for an Asset Liability Modelling exercise to be undertaken and the strategy reviewed over the final quarter of 2017. Investment Strategy Statement will subsequently be updated to reflect the outcome of this strategy review and to include the expected return and volatility of the investment strategy.

## **8 Asset classes**

8.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest, index linked and corporate bonds, hedge funds, infrastructure and property either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

8.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007"

8.3 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. property. The majority of the Fund's assets are highly liquid i.e. can be readily converted into cash, and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. However, as a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8.4 For most of its investments the Council has delegated to the fund managers responsibility for the selection, retention and realisation of assets. The Fund retains sufficient cash to meet its liquidity requirements, and cash balances are invested in appropriate interest earning investments pending their use. The investment of these cash balances is managed internally.

## **9 Fund Managers**

9.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

9.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management.

9.3 The managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

9.4 The investment management agreement in place for each fund manager, sets out, where relevant, the benchmark and performance targets. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds and property, in the UK and overseas markets.

9.5 As at the date of this ISS the details of the managers appointed by the Committee are set out in Appendix 1

9.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through pooled funds, the funds appoint their own custodians.

9.7 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisory member. In addition, the Committee requires all managers to attend a separate manager day meeting twice a year, and officers meet each of the managers in the “alternate quarters” (i.e. when there is no “manager day” meeting) to review and scrutinise performance.

9.8 The Committee also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration.

## **10 Stock lending**

10.1 The Panel's current policy is not to engage in stock lending.

## **11 Approach to risk**

11.1 The Committee recognise a number of risks involved in the investment of the assets of the Fund.

### **11.2 Funding risks**

i) As described by the investment objectives, the Fund invests in asset classes which are expected to demonstrate volatility when compared to the development of the Fund's liabilities. This policy is adopted in anticipation of achieving returns above those assumed in the actuarial valuation. The Committee considered a number of investment strategies with varying degrees of risk relative to the Fund's liabilities. In determining an appropriate level of risk (or expected volatility) the Committee considered:

- a) The strength of the Employer's covenant and attitude to risk.
- b) Contribution rate volatility.
- c) Likely fluctuations in funding level.
- d) The required return to restore the funding level over a set period in conjunction with the funding policy.
- e) The tolerance to a deterioration in the funding level as a result of taking risk.
- f) The term and nature of the Fund's liabilities.

ii) To monitor the volatility of the Fund's funding level and the success or otherwise of the investment decisions the Committee monitors on a regular basis:-

- a) The return on the assets, the benchmark and the liabilities.
- b) Estimated funding level and how it compares to the expected or targeted funding level.
- c) The probability of the Fund achieving its long-term funding objectives.

### **11.3 Manager risks**

The Committee monitors the managers' performance on a quarterly basis, and compares the investment returns with the appropriate performance objectives to ensure continuing acceptable performance. The Committee also examines the risk being run

by each of the investment managers. In particular, the performance reporting reviewed by the Committee considers the achieved variation in returns between each manager's portfolio and its benchmark and compares the level of active manager risk and excess return of each manager against a universe of similar mandates and the benchmark.

#### 11.4 Liquidity risk

The Committee have adopted a strategy that makes due allowance of the need for liquidity of the Fund's assets.

#### 11.5 Concentration risk

The Committee have adopted a strategy that ensures that the risk of an adverse influence on investment values from the poor performance of a small number of individual investments is reduced by diversification of the assets:

- by asset class (Global Equities, Diversified Growth Funds, Fixed Interest and Property)
- by region (UK, overseas)
- within asset classes, by the use of a range of products with different risk/return profiles

#### 11.6 Market risk

The failure of investment markets to achieve the rate of investment return assumed by the Panel. This risk is considered by the Committee and its advisors when setting the Fund's investment strategy and on an ongoing basis.

#### 11.7 Operational risk

The risk of fraud, poor advice or acts of negligence. The Committee has sought to minimise such risks by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.

### 12 Approach to pooling

12.1 The Fund is a participating member in the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

12.2 The Fund has already transitioned assets into the London CIV with a value of £52 million or 4.7% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund. The Fund also holds passive funds held with Blackrock life Funds which cannot be held in the CIV which the CIV has negotiated lower fees for CIV members this amounts to £236 million or 21.51% of the assets. Other assets will be transferred into the LCIV once appropriate funds are available.

12.3 Illiquid assets in infrastructure, private equity and property will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund.

### **13 Social, environmental and governance considerations**

13.1 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

13.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

13.3 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material Economic Social Governance (ESG) factors within its investment analysis and decision making.

13.4 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

13.5 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

13.6 The Fund, in preparing and reviewing its Investment Strategy Statement, will consult with interested stakeholders including, but not limited to, Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

### **14 Exercise of the rights (including voting rights) attaching to investments**

14.1 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

14.2 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

14.3 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

## **15 Stewardship**

15.1 The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the Principles of the Stewardship Code.

15.2 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

15.3 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests. In addition, the Fund gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund's interest.

## **16 Compliance with “Myners” Principles**

16.1 In Appendix 2 are set out the details of the extent to which the Fund complies with the six updated “Myners” principles set out in the CIPFA publication “Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”.

**Fund Manager Structure (This prescribed in the ISS regulations)**

The fund manager structure and investment objectives for each fund manager (“mandates”) are as follows:

<b>Fund manager</b>	<b>Investment objectives</b>
<b>Equities &amp; Private Equity</b>	
<b>BlackRock Advisers UK Ltd</b> (Passively Managed Global Equity, UK Equity and emerging Portfolios)	<i>To perform in line with the prescribed Equity and Bond indices.</i>
<b>MFS</b> (Actively Managed Global Equity Portfolio)	<i>To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.</i>
<b>Trilogy Global Advisors</b> (Actively Managed Global Equity Portfolio)	<i>To outperform the MSCI World Index by 4% pa gross of fees over rolling three-year periods.</i>
<b>London CIV – Baillie Gifford</b> (Actively Managed Global Equity Portfolio)	<i>To outperform the MSCI World Index by 2% pa gross of fees over rolling three-year periods.</i>
<b>Adam Street Partners</b> (Private Equity Portfolio)	<i>To outperform the MSCI World Index.</i>
<b>Bonds</b>	
<b>BlackRock Advisers UK Ltd</b> (Passively Managed Bond & Index linked Portfolios)	<i>To perform in line with the prescribed Bond indices.</i>
<b>Insight Bond Fund</b> Absolute bond return	<i>3 month LIBOR +4% per annum over rolling three period.</i>
<b>M&amp;G</b> Inflation Opportunities Fund	<i>To outperform the Retail Price Index by 2.5% per annum on a rolling five year basis.</i>
<b>Western Asset Management</b> (Actively Managed corporate Bond Portfolio)	<i>To outperform the benchmark (composed of a mixture of bond indices) by 0.75% pa gross of fees over rolling three-year periods.</i>
<b>Property</b>	
<b>Brockton</b> Opportunistic property	<i>15% net IRR and 1.5xnet multiple</i>
<b>BlackRock Advisers UK Ltd</b> (Actively UK Property Fund)Equity and emerging Portfolios)	<i>To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods..</i>
<b>Legal &amp; General Investment</b> Management Ltd (Active UK Property Fund)	<i>To outperform the BNY Mellon CAPS pooled property fund survey median over three and five year periods.</i>

<b>RREEF Management</b> (Active UK Property Fund)	<i>To achieve a return of at least 4.5% per annum, net of all fees and costs, above the UK Retail Prices Index over 5 to 10 years.</i>
<b>Infrastructure</b>	
<b>Antin</b>	<i>15% Gross IRR with a gross target of 5% p.a.</i>
<b>International Public Partnerships Limited</b> (Private Finance Initiative)	<i>To achieve a return of at least 4.5% per annum.</i>
<b>Hedge Funds</b>	
<b>CFM-Stratus</b> Muti asset strategy	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Davidson Kempner</b> (Events driven)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Gruss</b> (Events driven)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>
<b>Lansdowne Partners</b> (Long/Short UK Equities Hedge Fund)	<i>To generate an absolute return. The benchmark is the FTSE All Share index</i>
<b>York Capital Management</b> (Distressed Debt Fund)	<i>To provide a positive absolute return of 14%-16% per annum. (There is no explicit benchmark against which performance is judged.)</i>



**Compliance with “Myners” Principles”**

**Principle 1: Effective Decision Making**

Compliant: The Borough of Enfield has an appointed Pension Fund Committee consisting of elected members and there is a clearly defined decision-making process. The Committee is supported by named offices on investment and administration issues. The Committee has appointed an independent advisory member with experience in investment advice. It also employs an investment consultant and actuary. The Local Pension Board, made up of Fund employers and employees has an oversight and scrutiny body.

Training on investment issues is provided by the Investment Managers at the regular meetings of the Committee. Members of the Committee are also encouraged to attend training sessions offered from time to time by other external bodies.

**Principle 2: Clear Objectives**

Compliant: The overall objective for the Fund is to keep the employers’ contribution rates as low and stable as possible while achieving full funding on an ongoing basis. The Committee had as its starting point the latest actuarial valuation when reviewing the investment arrangements to adopt the risk budget and set the investment strategy. The independent investment adviser gave comprehensive training and advice throughout this exercise. The Investment Managers have been advised of the strategy and have clearly defined investment performance targets. The objectives will be reconsidered following the next actuarial valuation and investment strategy review to ensure they remain appropriate.

**Principle 3: Risk and Liabilities**

Compliant: The Committee has given due consideration to risks and liabilities as explained in the ‘Risk’ section above. A strategic asset allocation benchmark has been set for the Fund. The Fund also subscribes to the Pensions & Investment research consultants (PIRC) Local Authority Universe as a broad comparison with other local authority schemes.

**Principle 4: Performance Assessment**

Compliant: The returns of the Investment Managers are measured independently against their performance objectives and they are required to report on investment performance each quarter.

**Principle 5: Responsible Ownership**

Compliant: The Panel’s policy on Sustainability is detailed in an earlier section of this document. The Investment Managers have been asked to adopt the Institutional Shareholders’ Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents, and to report to the Committee on related activity at the regular meetings.

**Principle 6: Transparency and Reporting**

Compliant: Documents relating to the management of the Pension Fund investments are published on the Council’s website – these include the Investment Strategy Statement, the Annual Report and Accounts, the Funding Strategy Statement and the Governance Compliance Statement. The ‘Pensions Charter’ is published on the website and this details the information which is provided to scheme members.

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## **Section 3: Statutory Statements**

### **Governance Policy Statement**

This statement is prepared in accordance with the Local Government Pension Scheme (Amendment) (No.2) Regulations 2005, which require administering authorities to prepare, maintain and publish a statement on its governance policy.

#### **Legal Framework**

The London Borough of Enfield is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status their employees may also be able to participate in the LGPS

The London Borough of Enfield Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Enfield ('The Council'). The Fund was established to provide benefits for employees that include retirement pensions, widows pensions, death grants and other lump sum payments.

The Fund is governed by the Public Services Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016

#### **Responsibility**

The Local Authority (Functions & Responsibilities) (England) Regulations 2000, state that the functions relating to the Local Government Pension Scheme are the responsibility of the full council. The Council has delegated these functions to the Pension Policy & Investment Committee whose terms of reference are agreed annually by Council.

#### **Terms of Reference**

The Pension Policy & Investment Committee are responsible for the functions set out in the following regulations:

The Fund is governed by the Public Services Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (amended)

- The LGPS (transitional Provisions, Savings and Amendment) regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016

Whilst the London Borough of Enfield Pension is governed by Statute, there is an amount of discretion in the regulations for pension funds within the Local Government Pension Scheme, to manage their own affairs. The London Borough of Enfield Pension Fund has established its own corporate governance model that reflects the best practice from both private sector and local government schemes.

#### The Pension Policy & Investment Committee

Cllr T Simon JP (Chair)  
 Cllr D Levy (Deputy Chair)  
 Cllr T. Neville OBE JP  
 Cllr D Pearce  
 Cllr A Sitkin  
 Cllr D Taylor  
 Carolan Dobson (Professional Advisor)

#### **Governance of the Pension Fund Investments**

The Committee considers the Fund's investment strategy and asset allocation of the Fund's portfolio. The Pension Policy & Investment Committee (PP&IC) appointed an independent pension fund advisor - Carolan Dobson, to also sit on the PP&IC to give expert advice, support members and to clarify the many complex technical issues that arise from diversifying the Fund's assets.

The PP&IC is responsible for:

- Asset Allocation decisions;
- Appointing (and, when necessary, dismissing) Investment Managers;
- Monitoring the performance of Investment Managers and the Investments made;
- Setting and reviewing the overall investment strategy of the fund;
- Appointing (and, when necessary, dismissing) Investment Consultant;
- Reviewing the cost of Investment Management;
- Investment Strategy Statement;
- Setting performance objectives for the fund
- The governance of the London Borough of Enfield Pension Fund in accordance with statutory regulations,
- Appointment of the Fund's Actuary
- Appointing the Investment Sub-Committee;
- Approving all admissions into the Fund;

- The submission to Full Council of an Annual Report outlining the work of the Board
- Overseeing communications with Fund Members;
- Corporate Governance issues and issues relating to social responsible investments;
- Overseeing compliance with the Myners report (a report that sets out principles of good practice in pension schemes).
- Approval and review of the Communication Strategy Statement

The Committee meets quarterly to review the investment strategy and to receive reports on investment activity undertaken in the previous period. One of its tasks is to monitor the performance of the Fund's investment managers in conjunction with professional advisors and officers.

The Committee considers the Fund's investment strategy and asset allocation of the Fund's portfolio. The Committee appointed an independent pension fund advisor - Carolan Dobson, to also sit on the PP&IC (with full voting rights) to give expert advice, support members and to clarify the many complex technical issues that arise from diversifying the Fund's assets.

All other operational decisions to implement these policies are delegated to the Council's Director of Finance, Resources & Customer Services.

## **Pension Board**

The Public Service Pensions Act 2013 established the requirement for local Pension Boards in the LGPS with responsibility for assisting the Administering Authority in relation

to the following:

- Securing compliance with the scheme regulations
- Ensuring the effective and efficient governance and administration of the scheme
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Such other matters as the LGPS regulations may specify.

A key aim of the Pension Board is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

The eight board members are:

### **Employer Side:**

- Cllr Dinah Barry (Chair) – resigned in January 2017
- Cllr Don McGowan (Chair) Since January 2017
- Cllr Robert Hayward
- Cllr Andrew Stafford
- Eileen Carberry

### **Employee Side**

- Paul Bishop (Vice Chair)
- Pauline Kettless
- Rob Ayling
- Martin Keenan

## **Section 3 : Statutory Statements**

### **Communication Policy Statement**

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This statement is prepared in accordance with the Local Government Pension Scheme (Amendment) (No.2) Regulations 2005, which require an administering authority to prepare, maintain and publish a statement on its communication strategy.

The London Borough of Enfield Local Government Pension Scheme currently has 32 admitted/scheduled employers and approximately 21,000 scheme members. This statement sets out the communication methods with each group.

#### **Employers**

Communication with the employers in the Fund takes several forms:

- **Regular Update Letters**

All employers receive regular updates as and when issues arise e.g. changes to scheme regulations.

- **Annual Report and Accounts**

A copy of the document is sent to all employers.

- **Investment reports and minutes**

These are available on request to any employers who wish to see them.

- **Advice and help**

Enfield staff are available to give advice on the telephone or by e-mail.

#### **Scheme Members**

The methods of communicating with scheme members are:

- **Telephone helpline**

A telephone helpline for all enquiries from scheme members on any aspect of their pension arrangements.

- **Annual Benefit Statements**

All active and deferred scheme members receive an annual benefit statement setting out what level of benefits have already been built up, along with a forecast of benefits at retirement.

- **Internet**

The scheme's website provides information about any updates to the Pension Fund.

- **Information letters**

Information about changes in regulations is provided to employees via their employers by e-mail or letter.

- **Payslips**

All pensioners receive at least 1 payslip every year and messages are included whenever there is new information to be communicated.

### **Prospective Scheme Members**

The methods of ensuring that prospective members are aware of the Scheme and its benefits are:

- **Job Advertisements**

Employers advertise the benefits of the Fund in their job advertisements.

- **Scheme Booklet**

All new starters in the employing organisations in the Fund are provided with a scheme booklet, which sets out the benefits available from the Fund and employees are given three months to opt out of the Fund.

## **Section 3: Statutory Statements**

### **Governance Compliance Statement**

#### **1. Introduction**

This is the governance compliance statement of the London Borough of Enfield Pension Fund which is part of the Local Government Pension Scheme and administered by London Borough of Enfield (the Council).

The statement has been prepared as required by the Local Government Pension Scheme regulation 2013.

#### **2. Governance Arrangements**

Under the terms of the Council's Constitution, the functions of the Council as Administering Authority of the Pension Fund are delegated to the Pension Board. This is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

The Pension Policy & Investment Committee (PP&IC) meets a minimum of four times a year and its members act in a quasi-trustee capacity.

The PP&IC is a committee making recommendations on all matters relating to the investment of the Pension Fund. Meetings are held quarterly (additional meetings will be called where required).

The terms of reference of the PP&IC and the number of voting members are determined by the Council at its Annual meeting.

#### **3. Functions and Responsibilities**

The PP&IC separately approves the Pension Fund's Funding Strategy Statement (FSS), the Investment Strategy Statement (ISS) and the Communications Strategy Statement.

The Funding Strategy Statement sets out the aims and purpose of the Pension Fund and the responsibilities of the Administering Authority as regards funding the Fund. Funding is the making of advance provision to meet the cost of accruing benefit promises and the long-term objective is to achieve, and then maintain, assets equal to 100% of projected accrued liabilities. These responsibilities are delegated to the Pension Board, advised by the PP&IC.

The ISS sets out more detailed responsibilities relating to the overall investment strategy of the funds including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also covers the Fund's policy on PP&IC training and states the Fund's approach to socially responsible investment and corporate governance issues.



The Communications Strategy Statement details the overall strategy for involving stakeholders in the pension funds. The stakeholders identified are:

- the Local Pension Board
- current and prospective scheme members
- scheme employers
- administration staff

Responsibility for the communications strategy is held with the PP&IC.

#### **4. Representation**

The Pension Policy & Investment Committee has 7 members, 6 of whom are Enfield Councillors and the other post for a professional adviser. The political make up of the Committee is in line with the current council. All members have full voting rights.

#### **5. Stakeholder Engagement**

A number of other initiatives to involve stakeholders are currently in place including:

- the annual report for the Pension Fund; and
- newsletters for all members.

#### **6. Review and Compliance with Best Practice**

This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the pension funds.

The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This guidance contains a number of best practice principles and these are shown below with the assessment of compliance.

Ref.	Principles	
	<b>Structure</b>	
a.	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>Fully compliant</b>
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.	<b>Non compliant</b>
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>Non compliant</b>
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.	<b>Non complaint</b>
a	<b>Representation</b>	
a.	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	<b>Partially compliant</b>
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	<b>Fully compliant</b>
	<b>Selection and role of lay members</b>	
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	<b>Fully compliant</b>
	<b>Voting</b>	
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.	<b>Fully compliant</b>
	<b>Training/facility time/expenses</b>	
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.	<b>Fully compliant</b>
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.	<b>Fully compliant</b>

	<b>Meetings (frequency/quorum)</b>	
a.	That an administering authority's main committee or committees meet at least quarterly.	<b>Fully compliant</b>
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.	<b>Non compliant</b>
c.	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	<b>Fully compliant</b>
	<b>Access</b>	
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.	<b>Fully compliant</b>
	<b>Scope</b>	
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	<b>Fully compliant</b>
	<b>Publicity</b>	
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.	<b>Fully compliant</b>

## Section 3 : Statutory Statements

### Actuarial Position

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Enfield Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

- **Actuarial Position**

- The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £916.3M) covering 87% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was 17.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).
- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 5.1% of pensionable pay (or £7.8M in 2017/18, and increasing by 3.5% p.a. thereafter).
- In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 27 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
- The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, was agreed with the Administering Authority reflecting the employers' circumstances.
- The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

<b>Discount rate for periods in service</b>	
• Scheduled body funding target	4.5% p.a.
• Orphan body funding target	4.1% p.a.
<b>Discount rate for periods after leaving service</b>	
• Scheduled body funding target	4.5% p.a.
• Orphan body funding target	2.5% p.a.
• Rate of inflationary pay increases (additional allowance made for promotional increases)	3.5% p.a.
• Rate of increase to pension accounts	2.0% p.a.
• Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

- The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.
- In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.
- The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P Light mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

	Men	Women
• Current pensioners aged 65 at the valuation date	24.3	26.9
• Future pensioners aged 45 at the valuation date	26.3	29.2

- The assets were valued at market value.
- Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.
- The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 27 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

- This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.
- This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.
- Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, London Borough of Enfield, the Administering Authority of the Fund, in respect of this Statement.

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## Section 4:

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### Glossary

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<b>Actuary</b>	A person who analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep the Fund solvent.
<b>Admitted bodies</b>	These are employers who have been allowed into the Fund at the Council's discretion.
<b>Alternative investments (Other Pooled Funds)</b>	These are less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.
<b>AVCs</b>	Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Fund's AVC provider (Prudential).
<b>Bulk transfer</b>	A transfer of a group of members agreed by, and taking place between, two pension schemes.
<b>Commutation</b>	The conversion of an annual pension entitlement into a lump sum on retirement.
<b>Contingent liability</b>	A possible loss, subject to confirmation by an event after the balance sheet date, where the outcome is uncertain.
<b>Custodian</b>	A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.
<b>Cross subsidies</b>	Amounts of money by which organisations subsidise each other.
<b>Discretionary</b>	Allowable but not compulsory under law.
<b>Dividends</b>	Income to the Fund on its holdings of UK and overseas equities.
<b>Emerging markets</b>	The financial markets of developing economies.
<b>Equities</b>	Shares in UK and overseas companies.

<b>FTSE</b>	Financial Times – publishers of the FTSE-100, and other indices.
<b>Gilt-edged securities (or Gilts)</b>	Fixed-interest stocks issued by the UK Government.
<b>Hedge fund</b>	A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.
<b>Index</b>	A measure of the value of a stock market based on a representative sample of stocks.
<b>LGPS</b>	The Local Government Pension Scheme is a nationwide scheme for employees working in local government or working for other employers participating in the scheme and for some councillors.
<b>LIBOR</b>	London Inter Bank Offer Rate – the interest rate that banks charge each other in the short-term international money market. It is often used as a benchmark to set other interest rates or to measure returns on investments.
<b>Mandatory</b>	Compulsory by force of law.
<b>Myners</b>	Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.
<b>Private equity</b>	Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (ie, not easily turned into cash) and higher-risk investments that should provide high returns over the long term.



<b>Projected unit actuarial method</b>	One of the common methods used by actuaries to calculate a contribution rate to the Scheme, which is usually expressed as a percentage of the members' pensionable pay.
<b>Recovery period</b>	Timescale allowed (up to a maximum of 40 years) over which surpluses or deficiencies to the Fund can be eliminated.
<b>Rolling three-year periods</b>	Successive periods of three years, such as years one to three, followed by years two to four. Performance is often measured over longer periods than a single year to eliminate the short-term effects of volatile changes in stock markets.
<b>Scheduled bodies</b>	These are organisations that have a right to be in the Fund.
<b>Transfer value</b>	A cash sum representing the value of a member's pension rights.
<b>With profits</b>	With-profits funds are investments that give a return in the form of annual bonuses and usually a final or terminal bonus.
<b>Yield</b>	Annual income on an investment divided by its price and expressed as a percentage.

## Section 5:

### Independent Auditor's Report to the members of London Borough of Enfield Pension Fund

#### *Independent auditor's report to the members of the London Borough of Enfield on the pension fund financial statements*

*We have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement and the related notes.*

#### *Respective responsibilities of the Executive Director of Finance, Resources and Customer Services and the auditor*

*As explained more fully in the Statement of the Executive Director of Finance, Resources and Customer Services' Responsibilities, the Executive Director of Finance, Resources and Customer Services is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.*

*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 London Borough of Enfield, and their compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.*

*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 only of the Chair's Foreword, Investment Report, Corporate Governance, Membership Report, The Risk Register, Funding Strategy Statement, Investment Strategy Statement, Governance Policy Statement, Communication Policy Statement, Governance Compliance Statement and the Actuarial Position.*

*We conducted our work in accordance with Auditor Guidance Note 07 Auditor Reporting issued by the National Audit Office. Our report on the London Borough of Enfield's full annual statement of accounts describes the basis of our opinions on those financial statements.*

#### **Opinion**

*In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Enfield for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.*

*We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts (24 October 2017) and the date of this report.*

*David Eagles  
For and on behalf of BDO LLP, Appointed Auditor*

*Ipswich, UK*

*1 December 2017*