ROYAL BOROUGH OF GREENWICH

PENSION FUND

ANNUAL REPORT

2013 / 2014

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MESSAGE FROM THE CHAIR OF THE PENSION FUND INVESTMENT AND ADMINISTRATION PANEL

I am pleased to present the Fund's Annual Report and Accounts for 2013/14 which shows a rise in value from £885m to £936m, an increase of nearly 6% from last year. A triennial valuation of the fund and auto enrolment have both produced excellent results for the fund.

Equity and property markets have performed strongly over the year. Interest rates have remained low, with growth forecasts increasing over the period. However, concerns about the strength of economic recovery remain, meaning further austerity measures remain on the agenda.

In terms of Fund performance, overall the Fund has outperformed the benchmark return by 0.9%. While bonds outperformed the benchmark, the property portfolio has lagged the benchmark as it continues to be restructured to ensure that it is holding companies with higher than average levels of debt. The expectation is that the property portfolio will outperform the benchmark going forward.

The Pension Fund Panel continues to focus on strong governance by taking proactive measures to confirm and update its objectives, refine strategic process to develop an appropriate investment management structure and develop a framework for managing risk. The Fund continues in its membership of the Local Authority Pension Fund Forum which seeks to harness and optimise shareholder influence, promote corporate social responsibility and high standards of corporate governance. A rolling programme of LGPS specific and institutional investment training for Panel members and officers continued during 2013/14 to ensure that they have the knowledge and skills to undertake their fiduciary duties.

2014/15 will be a year of change for the Pension Fund. The future structure of the LGPS remains under scrutiny with the outcome of key consultations expected this year. The Fund has looked to be proactive in this area, engaging with the Collective Investment Vehicle for London Pension Funds as a means of securing future cost savings. Governance issues will come to the fore this year as the Fund works to implement Pension Boards in time for the 1 April 2015 deadline. The Pension Administration Team are focused on implementing LGPS Regulations that commenced in April 2014 and the Pensions Investment Team will concentrate their efforts on the asset liability study and repositioning of the Fund to confirm the new benchmark.

I look forward to continuing to work with the Panel and Officers to ensure that the Fund is effectively managed for the benefit of all the members.

Councillor Don Austen
Chair - Pension Fund Investment and Administration Panel

MESSAGE FROM THE DIRECTOR OF FINANCE

The last twelve months has seen another extremely challenging and busy, yet very positive year for Fund administration.

The three yearly valuation of the Fund has shown that there has been an improvement in the funding level to 86%. Importantly, it has set the common employer contribution rate for the next three years such that by the end of the period it will have been at 18.5% for 10 years, which, given the global economic turbulence and demographic pressures, is quite an impressive achievement.

Implementation of auto enrolment saw active membership rise significantly, a major plus for the Fund. Active membership is now up 20% on where it was in 2009/10, with pensioners showing a smaller rise of 10% - a strong active membership base is vital for the Fund and these numbers are extremely welcome. The Fund value has grown by over 28% since 2009/10 and our performance has matched or exceeded that of the FTSE 100 in each year too.

The Royal Borough of Greenwich Pension Fund is committed to managing your investment efficiently and effectively. This means:

1. Performance managing investment managers to drive the delivery of returns they agreed to make;
2. Negotiating fair fees with managers to ensure we are not paying excessive transaction costs
3. Reviewing our investment structure and objectives in the light of economic changes using the asset liability study tools.
4. Choosing investments wisely and mitigating poor performing activities in real time.
5. Training our panel members and officers to ensure effective due diligence and focused and sound stewardship.
6. Exploring opportunities for new ways of administering the Fund that deliver lower costs and improve returns.

2014/15 will see scrutiny of LGPS funds continue. In order to ensure that the Fund is achieving the best value for members and employers, the Fund is challenged to do things differently and this involves seeking opportunities to gain efficiencies through collaboration, business process re-engineering and rationalisation.

Debbie Warren
Director of Finance

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF ROYAL BOROUGH OF GREENWICH ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Royal Borough of Greenwich in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance 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 Royal Borough of Greenwich, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the items listed on the contents page.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority'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 Royal Borough of Greenwich for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

31 July 2014

SCHEME MANAGEMENT AND ADVISORS

Administering Authority:	Royal Borough of Greenwich
Officers:	Debbie Warren (Director of Finance)
Councillors:	Don Austen (Chair) Peter Kotz Angela Cornforth Mick Hayes Allan MacCarthy Neil Dickinson (until Jan 2014) John Hills (from Jan 2014)
Observers:	Unite GMB Unison
Actuary:	Barnett Waddingham
Investment Consultant:	Hymans Robertson
Investment Managers:	Bernstein Blackrock Fidelity CBRE State Street Global Markets LGT Capital Partners Wilshire
AVC Providers:	Clerical Medical Equitable Life
Custodian:	State Street Bank & Trust
Auditor:	Grant Thornton
Performance Measurement:	WM Company / Hymans Robertson
Bankers:	Co-operative Bank

SCHEME OVERVIEW

The Royal Borough of Greenwich Pension Fund is part of the Local Government Pension Scheme (LGPS) which is governed by various regulations[1]. Its benefits are therefore defined and guaranteed in law. The LGPS is contracted-out of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P. The Pension Fund fulfils the requirements of the Superannuation Act 1972, which requires Councils to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.

The Royal Borough of Greenwich is the Administering Authority and the Director of Finance is responsible for the day to day administration of the Fund.

The Royal Borough of Greenwich Pension Fund is a funded pension scheme which means that contributions into the Fund are made by employers and employees which are then used to make investments upon which a return is anticipated. Benefits are paid using the Funds cash flow.

Employee contribution rates are set by regulations and are dependent upon each member's full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay and the employee also pays lower National Insurance contributions between the Lower and Upper Earnings Limits**,** unless the employee has opted to pay the married woman's reduced rate.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2013 and showed that the fund was 86% funded. The deficit is to be funded by additional employer contributions over the course of 23 years.

The investment objective of the Pension Fund is to ensure that the Fund has sufficient assets to pay pensions and other benefits by maximising investment returns within acceptable risk tolerances.

From 1 April 2008, scheme contributions and benefits relating to service earned from that date changed. It remained a final salary scheme and with the

[1] Local Government Scheme Regulations 1997, 2007 and 2008 (as amended)

exception of casual workers, all active members of the pension fund as at 31 March 2008 transferred to the new scheme. Benefits up to 31 March 2008 are calculated on the basis of $^{1}/_{80}$ pension and $^{3}/_{80}$ lump sum. Benefits from 1 April 2008 are calculated using the improved accrual rate of $^{1}/_{60}$ for pension. There is no automatic lump sum in the new scheme; however, pension can be commuted to provide a lump sum, subject to HMRC rules.

It is also a requirement of the LGPS that employees are given a facility to enhance their pension arrangements through the use of Additional Voluntary Contributions (AVCs). The Royal Borough of Greenwich Pension Fund uses Equitable Life and Clerical Medical as AVC providers.

A comparison of the benefits under the old (pre 2008) and current (post 2008) scheme is provided in Appendix A.

New LGPS regulations came into force from 1 April 2014. The changes these regulations introduce include:

- Move to inflation linked Career Average Revalued Earnings (compared to final salary prior to the date of change)
- A higher accrual rate of 1/49th (rate at which pension is earned)
- Average employee contribution rate maintained at 6.5% but higher contributions for higher earners
- Member choice to pay half their normal contribution rate for half the benefits
- Normal pension age linked to State Pension Age
- Conversion between pension and lump sum retained.

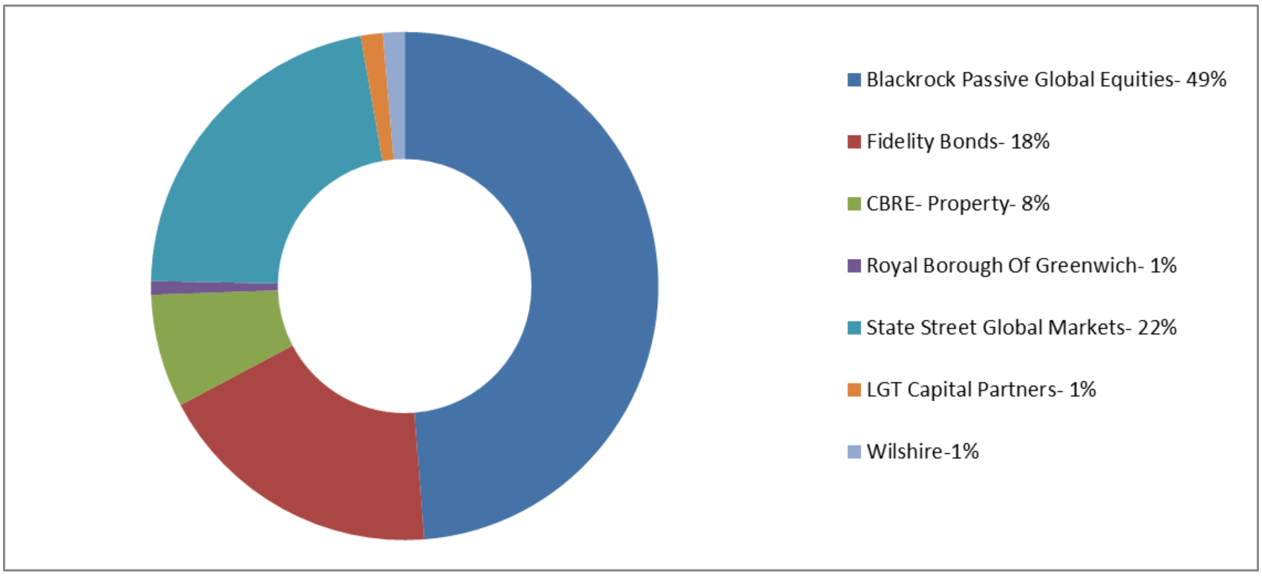
Benefits accrued before April 2014 will be protected.

THE PENSION FUND AT A GLANCE

As at 31 March 2014, the Royal Borough of Greenwich Pension Fund comprised:

- 38 active employers
- Net assets valued at £936m
- 18,963 members of which 7,694 were actively contributing into the fund, 6,126 were drawing benefits from the fund and the remainder had rights to deferred benefits

Breakdown of Scheme assets by manager as at 31 March 2014



Summary of Total Fund Performance to 31 March 2014

Period Ending 31 March 2014	1 year	3 years
Fund	7.0	7.5
Benchmark	6.1	7.6
Relative	**+0.9**	**(0.1)**

Excludes Private Equity. Source: Hymans Robertson

FINANCIAL SUMMARY

The Following are abridged financial statements taken from the full audited financial statements of the Royal Borough of Greenwich Pension Fund for the year ended 31 March 2014. The complete 2013/14 financial statements can be found in Appendix B. To access the Audit Findings Report please visit our website.

Fund Account as at 31 March 2014

31 March 2013		31 March 2014
£000	**Dealings with Members, Employers and Others directly involved in the Scheme**	£000
	Contributions Receivable:	
(25,796)	Employer Contributions	(30,016)
(9,284)	Member Contributions	(10,590)
(3,966)	Transfers in from Other Pension Funds	(3,936)
	Benefits:	
32,328	Pensions	33,923
9,685	Lump Sum & Death Benefits	8,612
12,720	Payments to and on account of Leavers	2,143
963	Administration Expenses	752
16,650	**Net (additions) / withdrawals from Dealings with Members**	**888**
	Returns on Investment	
(6,181)	Investment Income	(7,602)
(101,079)	Profit and Losses on disposal of Investments and Changes in Value of Investments	(46,315)
141	Taxes on Income	178
1,343	Investment Management Expenses	1,427
(105,776)	**Net Returns on Investment**	**(52,312)**
(89,126)	**Net (increase) / decrease in the Net Assets available for Benefits during the year**	**(51,424)**

Net Asset Statement as at 31 March 2014

31 March 2013 £000	Investment assets	31 March 2014 £000
166,861	Equities	177,758
	Pooled Investment Vehicles:	
172,487	Fixed Interest OEIC	172,985
51,680	Property Unit Trusts	77,412
225,462	Unitised Insurance Policies	224,901
223,491	Other Unit Trusts	244,767
18	Derivative Contracts	0
1,600	Property – Freehold	1,600
28,025	Private Equity	26,029
7,895	Cash Deposits	3,073
0	Cash Equivalents	6,812
7,656	Other Investment Balances	10,693
	Investment Liabilities	
(13)	Derivative Contracts	0
(6,005)	Other Investment Balances	(14,028)
879,157	**Net Investment Assets / (Liabilities)**	**932,002**
	Current Assets	
236	Contributions Due	304
59	Other Current Assets	230
6,747	Cash Balances	5,062
	Current Liabilities	
(306)	Unpaid Benefits	(374)
(881)	Other Current Liabilities	(788)
5,855	**Net Current Assets / (Liabilities)**	**4,434**
885,012	**Net Assets of the Scheme available to fund Benefits at the Period End**	**936,436**

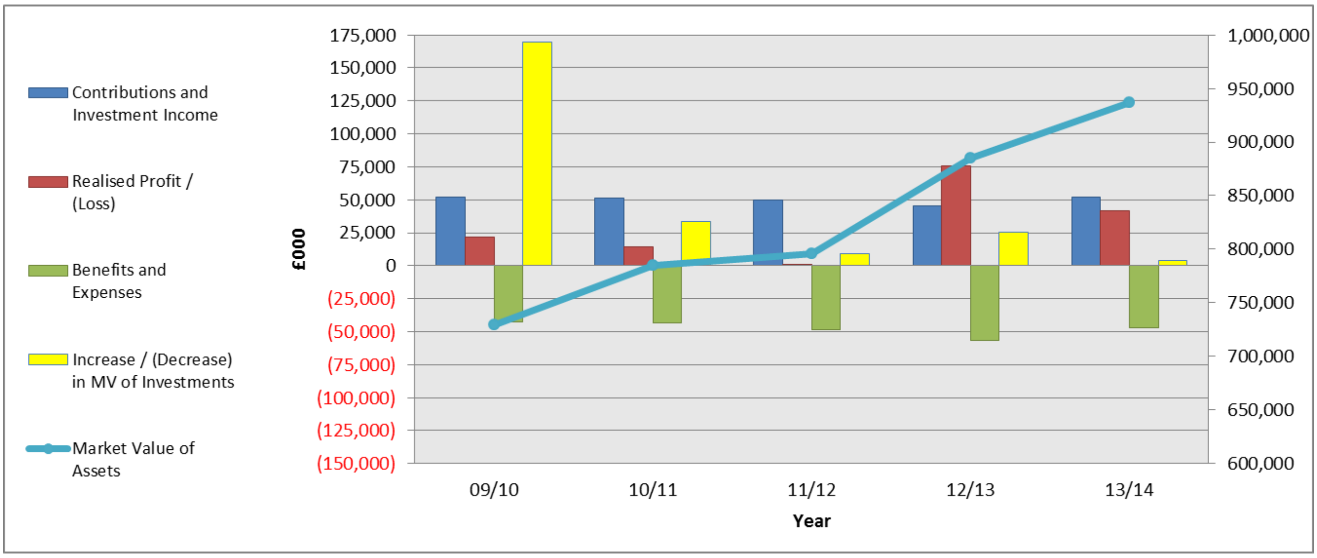
The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31 March 2014. The triennial actuarial valuation of the Fund does take into account the long term liabilities of the fund. The full valuation report can be viewed on our website.

Below is a five year financial summary of the fund. The value of the fund has increased year on year since the economic crisis of 2008. A comparison has been made between the year on year change in market value of the fund and the FTSE 100 index. This is a generalised comparison against the economic markets. A more detailed performance review of the fund comparing performance against the fund's specific benchmarks is available in the Investment Policy and Performance section of this report.

Five Year Financial Summary

Financial Summary	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**
	£000	**£000**	**£000**	**£000**	**£000**
Contributions and Investment Income	51,686	51,237	49,566	45,086	51,966
Realised Profit / (Loss)	22,058	14,130	697	75,632	42,019
Benefits and Expenses	(42,746)	(43,192)	(48,435)	(57,039)	(46,857)
Net Annual Surplus / (Deficit)	30,998	22,175	1,828	63,679	47,128
Increase / (Decrease) in MV of Investments	169,533	33,420	9,255	25,447	4,296
Net Increase / (Decrease) in Fund	200,531	55,595	11,083	89,126	51,424
Market Value of Assets at 31 March	**729,208**	**784,803**	**795,886**	**885,012**	**936,436**

Change in Greenwich Fund Market Value	**38%**	**8%**	**1%**	**11%**	**6%**
Change in FTSE 100	**31%**	**4%**	**(2%)**	**11%**	**3%**



Following the introduction of enhanced IT systems, administrative costs reduced by 20% to £0.8m and the cost per member reduced by 25% to £42 per member.

Budgeted Fund Account

Financial Performance			
Budgeted Fund Account - Fund Cashflow	**2014/15**	**2013/14**	**2013/14**
Estimate 31 March 2015 & Actuals for year ended 2013-14 & 2012-13	**Estimate**	**Actual**	**Forecast**
Expenditure	**£m**	**£m**	**£m**
Pension (or annuities): retired employees and dependents	**-36**	-34	-34
Lump sums: on retirement (including deferred)	**-8**	-8	-9
Lump sums on death	**-1**	-1	-1
Administration and fund management costs of the fund	**-1**	-1	-1
Transfer values including apportionments	**-2**	-2	-3
Total expenditure	**-48**	-46	-48
Contributions (including those from other employing authorities): employees	**12**	11	9
Contributions (including those from other employing authorities): employers	**31**	30	25
Investment Income	**9**	8	7
Transfer values including apportionments	**4**	4	4
Total income	**56**	53	45
Net inflow/(outflow)	**8**	7	-3

The fund Cashflow estimate for 2014/15 summarises a number of trends namely increasing pension payments to members through new pensioners and the effect of inflation upon pension increases. There is also an expected increase in contributions as 7 new employers are expected to join the fund by Q3 2014.

There are no expected bulk transfer outs expected within the year.

Results for Fund income against forecast were 15.1% higher overall than predicted. The biggest variances were an 18% increase in employee contributions alongside a 17% increase in employer contributions due to auto-enrolment. Total expenditure were slightly lower than forecast.

Administrative and Fund Management Costs

Administrative and Fund Management Costs 2013 - 2014

Budgeted and Actual Results for years ended 2013-14	Actual	Forecast
Administrative costs and investment management expenses	**£000**	**£000**
Administrative costs		
Central costs	720	712
Legal and other professional fees	23	20
Other	9	9
	752	741
Investment Management Expenses	1,427	1,550
Total costs charged to the fund including investment management expenses	2,179	2,291

Results for administrative and fund management costs against forecast were 5% lower overall than predicted. The biggest contributor was the fall in fund management costs, mainly attributable to fee renegotiation for the global equities mandate following termination of the Bernstein mandate.

RISK MANAGEMENT

Risk Management and Governance

The Pension Fund Investment and Administration Panel are responsible for the prudent and effective stewardship of the Royal Borough of Greenwich Pension Fund. As part of this duty the Panel oversees the monitoring and management of risk. This role includes:

- Determining the risk management policy and reconciling this with wider organisational risk policy
- Setting the risk management strategy in line with the risk policy
- Overseeing the risk management process

The risk management process involves: Risk identification, risk analysis, risk control and monitoring.

A key tool for the management of risk is the risk register. The register incorporates an assessment of likelihood and impact of risk events as well as control measures in place and an overall risk score. The risk register is kept under review by the Director of Finance and is presented to the panel at least once a year.

Officers operate within the financial procedures and control environment of the Administering Authority. These are regularly audited by internal and external audit.

How Risks are Identified, Managed and Reviewed

Risks are identified and assessed using a scoring matrix. The scoring matrix assesses two elements of a risk:

- the **chance** of it happening
- the **impact** if it did happen.

Each element is independently assessed on a scale of 1-5. These scores are then added to give an overall score. The higher the score the more chance a risk will occur and the more significant the impact will be.

The risk register lists the risks identified, the consequence of each risk occurring and the score assigned to each risk. Procedures and controls are then considered and the risk is reassessed and a second score applied in light of these.

This process identifies the risks with the highest scores which are then closely monitored.

The panel and officers are mindful of risk in carrying out their duties on a day to day basis and any significant risks identified are reviewed and managed through processes and controls accordingly.

Key Risks

The following categories of risk are identified by the risk register:

- Administrative risk
- Compliance/regulatory risk
- Employer risk
- Investment Risk
- Liability Risk
- Reputational Risk
- Skill Risk

Under each category are details of individual risks within the category. The following table details the risks that have been identified as having high scores and therefore require close monitoring:

Risk	**Consequence**	**Controls**	**Score**
Illiquidity	Assets sold at depressed valuation / investment opportunity missed. Inability to realise investments to pay benefits.	Limit on illiquid assets. Cash flow forecast.	20
Investment Return	If less than actuarial assumption could lead to increased deficit and additional contributions.	Diversified portfolio. Periodic asset liability study. Extended deficit recovery period.	16

Management of Third Party Risk

The Fund's investment managers and its custodian issue annual internal control documents. These documents identify internal processes and procedures and details of the audit testing done on them during the year. These provide comfort to the Fund that risk management and control policies and procedures are in place within these organisations.

The Director of Finance analyses and reconciles information provided by the custodian to that of the investment manager. Each quarter the Pension Fund Investment and Administration Panel receives a draft set of quarterly accounts. In preparing these, the assets held by each manager are reviewed and reconciled. The Panel also receives quarterly performance reports in which manager performance is reviewed. Any issues arising out of these reviews are raised at the Panel meeting.

The fund's Investment Adviser monitors the market and the activities of investment managers and informs officers if there are any concerns such as key changes of staff.

INVESTMENT POLICY AND PERFORMANCE

Investment Policy

The Royal Borough of Greenwich is the statutory body responsible for administering the fund. It has delegated responsibility for the management of the fund, including its investments, to the Pension Fund Investment and Administration Panel. The Panel comprises of six Councillors from the Royal Borough of Greenwich who have full voting rights. Trade Union representatives, staff from the Finance Directorate and professional advisors also attend Panel meetings but do not have voting rights.

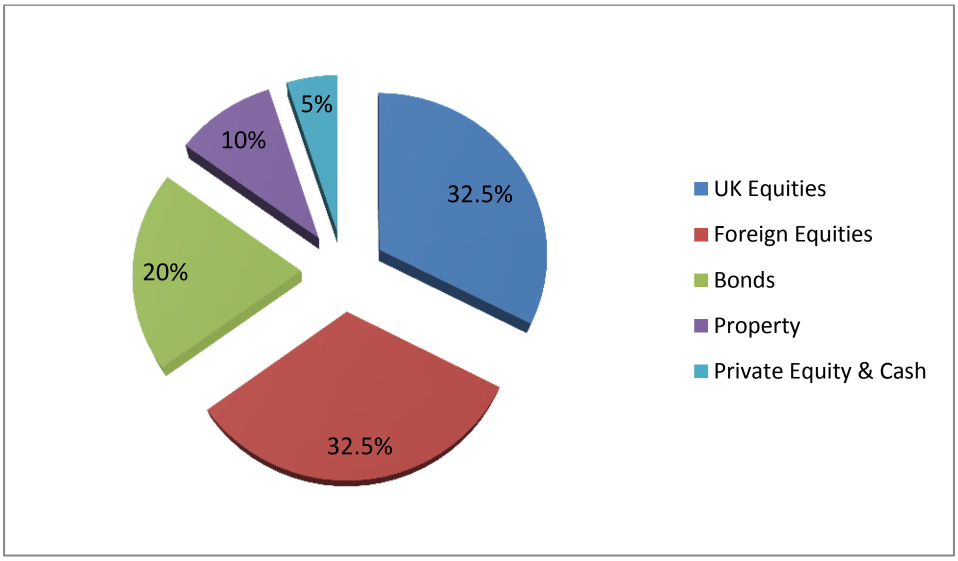
The main objective of the Fund is to ensure that there are enough assets in the Fund to cover liabilities of promised retirement benefits; and to do this within acceptable risk parameters.

The Fund's Statement of Investment Principles specifies that the Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and alternative products (e.g. private equity), either directly or through pooled funds.

The Fund may also make use of derivative type investments either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

To support the Fund's objective of having enough assets to cover its liabilities and achieving this within acceptable risk parameters the Panel, in conjunction with the Fund's investment advisor, has set the following benchmark asset allocation:

Benchmark Asset Allocation



Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole fund. Fund managers are set risk parameters to provide them with some flexibility in achieving the asset allocation to allow them to make the most of market conditions. They must seek approval for any positions that go beyond the agreed risk parameters set for their strategies. The following table compares the actual asset allocation as at 31 March 2014 to the benchmark:

Comparison of Actual Assert Allocation against Target:

Asset (%)	**Target**	**Actual**
UK Equities	32.5	36.0
Overseas Equities*	32.5	33.5
North America	*13.8*	*14.4*
Europe ex UK	*5.2*	*6.0*
Japan	*3.3*	*3.2*
Pacific	*4.6*	*4.3*
Emerging Markets	*5.6*	*5.6*
Bonds	20.0	18.5
Property	10.0	8.5
Other**	5.0	3.5
Total	**100.0**	**100.0**

*Includes Unit Trusts and Unitised Insurance Policies
**Includes private equity and cash

Investments have been managed during the year by the following investment managers:

Passive Equity:	Blackrock
	State Street Global Markets*
Active Equity:	Bernstein*
Bonds:	Fidelity
Property:	CBRE
Private Equity:	LGT Capital Partners
	Wilshire

*In August 2013 Bernstein's mandate was terminated. The assets were moved to State Street Global Markets.

An asset liability study took place during 2013/2014. The asset liability modelling study is a tool for assessing funding and investment strategies in order to generate the optimal investment strategy. The asset liability modelling output provides the framework for making decisions around long term strategic benchmarks appropriate to the Fund's liabilities; developing a funding strategy and identifying triggers for dynamic changes to the investment strategy.

Further details about the investment strategy can be found in the Statement of Investment Principles in Appendix E.

Responsible Investment Policy

The Fund expects its investment managers to engage with the companies within their portfolio on social, environmental and ethical issues. The Fund's policy on Socially Responsible Investment can be found in the Statement of Investment Principles (Appendix E).

In 2013 the Fund became a member of the Local Authority Pension Fund Forum. This is a voluntary association of local authority pension funds which seeks to optimise local authority pension funds influence as shareholders, to promote Corporate Social Responsibility and high standards of corporate governance.

Additionally, in March 2014 the Pension Fund issued a statement of compliance with the UK Stewardship Code for Institutional Investors. The Stewardship Code sets out seven principles of good practice on engagement with investee companies. The compliance statement is set out in Appendix H. The Fund's equity, bond and property managers have also issued statements of compliance with the Stewardship Code.

The Fund’s active equity manager is mandated to vote at company meetings on the Fund’s behalf. The Fund has set out Voting Intention Guidelines which it expects the manager to follow.
These guidelines are set out in appendix IV of the Statement of Investment Principles (Appendix E). The following table summarises the votes cast in the year on the Fund’s behalf:

Type of Vote	For	Against	Abstain	DNV	With Manager	Against Manager
Antitakeover Related	31	1	0	1	31	1
Capitalization	124	7	0	1	124	7
Directors Related	1,096	42	0	19	1,099	40
Non-Salary Comp	165	17	0	5	164	18
Reorganisations and Mergers	7	1	0	1	7	1
Routine/Business	250	28	0	5	250	28
SH Directors Related	21	16	0	2	24	15
SH Routine/Business	1	12	0	0	12	1
SH Compensation	7	16	0	0	16	7
SH Health/Environment	5	0	0	0	0	5
SH Other/Misc	22	7	0	0	7	22
SH - Human Rights	4	1	0	0	1	4
TOTALS	1,733	148	0	34	1,735	149

Data: Half Year Result

Economic review

Global Economy

- Over the course of the 2013/2014 financial year short-term interest rates were unchanged in the US and UK, and reduced (by 0.25%) in the Eurozone.
- Eurozone inflation fell in March 2014 to 0.5%
- Consumer and investment confidence has improved in the US with an increase in house sales and prices. Unemployment is slowly declining. Policy statements have also indicated that in early 2015 short term interest rates may rise.
- In Quarter 4 2013 China announced a series of measure aiming to try and boost economic growth. China kept its economic growth target at 7.5% for 2014.
- The weak YEN pushed up the cost of imports resulting in a record trade deficit for 2013.

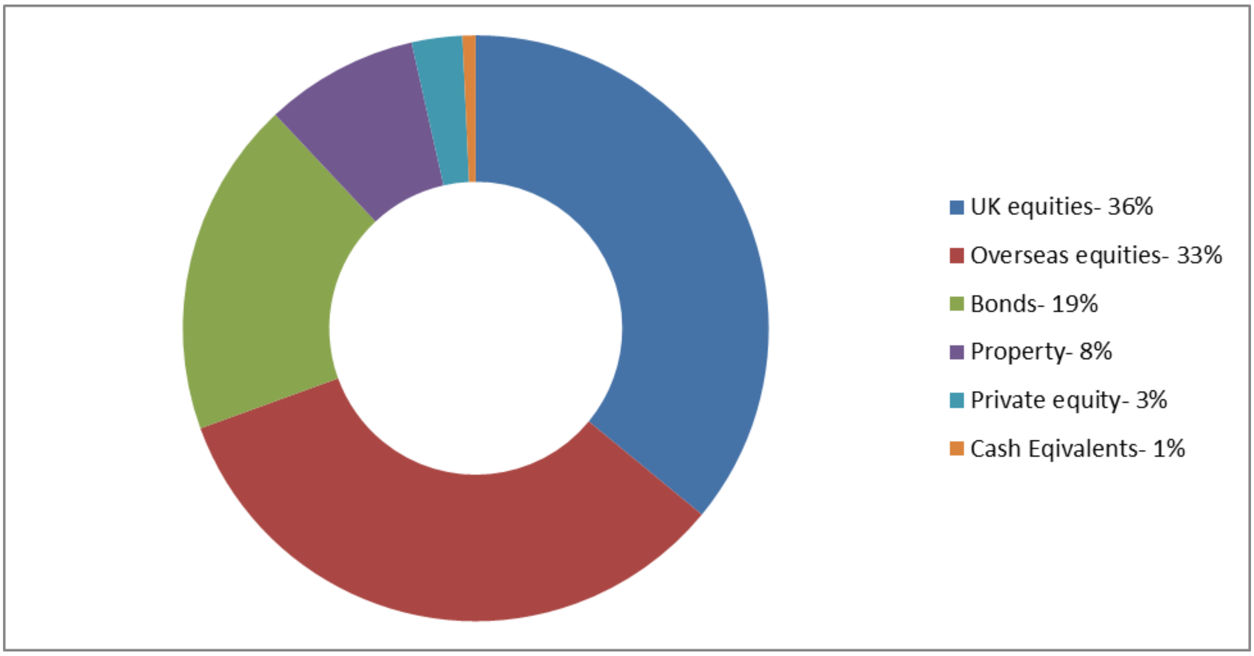
UK Economy

- UK inflation (CPI) fell in February 2014 to a four year low of 1.7% - still 0.3% off of the 2.0% target.
- In April 2013 Fitch downgraded the UK's sovereign rating to AA+ however forecasts for UK growth in 2014 and 2015 have now been revised upwards. In quarter 1 2014 the Office for Budget Responsibility (OBR) increased its forecast for UK economic growth by 0.3% to 2.7%.
- Mark Carney began his new role as the Governor of The Bank of England on 1 July 2013 and introduced Forward Guidance. The MPC announced that it is unlikely the bank rate will rise until unemployment falls below 7%.
- The UK announced plans to reduce its holding of Lloyds Banking Group to 25% by selling further shares.
- The Funding for Lending Scheme (FLS) which started in August 2012 was expanded in April 2013 to incorporate lending by banks to small and medium enterprises. The scheme has continued to have an encouraging effect on boosting the housing market however there are concerns surrounding the effect that FLS could have on house prices.

Asset allocation

The following chart gives a breakdown of Scheme assets by asset class as at 31 March 2014.

Breakdown of Scheme assets by asset class as at 31 March 2014



The following table shows the change in assets by asset class over the year, and the Scheme's target asset allocation.

Asset class breakdown	Value at 31 March 2013 (£m)	Weight (%)	Value at 31 March 2014 (£m)	Weight (%)	Target (%)
UK equities	325.5	36.8	335.3	35.9	32.5
Overseas equities	290.3	32.8	312.1	33.3	32.5
Bonds	172.5	19.5	173.0	18.5	20
Property	53.3	6.0	79.0	8.4	10
Private equity	28.0	3.2	26.0	2.8	5
Cash Equivalents	0.0	0.0	6.8	0.7	-
working capital	15.4	1.7	4.2	0.4	-
Total Scheme	**885.0**	**100**	**936.4**	**100**	**100**

Over the year, the scheme assets increased by 51.4m. This increase was due in part to the increase in equities as equity markets have performed well over the period. The UK equities assets weighting has reduced from the previous year by around 1% bringing it closer in line with the benchmark of 32.5%.

The underweight position has decreased by 2.4% during the period. At a panel meeting on 16 December 2013, it was agreed that an additional allocation of £30 million would be made to property, with funding being taken largely from the equity mandate.

Breakdown of Scheme assets by manager as at 31 March 2014

The following table shows the changes in manager values of the year, and their respective benchmarks.

Fund values	Value at 31 March 2013 (£m)	Weight (%)	Value at 31 March 2014 (£m)	Weight (%)	Benchmark
Bernstein - Active Global Equities	192.4	21.7	0.5	0.0	MSCI AC World Equity Index
BlackRock - Passive Global Equities	427.8	48.3	456.7	48.7	Composite benchmark
Fidelity - Bonds	172.5	19.5	172.9	18.5	50% iBoxx Sterling Gilt Index 50% iBboxx Sterling Non-Gilt Index
CBRE - Property	55.4	6.3	67.4	7.2	IPD UK Quarterly Property Fund Index
LGT	13.8	1.6	13.1	1.4	MSCI World
Wilshire	14.5	1.6	12.8	1.4	MSCI World
Royal Borough Of Greenwich	8.6	1.0	8.0	0.9	-
State Street Global Markets	-	0.0	205.0	21.9	MSCI AC World Equity Index
Total Scheme	**885.0**	**100.0**	**936.4**	**100.0**	**Composite benchmark**

A review of the performance of each of the managers is provided later in this report.

Portfolio changes over the year to 31 March 2014

Bernstein/State Street Global Markets transition

In September 2013, £166m of assets in active global equity portfolio manage by Bernstein were transfer to State street global markets Liquidity Account where the assets are managed passively. Cash has been placed into cash equivalents within this account to earn a return.

Manager performance

The following table shows the one and three year performance of the Scheme's managers.

Performance to 31 March 2014	**1 year (%)**			**3 years (% p.a.)**		
	Fund	B'mark	+/-	Fund	B'mark	+/-
Total Scheme	**7.0**	**6.1**	**0.9**	**7.5**	**7.6**	**-0.1**
State Street (Ex Alliance Bernstein) – Active Global Equities	-	-	-	-	-	-
BlackRock – Passive Global Equities	6.9	7.2	**-0.3**	14.5	14.8	**-0.3**
Fidelity – Bonds	1.7	-0.5	**2.2**	1.8	0.6	**1.2**
CBRE – Property	9.9	12.2	**-2.3**	4.3	6.1	**-1.8**

Source: Hymans Robertson

Bernstein

The Pensions Fund terminated Bernstein as manager of its active equity portfolio with effect from August 2013.

BlackRock

The portfolio managed by BlackRock on a passive basis continues to perform broadly in line with its benchmark over the one and three year periods to 31 March 2014 and in line with expectations.

Fidelity

The Aggregate Bond Fund outperformed its composite benchmark over the one and three year periods by 2.2% and 1.2% respectively. Continuing monetary easing efforts by global central banks helped maintain investor risk appetite and returns were mainly driven by the fund's overweight position in corporate bonds, particularly those at the lower rated end of investment grade.

CBRE

The CBRE property fund of funds portfolio has underperformed its benchmark over the one and three year periods by 2.3% and 1.8% p.a. respectively.

Underperformance arose largely in relation to certain European funds, exposure to which has since been reduced and investment made in higher yielding sectors.

Private equity

The Scheme invests in two private equity portfolios.

LGT Capital Partners – the Scheme invests in the Crown European Private Equity Fund. The net internal rate of return ("IRR") of the portfolio at 31 March 2014 was 8.0% p.a. and the total value to capital called from investors ("TVPI") was 1.38 times (i.e. 138% of the initial investment).

Wilshire – the Scheme invests in three funds as shown below:

- Fund VII US – the fund produced a net IRR of 6.24% p.a. with a TVPI of 1.33 times.
- Fund VII Europe – the fund produced a net IRR of 2.76% p.a. with a TVPI of 1.13 times.
- Fund VII Asia –the fund produced a net IRR of 6.45% p.a. with a TVPI of 1.33 times.

Largest holdings

The following table gives the top 10 pooled fund holdings of the Scheme at 31 March 2014.

Top 10 Pooled Holdings as at 31 March 2014	**Market value (£m)**	**Weight (%)**
1 – Blackrock UK Equity Collective Investment	191.5	21.1
2 – Fidelity UK Aggregate Bond Fund	172.9	19.1
3 – Aquila Life UK Equity Index Fund	127.3	14.0
4 – Aquila Life US Equity Index Fund	35.1	3.9
5 – Aquila Life Pacific Rim Equity Index Fund	25.4	2.8
6 – Blackrock Emerging Markets Equity Index Fund	22.8	2.5
7- Aquila Life European	20.6	2.3
8 – Aquila Life Japan Equity Index Fund	13.8	1.5
9 – Aquila Life Emerging Markets Index Fund	7.8	0.9

10 – Schroders UK Property Fund	6.4	0.7
Total	**623.6**	**68.8**

The following table gives the top 10 publicly traded stocks held outside the pooled fund holdings at 31 March 2014.

Top 10 Segregated Holdings as at 31 March 2014	**Market value (£m)**	**Weight (%)**
1 – Apple Inc	2.5	0.3
2 – Exxon Mobil Corp	2.2	0.3
3 – Microsoft Corp	1.7	0.2
4 – Google Inc	1.6	0.2
5 – Johnson + Johnson	1.4	0.2
6 – Nestle	1.4	0.2
7 – General Electric	1.3	0.2
8 – Wells Fargo	1.3	0.1
9 – Roche Holding AG	1.2	0.1
10 – Chevron Corp	1.2	0.1
Total	**15.8**	**1.9**

Actuarial Report

The fund undergoes a full actuarial valuation every three years. This determines the Fund's funding level and the employer contribution rates required to restore the fund to a 100% funding level (i.e the Fund has enough assets to cover 100% of its liabilities). The last valuation was carried out as at 31 March 2013 and will come in affect 2014/15.

Below is a statement from the Fund's actuary summarising the 2013 valuation. The full 2013 Actuarial Valuation report can be found on our website.

Statement by the Fund's Actuary

Introduction

The last full triennial valuation of the Royal Borough of Greenwich Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2014.

The most recent full actuarial valuation of the Fund was at 31 March 2013 and the results were published in March 2014. This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows

- The Fund as a whole had a funding level of 86% i.e. the assets were 86% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £141m.
- To cover the cost of new benefits and to also pay off the deficit over a period of 23 years, a total contribution rate of 18.5% of pensionable salaries is required.

- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	6.0% p.a.	6.1% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	2.0% until 31 March 2016, 2.5% for the year to 31 March 2017 and 4.2% p.a. thereafter	2.0% until 31 March 2016, 2.5% for the year to 31 March 2017 and 4.3% p.a. thereafter
Mortality	S1PA tables with a multiplier of 90% for males and 105% for females, and future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

The effect of the change in the assumptions over the year is discussed in the final section.

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the assets used was £878m and this has increased over the year to an estimated £945m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 88% which is an improvement on the position at 31 March 2013.

The assets have returned 5.8% over the year, which is slightly less than was expected at the 2013 valuation. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the funding position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have also made a small improvement to the position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Alison Hamilton FFA
Partner
23 June 2014

ADMINISTRATION REPORT

Staff and duties

The pension service comprises of 9.5 full time equivalent staff covering both the employing and administration duties. The services provided by the pension section consist of:

- Administration of the Local Government Pension Scheme (LGPS) in accordance with relevant legislation
- Maintain accurate records for each member of the pension scheme (including the employing authority and every admitted body that contributes to the Royal Borough of Greenwich Pension Fund)
- Aim to achieve a high standard with regards to service delivery and customer service
- Provide information to scheme members
- Provide guidance to the Pension Fund Investment and Administration Panel on pension legislation and the options that are available
- Improve standards and efficiency and to keep costs under scrutiny
- To develop plans to increase IT efficiency and give members more options with regards to accessing details of their pension benefits and information
- To train and develop staff in respect of any changes to legislation and to meet the service requirements.

The year gone

The pensions service has seen its busiest year yet, with on going re-organisations, member self service testing and going live, valuation of the pension fund, new impending Regulations plus the merger of the pension administration and pension payroll system into one integral database, but without doubt, the introduction of auto enrolment (AE) has seen the biggest intake ever of new members in one go.

Auto Enrolment has required the time, dedication and advice of the pensions management team. This was a government initiative that requires each employer to enrol any member of staff who meets legislatory conditions into a qualifying pension scheme. The pensions team have been hugely involved in the communication process with members of staff, unions, panel members and budget holders, giving presentations, writing letters, updating the website with information and frequently asked questions as well as answering questions and assisting in the decision making process.

The pension fund has seen over 30% increase in active membership due to AE and this has meant that the workload on the team has increased significantly, not only with the set up but the on going work that new starters initiate.

The pension fund has also seen new 3 employers admitted to the fund.

The valuation of the pension fund required the management team to coordinate information, cleanse data, run numerous reports and resolve actuarial queries.

The section has needed to interpret, coordinate communication and explain the new LGPS 2014, not only to employees and managers but also to all the employers within the fund. Forms and letters have been updated and new system releases have been implemented. These releases have needed a significant amount of testing as the Regulations were released very late in the year.

Much coordination with payroll and financial systems has taken place to deliver the correct reporting requirements that are needed to account for the changes in Regulations.

Real Time Information (RTI), is a HMRC initiative and requires employers to provide monthly files, rather than annual. Pensions went live on RTI in August 2013, seamlessly.

Delays in receiving timely Government Actuary Guidance has meant that certain types of work needed to be stockpiled and once received, needed extremely quick turnaround times applied, the team has worked very hard to achieve these and allow re-organisations to continue at a time of uncertainty.

In respect of administering authority work carried out, the pension team has completed 7,687 cases, this gives an average of over 800 cases per full time equivalent member of the team. Over the course of the year the team has received 3 disputes, less than 0.04% of the total cases worked on by the section, two disputes have had the Authority's decision upheld and the other is currently with the Pensions Advisory Service and is still outstanding.

The year to come

Looking forward to 2014-15, the pensions team will continue to be very busy. Changes to the LGPS as a result of the 2014 Regulation changes continue to have an ongoing impact.

Improvements to the Royal Borough of Greenwich payroll system have had a positive impact on the pensions team, following the need to understand and learn the enhanced system.

Member Self Service has enabled members to access their pension records. We have gone live with the pensioners, they can now access their payslips and P60's plus see their personal details. We are still testing the system for Active and Deferred members and will be choosing a sample of members to test the system from home and advise us of any issues or anything they do not understand. We therefore hope to have gone live for all our members in the first half of 2015.

The pension fund is due to have another 7 new employers, that we are aware of so far, in the pension scheme in this financial year, meaning training and information needs to be provided to all of them with on going support if required.

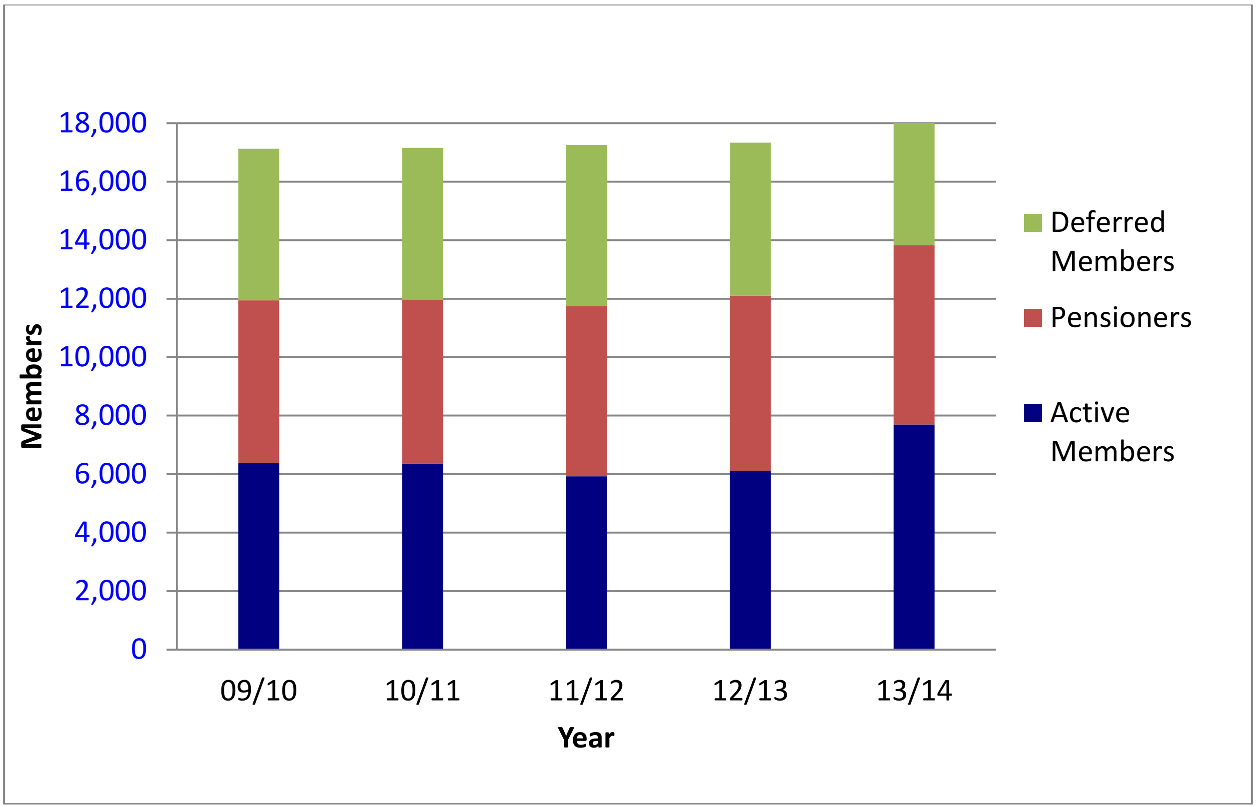
In addition to delivering the above the pension service, this year we aim to have all benefit statements sent to deferred and active members by 30 September 2014.

Membership Summary

The following table and graph shows a summary of membership numbers over the last five years. The number of active members has increased by 20% over 5 years, with Pensioners also increasing by 10% over the same period. The number of deferred members has decreased:

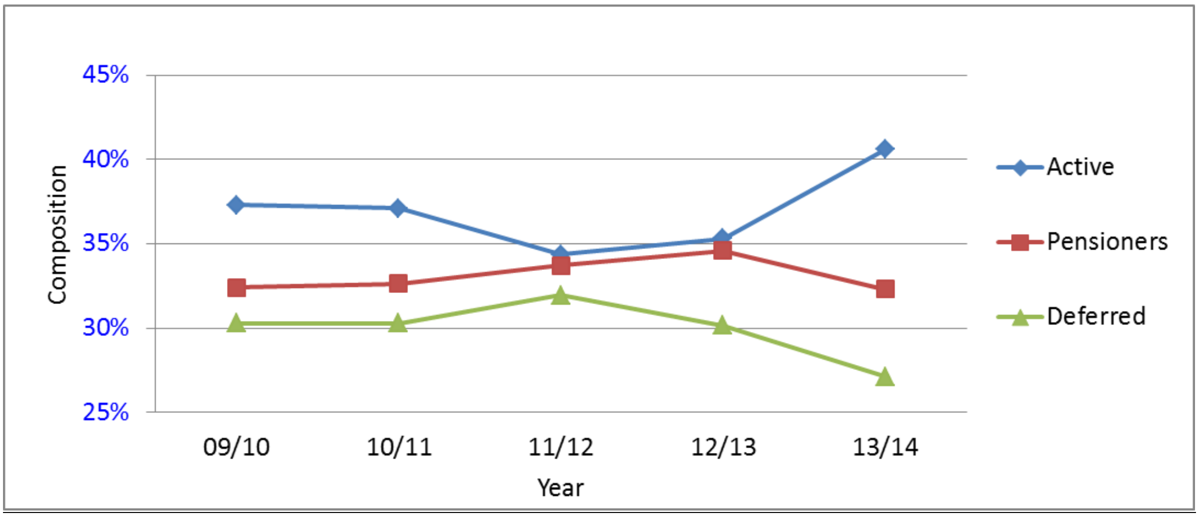
Membership numbers over 5 years

Membership	09/10	10/11	11/12	12/13	13/14	5 Yrs
Active	6,389	6,364	5,929	6,116	7,694	20%
Pensioners	5,549	5,599	5,816	5,992	6,126	10%
Deferred	5,186	5,198	5,510	5,223	5,143	-1%
Total	**17,124**	**17,161**	**17,255**	**17,331**	**18,963**	11%



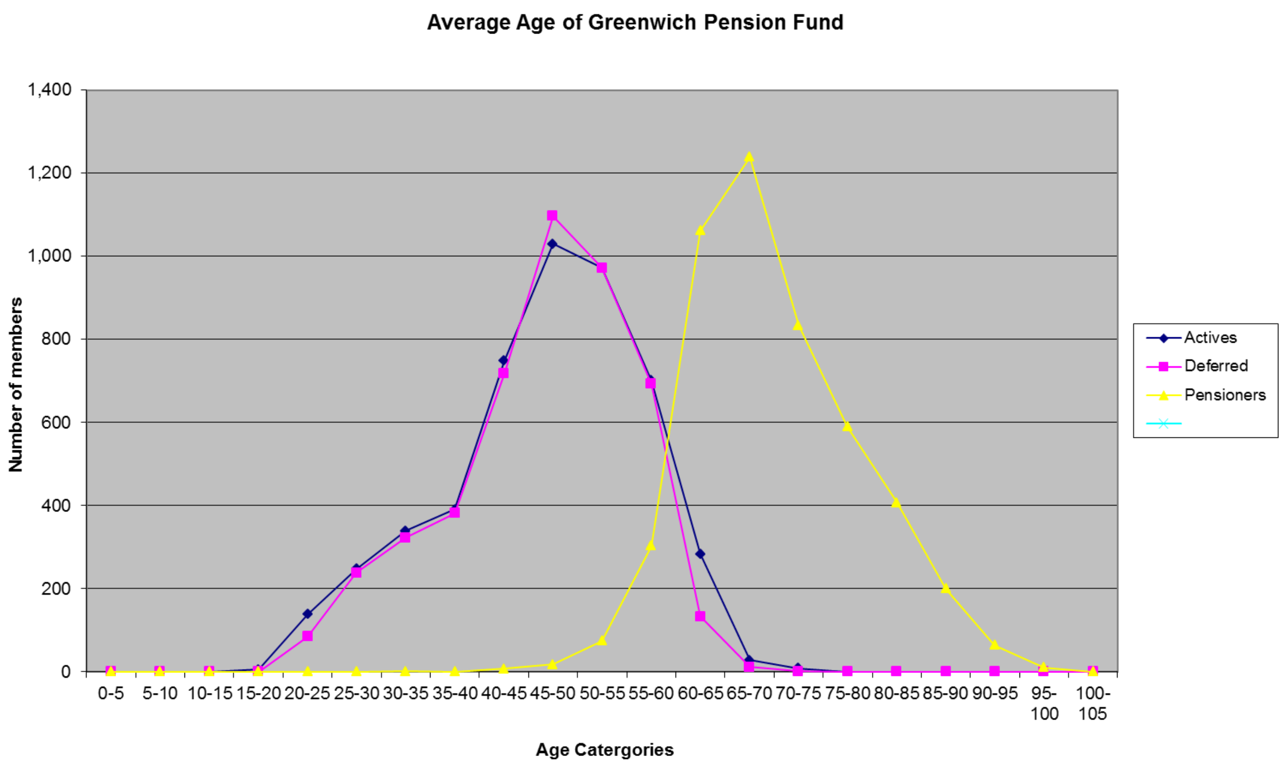
The following graph shows the change in the composition of the membership over the last five years. In recent years the proportion of active members has increased in composition to 41%, deferred members reduced to 27%, whilst the proportion of pensioners has remained constant at 32%.

Change in Composition of Membership Numbers over 5 Years:



The Fund Pension average age of active member is 46 and the average for our pensioner members is 71, with the oldest being 100 years old. The profile of the Fund's membership is depicted in the graph below.

Profile of Fund Membership



Employers Summary

The Royal Borough of Greenwich has the largest share of active members of the fund (87%). There are currently 37 other employers in the fund with actively contributing members.

The following table lists the active employers in the fund, the contributions made by them and their employees in the year. Statute specifies that contributions must be paid into the fund by the 19th of the following month to that which they relate.

	Administering Authority	Admitted Bodies	Scheduled Bodies	Total
	Greenwich Council	Greenwich Mind Ltd	Eltham Crematorium	
		Greenwich Mencap	St Paul's Academy	
		Simba Housing Association	Greenwich Services Solutions	
		The Greenwich Development Corporation	Greenwich Services Plus	
		Greenwich Leisure Ltd	Corelli College	
		KCHT	Greenwich Free School	
		Bridge 86 Ltd	Charlton Academy	
		St Mary's (Eltham) Community Complex Association	Eltham (Harris) Academy	
		Greenwich West Community & Arts Centre	Shooter's Hill Academy	
		First Step Trust	UTC	
		Greenwich Co-operative Development Ageny		
		Greenwich Citizen Advocacy Project		
		Woolwich Common		
		Clockhouse		
		Sanctuary Care Ltd		
		Widehorizons Outdoor Education Trust		
		Glyndon Community Centre		
		G4S		
		Capita		
		KCA		
		Charlton Athletic Community Club		
		GLL Libraries		
		GLL Play Centre		
		RBG Destination Management Company		
		Hawksmoor		
		Blackheath Bluecosts		
		Discovery		
Total Employee Contribution	**9,147,251**	**683,037**	**760,505**	**10,590,793**
Total Employer Contribution	**26,200,640**	**1,682,828**	**2,132,743**	**30,016,211**

The Pensions Regulations allows for interest to be levied on contributions that are not paid on time. This power was not exercised during 2013/14.

GOVERNANCE ARRANGEMENTS

<u>Delegated Powers and Responsibilities</u>

The Royal Borough of Greenwich is the Administering Authority for the Pension Fund. Council has delegated to the Pension Fund Investment and Administration Panel various powers and duties in respect of its administration of the fund. The Panel is the formal decision making body of the Fund. It convenes a minimum of four times a year and contains six Greenwich Councillors with full voting rights. Representatives from admitted bodies and the trades unions are able to participate as members of the Panel but do not have voting rights. The general terms of reference of the Pension Fund Investment and Administration Panel are:

- To exercise all relevant functions conferred by regulations made under the Superannuation Act 1972
- To consider and decide all matters regarding the management of the pension fund’s investments and to determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.
- To decide all matters relating to policy and target setting for and monitoring the investment performance of the pension fund
- At least once every three months, to review the investments made by the investment managers and consider the desirability of continuing or terminating the appointment of the investment managers.
- To consider and make recommendations on policy and staff related issues which have an impact on the pension fund directly or indirectly through changes in employer pension contribution rates and through Fund employers’ early retirement policies.
- To consider triennial valuation reports prepared by the Fund’s actuaries, with recommended employer contributions.
- To receive monitoring reports from the Director of Finance on all matters relevant to the Pension Fund and the Administering Authority’s statutory requirements.

Day to day running of the Fund in respect of administering the membership through collecting contributions, paying benefits / pensions and maintaining all necessary records, is undertaken by the Director of Finance.

Further details on the delegation of functions are in the Fund’s Governance Compliance Statement (Appendix C).

Panel Attendance in Municipal Year 2013/14

The table below shows the meeting attendance of Pension Fund Investment and Administration Panel members over the course of the year.

Councillor	2013					2014		
	17-Jun	29-Jul	12-Aug	16-Sep	16-Dec	27-Jan	17-Feb	17-Mar
Don Austen (Chair)	✓	✓	✓	×	✓	✓	✓	✓
Mick Hayes	✓	✓	✓	✓	✓	✓	✓	✓
Angela Cornforth	✓	✓	✓	✓	✓	✓	×	✓
Peter Kotz	✓	×	✓	✓	×	✓	×	✓
Allan MacCarthy	×	✓	×	✓	✓	×	×	✓
Neil Dickinson	✓	✓	✓	✓	✓	×		
John Hills							✓	×

Note: Councillor Neil Dickinson stood down from the Panel in January 2014 and was replaced by Councillor John Hills.

Member Training

The first Myner's Principle (see Statement of Investment Principles Appendix E) states that:

"Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

The Fund has a Knowledge and Skills Policy Statement (Appendix G) which states that:

"The Royal Borough of Greenwich recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills."

In light of the above, a programme of training sessions took place in 2013/14. This was attended by Panel Members and Officers. The training was run jointly by internal officers and the fund's investment adviser, drawing on additional external expertise as appropriate. It covered such areas as legislation and governance, investment performance and risk management and actuarial methods and practices. Further training will take place in 2014/15.

Policy and Process of Managing Conflicts of Interest

Committee members and officers directly involved with the administration of the Fund are required to declare any conflicts of interests at the commencement of all meetings. Where a conflict is considered material, the member or officer may be asked to either refrain from participating or exclude themselves from the meeting for the discussion and consideration of the agenda item.

Publication of Information

The dates of the Pension Fund Investment and Administration Panel meetings, along with meeting agendas, reports and minutes are available on the Royal Borough of Greenwich website.

Also available on the website are all reports and statements relating to the Pension Fund.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

The Local Government Pension Scheme (Administration) Regulations 2008 Regulation 31 requires all administering authorities to produce a Governance Compliance Statement. This statement must set out whether the Administering Authority delegates its function and if so what the terms, structure and operation of the delegation are. The administering authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The Governance Compliance Statement for the Pension Fund is reviewed annually. The current statement can be found in Appendix C.

Funding Strategy Statement

Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the fund
- The objectives in setting employer contribution rates
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the fund. An interim review of the statement may be carried out and a revised statement published if there has been a material change in the policy matters set out in the statement or there has been a material change to the Statement of Investment Principles. The current full statement can be found in Appendix D.

Statement of Investment Principles

Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to publish a Statement of Investment Principles. This statement provides details of the fund's investment policies including:

- The types of investment to be held
- The balance between different types of investment
- Expected returns on investments

- Risk measurement and management

The statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

The Statement of Investment Principles is reviewed annually. The current version can be found in Appendix E.

<u>Knowledge and Skills Statement</u>

In 2011 CIPFA issued a Code of Practice on Public Sector Pensions - Finance Knowledge and Skills to complement the knowledge and skills requirement within the Myners Principles. This Statement has been published to demonstrate that the Fund has adopted the code of practice. The Current version can be found in Appendix G.

<u>Communications Policy Statement</u>

The Local Government Pension Scheme (Administration) Regulations 2008 require all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The Communications Policy Statement is reviewed at least annually. The latest statement can be found in Appendix F.

<u>Statement of Compliance with UK Stewardship Code</u>

The Financial Reporting Council (FRC) published the UK Stewardship code, setting out seven principles of good practice on engagement with investee companies, to which the FRC believes institutional investors should aspire. The aims of the code align closely with the fifth Myners principle. The Royal Greenwich Pension Fund's compliance with the Myners principles is detailed in the Fund's Statement of Investment Principles and this statement contributes to that compliance. The compliance statement is set out in Appendix H.

COMMUNICATIONS

Registered Address………..………...……	Director of Finance Royal Borough of Greenwich The Woolwich Centre 35 Wellington Street Woolwich London SE18 6HQ
Administration Enquiries…………......	Email: pensions@royalgreenwich.gov.uk Website: Pension Fund Administration Tel: 020 8921 4933
Investment Enquiries………………….	Email: treasury@royalgreenwich.gov.uk Website: Pension Fund Investments Tel: 020 8921 6181
Complaints and Advice……………….	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Tel: 0845 601 2923 Website: www.pensionsadvisoryservice.org.uk
The Office of the Pensions Ombudsman…………………………..	11 Belgrave Road London SW1V 1RB Tel: 020 7630 2200 Website: www.pensions-ombudsman.org.uk

GLOSSARY

Active Equities / Active Manager

A style of investment management where the Fund Manager is seeking to 'add value' by outperforming a benchmark index

Active Members

Fund members employed by one of the employers in the fund who are paying contributions into the fund.

Admitted Body

An organisation that is an employer in the Pension Fund other than as a result of legislation specifically permitting it do so. Admitted bodies have no automatic right to membership under the legislation. It enables contractors, who take on an authority's services or functions with employees transferring from the authority, to offer the transferring staff continued eligibility of the transferring authority's pension scheme.

Asset Allocation

An investor has to decide which type of asset to buy – ordinary shares, bonds, domestic or foreign, property – or indeed simply to hold cash. Deciding what sort of mix of assets to have is termed asset allocation.

Asset Liability Modelling

Of increasing importance in pension fund management, particularly at the larger end of the market, the structure of the fund is analysed (usually by consulting actuaries) to assess how the fund's assets should be invested in order to best meet the fund's liabilities, age profile of the members etc.

AVCs (Additional Voluntary Contributions)

Contributions made by a member of an Occupational Pension Scheme, to that Scheme, over and above the normal contribution level to purchase additional retirement benefits.

Benchmark

Portfolio performance must be measured against a standard. This standard is called the benchmark. A commonly used one for a portfolio of UK shares is the FTSE All-Share Index because it includes such a large percentage of all quoted shares. Funds which may be called upon very suddenly in the near future may have to be kept very largely in cash or short term gilt edged stocks and a benchmark such as the money market interest rate would be appropriate, in this instance.

Corporate Governance

The term used to describe the policies and procedures that the company's directors employ in their conduct of the company's affairs and their relationships with shareholders to whom they are responsible as managers of the shareholders' interests in the company and of its assets.

Custodian

The custodian keeps a record of clients' investments and may also collect income, process tax reclaims and provide other services.

Deferred Members

Members who have left employment, or have ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

Employee Contribution Rate

The percentage of pensionable pay that members of the fund pay as a contribution into the Pension Fund

Employer Contribution Rate

The percentage of the salary of employees that employers pay as a contribution into the Pension Fund.

Fund Manager

A professional manager of investments for a Pension Fund

Index Tracking Funds (see also Passive)

Funds that are constructed to match closely the performance of a market index (e.g. FTSE All-Share Index and the FTSE World Index). This can either be achieved by full replication (buying every single index constituent) or sampling (buying a representative cross-section).

LGPS

Local Government Pension Scheme.

Longevity

The length or duration of human life

Myners

In 2000 the UK Government commissioned a "Review of Institutional Investment in the United Kingdom". The Review was undertaken by Paul Myners and is referred to as "Myners". In response to the Myners' proposals, the Government initially issued a set of ten investment principles, which has subsequently been revised to six. Each pension fund must demonstrate how it complies with "Myners".

Passive

A style of investment management where the fund manager aims to match the performance of a benchmark return (see also Index Tracking Funds).

Pensioner Member

Members who are drawing benefits from the fund. They include former active members drawing their pension along with widows, widowers and other dependants of former active members.

Pension Fund

An investment fund within a pension scheme which is intended to accumulate during an individual's working life from contributions and investment income, with the intention of providing an income in retirement from the purchase of an Annuity. There may be an option of an additional tax free cash lump sum being paid to the individual.

Risk / Return

In markets which are efficient (such as the market for the larger shares on the major stock exchanges), the prices of the various shares will reflect the risks run in each case. That is, there is a trade-off between risk and return. The higher the risk, the more the return should be. Investors, when considering a particular investment, should always consider the risks involved in buying a particular security, as well as its possible returns. The risk/return trade-off should be one appropriate to the needs of that particular investor.

Securities

The general name for stocks, shares and bonds issued by a company to investors.

SIP

Statement of Investment Principles is a document setting out the principles governing decisions about investments.

SRI

Socially responsible investing, an investment process that excludes investment in companies whose core business activities could, for example, involve animal testing, pollute the environment or comprise alcohol, tobacco and weapons manufacturing or where management practices achieve profit at the expense of human rights and equality.

Appendix A – Scheme Benefits (1997 and 2008)
LGPS Benefits

<table>
<tr><th>General Features</th><th>LGPS 1997</th><th>LGPS 2008</th></tr>
<tr><td>Type of Scheme</td><td colspan="2">Final salary</td></tr>
<tr><td>Relationship with S2P</td><td colspan="2">Contracted-out</td></tr>
<tr><td>Member Contributions</td><td>6%

5% for manual workers in scheme prior to 01/04/1998</td><td>Banded Contributions based on full time pay as at 1st April 2011
<table>
<tr><th>Range</th><th>Cont Rate</th></tr>
<tr><td>£0 - £12,900</td><td>5.50%</td></tr>
<tr><td>£12,901 - £15,100</td><td>5.80%</td></tr>
<tr><td>£15,101 - £19,400</td><td>5.90%</td></tr>
<tr><td>£19,401 - £32,400</td><td>6.50%</td></tr>
<tr><td>£32,401 - £43,300</td><td>6.80%</td></tr>
<tr><td>£43,301 - £81,100</td><td>7.20%</td></tr>
<tr><td>More than £81,100</td><td>7.50%</td></tr>
</table>
Bands to be increased annually with Pension Increase Orders.</td></tr>
<tr><td>Final Pay</td><td colspan="2">In general, best of the last 3 years pensionable pay</td></tr>
<tr><td>Pensionable Pay</td><td colspan="2">Normal salary plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified as being pensionable.</td></tr>
<tr><th colspan="3">Retirement Benefits</th></tr>
<tr><td>Normal Retiring Age</td><td colspan="2">Age 65</td></tr>
<tr><td>Early Retirement</td><td colspan="2">Age 55+. Employer consent required if below age 60.

Minimum 3 months membership or transfer in

Benefits reduced unless Rule of 85 applies (member of the scheme as at 30th September 2006)

Rule of 85 does not apply for service from 1 April 2008, subject to transitional protections.

Employer's discretion to waive any actuarial reduction. No reductions applied for redundancy / efficiency retirements.</td></tr>
<tr><td>Transitional Protections</td><td colspan="2">If born before 1 April1960 and an existing member of the Scheme as at 30 September 2006 then 85 year rule stays for service up to 1 April 2016 with tapered protection to 1 April 2020.</td></tr>
<tr><td>Flexible Retirement</td><td colspan="2">Age 55+</td></tr>
</table>

<table>
<tr><th>General Features</th><th>LGPS 1997</th><th>LGPS 2008</th></tr>
<tr><td></td><td colspan="2">At employers discretion

Minimum 3 months membership or transfer in

Reduce hours or move to a lower graded post

Draw pension benefits and salary

Employers discretion to waive any actuarial reduction</td></tr>
<tr><td>Late Retirement</td><td colspan="2">Continue to day before eve of 75th birthday

Benefits accrue to date of retirement

Benefits actuarially increased after age 65</td></tr>
<tr><td>Ill Health Retirement</td><td>Permanently unable to undertake own job or any comparable job with employer. Benefits are enhanced as per the table below with a maximum enhancement of potential membership to age 65
<table>
<tr><th>Accrued Membership</th><th>Benefit Payable</th></tr>
<tr><td>Less than 3 months</td><td>Refund of contributions</td></tr>
<tr><td>3 months to 5 yrs</td><td>Accrued Membership</td></tr>
<tr><td>5 but less than 10 yrs</td><td>Membership Doubled</td></tr>
<tr><td>10 yrs to 13 yrs 122 days</td><td>Membership Enhanced to 20 yrs</td></tr>
<tr><td>13 yrs 123 days or more</td><td>Membership Enhanced by 6 2/3 yrs</td></tr>
</table></td><td>Permanently unable to undertake own job or any comparable job with employer. Benefits are graded based on how likely you are to be capable of gainful employment after you leave.

First Tier - No reasonable prospect of alternative employment before NRD then service enhanced by 100% of prospective service to age 65.

Second Tier - No prospect of obtaining gainful employment within a period of 3 years after leaving local government employment, but likely to be able to obtain gainful employment before 65 then service enhanced by 25% of prospective service.

Third Tier - Reduced likelihood of obtaining gainful employment within 3 years of leaving, then no service enhancement. Payment of these benefits will be stopped after 3 years, or earlier if the member is in gainful employment or becomes capable of such employment, provided they are not age 65 by then.</td></tr>
<tr><td>Benefit Accrual</td><td>Pension = 1/80th

Lump Sum = 3/80th plus increased lump sum by commutation 12:1 up to a maximum of 25% of lifetime allowance

Spouse’s Pension = 1/160th</td><td>Pension = 1/60th

Lump Sum = By commutation 12:1 up to a maximum of 25% of lifetime allowance

Spouse’s Pension = 1/160th</td></tr>
<tr><th colspan="3">Death and Survivor Benefits</th></tr>
<tr><td>Lump Sum Death Benefit</td><td>Active = 2 x Pensionable Pay

Deferred = Current value of deferred lump sum

Pensioner = 5 year guarantee less pension paid</td><td>Active = 3 x Pensionable Pay

Deferred = 5 x Current value of deferred annual pension

Pensioner = 10 year guarantee less pension paid (for death before age 75)</td></tr>
<tr><td>Dependants’ Provision</td><td>Widow(er)s</td><td>Widow(er)s</td></tr>
</table>

General Features	LGPS 1997	LGPS 2008
	Registered civil partners	Registered civil partners Nominated cohabiting partners
Dependants' Pension (Death in Service)	If membership > 3 months 50% x notional ill health pension Otherwise 1/160th x accrued membership	1/160th x full prospective service to age 65
Spouse's Short Term Pension	Active = 3 months x salary (increased to 6 months if dependent children) Deferred = none Pensioner = 3 months x member's pension (increased to 6 months if dependent children)	None
Children's Pensions	**Surviving Parent** 1 child = 1/4 x notional pension 2+ children = 1/2 x notional pension divided by number of children **Orphans** 1 child = 1/3 x notional pension 2+ children = 2/3 x notional pension divided by number of children For death in service the notional pension is the ill health pension or a pension based on the lesser of 10 years and full service to age 65 where this is higher.	**Surviving Parent** 1 child = 1/2 x dependant's pension 2+ children = 1 x dependant's pension divided by number of children **Orphans** 1 child = 2/3 x dependant's pension 2+ children = 1 1/3 x dependant's pension divided by number of children
Increasing Benefits		
AVCs	Maximum contributions – 50% of taxable earnings Options available: Open market annuity LGPS Top Up Pension Tax Free Lump Sum (100% of fund up to max of 25% of Lifetime Allowance) LGPS Service Credit (if commenced AVCs prior to 13/11/2001)	
Added Years/Pension	Maximum purchase 6 2/3 years Payable from next birthday to age 65 (contracts taken out before 01/10/2006 may have an earlier date than age 65)	Maximum purchase £5,000 extra pension (in multiples of £250).
Leaving the Scheme		
Benefits on Leaving	**Less than 3 months membership and no transfer in**	

General Features	LGPS 1997	LGPS 2008
	Refund of contributions CETV Defer decision **More than 3 months membership or transfer in** CETV Defer Benefits until NRA	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BOROUGH OF GREENWICH

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Royal Borough of Greenwich for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Royal Borough of Greenwich in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements
In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters
In our opinion, the information given in the explanatory foreword for the financial year for which the accounts are prepared is consistent with the accounts.

Susan M Exton
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP
31 July 2014

Royal Borough of Greenwich Pension Fund

Fund Account

31 March 2013		Notes	31 March 2014
£000			£000
	Dealings with Members, Employers and Others directly involved in the Scheme		
	Contributions Receivable:	5	
(25,796)	Employer Contributions		(30,016)
(9,284)	Member Contributions		(10,590)
(3,966)	Transfers in from Other Pension Funds	6	(3,936)
	Benefits:	7	
32,328	Pensions		33,923
9,685	Lump Sum & Death Benefits		8,612
12,720	Payments to and on account of Leavers	8	2,143
963	Administration Expenses	9	752
16,650	**Net (additions) / withdrawals from Dealings with Members**		**888**
	Returns on Investment		
(6,181)	Investment Income	10	(7,602)
(101,079)	Profit and Losses on disposal of Investments and Changes in Value of Investments	13	(46,315)
141	Taxes on Income	11	178
1,343	Investment Management Expenses	12	1,427
(105,776)	**Net Returns on Investment**		**(52,312)**
(89,126)	**Net (increase) / decrease in the Net Assets available for Benefits during the year**		**(51,424)**

Net Asset Statement

31 March 2013 £000		Notes	31 March 2014 £000
	Investment assets		
166,861	Equities	13	177,758
	Pooled Investment Vehicles:	13	
172,487	Fixed Interest OEIC		172,985
51,680	Property Unit Trusts		77,412
225,462	Unitised Insurance Policies		224,901
223,491	Other Unit Trusts		244,767
18	Derivative Contracts	13	0
1,600	Property – Freehold	3	1,600
28,025	Private Equity	14 & 23	26,029
7,895	Cash Deposits	19	3,073
0	Cash Equivalents	14	6,812
7,656	Other Investment Balances	18	10,693
	Investment Liabilities		
(13)	Derivative Contracts	13	0
(6,005)	Other Investment Balances	18	(14,028)
879,157	**Net Investment Assets / (Liabilities)**		**932,002**
	Current Assets		
236	Contributions Due	18	304
59	Other Current Assets	18	230
6,747	Cash Balances	19	5,062
	Current Liabilities		
(306)	Unpaid Benefits	18	(374)
(881)	Other Current Liabilities	18	(788)
5,855	**Net Current Assets / (Liabilities)**		**4,434**
885,012	**Net Assets of the Scheme available to fund Benefits at the Period End**		**936,436**

The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31 March 2014. The triennial actuarial valuation of the Fund does take into account the long term liabilities of the fund. An overview of the valuation is provided in note 17. The full valuation report can be viewed by visiting www.royalgreenwich.gov.uk.

Notes to the Pension Fund Accounts

1 Description of Fund

The following description of the Fund is a summary only. For more detail, reference should be made to the Royal Borough of Greenwich Pension Fund Annual Report 2013/2014 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

a) General

The Royal Borough of Greenwich Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Greenwich. It is a contributory defined pension scheme to provide pensions and other benefits for employees of the Royal Borough of Greenwich and those organisations with admitted or scheduled body status within the Fund. The Fund is overseen by the Royal Borough of Greenwich Pension Investment and Administration Panel. The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009.

b) Membership

All employees (except teachers) with a contract of employment greater than 3 months are eligible to join the scheme. Membership of the Fund 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:

- Administering Authority: This is the Royal Borough of Greenwich (the "Authority")
- Scheduled Bodies: Local authorities and similar bodies whose staff are automatically entitled to be members of the Fund. The scheduled bodies of the Fund are Eltham Crematorium, St Paul's Academy, Greenwich Service Solutions Limited, Greenwich Service Plus Limited, Corelli College, Greenwich Free School, Charlton Academy, Harris Academy, Shooters Hill Academy and University Technical College.
- Admitted Bodies: Other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. These include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There were 38 active employer organisations within the Fund as at 31 March 2014 (32 as at 31 March 2013). The following table summarises the composition of the membership of the Fund as at 31 March 2014.

Membership	Administering Body		Admitted Bodies		Scheduled Bodies	
	13/14	12/13	13/14	12/13	13/14	12/13
Employees contributing into Fund	6,682*	5,102	348	340	664	674
Pensioners / Dependents	5,900	5,795	129	121	97	76
Former Members entitled to Deferred Benefits	4,850	4,928	176	186	117	109

*In accordance with legislation issued by the Department for Work and Pensions on 1 October 2012, the Royal Borough of Greenwich, as an employer within the fund, undertook the auto-enrolment process from 1 June 2013. This resulted in an increase of active members.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and by employers whose rates are set based on the triennial actuarial funding valuations.

d) Benefits

Pension benefits are based on final pensionable pay and length of pensionable service. There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits. Benefits are index-linked in order to keep pace with inflation.

2 Basis of Preparation

The Statement of Accounts (the "Accounts") summarise the Fund's transactions for the 2013/2014 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 (the "Code") 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 actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 17 of these accounts.

3 Summary of Significant Accounting Policies

a) Accounts

The Accounts summarise the transactions and net assets of the Fund and comply in all material respects with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/2014 which is IFRS compliant.

b) Basis of Preparation
An actuarial valuation was carried out as at 31 March 2010. This determined contribution rates for the next three years (from 1 April 2011) with an aim to maintain the solvency of the fund. Therefore these Accounts have been produced on a going concern basis.

The most recent actuarial valuation was carried out 31 March 2013 and determines the contribution rates for the next three years from 1 April 2014.

c) Investment Valuations and their effects
Investments are shown in the Net Asset Statement at either their market or fair value, which has been determined as follows:

(i) Listed securities are shown by reference to bid-market price at the close of business on 31 March 2014.

(ii) Unit trusts are priced as follows:

- Unit trust and managed fund investments are stated at the bid price quoted by their respective managers prior to the close of business on 31 March 2014.
- Single priced funds, closed ended property funds, and fixed interest Open Ended Investment Companies (OEICs), which are valued on a Net Asset Value basis.

(iii) Unitised insurance policies are valued at mid-price and are calculated on each business day at noon.

(iv) Private Equity valuations are based upon the underlying investments within each portfolio, the majority of which are based upon figures as at 31 December 2013, reflecting the nature of valuing those investments. The cash flows are adjusted up to 31 March 2014 using the same accounting policies. It is less easy to trade private equity than it is for quoted investments. Therefore, when the assets are realised the amount received may not necessarily be the amount that they are valued at and any differences could be significant.

d) Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in no more than a three month period from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

IFRS 7 Financial Instruments: Disclosures has been adopted for the 2013/2014 accounts. The new standard requires that additional disclosures are made surrounding continuing interests in derecognised assets. The Fund does not engage in securities lending, securitisation and other activities that give rise to this event. Therefore the adoption of this standard has had no impact on the accounts.

f) Events after the Reporting Period

Events after the Reporting Period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Accounts are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Accounts.

g) Financial Instruments

<u>Financial Liabilities</u>

Financial liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

<u>Financial Assets</u>

Financial assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument.

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- fair value through profit or loss - assets that are held for trading.

h) Debtors and Creditors

Except where otherwise stated, the Accounts have been prepared on an accruals basis i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The main exception to this is transfers in and out of the fund which are accounted for on a cash basis.

i) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Fund a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Net Asset Statement but are disclosed in a note to the Accounts.

j) VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Any recoverable amounts outstanding at the Reporting Period end will be classified as a debtor.

k) Property

The fund owns the freehold of one investment property – New Lydenburg Industrial Estate. The property was revalued as at 31 March 2012 at a value of £1.6m by Simon Marsh, whom is a Valuer employed by the Royal Borough of Greenwich and a member of the Fund, utilising the Appraisal and Valuation Standards Manual 6th Edition published by The Royal Institution of Chartered Surveyors. The valuation was based on the Open Market Value of the freehold interest, having regard to the actual lease terms and evidence of current levels of rent and yields for the class of property, adjusted to reflect age, condition and characteristics of the particular locality. Any surplus / deficit on valuation is reflected in the Fund Account and is shown as a Change in Market Value of Investments. The fund receives £0.115m rental income per year in respect of this property.

l) Fees

Investment management fees are calculated by reference to the market value of portfolio assets under management at the end of each quarter. The exceptions to this are Fidelity, where market value based fees are charged on a daily basis and Private Equity fees, which are based upon amounts committed to each manager.

m) Foreign Currency

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into Sterling at the rate ruling on 31 March 2014.

n) Income

(i) Interest income

Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the reporting period is reflected within the net assets statement as "Other Investment Balances" and disclosed within the note on Debtors and Creditors.

(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 reflected within the net assets statement as "Other Investment Balances" and disclosed within the note on Debtors and Creditors.

(iii) Distributions from pooled funds
Some pooled investment vehicles within the portfolio are accumulation funds and, as such, the change in market value also includes income, which is re-invested in the fund. The market price for those units reflects this re-invested income. Non accumulating units give rise to dividends.

(iv) Income from property
Other than unitised holdings (above), freehold property gives rise to rental income. These amounts are recognised on a straight line basis over the life of the operating lease.

(v) Private Equity distributions
These are split between their constituent elements i.e. dividend, interest, gain / loss or return of capital, as advised by the fund manager.

(vi) Movement in the net market value of investments
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

4 Critical Judgements in Applying Accounting Policies and Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The following items have a significant risk of material adjustment in the forthcoming financial year:

a) Functional Currency
The Royal Borough of Greenwich Pension Fund considers Sterling to be the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. Sterling is the currency in which management measures its performance and reports its results.

b) Private equity

LGT
Management uses its judgement to select a variety of methods and makes assumptions that are not always supported by observable market prices or rates. The majority of the Company's investments use either U.S. GAAP or utilise a combination of IFRS and International Private Equity and Venture Capital valuation guidelines to value their underlying investments. The predominant methodology adopted by the general partners for the buyout investments in LGT is a market approach which takes market multiples using a specified financial measure (e.g. EBIDTA), recent public market and private transactions and other available measures for valuing comparable companies.

Wilshire
Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Wilshire generally use the capital balance reported by the investee fund manager of the limited partnership investment as the primary input to its valuation; however adjustments to the reported capital balance (net asset value) may be made based on various factors, including, but not limited to, the attribute of the interest held, including the rights and obligations and any restrictions or illiquidity on such interests and the fair value of such investment partnership's investment portfolio or other assets and liabilities.

The manager generally holds interests in such funds for which there is no active market, although, in some situations a transaction may occur in the 'secondary market' where an investor purchases a limited partner's existing interest and remaining commitment. To the extent these transactions become known to Wilshire, they may be considered as a data point in Wilshire's determination of an investment's fair value.

c) Pension Fund liability

It is a statutory requirement that the funding level is calculated every three years by the appointed actuary in order to determine employer contribution rates for the forthcoming three years. However the methodology used within the accounts is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. These estimates are subject to significant variances based upon changes to the underlying assumptions.

5 Contributions Receivable

Contributions represent the total amounts receivable from employers within the scheme in respect of their own contributions and any of their employees who are members of the scheme. The employer's contributions are made at a rate determined by the Fund's Actuary as necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during 2013/2014 was 18.5%. Member contribution rates are determined by a banding mechanism linked to pensionable pay. Contributions shown in the revenue statement can be broken down as follows:

2012/2013		2013/2014
£000		£000
	Employee Contributions:	
(7,990)	Administering Authority	(9,147)
(643)	Admitted Bodies	(683)
(651)	Scheduled Bodies	(760)
(9,284)	**Total Employee Contributions**	**(10,590)**
	Employer Contributions:	
(22,352)	Administering Authority	(26,200)
(1,604)	Admitted Bodies	(1,683)
(1,840)	Scheduled Bodies	(2,133)

(25,796)	**Total Employer Contributions**	(30,016)
(35,080)	**Total Contributions Receivable**	(40,606)

6 Transfers in from Other Pension Funds

2012/2013 £000		2013/2014 £000
(3,966)	Individual Transfers	(3,936)
(3,966)	**Total Transfers in from Other Pension Funds**	**(3,936)**

7 Benefits

Benefits payable are made up of pension payments and lump sums payable upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

2012/2013 £000		2013/2014 £000
	Pensions:	
31,547	Administering Authority	32,953
498	Admitted Bodies	569
283	Scheduled Bodies	401
32,328	**Total Pensions Payable**	**33,923**
	Lump Sums:	
8,187	Administering Authority	6,953
425	Admitted Bodies	56
472	Scheduled Bodies	595
9,084	**Total Lump Sums**	**7,604**
	Death Benefits:	
574	Administering Authority	959
0	Admitted Bodies	0
27	Scheduled Bodies	49
601	**Total Death Benefits**	**1,008**
42,013	**Total Benefits Payable**	**42,535**

8 Payments to and on Account of Leavers

2012/2013		2013/2014

£000		£000
14	Refunds to Members leaving Service	14
(2)	Payments for Members joining State Scheme	0
10,997	Group Transfers	0
1,711	Individual Transfers	2,129
12,720	**Total Payments to and on Account of Leavers**	**2,143**

The £10.997m bulk group transfer in 2012/13 relates to the transfer of 110 employees engaged in the operation of the Woolwich Ferry from the Royal Borough of Greenwich Pension Fund to the London Pension Fund Authority. This was a result of the transfer of the staff in 2008 from the Royal Borough of Greenwich to Serco Limited.

9 Administration Expenses

2012/2013		2013/2014
£000		£000
870	Service Level Agreement with Royal Borough of Greenwich	709
11	Combined Benefit Recharge	11
6	Levies / Subscriptions	0
1	Bank Fees	0
19	Audit Fees	19
0	Legal Fees	4
5	Document imaging	0
0	Registration Charges	8
51	Other expenditure	1
963	**Total Administration Expenses**	**752**

10 Investment Income

2012/2013		2013/2014
£000		£000
(115)	Rental Income from Property	(115)
(3,654)	Dividends from Equities	(4,693)
	Income from Pooled Investment Vehicles:	
(2,318)	Property Unit Trusts	(2,584)
(89)	Withholding Tax Reclaimed	(193)
(6)	Interest	(18)
(1)	Commissions	1
(6,181)	**Total Investment Income**	**(7,602)**

11 Taxes on Income

UK Income Tax

The Fund is exempt and approved under the Finance Act 1970. It is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

Value Added Tax

By virtue of the Royal Borough of Greenwich being the Administrating Authority, VAT input tax is recoverable on Fund activities.

Overseas Tax

Taxation agreements exist between the UK and certain EC and other countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

2012/2013		2013/2014
£000		£000
108	Withholding Tax Non Reclaimable – Equities	101
33	Withholding Tax Non reclaimable – Property Unit Trusts	77
141	**Total Taxes on Income**	**178**

12 Investment Management Expenses

2012/2013		2013/2014
£000		£000
1,216	Management Fees	1,192
127	Other Professional Fees	235
1,343	**Total**	**1,427**

13 Investments

The investment managers and their mandates are as follows:

Manager	**Mandate**
Bernstein*	Active Global Equity
Blackrock	Passive Global Equity
CBRE Global Investors	Property
Fidelity	Bond
LGT Capital Partners	Private Equity
State Street Global Markets*	Passive Global Equity
Wilshire	Private Equity

*In September 2013 Bernstein's mandate was terminated. The assets were moved to a State Street Global Markets Liquidity Fund.

The market value of the Fund is comprised as follows:

	2012/2013 Market Value £000	2012/2013 Market Value %	2013/2014 Market Value £000	2013/2014 Market Value %
Bernstein	192,422	22	53	0
Blackrock	427,809	48	456,702	49
CBRE Global Investors	55,342	6	67,460	8
Fidelity	172,487	19	172,985	18
LGT Capital Partners	13,756	2	13,180	1
Royal Borough of Greenwich	8,648	1	8,192	1
State Street Global Markets	0	0	205,015	22
Wilshire	14,548	2	12,849	1
Total	**885,012**	**100**	**936,436**	**100**

The change in market value of the Fund during the year is represented as follows:

Manager	**Market Value 31 March 2013** £000	**Purchases** £000	**Sales** £000	**Change in Market Value of Investments** £000	**Change in Working Capital** £000	**Market Value 31 March 2014** £000
Bernstein	192,422	(103,151)	(58,179)	(25,802)	(5,237)	53
Blackrock	427,809	7,208	(17,182)	29,108	9,759	456,702
CBRE Global Investors	55,342	32,847	(9,821)	3,656	(14,564)	67,460
Fidelity	172,487	(207)[a]	(1)	706	0	172,985
LGT	13,756	201 [b]	(2,203)	1,426	0	13,180
Royal Borough of Greenwich	8,648	6,370	(5,080)	(7)	(1,739)	8,192
State Street Global Markets	0	306,462	(138,820)	36,543	830	205,015
Wilshire	14,548	433 [b]	(2,538)	685	(279)	12,849
Total	**885,012**	**250,163**	**(233,824)**	**46,315**	**(11,230)**	**936,436**

The prior year comparator is as follows:

Manager	Market Value 31 March 2012	Purchases	Sales	Change in Market Value of Investments	Change in Working Capital	Market Value 31 March 2013
	£000	£000	£000	£000	£000	£000
Bernstein	254,231	75,319	(147,886)	12,752	(1,994)	192,422
Blackrock	291,908	668,829	(602,732)	69,913	(109)	427,809
CBRE Global Investors	55,668	2,000	(2,089)	(2,571)	2,334	55,342
Fidelity	156,208	(158)[a]	(1)	16,438	0	172,487
LGT	13,823	(2,316)[c]	0	2,249	0	13,756
Royal Borough of Greenwich	10,510	0	0	219	(2,081)	8,648
Wilshire	13,538	(1,343)[c]	0	2,074	279	14,548
Total	**795,886**	**742,331**	**(752,708)**	**101,074**	**(1,571)**	**885,012**

a. The negative Fidelity purchase relates to management fees which are charged by reducing the market value of the holdings by the amount of the fee.

b. In 2013/2014 distributions have been split into income (dividends, interest and gains) and distributions of capital reducing the book cost.

c. Distributions of capital reducing the book cost.

In September 2013 £166m of assets were transferred from Bernstein to a State Street Global Markets Liquidity Account where the assets are managed passively. Cash has been placed into cash equivalents within this account to earn a return.

The change in market value of investments during the year is comprised of new money invested and the realised and unrealised profits or losses for the year:

2012/2013		2013/2014
£000		£000
795,886	Opening Market Value	885,012
(11,952)	Net Revenue Cash in / (out) flow	5,109
75,632	Realised profit / (loss)	42,019
25,446	Unrealised profit / (loss)	4,296
885,012	**Closing Market Value**	**936,436**

The value of quoted and unquoted securities is broken down as follows:

2012/2013	2013/2014
£000	£000

175,934	Quoted	186,344
	Unquoted:	
28,025	Private Equity	26,029
665,652	Other	713,079
15,401	Working Capital	10,984
885,012	**Total**	**936,436**

Of the total amount classified as "unquoted – other" £642.7m relates to investment vehicles where the underlying investments are themselves quoted (£621.4m in 2012/2013).

The following table analyses the investment assets between UK and overseas:

2012/2013 £000		2013/2014 £000
550,925	UK	583,771
318,686	Non UK	341,681
15,401	Working capital	10,984
885,012	**Total**	**936,436**

Individual investment assets with a market value of greater than 5% of the total fund value are as follows:

Investment Assets	Manager	2013/2014 £000	2013/2014 %
Blackrock Collective Investment UK Equity Tracker	Blackrock	191,459	20
UK Aggregate Bond Fund	Fidelity	172,985	18
Aquila Life UK Equity Index Fund	Blackrock	127,346	14

The prior year comparator is as follows:

Investment Assets	Manager	2012/2013 £000	2012/2013 %
Blackrock Collective Investment UK Equity Tracker	Blackrock	176,259	20
UK Aggregate Bond Fund	Fidelity	172,487	19
Aquila Life UK Equity Index Fund	Blackrock	129,919	15

Investments exceeding 5% within each class of security are as follows:

Class of Security Asset	Manager	2013/2014 £000	2013/2014 % within asset class
Fixed Interest OIEC			
Fidelity UK Aggregate Bond Fund	Fidelity	172,985	100
Property Unit Trusts			
Schroder Exempt Property Unit Trust	CBRE	6,410	8
West End of London Property Fund	CBRE	5,922	8
Industrial Property Investment Fund	CBRE	5,858	8
Unite UK Student Accommodation	CBRE	5,055	7
UBS Global Asset Management	CBRE	4,863	6
Henderson UK Shopping Centre	CBRE	4,744	6
Lend Lease retail Partnership	CBRE	4,857	6
Rockspring Hanover Property Unit Trust	CBRE	4,579	6
M+G Secured Property Income	CBRE	3,999	5
Unitised Insurance Policies			
Aquila Life UK Equity Index Fund	Blackrock	127,346	57
Aquila Life US Equity Index Fund	Blackrock	35,071	16
Aquila Life Pacific Rim Equity Index Fund	Blackrock	25,415	11
Aquila Life European Equity Index Fund	Blackrock	20,616	9
Aquila Life Japan Equity Index Fund	Blackrock	13,865	6
Other Unit Trusts			
Blackrock Collective Investment UK Equity Tracker	Blackrock	191,459	78
ishares MSCI emerging Markets	States Street Global	22,649	9
Aquila Emerging Markets Fund	Blackrock	22,847	9
Property – Freehold			
New Lydenberg Industrial Estate	Internal	1,600	100
Private Equity			
LGT Crown European Private Equity	LGT	13,180	51
Wilshire US Private Markets Fund VII, L.P.	Wilshire	7,751	30
Wilshire European Private Markets Fund VII, L.P.	Wilshire	4,085	16

The prior year comparator is as follows:

Class of Security Asset	Manager	2012/2013 £000	2012/2013 % within asset class
Fixed Interest OIEC			
Fidelity UK Aggregate Bond Fund	Fidelity	172,487	100
Property Unit Trusts			
Hercules Property Unit Trust	CBRE	5,481	11
UBS Global Asset Management Triton Property Unity Trust	CBRE	5,461	11
Schroders UK Property Fund	CBRE	4,208	8
Lend Lease retail Partnership	CBRE	4,002	8
M & G Secured Property Income Fund	CBRE	3,899	8
Henderson UK Shopping Centre Fund	CBRE	3,629	7
Blackrock UK Property Fund Blackrock UK	CBRE	3,607	7
Palmer Capital Development Fund	CBRE	3,383	7
Airport Industrial Property Unit Trust	CBRE	2,736	5
West End of London Property Unit Trust	CBRE	2,636	5
Unitised Insurance Policies			
Aquila Life UK Equity Index Fund	Blackrock	129,919	58
Aquila Life US Equity Index Fund	Blackrock	33,858	15
Aquila Life Pacific Rim	Blackrock	27,137	12
Aquila Life European Equity Index Fund	Blackrock	17,773	8
Aquila Life Japan Equity Index Fund	Blackrock	14,104	6
Other Unit Trusts			
Blackrock Collective Investment UK Equity Tracker	Blackrock	176,259	79
Blackrock Emerging Markets Fund	Blackrock	17,580	8
ACM Bernstein Emerging Markets Off Shore Fund	Alliance Bernstein	12,002	5
Property – Freehold			
New Lydenberg Industrial Estate	Internal	1,600	100
Private Equity			
LGT Crown European Private Equity	LGT	13,756	49
Wilshire US Private Markets Fund VII, L.P.	Wilshire	8,459	30
Wilshire European Private Markets Fund VII, L.P.	Wilshire	4,443	16
Wilshire Asia Private Markets Fund VII, L.P.	Wilshire	1,367	5

The Fund has a policy of not entering into stock lending arrangements. Therefore, as in previous years, there were no stock lending arrangements in place during the financial year ending 31 March 2014.

Derivatives

The following investment products are classed as derivatives and may be used by the Fund managers:

- Stock index futures – used for the purposes of efficient portfolio management.
- Short currency forwards – used for defensively hedging non UK exposure back to sterling.
- Local access products – used to gain exposure to stocks where the manager is unable to purchase them directly.

On 31 March 2014 the Fund did not have any derivative holdings or derivative open trades.

On 31 March 2013 two "exchange traded" derivatives existed for the trade of futures to be settled in June 2013. The notional value of derivative trades was £1.0m. Included within the Cash Deposits line in the Net Asset Statement there was £0.048m which was held as collateral in relation to these derivatives.

14 Financial Instruments

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

31 March 2013				31 March 2014		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised costs		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			Financial Assets			
166,861			Equities	177,758		
			Pooled Investment Vehicles:			
172,487			Fixed Interest OEIC	172,985		
51,680			Property Unit Trusts	77,412		
225,462			Unitised Insurance Policies	224,901		
223,491			Other Unit Trusts	244,767		
18			Derivative Contracts	0		
28,025			Private Equity	26,029		
	7,895		Cash Deposits		3,073	
	0		Cash Equivalents		6,812	
	7,229		Other investment balances		10,312	

	236		Contributions Due		304	
	59		Other Current Assets		230	
	6,747		Cash Balances		5,062	
868,024	**22,166**	**0**	**Total Financial Assets**	**923,852**	**25,793**	**0**
			Financial Liabilities			
(13)			Derivative Contracts	0		
		(6,005)	Other Investment Balances			(14,028)
		(306)	Unpaid Benefits			(374)
		(881)	Other Current Liabilities			(788)
(13)	**0**	**(7,192)**	**Total Financial Liabilities**	**0**	**0**	**(15,190)**
868,011	**22,166**	**(7,192)**	**Net Financial Assets**	**923,852**	**25,793**	**(15,190)**

The net gains and losses on financial instruments are as follows:

31 March 2013		31 March 2014
£000		£000
	Financial Assets	
101,060	Fair Value Through Profit and Loss	46,306
16	Loans and Receivables	(4)
	Financial Liabilities	
(2)	Fair Value Through Profit and Loss	13
101,074	**Total**	**46,315**

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

Carrying Value	Fair Value		Carrying Value	Fair Value
31March 2013			31 March 2014	
£000	£000		£000	£000
		Financial Assets		
868,024	868,024	Fair Value Through Profit and Loss	923,852	923,852
22,166	22,166	Loans and Receivables	25,793	25,793
890,190	**890,190**	**Total Financial Assets**	**949,645**	**949,645**
		Financial Liabilities		
(13)	(13)	Fair Value Through Profit and Loss	0	0
(7,192)	(7,192)	Financial Liabilities at Amortised Cost	(15,190)	(15,190)
(7,205)	**(7,205)**	**Total Financial Liabilities**	**(15,190)**	**(15,190)**

Valuation of Financial Instruments carried at Fair Value

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

Level 1 – 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 and unit trusts.

Level 2 – Where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Included in this level are the Fund's private equity investments, the valuations of which are provided by the private equity managers. A breakdown of the opening market value to closing market value for Private Equity investments can be found in Note 13. This shows Private Equity movements in year for Wilshire and LGT.

The following table provides an analysis of the Financial Assets and Liabilities of the Fund and are grouped, based upon the level at which the fair value is observable.

Values as at 31 March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at Fair Value through profit and loss	186,344	711,479	26,029	923,852
Net Financial Assets	**186,344**	**711,479**	**26,029**	**923,852**

Values as at 31 March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at Fair Value through profit and loss	175,947	664,052	28,025	868,024
Net Financial Assets	**175,947**	**664,052**	**28,025**	**868,024**

15 Nature and Extent of Risks arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce 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 Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Investment and Administration Panel. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and market conditions.

<u>Market Risk</u>

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 risk.

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

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

The Fund manages these risks in two ways:

- The exposure of the Fund to market risk is monitored through risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contacts 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.

<u>Other Price Risk</u>

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 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.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund 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 performance management advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the reporting period:

Asset	Potential Market Movements (+/-)
UK Equities	12.32%
Overseas Equities	12.42%
Bonds	5.05%
Property	2.10%
Cash	0.02%
Private Equity	5.26%

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset	Value as at 31 March 2014	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	14,946	0.02	14,949	14,943
UK Equities	335,328	12.32	376,640	294,016
Overseas Equities	312,099	12.42	350,861	273,336
Bonds	172,985	5.05	181,721	164,249
Property	79,012	2.10	80,671	77,353
Private Equity	26,029	5.26	27,398	24,660
Other Investment Balances	(3,715)	0.0	(3,715)	(3,715)
Total Assets available to Pay Benefits	**936,684**		**1,028,525**	**844,842**

The prior year comparator is as follows:

Asset	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash Equivalents	14,642	0.0	14,642	14,642
UK Equities	325,548	13.3	368,846	282,250
Overseas Equities	290,270	13.5	329,457	251,084
Bonds	172,487	4.5	180,249	164,725
Property	53,280	2.0	54,346	52,214
Private Equity	28,025	5.2	29,483	26,568
Other Investment Balances	1,651	0.0	1,651	1,651
Total Assets available to Pay Benefits	**885,903**		**978,674**	**793,134**

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 direct exposure to interest rate movements is through its cash and fixed interest security holdings.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. It is currently felt that interest rates are unlikely to move up or down by more than 50 basis points (bps) over the course of the next year.

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 +/- 50 bps change in interest rates:

Asset	Carrying Amount as at 31 March 2014	Change in Year in the Net Assets available to Pay Benefits	
		+ 50 bps	-50 bps
	£000	£000	£000
Cash Balances	5,062	25	(25)
Cash on Deposit	3,073	15	(15)
Fixed Interest OEIC	172,985	865	(865)
Total Interest Rate Risk Assets	**181,120**	**905**	**(905)**

The prior year comparator is as follows:

Asset	Carrying Amount as at 31 March 2013	Change in Year in the Net Assets available to Pay Benefits	
		+ 50 bps	-50 bps
	£000	£000	£000
Cash Balances	6,747	34	(34)
Cash on Deposit	7,895	40	(40)
Fixed Interest OEIC	172,487	862	(862)
Total Interest Rate Risk Assets	**187,129**	**936**	**(936)**

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 Sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than Sterling.

Currency Risk – Sensitivity Analysis

Following consultation with the Fund's performance management advisors, the following table shows the potential impact of foreign exchange rate movements on the overseas holdings within the Fund (the analysis assumes that all other variables, in particular interest rates, remain constant):

Asset	Asset Value as at 31 March 2014	Potential Change in Foreign Exchange Rate	Value on Increase	Value on Decrease
	£000	%	£000	£000
Private Equity	26,029	5.3	27,409	24,649
Overseas Property Unit Trusts	3,554	6.13	3,771	3,336
Overseas Unitised Insurance Policies	97,555	5.54	102,962	92,148
Overseas Unit Trust Other	53,308	6.14	56,581	50,035
Overseas Equities	161,235	5.83	170,634	151,836
Cash held in Foreign Currencies	617	5.33	650	584
Total Currency Risk Assets	**342,298**		**362,007**	**322,588**

The prior year comparator is as follows:

Asset	Asset Value as at 31 March 2013	Potential Change in Foreign Exchange Rate	Value on Increase	Value on Decrease
	£000	%	£000	£000
Private Equity	28,025	5.6	29,594	26,457
Overseas Property Unit Trusts	390	7.8	420	359
Overseas Unitised Insurance Policies	95,543	5.7	100,989	90,097
Overseas Unit Trust Other	47,231	6.5	50,301	44,161
Overseas Equities	147,491	6.3	156,783	138,199
Cash held in Foreign Currencies	541	4.8	567	515
Total Currency Risk Assets	**319,221**		**338,654**	**299,788**

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 held in year 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.

The Fund has a private equity portfolio where there is a higher credit risk. The Fund has a target 5% allocation to this area thereby capping exposure to this asset class.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating.

The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £5.1m (£6.7m at 31 March 2013). This was held as follows:

Counterparty Type	Balance as at 31 March 2013	Balance as at 31 March 2014
	£000	£000
Current Account (Overnight Balance)		
UK Banks	6,747	5,062
Total	**6,747**	**5,062**

Liquidity Risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The cash position of the Fund is monitored to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to monies held in its current account. Monies on deposit are also highly liquid and are available to the Fund if needed.

If the Fund found itself in a position where it did not have the monies to meet its immediate commitments, it is able to borrow for up to 90 days. If there was a longer term shortfall, then investments could be sold to provide additional cash.

Financial liabilities of £15.190m are all due to be settled within 12 months of the net asset statement date.

Refinancing risk
The key risk is that the Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

16 Actuarial Position

The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Fund. This actuarial valuation also assesses the contribution rate required to meet the future liabilities of the Fund by considering the benefits that accrue over the course of the three years to the next full valuation.

In line with the regulations that funds should be revalued every three years, the actuarial valuation applicable for 2013/2014 was carried out as at 31 March 2010 (effective from 1 April 2011).

The method of calculating the employer's contribution rate is derived from the cost of the benefits building up over the year following the valuation date. This method is known as the 'Projected Unit Method'. It is a method considered appropriate by the Actuary for a fund open to new members.

As the Fund remains open to new members, its age profile is not currently rising significantly. If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement.

Assets have been valued at a 6 month smoothed market value straddling the valuation date. The assumptions used in the calculation and applied during the intervaluation period are summarised as follows:

Financial Assumptions	**March 2010**	
	% p.a.	**Real % p.a.**
Investment Return		
Equities	7.4	3.9
Gilts	4.5	1.0
Bonds & Property	5.6	2.1
Discount Rate	6.7	3.2
Pay Increases	5.0	1.5
Price Inflation	3.5	0.0
Pension Increases	3.0	(0.5)

The difference between the assumptions applied and actual performance in the intervaluation (01/04/2007-31/03/2010) period are as follows:

Financial Experience	**Actual** %	**Assumed** %	**Difference** %
Price Inflation	2.9	3.4	(0.5)
Pay Increases	5.4	5.4	0.0
Pension Increases	2.9	3.4	(0.5)
Investment Returns	(2.0)	6.6	(8.6)

The market value of the Fund at the 2010 review date was £729m (£758m in 2007) and results showed that assets represented 85% of the liabilities (almost 100% in 2007). The Fund deficit arising from the valuation was £121m as at 31 March 2010 (£4m as at 31 March 2007), which is to be spread and recovered over a 23 year period. The reconciliation of the primary contribution rate is shown below:

Contribution Rate Analysis	**March 2010**
	%
Future Service Total	14.1
Deficit Contribution	4.4
Total Employer Contribution Rate	**18.5**

The agreed contribution rates in accordance with the results of the actuarial valuation is as follows:

Year	**Royal Borough of Greenwich**	**Other Bodies**
2011/12	18.5%	16.5% - 21.0%
2012/13	18.5%	16.5% - 21.0%
2013/14	18.5%	16.5% - 21.0%

A valuation was carried out as at 31 March 2013 and is effective from 1 April 2014. The market value of the Fund at the 2013 review date was £885m (£729m in 2010) and results showed that assets represented 86% of the liabilities (85% in 2010). The Fund deficit arising from the valuation was £141m as at 31 March 2013 (£121m as at 31 March 2010), which is to be spread and recovered over a 23 year period. The common contribution rate remains at 18.5% from 1 April 2014.

17 Actuarial Present Value of Promised Retirement Benefits

The net liability of the Fund in relation to the actuarial present value of promised retirement benefits and the net assets available to fund these benefits is as follows (based upon IAS 19 information available as at 31 March 2014):

	31 March 2013 £000		31 March 2014 £000	
Present Value of Funded Obligation				
Vested Obligation	(1,093,783)		(1,290,837)	
Non-Vested Obligation	(283,787)		(137,178)	
Total Present Value of Funded Obligation		(1,377,570)		(1,428,015)
Fair Value of Scheme Assets		885,011		936,436
Net Liability		**(492,559)**		**(491,579)**

18 Debtors and Creditors

Transactions are accounted for on an accruals basis, except where stated. The following material amounts were due to, or payable from, the Fund as at 31 March 2014:

2012/2013 £000		2013/2014 £000
	Investment Debtors:	
6,884	Sale of Investments	9,782
428	Tax Refunds Due	381
339	Dividends Due	530
5	Other	0
7,656	**Total Investment Debtors**	**10,693**
	Member Debtors:	
236	Contributions	304
59	Other	230
295	**Total Member Debtors**	**534**
7,951	**Total Debtors**	**11,227**

Analysed By:

2012/2013 £000		2013/2014 £000
7,951	Other Entities and Individuals	11,227
7,951		**11,227**

2012/2013 £000		2013/2014 £000
	Investment Creditors:	
(516)	Management Fees	**(263)**
(5,476)	Purchase of Investments	**(13,753)**
(13)	Custody Fees	**(12)**
(6,005)	**Total Investment Creditors**	**(14,028)**
	Member Creditors:	
(306)	Benefits Unpaid	(374)
(881)	Other	(788)
(1,187)	**Total Member Creditors**	**(1,162)**
(7,192)	**Total Creditors**	**(15,190)**

Analysed By:

2012/2013 £000		2013/2014 £000
(611)	Central Government Bodies	(642)
0	Public corporations and trading funds	0
0	Local Authorities	(78)
(6,581)	Other entities and individuals	(14,470)
(7,192)	**Total Creditors**	**(15,190)**

19 Cash

The cash balance can be further analysed as follows:

	2012/2013 £000	2013/2014 £000
Royal Borough of Greenwich Pension Fund Cash at Hand	7,218	5,209
Alliance Bernstein Cash at Hand	3,347	(178)
CBRE Cash at Hand	4,077	2,598

	2012/2013 £000	2013/2014 £000
State Street Global Markets	0	506
Total Cash	**14,642**	**8,135**

The balance held in the Fund bank account as at 31 March 2014 was £5.062m (£6.747m as at 31 March 2013).

20 Additional Voluntary Contributions

Contributing members have the right to make Additional Voluntary Contributions (AVCs) to enhance their pension. The Authority made such a scheme available to staff through Equitable Life. During 2000/2001, Equitable Life announced itself closed to new business. On 23 December 2010 the Government passed an Equitable Life Bill to enable it to compensate Equitable Life policyholders who lost money due to the near collapse of the insurer in 2000. Since 2000, employees have had the option to pay current contributions into a Clerical Medical Fund. In accordance with section 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, AVCs are prohibited from being credited to the Local Government Pension Scheme and are thus not consolidated within the Fund accounts. However, a summary of the contributions made by members during the year and the total value of the AVC funds, at 31 March 2014, are shown below:

2012/2013 £000		2013/2014 £000
81	AVC Contributions to Clerical Medical	82
4	AVC Contributions to Equitable Life	3
85	**Total Contributions**	**85**

31 March 2013 £000		31 March 2014 £000
880	Clerical Medical Market Value	978
496	Equitable Life Market Value	499
1,376	**Total Market Value**	**1,477**

21 Related Party Transactions

The UK Government exerts a significant influence over the Fund through enacting the various Regulations (mentioned herein). It is a major source of funding for the Royal Borough of Greenwich (the Administering Authority and largest employer within the fund).

During the year, no trustees or Key Management Personnel of the Authority with direct responsibility for pension fund issues have undertaken any material transactions with the Pension Fund, other than the following:

1. Administrative services were undertaken by the Authority on behalf of the Fund, under the SLA, valued at £0.709m (2012/2013: £0.871).

2. The Royal Borough of Greenwich is the single largest employer of members of the pension fund and contributed £26.0m to the fund in 2013/2014 (2012/2013: £22.0m).
3. With respect to other Scheduled Bodies, an amount of £0.084m was owed to the Fund by Academies at year-end for contributions due.
4. The following members of the Pension Fund Investment and Administration Panel are also members of the Pension Fund:
   - Councillor Austen
   - Councillor Kotz
   - Councillor MacCarthy
   - Councillor Cornforth
   - Councillor Dickinson

   Each member of the Panel is required to declare their interests at meetings.

5. Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7 (2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. The disclosures required by Regulation 7 (2) – (4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of the Royal Borough of Greenwich. The Director of Finance fulfils the definition of the key management personnel responsible for the Pension Fund.

22 Contingent Liabilities

There were no contingent liabilities as at 31 March 2014.

23 Commitments

The Fund has commitments in relation to its private equity holdings. These commitments are drawn down in tranches over time as and when the private equity managers request them. As of 31 March 2014 the Fund had £3.423m of private equity commitments outstanding (31 March 2013: £4.660m). These are not required to be included in the Accounts.

24 Accounting Standards that have been Issued but have not yet been Adopted

There are no accounting standards issued but not yet adopted which affect the pension fund accounts.

25 Events after the Reporting Period

New Local Government Pension Scheme regulations came into force in April 2014. The new regulations include moving to a career average scheme, a $1/49^{th}$ accrual rate (currently $1/60^{th}$), linking retirement age to State Pension Age and a 50/50 scheme option allowing members to pay half the contributions in return for half the benefits. The contribution rate for part time workers will no longer be determined by whole time equivalent salary and will now link to actual pensionable pay. Benefits accrued prior to 1 April 2014 will be protected, including benefits based on final salary and current retirement age.

The Statement of Accounts was authorised for issue by the Director of Finance on 6 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date gave rise to information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

ROYAL BOROUGH OF GREENWICH PENSION FUND
Appendix C- Governance Compliance Statement

Background

The Local Government Pension Scheme (Administration) Regulations 2008 paragraph 31 require all administering authorities to produce a Governance Compliance Statement. This statement must set out whether the administering authority delegates its function and if so what the terms, structure and operation of the delegation are. The administering authority must also state the extent to which a delegation complies with guidance given by the Secretary of State.

Any revisions to this statement will be approved and published by the Pension Fund Investment and Administration Panel.

Delegation Arrangements

The Royal Borough of Greenwich is the Administering Authority for the Royal Borough of Greenwich Pension Fund. Therefore Elected Members are responsible for the stewardship of the Fund. This responsibility has been delegated to the Pension Fund Investment and Administration Panel, a sub-committee of Council.

Day to day running of the Fund in respect of administering the membership through collecting contributions, paying benefits / pensions and maintaining all necessary records, is undertaken by the Director of Finance.

The Pension Fund Investment and Administration Panel

The Pension Fund Investment and Administration Panel convenes a minimum of four times a year and contains six Greenwich Councillors with full voting rights. Representatives from admitted bodies and the trades unions are invited to participate as members of the Panel but do not have voting rights. The general terms of reference of the Pension Fund Investment and Administration Panel are:

- To exercise all relevant functions conferred by regulations made under the Superannuation Act 1972

- To consider and decide all matters regarding the management of the pension fund’s investments and to determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.

- To decide all matters relating to policy and target setting for and monitoring the investment performance of the pension fund

- At least once every three months, to review the investments made by the investment managers and consider the desirability of continuing or terminating the appointment of the investment managers.

- To consider and make recommendations on policy and staff related issues which have an impact on the pension fund directly or indirectly through changes in employer pension contribution rates and through Fund employers' early retirement policies.

- To consider triennial valuation reports prepared by the Fund's actuaries, with recommended employer contributions.

- To receive monitoring reports from the Director of Finance on all matters relevant to the Pension Fund and the Administering Authority's statutory requirements.

Delegation of Functions in Detail

The following table explores the various functions in relation to their delegated level. The table splits the functions into three categories (management arrangements, corporate governance and other) and states the responsibilities of the Pension Fund Investment and Administration Panel, the Director of Finance and Fund Managers in respect of the functions.

Delegation (Management Arrangements)

Investment and Administration Panel **Decision Making**	Investment and Administration Panel **Monitoring and Control**	**Director of Finance**	**Fund Manager**
The Panel will determine the allocation of new money to the managers. Similarly, in the event that assets need to be realised in order to meet the Fund's liabilities, the Panel will determine the source of this funding.	The Panel will formally review the Fund's ***asset allocation*** as circumstances dictate, taking account of any changes in the profile of Fund liabilities. The Panel will take guidance from the investment consultant regarding tolerance of risk.	Preparation of annual budgets and business plan for the Fund.	
The Panel will be responsible for the appointment and termination of ***fund managers***.	• The Panel will consider the need for any changes to the Fund's investment ***fund manager*** arrangements (e.g. replacement, addition, termination) at least annually. • In the event of a proposed change of manager, the Panel will evaluate the credentials of potential managers. • The Panel will conduct and conclude the negotiation of formal agreements with ***fund managers***, ***custodians*** and other investment service providers.	Management of a small in-house portfolio.	

Investment and Administration Panel **Decision Making**	Investment and Administration Panel **Monitoring and Control**	**Director of Finance**	**Fund Manager**
The Panel will be responsible for any changes to the terms of the mandates of existing ***fund managers***.	• The Panel will consider and monitor the quarterly reports produced in respect of the ***fund managers***. In addition to ***fund managers***' portfolio and performance reporting, the Panel will also periodically receive and review information relating to the managers ***risk*** analysis. • The Panel will continually review the ***fund managers***' mandates and their adherence to their expected investment process and style (e.g. ***active***, ***balanced***, ***passive*** etc). The Panel will ensure that the explicit written mandate of each of the ***fund managers*** is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, ***risk*** parameters and timescale. The Fund's ***percentile*** performance ranked against other ***LGPS*** funds will be assessed quarterly.		• Investment of the Fund's assets. • Tactical ***asset allocation*** around the Fund's strategic ***benchmark***. • Preparation of quarterly reporting including a review of investment performance. • Attending meetings of the Investment Panel. • Providing Fund accounting data concerning the investment portfolio and transactions.

Delegation (Corporate Governance)

Investment and Administration Panel **Decision Making**	Investment and Administration Panel **Monitoring and Control**	**Director of Finance**	**Fund Manager**
The Panel is responsible for Socially Responsible Investment (***SRI***), ***corporate governance*** and shareholder activism.	The Panel will consider the Fund's approach to social, ethical and environmental issues of investment, ***corporate governance*** and shareholder activism.		Implementation of ***SRI*** in line with the Fund's policy.
The Panel is responsible for the maintenance of the ***SIP***, including ***Myners*** disclosures.			

Delegation (Other)

Investment and Administration Panel **Decision Making**	Investment and Administration Panel Monitoring and Control	**Director of Finance**	**Fund Manager**
The Panel will be responsible for the appointment and termination of ***AVC*** providers.	The Panel will review the Fund's ***AVC*** arrangements.		
	The Panel may also carry out any additional tasks delegated to it by the Council, including: • The Panel will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. ***custodian***) - the Panel will be responsible for the appointment and termination of providers. • In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis, where identified. • The Panel should take such professional advice it considers necessary. • The Panel will keep Minutes and other appropriate records of its proceedings.		

Governance Compliance Statement

The table below demonstrates the extent to which the delegation of functions complies with the guidance given by the Secretary of State.

PRINCIPLE	BEST PRACTICE	COMPLIANCE	COMMENT
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	✓	Pension Fund Investment and Administration Panel
	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.	✓	All employers entitled to attend. Trade Union observers represent members
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**n/a**	
	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.	**n/a**	
Representation	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 such as admitted bodies)	✓	
	ii) scheme members (including deferred and pensioner scheme members)	✓	
	iii) where appropriate, independent professional observers	✓	The Panel has considered this issue and there has been no requirement given the nature of the other advice provided
	iv) expert advisors (on an ad-hoc basis).	✓	
	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.	**n/a**	
Selection and Role of Lay Members	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	✓	Selected via Council AGM or General Purposes Committee.

PRINCIPLE	BEST PRACTICE	COMPLIANCE	COMMENT
	committee.		Training is offered.
	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	✓	Standing item on agenda
Voting	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.	✓	Stated in Governance Policy Statement – Royal Borough of Greenwich Pension Fund Investment and Administration Panel
Training, Facilities and Expenses	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	✓	Stated in Governance Policy Statement – Delegation (Other)
	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.	✓	
	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	✓	The administering authority has adopted the CIPFA Knowledge and Skills Framework
Meetings (frequency / quorum)	That an administering authority's main committee or committees meet at least quarterly.	✓	Stated in Governance Policy Statement – Royal Borough of Greenwich Pension Fund Investment and Administration Panel
	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.	**n/a**	
	That an administering authority who does 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	✓	Representation by Trades Unions on Panel plus Trades Union Liaison meetings (as apt).
Access	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.	✓	
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	✓	The panel recommends employer policies on issues such as discretions. The panel also reviews the effects of decisions such as early

PRINCIPLE	BEST PRACTICE	COMPLIANCE	COMMENT
			retirement upon the fund.
Publicity	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.	✓	Governance Statement is published on the authority's website and referred to within the newsletter with a mechanism for feedback

Royal Borough of Greenwich Pension Fund

Appendix D- Funding Strategy Statement

March 2014

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Royal Borough of Greenwich Pension Fund ("the Fund"), which is administered by Royal Borough of Greenwich ("the Administering Authority").

This statement has been prepared by the Royal Borough of Greenwich Council to set out the funding strategy for the Royal Borough of Greenwich Pension Fund in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel. It has been prepared by the Administering Authority in collaboration and after consultation with the following –

- The Fund's Actuary - Barnett Waddingham LLP
- The Fund's Investment Advisers – Hymans Robertson LLP
- The Fund's participating employers

It is effective from 1 April 2014.

1.2 What is the Royal Borough of Greenwich Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement (FSS)?

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

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

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

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

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

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

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

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. Eight of the last ten new employers have been educational bodies.

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CABs") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TABs"). CABs will include housing associations and charities. TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

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

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

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

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers	Transferee Admission Bodies
Sub-type	**Administering Authority**	**Academies**	**(all)**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			
Maximum deficit recovery period – Note (c)	25 Years			
Deficit recovery payments – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll
Phasing of contribution changes	None			
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations			
New employer	n/a	Note (g)	Note (h)	Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on on-going basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

The Administering Authority may vary the discount rate used to set the employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer will alter its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

Stabilisation is not currently applicable to employers in the Royal Borough of Greenwich Pension Fund.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members will not be phased.

Phasing is not applicable at this valuation.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) All academies in the Fund are to be fully pooled together, sharing past and future service costs and experience. This is, however, subject to the outcome of the on-going Academies consultation.

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy will join the Fund's Academy pool in which all Academies pay the same contribution rate as a percentage of payroll.

e) As above, all academies will pay the same contribution rate as a percentage of payroll and at conversion, the Academy will be allocated a portion of the Fund's assets. At each triennial valuation any necessary asset adjustments will be made so as to share the Academy pool's combined deficit between all the Academies in the pool.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies and Community Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are usually three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. Amounts are payable immediately and any extension is at the sole discretion of the administering authority. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g.

equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an annual basis. It reports this to the regular Pensions Investment and Administration Panel meetings.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was that a draft version of the FSS was issued to all participating employers in February 2014 for comment.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the Pension Fund's website.
- A copy sent by post or e-mail to each participating employer in the Fund along with confirmation of the final employer contribution rate;
- A full copy is included in the annual report and accounts of the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Panel] and would be included in the relevant Panel Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Pension Fund website.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay over all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

The risks included on the table below are those risks appropriate and relevant to the Funding Strategy Statement.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Regular monitoring of funding position. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	Measures are in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.8).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over a significant number of LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating pattern of early retirements	Employers are charged the extra cost of non ill-health retirements. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: A review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a

Risk	Summary of Control Mechanisms
	percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient	The Administering Authority believes that it would

Risk	Summary of Control Mechanisms
funding or adequacy of a bond.	normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[2], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[3]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[2] See LGPS (Administration) Regulations 36(5).
[3] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. To determine the asset share for each employer, the Fund actuary rolls forward the assets calculated at the previous valuation allowing for investment returns, contributions paid into, and benefits paid from, the Fund by and in respect if the Employer and its employees. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.7% per annum greater than gilt yields at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1.5% above the consumer price index (CPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 0% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI2012 model and a long –term rate of improvement and a 1.5% per annum.

The combined effect of the above changes from the 2010 valuation approach is to add around 4.3 years of life expectancy on average for a member currently aged 65. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

ROYAL BOROUGH OF GREENWICH PENSION FUND
Appendix E- Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").

The Statement has been adopted by the Pension Fund Investment and Administration Panel (the "Panel"), which acts on the delegated authority of the Royal Borough of Greenwich, the administering authority for the Royal Borough of Greenwich Pension Fund ("the Fund"). The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Panel has consulted with the administrating authority and has taken and considered advice from the Fund's investment consultant.

In Annexe 1, the Panel has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012'.

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and / or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Panel aims to manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy (Strategic Asset Allocation)

The Panel has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Annexe II). The strategic benchmark is reflected in the investment structure adopted by the Panel; this comprises a mix of segregated /

pooled and active / passive manager mandates. The Fund benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Panel monitors investment strategy relative to the agreed asset allocation benchmark. An asset / liability study will be undertaken in 2013/14 and it is intended that investment strategy will be reviewed at least every three years.

"Schedule 1" Limits on Investments

The Panel previously agreed to an increase in the limit on investments in life policy contracts from 25% to 30% (the upper limit specified in Schedule 1 of the 2009 Regulations is 35%). Before taking this decision, the Panel took proper advice from its investment adviser, Hymans Robertson, in relation to the impact of the increase on overall risk within the Fund and how the Panel monitors and manages that risk. The decision was taken because making use of the funds concerned was effective both in terms of cost and also in terms of broader portfolio diversification within the funds concerned. The decision is reviewed annually and complies with the 2009 Regulations.

Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, cash, property and alternative products (e.g. private equity), either directly or through pooled funds.

The Fund may also make use of derivative type investments either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Panel considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies and industry classifications in order to provide diversification of returns.

Balance between different kinds of investments

The Panel has appointed a number of investment managers, all of whom are authorised by the Financial Services Authority (pursuant to the Financial Services and Markets Act 2000) to undertake investment business.

The Panel, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. Annexe III details the individual benchmarks.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risk types affecting the Fund are:

- Asset and Investment Risk
- Employer Risk
- Resource and Skill Risk
- Liability Risk
- Administrative Risk
- Regulatory and Compliance Risk
- Reputational Risk.

The Panel monitors and manages risks in these areas through use of a detailed Risk Register process.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments

The majority of assets held within the Fund may be realised quickly if required.

Social, Environmental and Ethical Considerations

The Panel recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out its policy in this regard. The managers have been delegated by the Panel to act accordingly.

Exercise of Voting Rights

The Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value. The managers are encouraged to vote in line with guidelines set by the Fund, in respect of all resolutions at annual and extraordinary general meetings of companies. Annexe IV outlines the Voting Intention Guidelines. Membership of the Local Authority Pension Fund Forum enables alerts to be sent to the Fund in respect of specific issues / companies. The Director of Finance has delegated authority to instruct fund managers to vote in a specific manner.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Panel, which include both pooled and segregated mandates.

Within segregated mandates, the Panel has absolute discretion over whether stock lending is permitted. The Panel has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Panel has decided not to permit stock lending within its segregated investment mandates.

The managers of pooled funds may undertake a certain amount of stock lending on behalf of unit holders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Panel has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

Additional Voluntary Contributions (AVCs)

The Fund gives members the opportunity to invest in a range of vehicles at the members' discretion.

Annexe I - Myners Principles

Principle	Response on Adherence
1 - Effective Decision Making Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	***The Royal Borough of Greenwich Pension Fund fully complies with this principle.*** Council has delegated decision making in respect of the Pension Fund to the Pension Fund Investment and Administration Panel. This panel is a subcommittee of Council. It convenes a minimum of four times a year and contains six Greenwich Councillors with full voting rights. Representatives from admitted bodies and the trade unions are able to participate as members of the Panel. The Terms of Reference for the Panel are shown in Annexe V. Training is undertaken by Trustees at appropriate levels to meet the CIPFA Knowledge and Skills Code. Trustees are remunerated in line with their capacity as Council Members. The sub-committee is supported by an in-house team which monitors day-to-day activities on the fund. The Panel engages its fund managers each year. The Director of Finance is responsible for day-to-day monitoring of the fund and prepares the committee reports. A two year rolling business plan has been developed and approved by the panel.
2 - Clear objectives	***The Royal Borough of Greenwich Pension Fund fully complies with this***

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers. These should be clearly communicated to advisers and investment managers.	***principle.*** The investment objectives of the fund are stated in the SIP. These take into account the scheme's liabilities, the impact on employer contribution rates and the schemes attitude to risk. The asset allocation and benchmarks of the Fund are set with the aim of achieving these objectives and are communicated to investment managers. The Funding Strategy Statement evaluates the effect of the covenant upon employers and the Fund.
3 - Risk and liabilities • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	***The Royal Borough of Greenwich Pension Fund fully complies with this principle.*** The investment strategy aims to achieve the return required to meet current and future liabilities as set out in the actuarial valuation. The strategy also takes into account the requirement to keep employer contribution rates at a stable level. Consideration is given to the payment of a bond by prospective admitted bodies to the Fund, to mitigate against the risk that they may default on their contribution payments. The longevity risk is built into the triennial actuarial valuation and is therefore included when determining the investment strategy. The investment risks and how they are

	managed are detailed in the SIP.
4 - Performance Assessment • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	***The Royal Borough of Greenwich Pension Fund complies with this principle.*** The performance of investments and investment managers is monitored on a quarterly basis. An independent performance measurement company provides quarterly reports detailing the performance of the asset allocation and investment managers relative to the benchmarks. The company also provides data detailing the performance of the Royal Borough of Greenwich Pension Fund in relation to its peer group. This data is used for information only and is not considered when developing the investment strategy. A report detailing the performance of the fund is presented quarterly to the Pension Fund Investment and Administration Panel. The Business Plan details how the fund expects to deliver its objectives for the year. The Business Plan also sets out administrative performance targets of when important documents need to be produced. The Annual Report outlines training undertaken, in order to ensure effective decision making.
5 - Responsible Ownership	***The Royal Borough of Greenwich Pension Fund complies with this principle.***

Administering authorities should: • Recognise and ensure that their partners in the investment chain adopt the FRC's UK Stewardship Code • Include a statement of their policy on responsible ownership in the Statement of Investment Principles • Report periodically to scheme members on the discharge of such responsibilities.	The Fund's policies on the exercise of rights (including voting rights) and social, environmental and ethical considerations are included within the SIP. The Fund complies with the UK Stewardship Code, details of which are in the Fund's Statement of Compliance with the UK Stewardship Code for Institutional Investors. The Fund also expects its investment managers and investment advisor to comply with the Code. The Fund expects its investment managers to engage with companies within their portfolio on social, environmental and ethical issues.
6 - Transparency and Reporting Administering authorities should: • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • should provide regular communication to scheme members in the form they consider most appropriate.	***The Royal Borough of Greenwich Pension Fund fully complies with this principle.*** The Fund publishes annually a Communications Strategy detailing its policy for communicating information to members, representatives of members, prospective members and employing authorities. The Fund also makes available a range of documents including: • Annual Report, incorporating the Pension Fund Statement of Accounts • Statement of Investment Principles • Governance Statement • Stewardship Code • Knowledge and Skills Policy Statement

	• Triennial actuarial valuation • Funding Strategy Statement • Agenda and Minutes of the Pension Fund Investment and Administration Panel. These documents are published on the internet and hard copies are available on request.

Annexe II - Strategic Asset Allocation

The strategic asset allocation of the Fund is as follows:

Asset Class	**Target (%)**
UK Equities	32.5
Overseas Equities	32.5
US	*13.8*
Europe ex UK	*5.2*
Japan	*3.3*
Pacific	*4.6*
Emerging Markets	*5.6*
Bonds	20.0
Property	10.0
Private Equity	5.0
Cash	0.0
Total	**100.0**

Annexe III – Manager Benchmarks

Blackrock

Asset Class	Benchmark	%
UK Equities	FTSE	50.0
Overseas Equities		50.0
North America		*21.2*
Europe ex UK		*8.0*
Japan		*5.1*
Pacific		*7.1*
Emerging Markets		*8.6*
Total		**100.0**

Fidelity

Asset Class	Benchmark	% Min	% Max
Gilts	50% iBoxx Sterling Non-Gilts / 50% iBoxx Gilts index	0	100
Corporate Bonds		0	100
Total		**100**	

CBRE

Asset Class	Benchmark	%
Property	IPD UK Balanced Funds	100
Total		**100**

Annexe IV – Voting Intention Guidelines

Voting Governance Issues	**Action if Negative**
CHAIRMAN/CHIEF EXECUTIVE	
1. Role of Chairman and Chief Executive should be separate to avoid undue concentration of power.	Vote against Chairman/ CExec re-appointment as Director.
NON-EXECUTIVE DIRECTORS	
2. Board must have a minimum of 40% non-Executive Directors.	Vote against appointment of all Executive Directors.
3. Non-Executive Directors should not hold such a position in a competitor.	Vote against re-appointment when up for re-election.
DIRECTORS	
4. There should be formal appointments for all Directors	Vote against appointment of Directors.
REMUNERATION COMMITTEE	
5. The Committee must be composed entirely of independent Non-Executive Directors.	Vote against all Executive Directors.
6. The Committee should be answerable to the shareholders at the AGM	Vote against acceptance of the accounts. Vote against the reappointment of Chairman as a Director.
GENERAL	
7. All Directors need to seek re-election at least every three years (by rotation).	Vote against acceptance of accounts.
AUDIT COMMITTEE	
8. There shall be an Audit Committee.	Vote against acceptance of accounts.
9. The Audit Committee should have a majority of Non-Executive Directors.	Vote against acceptance of accounts.
10. The Audit Committee shall meet with the Auditors at least once in the year without Executives present.	Vote against acceptance of accounts.
REPORTING AND CONTROLS	
11. The Directors shall report on frauds uncovered that exceed £100,000 and action taken.	Vote against acceptance of accounts.
THE CADBURY CODE	
12. There shall be no rolling contracts of more than twelve months.	Vote against all relevant Directors' re-appointments.

13.	There shall be full disclosure of all emoluments received by Directors.	Vote against re-appointment of all Directors.
14.	There shall be transparent disclosure of the basis of performance related payments.	Vote against re-appointment of Chairman of Remuneration Committee as a Director.
15.	The basis of executive share options granted shall be the subject of shareholders resolution, be voted upon at least every five years and meet the guidelines of the Inland Revenue and the National Association of Pension Funds.	Vote against acceptance of accounts.
16.	There shall be full disclosure of share options granted to Directors and the Executive and those exercised in the preceding 12 months.	Vote against all Directors re-appointments.

AUDITORS

17.	The Auditors shall not be given or awarded additional work with the company that exceeds 50% in value of the Audit contract.	Vote against all Director Members of Audit Committee. Vote against the re-appointment of Auditors.
18.	The Board shall contain no former employee of the audit firm.	Vote against Directors re-appointment who come into this category.

OTHER MATTERS

19.	The Company shall not make any political or quasi political donations.	Vote against acceptance of accounts. Vote against Chair's re-appointment
20.	The Company shall indicate how it ensures equal opportunity is genuinely available.	Seek compliance through written Contract.

Annexe V

Pension Fund Investment and Administration Panel – Terms of Reference

The (Royal Borough of Greenwich) Pension Fund Investment and Administration Panel is a sub-committee of Council. It convenes a minimum of four times a year and contains six Greenwich Councillors with full voting rights. Representatives from admitted bodies and the trades unions are invited to participate as members of the Panel, but in order to avoid an overly bureaucratic structure, do not have voting rights. The (Royal Borough of Greenwich Council) Pension Fund Investment and Administration Panel has as its general terms of reference:

- To exercise all relevant functions conferred by regulations made under the Superannuation Act 1972

- To consider and decide all matters regarding the management of the pension fund's investments and to determine the delegation of powers of management of the fund and to set boundaries for the managers' discretion.

- To decide all matters relating to policy and target setting for and monitoring the investment performance of the pension fund

- At least once every three months, to review the investments made by the investment managers and consider the desirability of continuing or terminating the appointment of the investment managers.

- To consider and make recommendations on policy and staff related issues which have an impact on the pension fund directly or indirectly through changes in employer pension contribution rates and through Fund employers' early retirement policies.

- To consider triennial valuation reports prepared by the Fund's actuaries, with recommended employer contributions.

- To receive monitoring reports from the Director of Finance on all matters relevant to the Pension Fund and the Administering Authority's statutory requirements.

Royal Borough of Greenwich Pension Fund

Appendix F- Communications Policy

This is the communication policy statement of the Royal Borough of Greenwich Pension Fund, which is administered by the Royal Borough of Greenwich and prepared under Regulation 67 of the LGPS (Administration) Regulations 2008.

Purpose of a communications policy statement

The Regulations on scheme communications require an administering authority to prepare, maintain and publish a policy statement taking account of:-

- Relevant stakeholders
    - Active members
    - Deferred members
    - Pensioners / Dependants
- Prospective Members
- Employing Authorities
- Prospective Employers
- Trade Union and other scheme member representatives

But also having regard to:-

- The format of communication
- The frequency of communication
- The method of distribution

Royal Borough of Greenwich Pension Fund Communications Policy

<u>Communications with relevant stakeholders</u>

Active members

What	Format	Frequency	Distribution
Changes to the Scheme Regulations	Letter	As required but within Regulatory guidelines	Direct to home address
Annual Benefit Statement	Formal statement	Annually	Direct to home address
AVC contribution statements	Formal statement	Annually	Direct to home address
Membership Certificates	Formal statement	On joining and where there is a change to hours / employer	Direct to home address
Scheme guide	Printed booklet	On joining and where the member opts out	Via employer with contract / direct to home address
Information, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Presentations (such as pre-retirement, prospective members)	Presentation / Powerpoint	As required by employers / managers / trade unions	N/A
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A

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Deferred Members

What	Format	Frequency	Distribution
Deferred Benefit Statement	Formal statement	Annually	Direct to home address
Retirement Option on reaching age 60	Formal letter	On reaching age 60 / NRD / 65	Direct to home address
Changes to Scheme Regulations that have affect	Formal letter	As required but within Regulatory guidelines	Direct to home address
Information, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A

Pension / Dependant Members

What	Format	Frequency	Distribution
Payslip	Printed payslip	Twice a year and where there is a change of £5 or more	Direct to home address
P60	Formal statement	Annually	Direct to home address
Notification of Pensions Increase and payment dates	Letter included with the April payslip	Annually	Direct to home address
Changes to Scheme Regulations that have affect	Formal letter	As required but within Regulatory guidelines	Direct to home address
Information, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A

Royal Borough of Greenwich Pension Fund Communications Policy

Prospective Members

What	Format	Frequency	Distribution
Scheme guide	Printed booklet	On joining	Via employer with contract
Information, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Presentations	Presentation / Powerpoint	As required	N/A
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A

Employing Authorities

What	Format	Frequency	Distribution
Dedicated liaison officer	Email / Letter / In person	Visits, training and contact point for all employers	Deputy Pension Operations Manager
Changes to the Scheme Regulations	Letter / presentation	As required but within Regulatory guidelines	Direct to employer / in person
Actuarial information (IAS19 / new employer rates)	Email / Letter / In person	Annually / Triennially	Direct to employer
Training	At employers place of work	As required	In person
Presentations	Presentation / Powerpoint	As required	N/A
Information, forms, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all employers
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A
RBG Pension Fund Investment and Administration Panel	Panel Meetings	Quarterly as a minimum	Via website available to all employers

Royal Borough of Greenwich Pension Fund Communications Policy

Prospective Employers

What	Format	Frequency	Distribution
Dedicated liaison officer	Email / Letter / In person	Visits, training and contact point for all employers	Deputy Pension Operations Manager
Actuarial information (setting employers rate)	Email / Letter / In person	Before becoming a new employing authority	Direct to employer
Training	At employers place of work	As required	In person
Information, forms, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Presentations	Presentation / Powerpoint	As required	N/A
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A

Trade Unions / Other Scheme member representatives

What	Format	Frequency	Distribution
Training	At employers place of work	As required	In person
Presentations	Presentation / Powerpoint	As required	N/A
Information, statements and guides on the pension scheme	Available on the pensions website	Updated as required	Via website available to all members
Full administration service	Telephone, email, 121 or by appointment	Daily	N/A
RBG Pension Fund Investment and Administration Panel	Panel Meetings	Quarterly as a minimum	Employee representative

Royal Borough of Greenwich Pension Fund

Appendix G- Knowledge and Skills Policy Statement – 2014

The Royal Borough of Greenwich, as the administering authority of the Royal Borough of Greenwich Pension Fund, adopted the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills issued by the Chartered Institute on Public Finance and Accountancy in 2011.

The Royal Borough of Greenwich recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly the Royal Borough of Greenwich will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Royal Borough of Greenwich will report on an annual basis how these policies have been put into practice throughout the financial year.

The Royal Borough of Greenwich has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Director of Finance, who will act in accordance with the organisation's policy statement and with CIPFA Standards of Professional Practice.

The Royal Borough of Greenwich has adopted the following Knowledge and Skills Policy Statement:

- The Royal Borough of Greenwich recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- The Royal Borough of Greenwich therefore seeks to utilise individuals who are both capable and experienced and it will provide / arrange training for staff and members of the pension decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Royal Borough of Greenwich Pension Fund

Appendix H- Statement of Compliance
UK Stewardship Code for Institutional Investors

Introduction

The Financial Reporting Council (FRC) published the UK Stewardship code, setting out seven principles of good practice on engagement with investee companies, to which the FRC believes institutional investors should aspire. The aims of the code align closely with the fifth Myners principle. The Royal Greenwich Pension Fund's compliance with the Myners principles is detailed in the Fund's Statement of Investment Principles and this statement contributes to that compliance.

Statement of Compliance

So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should…

Principal 1

"***…publicly disclose their policy on how they will discharge their stewardship responsibilities.***"

The Royal Borough of Greenwich Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed fund managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

The Fund's Statement of Investment Principles sets out the funds compliance with Principle 5 of the Myners principles (Responsible Ownership) along with the funds voting guidelines. The Fund's equity managers vote on the Fund's behalf at the Annual General Meetings of companies, in which the Fund holds shares, paying heed to these voting guidelines.

Principal 2

"***…have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.***"

The Fund encourages its fund managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension panel members are required to make declarations of interest prior to panel meetings.

Principal 3

"…***should monitor their investee companies.***"

Day-to-day responsibility for managing the Fund's equity holdings is delegated to the appointed fund managers and the Fund expects them to monitor companies, intervene where necessary and report back regularly on activity undertaken.

Membership of the Local Authority Pension Fund Forum (LAPFF) enables alerts surrounding specific companies to be communicated in a timely manner.

Principal 4

"…***establish clear guidelines on when and how they will escalate their stewardship activities as a method of protecting and enhancing shareholder value.***"

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship code.

Principal 5

"***…be willing to act collectively with other investors where appropriate.***"

The Fund has joined other shareholders in maximising shareholder value through class actions.

The Fund is a member of the LAPFF through which it collectively exercises a voice in respect of corporate governance issues.

Principal 6

"…***have a clear policy on voting and disclosure of voting activity.***"

In respect of shareholder voting, the fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers. Voting Intention Guidelines are included within the Fund's Statement of Investment Principles.

Principal 7

"…***report periodically on their stewardship and voting activities.***"

Voting activity is received by the Fund and from 2013/14 will be reported to the Panel on an exception basis.

The work of the LAPFF is to be reported on an annual basis to the Panel.