



Royal Borough of
Kingston upon Thames

Pension Fund Annual Report

2017/18

**Royal Borough of Kingston upon Thames Pension Fund
Annual Report 2017-18**

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INTRODUCTION AND OVERVIEW

Report of Director of Corporate & Commercial (S151 Officer)

I am pleased to introduce the Annual Report of the Pension Fund for the financial year 2017/18.

The Pension Fund Panel

The Pension Fund Panel (“the Panel”) is responsible for overseeing the management of the Royal Borough of Kingston upon Thames Pension Fund (“the Fund”), including investments, actuarial work, administration and fund governance.

During 2017/18, the Panel monitored the performance of the investment managers, who manage the assets in accordance with the agreed investment strategy. At two “all day” meetings, fund managers presented to the Panel, covering amongst other areas, their performance against the benchmark and full attribution of their results in the context of the market environment. Changes in managers’ views and key investment personnel as well as changes in their internal controls and procedures were discussed to give assurance to the Panel.

In addition, at scheduled quarterly meetings, the Panel considered various matters and monitored total portfolio activity and performance of the investment managers.

During the financial year, two of the fund managers were involved in mergers. Henderson Group (UK Bonds) merged with Janus Capital Group on 30 May 2017 to become Janus Henderson Investors, and Standard Life plc (Diversified Growth Fund) merged with Aberdeen Asset Management PLC on 14 August 2017 to form Standard Life Aberdeen plc. In both cases the mergers are intended to be complementary and there are no direct impacts on the investment strategies in which the RBK Fund is invested. The position will be kept under review.

The management of the Fund was consistent with the Funding Strategy Statement (FSS) and the Investment Strategy Statement (ISS) both informed by the actuarial valuation at 31 March 2016. These two documents respectively set out the Fund's approach to eliminating its deficit and achieving a 100% funding level and how its investments are to be managed to help to achieve this.

The Panel demonstrated commitment to the Government’s pooling agenda by transferring some investment mandates, Diversified Growth Funds (DGFs) managed by Baillie Gifford, Ruffer and Pyrford to the London Collective Investment Vehicle (London CIV) to achieve cost efficiency and gain access to a wider range of asset classes.

In February 2018, the Panel agreed further diversification via a residential property mandate with M & G.

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In January 2018, the Fund opted-up to professional status with its fund managers and advisers in respect of the Markets in Financial Instruments Directive (MiFID II).

During the year, the Panel was supported by the Finance Shared Service arrangement with London Borough of Sutton. In particular, the Panel received quarterly updates on pension administration, investment management and performance. The Panel was also informed about any changes in the regulatory environment.

The Panel's work programme for 2018/19 reflects:

- The Pension Fund Business Plan
- CIPFA Knowledge and Skills Framework; and
- Ongoing review of investment strategy.

I would like to thank the Members of the Pension Fund Panel and our volunteer advisory member Matthew Lambe, for their work during the year.

Pension Board

The Pension Board was set up in line with the requirements of the Public Service Pensions Act 2013, and the Local Government Pension Scheme (Amendment) Regulations 2014, and became operational from April 2015.

The Board is not a decision-making body - its remit is to assist RBK in carrying out its functions as the “administering authority” for the Fund, by scrutinising the approach and governance of the decision making processes.

The Board met three times in the 2017-18 financial year. Additionally, Board members have a standing invitation to attend meetings of the Pension Fund Panel, and some members attended Panel briefings.

During the year the Board reviewed the work of the Panel including its Administration Strategy and implementation, monitoring of the Risk Register and the Annual Report and Accounts.

Investment Summary

Key highlights for 2017/18 were:

- Active global equity managers added value over the year.

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- UK equities underperformed all major overseas markets for Sterling investors. The average active UK equity manager failed to add value above the benchmark.
- Property was the best performing of the major asset classes, returning 10% for the year.
- Whilst bond returns were the poorest of the major asset classes absolute return bond strategies outperformed index based portfolios.
- With an average return under 2% diversified growth funds performed poorly relative to other assets and their benchmark
- Continued low interest rates meant holding any level of cash continued to have a negative impact on return.

Over the year, the total Fund return was 3.1% compared to the combined customised benchmark return of 2.8%. The average return of the Local Authority Universe – a peer group of 61 UK local authority pension funds was 4.5%.

The long-term, performance of the Fund relative to the customised benchmark and the Local Authority Universe is as follows:

	RBK (annualised %)	Benchmark (annualised %)	LA Universe (annualised %)
3 years	7.5	7.5	8.3
5 years	9.3	9.1	8.8
10 years	8.3	7.9	7.7

The three equity managers operate in different markets, have different targets and employ complementary investment styles or strategies that perform differently according to market conditions to augment the overall performance of the Fund beyond individual fund manager's capabilities. During 2017/18, "value" stocks underperformed, and Schroders' performance (underperformed the benchmark by -3.7%, compared to their outperformance target of 5.4%) reflected this. By contrast, the "core strategy" implemented by Fidelity, and the "quality/growth" portfolio of Columbia Threadneedle both outperformed the benchmark (by 0.4% and 5.7% respectively) with the latter the only fund manager to exceed the benchmark as well as outperformance target.

Contrary to expectations, Bond markets performed well in 2017/18 - somewhat surprising taking into account the US Federal Reserve's action on interest rates (three increases totalling 75 basis points in 2017) which caused short-term yields to increase whilst long-term yields fell. This yield curve dynamic partly explains the

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Fund's bond portfolio results. The Janus Henderson Total Return bond portfolio achieved 3.2% in 2017/18 missing the 6% per annum target by -2.8%.

UK Property market posted solid returns in 2017/18 - the Fund earned 9.0% on its property investments managed by UBS, albeit a -2.2% lag compared to the benchmark (IPD UK All Balanced Funds Index) return of 11.2%.

The performance of the two Diversified Growth Funds (DGFs) were mixed, again reflecting the very different approaches of the two managers. The Pyrford portfolio held in the London CIV produced a return of -2.3% compared to the benchmark of 3.3%. This represents -5.6% underperformance against the benchmark and -10.6% below the 8.3% outperformance target. The DGF portfolio managed by Standard Life gained 0.8% over the year compared to the benchmark return of 0.5% or 0.3% outperformance. This translates to -4.7% shortfall against the outperformance target return of 5.5%

Actuarial Valuation

As indicated above, the Fund is currently operating in the context of the 2016 valuation which advised of a funding level of 81.7%, a considerable improvement on the previous level. The funding update as at 31 March 2017 indicated that the funding level had improved further to 85.1%.

The next formal valuation will take place at 31 March 2019.

Scheme Administration

The administering authority is committed to providing an efficient, cost effective and approachable service to scheme employers and members.

Sutton and Kingston formed a shared service with effect from 1 April 2016 for the administration of both Councils' Local Government Pension Scheme (LGPS). The shared service administers the LGPS on behalf of many employers within the two Boroughs' Funds, including Sutton Housing Partnership, Kingston University, London Grid for Learning and admitted bodies such as non-teaching staff in schools and academies and contractors. This means that the shared service now administer the LGPS on behalf of more than 100 employers across Sutton and Kingston.

Services provided by the Shared Pensions Administration team include;

- Maintenance of all member pension records with data from scheme employers and their payroll providers including; starters, leavers and other changes of circumstance.

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- Provision of retirement estimates and calculation of benefits, life cover and dependants benefits for current and former staff or their dependants.
- Redundancy and early retirement benefit forecasting (for employers and scheme members) and where necessary, payment of entitlements.
- Ensuring changes in the Regulations affecting benefit (or potential benefit) entitlements are correctly applied and Scheme members are kept informed of their options.
- Arranging illustrations for transfer of members' previous pension benefits into the Borough scheme and where appropriate effecting the transfer, including bulk transfers.
- Illustrations of the benefits of paying additional contributions – to purchase additional LGPS pension or for payment into the AVC arrangement with Aviva to provide extra money purchase benefits.
- Providing details of preserved entitlements for early leavers and transfer illustrations and payment as necessary
- Calculation and recovery of employer costs associated with capital impact on provisions.
- Complete necessary exercises to enable the Fund actuary to complete actuarial valuations following new admitted and scheduled bodies and the data changes required into the administration system.
- Complete Career Average Revalued Earnings (CARE) and deferred member benefit increases and produce associate benefit statements for all relevant members.
- Manage pension payroll for each Borough including applying the annual pension increases.

Main Work Streams Impacting Pension Administration in 2017/18

LGPS Regulations 2014

Following the introduction of the revised CARE scheme from 1 April 2014, the end-of-year process as at 31 March 2018 was finalised. The process now requires all employers to provide extra data including both final pay and actual pensionable pay for the scheme year. It is critical that the employer data is correct as the CARE pension will be established using the actual pensionable pay provided each scheme year.

The annual revaluation of employee contribution bands being based on actual pensionable pay (previously based on notional full-time annual rate adjusted by term time weeks) was implemented by the Borough payroll provider and other off payroll employers in April 2018. Employee contributions are reassessed each month based on the actual (contractual) pay received in that period.

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The Staff Pensions webpage includes a link to the national “LGPS 2014” website www.lgps2014.org

Redundancy & Early Retirement

There is continuing demand for costing of redundancies from both Councils and other scheme employers. In addition, there is increasing demand for actuarial assessment for staff being TUPE transferred into shared services or other commissioning arrangements.

Academy Schools

The total number of Academies was 16 at 31 March 2018. There were no new conversions to academy status, therefore no initial actuarial assessments were undertaken to establish starting position and employer contribution rate. Additional schools are planning to convert in 2018/19.

New Transferee Admission Agreements

A number of provisional assessments have been arranged for potentially new Admission Body employers into the Fund.

Employer Self Serve

A new self-service based module for scheme employers has been rolled out to the majority of off payroll employers. It allows them to view their membership data, make certain changes and enable them to run retirement estimates. Self-service arrangements for contributing members has also now been rolled out, allowing staff to update their personal details, view their membership details e.g. earnings and contributions, update their nomination details and view their annual benefit statements.

Key Activities Planned in 2018/19

In addition to the day-to-day running of the pension administration team, the key activities planned for 2018/19 include;

- Engagement with external payroll providers via a series of briefing sessions to improve communication and understanding of the pension administration requirements
- Move to all external payroll providers providing starter and leaver information via data interfaces to maximise administration efficiencies

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- Increase/promote usage of Member Self Serve (Pensions On Line) by contributing and deferred members, so that all personal detail changes including updating nomination details are completed via the site.
- Increase usage of Employer Self Serve amongst scheme employers

**Sarah Ireland
Director of Corporate & Commercial
(S151 Officer)**

MANAGEMENT AND FINANCIAL PERFORMANCE

Introduction

This Annual Report sets out key information about how the Royal Borough of Kingston upon Thames Pension Fund is managed for the benefit of all employers, contributors and beneficiaries. The report summarises the financial and management performance in 2017/18 and it is produced in accordance with Guidance contained in the Local Government Pension Scheme (LGPS) Regulations.

Following the completion of the triennial actuarial valuation, and to meet the requirements of the LGPS Regulations, the Pension Fund Panel approved two documents which set out its approach to achieving the Fund's objective of being 100% funded, i.e.

- a Funding Strategy Statement (FSS) which sets out how it intends to move from the position following the valuation to meeting that funding objective (both in overall terms and for each individual employer, reflecting the differences between the types of employer in the Fund; and
- an Investment Strategy Statement (ISS) setting out how the Fund's investments will be managed in order to generate the required returns and cash flows to meet the funding objective.

The FSS and ISS were published, together with the Actuary's report and the Rates and Adjustments Certificate (which sets out details of contribution rates to be paid by employers) in consultation with employers.

Then, the Panel, advised by Aon Hewitt, initiated a review of the Investment Strategy to consider the optimal allocation to equities and other asset classes. This work continued in 2017/18.

In April 2017, the Panel agreed to increase the exposure to property to 5% (4.1% as at 31 March 2017). Accordingly, £3.4m was divested from Columbia Threadneedle to fund the purchase of additional units in UBS Triton in June 2017.

Also, in June 2017, the Panel agreed to acquire additional units in UBS Triton and £4.6m available from lump sum deficit contribution and internal cash balances was used to fund the transaction.

The Panel continued to work within the agreed tolerance ranges in the investment strategy. However, subsequent Panel decisions were made during the year to strengthen diversification in the Fund.

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In October 2017, the Panel agreed to access DGF products offered by the London CIV. The DGF sub-funds managed by Baillie Gifford and Ruffer were funded by proceeds from disinvestments from Standard Life and Fidelity.

In February 2018, the Panel also agreed to diversify into Private Rental Sector (PRS) and awarded a mandate to M&G.

The Panel continues to work with London CIV as the latter seeks to expand the range of investment opportunities available to London LGPS Funds.

The Panel reviews fund managers' activity and results quarterly to ensure that the investment strategy remains consistent with the objectives and performance targets are being met.

The Panel is made up of five elected Members of Royal Borough of Kingston upon Thames, three non-voting members from Kingston University (the largest scheduled body) representing other employers including scheduled and admitted bodies, the RBK staff side and the Association of Retired Council Officers. This promotes good governance and increases stakeholder involvement in the management of the Fund. Also, an independent advisory member served on the Panel.

The Annual Report is published on the Council's website. The report contains the financial statements of the Pension Fund for 2017/18. The Pension Fund Statement of Accounts has been prepared in accordance with CIPFA's latest Statement of Recommended Practice (SoRP).

RISK MANAGEMENT

Following a review of the Fund's governance arrangements during 2014/15, the Panel approved the development of a standalone Risk Register for the Fund to be reported regularly to the Panel.

The most important risk facing the Fund is that its assets will be insufficient to meet its liabilities in the long-term. The Royal Borough of Kingston upon Thames as Administering Authority for the Fund appreciates the importance of effective risk management and has taken appropriate steps to ensure that there is a clear process by which the risks implicit in the Fund are systematically identified, monitored and managed at the strategic and operational level. The Authority has a formal risk management strategy and risk register which is monitored and reviewed by the Director of Corporate & Commercial (S151 Officer) on a regular basis, having regard to changes in the internal and external environment. Assurances on the robustness of the Authority's risk management arrangements are provided by officers and external advisers to the Pension Fund Panel.

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Governance Risk

Responsibility for the Royal Borough of Kingston Pension Fund's investment strategy, performance, investment transactions and related matters is delegated to the Pension Fund Panel which reports to the Finance & Contracts Committee for decision-making. The Panel is subject to the Council's Standing Orders and the Code of Conduct.

The Panel considers investment strategy options as an integral part of the funding strategy to avoid mismatch risk. Broadly, the approach to risk management is to minimise risk which cannot be eliminated entirely. All investments expose the Fund to varying levels of risk. The decision-making process used in the investment strategy review and the selection of fund managers is designed to ensure that the level of risk taken by managers and the custodian is kept to the minimum and consistently within the risk tolerance range necessary to achieve the Fund's investment objectives.

Internal controls and processes are in place to manage administrative and other financial risks. Risk management processes ensure that key risk exposure is identified and action plans put in place to manage and mitigate risk. The Administering Authority works collaboratively with the other employers in the Fund, fund managers, custodian and specialist advisers. All advice is delivered via formal meetings involving Elected Members, and recorded appropriately.

The Administering Authority informs other employers of their obligations to the Fund and employers are required to notify the Administering Authority promptly of all changes to their circumstances, prospects or membership.

The fund managers and custodian are required to report annually on internal control compliance, to demonstrate they comply with their risk controls.

Financial Risk

The Administering Authority shares a common financial management framework with the Council and uses the Council's financial accounting system. The Fund maintains its own separate bank account. Late payment of contributions by employers and admitted bodies is monitored and regulated through a sanction for late payment. Reconciliation processes and monitoring controls ensure all contributions are paid on time.

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The management of financial instruments risk is disclosed in the Statement of Accounts 2017/18 (Note 17).

Investment Risk

The Fund invests on the basis of specialist advice and manages investment risk through diversification by asset class, geographies and use of external fund managers to manage investments. The Fund's assets are managed by ten managers across global equities, fixed income (corporate and absolute return) bonds, property and diversified growth funds mandates.

The Panel is supported by expert investment and legal advisers, external fund managers and a global custodian for safe custody of assets. Also, an independent advisory member supported the work of the Panel. The advisers provide specialist input to the Panel to facilitate informed decisions on investment matters.

The Panel follows a due diligence process in the selection of fund managers and other service providers, to ensure the appointment of appropriate firms who demonstrate the ability to manage the Fund's assets within the investment risk parameters specified in the Investment Management Agreement (IMA).

The Panel reviews activity and monitors performance and risk, at total Fund and individual manager level, against set targets and benchmarks on a quarterly basis based on independently validated information.

Regulatory Risk

The LGPS is facing continuing reform. The funding strategy is exposed to changes in the Scheme benefits and tax status of the Fund's investments from a cost perspective. To mitigate this risk, the Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Also, the Authority takes professional advice from the Fund actuary and investment adviser as required.

The Administering Authority continues to ensure that timely action is taken to implement any changes under new regulations and that it remains proactive and innovative in respect of the significant regulatory developments and challenge of more reforms in the coming years.

The Pension Board assists the Administering Authority by scrutinising the

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approach and governance of the decision-making processes.

The Government has for a number of years been developing and implementing proposals to pool LGPS investment assets, with the aims of reducing costs, improving investment returns and offering access to a wider range of investment opportunities which might otherwise not be practical for individual Funds.

In response, the London LGPS Administering Authorities established a Collective Investment Vehicle - known as London CIV Limited (LCIV). The Panel approved the successful transfer of RBK's holding in the Pyrford Diversified Growth Fund to the LCIV in June 2016, and also invested in the Baillie Gifford and Ruffer Diversified Growth Funds via the LCIV in October 2017.

The Council also utilises National LGPS Frameworks to procure specialist services for the Pension Fund.

Administration Risk

The Pension Fund Panel is responsible for the administration of the Fund. The Panel has met quarterly to consider various reports on matters in the programme of work for the period. In addition, the Panel has met twice a year to carry out a comprehensive assessment of fund managers' performance.

The Panel receives reports and updates on pensions administration covering workload, staffing and systems. Also, the Panel monitors performance of the Scheme administration in respect of contributing, deferred and retired members. The risk of late payment of member benefits and miscalculation of benefits through manual error is managed through a workflow system and through use of system controls and internal checking.

The risk of incorrect payment, late payment and non-payment of contributions is mitigated by ensuring that an effective process is maintained to collect employer and employee contributions due to the Fund. The Administering Authority communicates and works closely with the other employers to ensure that they understand their obligations to the Fund.

The risk of monies not being promptly invested is mitigated by daily cash flow management and monitoring of the Pension Fund bank account to ensure that amounts not required for day-to-day commitments are invested with fund managers.

The Authority seeks to employ skilled and experienced officers and ensures that staff are trained and kept up-to-date on changes to the LGPS.

Business Continuity

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Risk of system failure is managed through an externally managed pension benefits administration system with daily backup in addition to use of the Council's business continuity plans which are tested and updated annually.

FINANCIAL PERFORMANCE

Fund Accounts and Net Assets Statement

The Auditors Report and the Pension Fund Statement of Accounts for 2017-18 are appended to this report (Appendices 1 and 2) and will be made accessible via the link below

http://www.kingston.gov.uk/downloads/download/718/our_accounts_201718

Five Year Summary of Financial Statistics

Year Ended 31 March Revenue Account	2014 £'m	2015 £'m	2016 £'m	2017 £'m	2018 £'m
Income					
Contributions	31.4	33.7	35.8	37.9	35.2
Investment Income	6.9	5.0	4.0	7.2	14.7
Cash Transfer Values	9.6	3.6	1.7	1.5	15.4
	47.9	42.3	41.5	46.6	65.3
Expenditure					
Pension & Benefits	25.3	26.5	28.7	28.7	29.8
Management Expenses	3.4	3.7	3.4	4.3	4.9
Cash Transfer Values	3.0	1.8	2.3	2.5	62.9
	31.7	32.0	34.4	35.5	97.6
Surplus / (Deficit) for the Year	16.2	10.3	7.1	11.1	(32.3)
Revaluation of Investments	31.1	87.3	(6.3)	133.5	10.9
Change in Fund Value	47.3	97.6	0.8	144.6	(21.4)
Total Fund Value	548.7	646.3	647.1	791.7	770.3

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Investment Management Expenses	31-Mar-16 £'000	31-Mar-17 £'000	31-Mar-18 £'000
Management Fees	2,287	3,272	3,617
Performance Fees	19	4	32
Custody Fees	44	41	66
Transaction Costs	133	186	346
TOTAL	2,483	3,503	4,061

Investment Management Expenses Commentary	
Portfolio management fees increased.	The higher fees in 2017-18 are mainly due to the increase in the market value of assets under management, and fee rebate/structure changes.
Transaction Costs increase	Disclosure by a fund manager of additional embedded transaction costs compared to 2016-17.

INVESTMENT POLICY AND PERFORMANCE

The original strategic asset allocation of the Fund was approved by the Panel in December 2014. In June 2015, the Panel agreed the introduction of tolerance ranges around the strategic allocation with an appropriate rebalancing policy (excluding property – due to allocation size and illiquidity). The current policy mix was agreed by the Panel in February 2018.

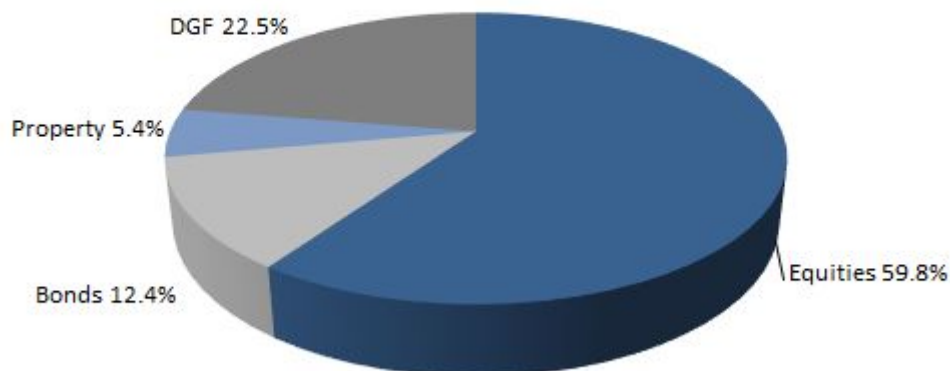
Below is a breakdown of the current strategic asset allocation of the Fund at 31st March 2018, and the permitted ranges for the re-balancing policy.

Asset class	Strategic Asset Allocation	Permitted Range
	%	%
Equities	60	55 - 65
Diversified Growth Fund (DGF)	20	15 - 25
Bonds	15	10 - 20
Property	5	No rebalancing
Total	100	100

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Below is the asset allocation at 31st March 2018. It shows that the Fund's policy mix is consistent with the investment strategy agreed by the Pension Fund Panel.

Asset Allocation at 31/03/18



Fund managers' results are measured against specified benchmarks and each manager is set a clear outperformance target. The current benchmarks and fund managers' targets are shown in the table below.

Portfolio	Mandate	Benchmark	Target (over Rolling 3 Years) Gross of fees
Fidelity	Global Equities	MSCI AC World Index	+1.5% to +2.0% pa
Columbia Threadneedle	Global Equities	MSCI AC World Index	+2.5% to +3.0% pa
Schroders	Global Equities	MSCI AC World Index	+3.0% pa
Henderson (ASC) ¹	UK Bonds	iBoxx All Stocks Non-Gilts Index	+0.5% pa
Henderson (TRB) ²	UK Bonds	No Benchmark	+6.0% pa
UBS	UK Property	IPD UK All Balanced Funds MI	Outperform IPD Index
London CIV - Pyrford	Diversified Growth Fund	RPI	+5% pa

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Standard Life	Diversified Growth Fund	6 month LIBOR Rate	+5% pa
London CIV - Baillie Gifford	Diversified Growth Fund	UK Base Rate + 3.5% p.a.	Outperform index
London CIV - Ruffer	Diversified Growth Fund	No benchmark	N/A

¹ All Stocks Credit ² Total Returns Bond

Summary of Investment Assets at 31 March 2018

The market value of the assets managed by each fund manager as at 31 March 2018 is shown below.

Manager	Asset Class	Market Value £'000	Total Assets by Market Value (%)
Fidelity	Global Equities Fund	175,789	21.49
	Other Managed Funds (Emerging Market equities)	23,515	2.87
	Cash and other investment balances	3,567	0.44
ColumbiaThreadneedle	Unitised Insurance Policy (Global equities)	168,951	20.65
Schroders	Other Managed Funds (Global equities)	116,997	14.30
Henderson	Other Managed Funds (Bonds)	101,542	12.41
UBS	Property Unit Trusts	40,497	4.95
	Cash and other investment balances	3,363	0.41
London CIV - Pyrford	Other Managed Funds (DGF)	77,694	9.50
Standard Life	Other Managed Funds (DGF)	35,616	4.35
London CIV - Baillie Gifford	Other Managed Funds (DGF)	35,639	4.36
London CIV - Ruffer	Other Managed Funds (DGF)	34,790	4.25
M & G Real Estate*	UK Residential Property	-	-
London CIV	Regulatory Capital	150	0.02
TOTAL		818,110	100.00

* The decision to invest in residential property and appoint M&G for the mandate was taken prior to 31 March 2018. However, no money has yet been drawdown so has not had any impact on the fund.

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Asset Allocation

The ten largest holdings of the Pension Fund were as follows:

Name	Value as at 31 March 2018 £'000	% of Total Net Assets as at 31 March 2018
Columbia Threadneedle TPN Global Equity Fund	168,951	20.65
Schroder Life QEP Global Active Value Fund	116,997	14.30
London CIV - Pyrford Global Total Return (Sterling)	77,694	9.50
Janus Henderson All Stocks Credit Fund	64,050	7.83
Janus Henderson Total Return Bond	37,492	4.58
London CIV - Baillie Gifford Diversified Growth Fund	35,639	4.36
Standard Life Global Asset Return Strategies (GARS)	35,616	4.35
London CIV - Ruffer Absolute Return Fund	34,790	4.25
UBS Triton Property Unit Trust	28,278	3.46
Fidelity Select Emerging Markets Fund	23,515	2.87

All ten of the largest holdings are in the pooled funds of the nine fund managers.

The 10 largest directly held **equity holdings** of the Pension Fund were as follows:

Name	Value as at 31 March 2018 £000	% of Total Net Assets as at 31 March 2018
Apple	3,313	0.40
Microsoft	3,213	0.39
Amazon	2,676	0.33
Chevron	2,252	0.28
Bank of America	2,149	0.26
Philip Morris International	1,953	0.24
Intel	1,849	0.23
Lyondell Basell	1,671	0.20
Home Depot	1,637	0.20
JP Morgan	1,630	0.20

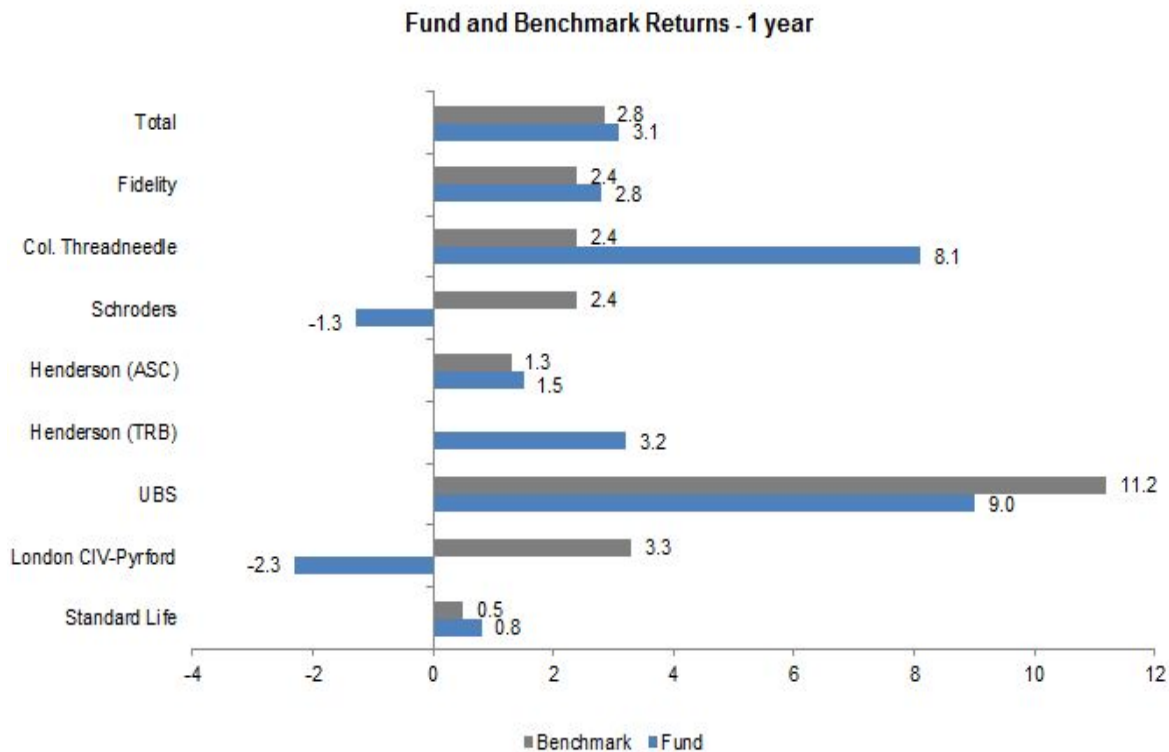
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Pension Fund Performance 2017 - 2018

The table below sets out the quarter by quarter results for the Fund in 2017-18. The total Fund return for the year was 3.09%, compared to the benchmark return of 2.84%. The relative return represents an outperformance of 0.25%.

2016-17	Quarter 1 April to June 2017 %	Quarter 2 July to Sept. 2017 %	Quarter 3 Oct. to Dec. 2017 %	Quarter 4 Jan. to March 2018 %	Total Annual Performance 2017-18 %
Fund Return	1.03	1.21	4.41	(3.45)	3.09
Benchmark Return	0.53	1.42	3.66	(2.69)	2.84
Relative Return	0.50	(0.21)	0.75	(0.76)	0.25

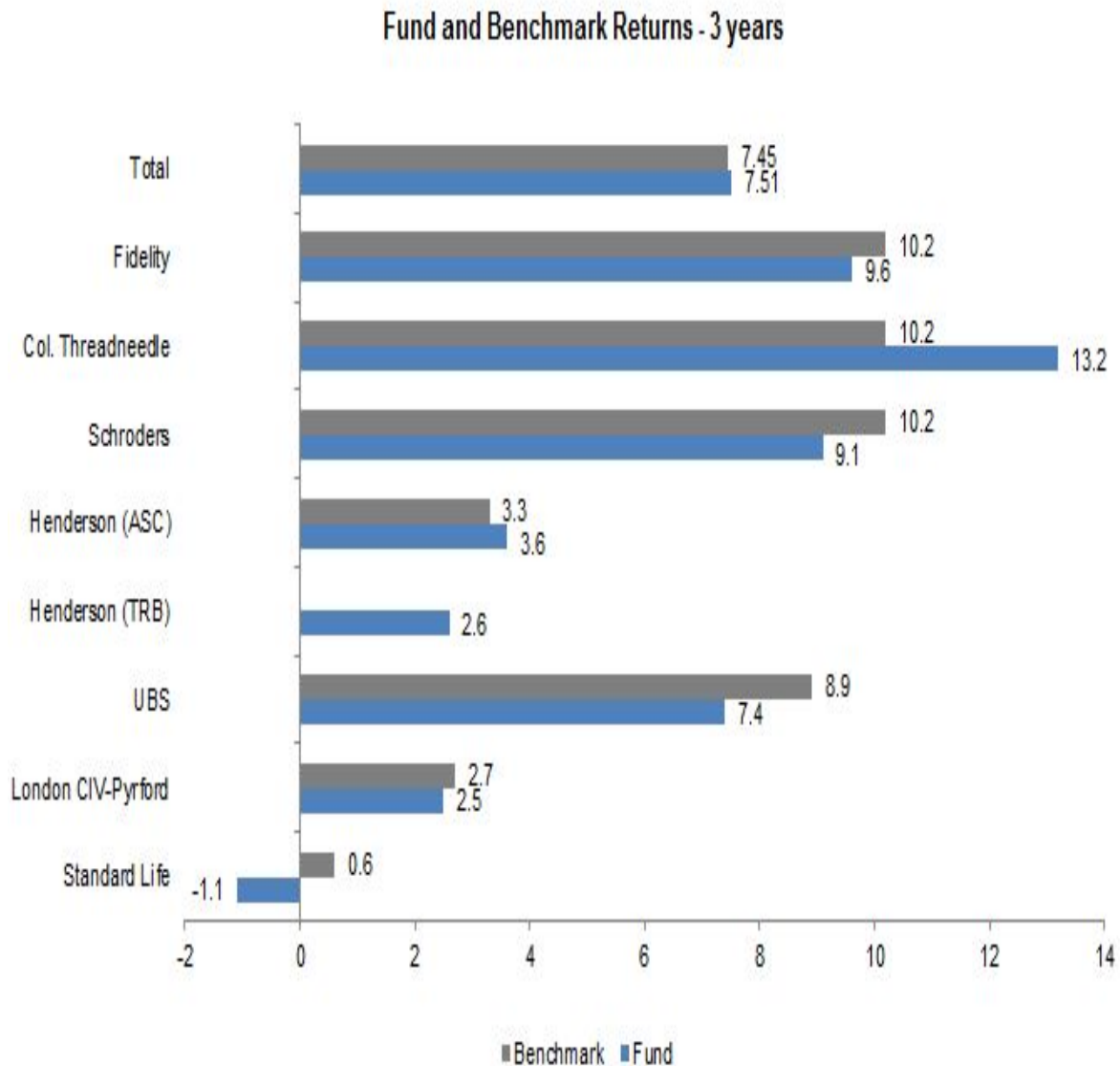
Each fund manager's performance, and their respective benchmarks' for the year, are shown in the graph below.



Pension Fund Performance 2015 - 2018

Each of the fund manager's performance, and their respective benchmarks over the latest rolling three year period, is shown in the graph below.

**Royal Borough of Kingston upon Thames Pension Fund
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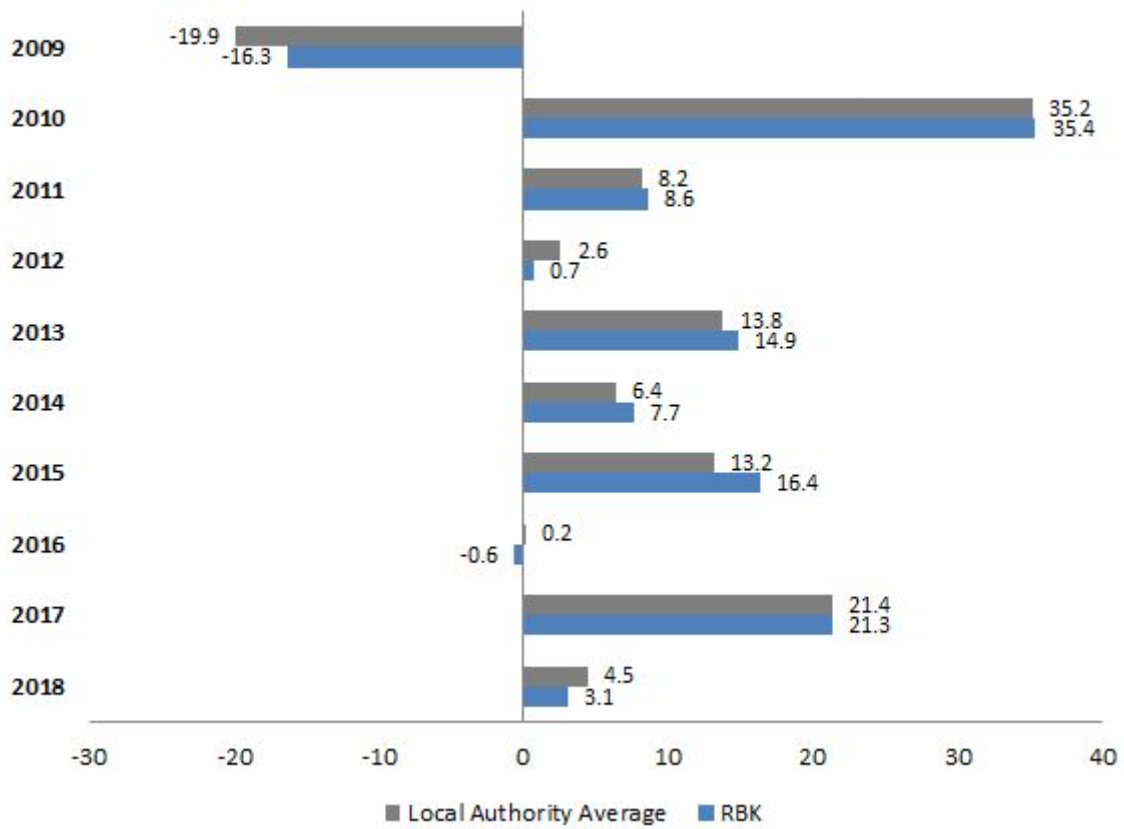


Investment Returns 2008 - 18

The chart below compares the Fund's performance over the last ten years with the Local Authority Peer Group Average. The annual returns take into account the change in market value of the Fund's investments together with the income they have earned over the period.

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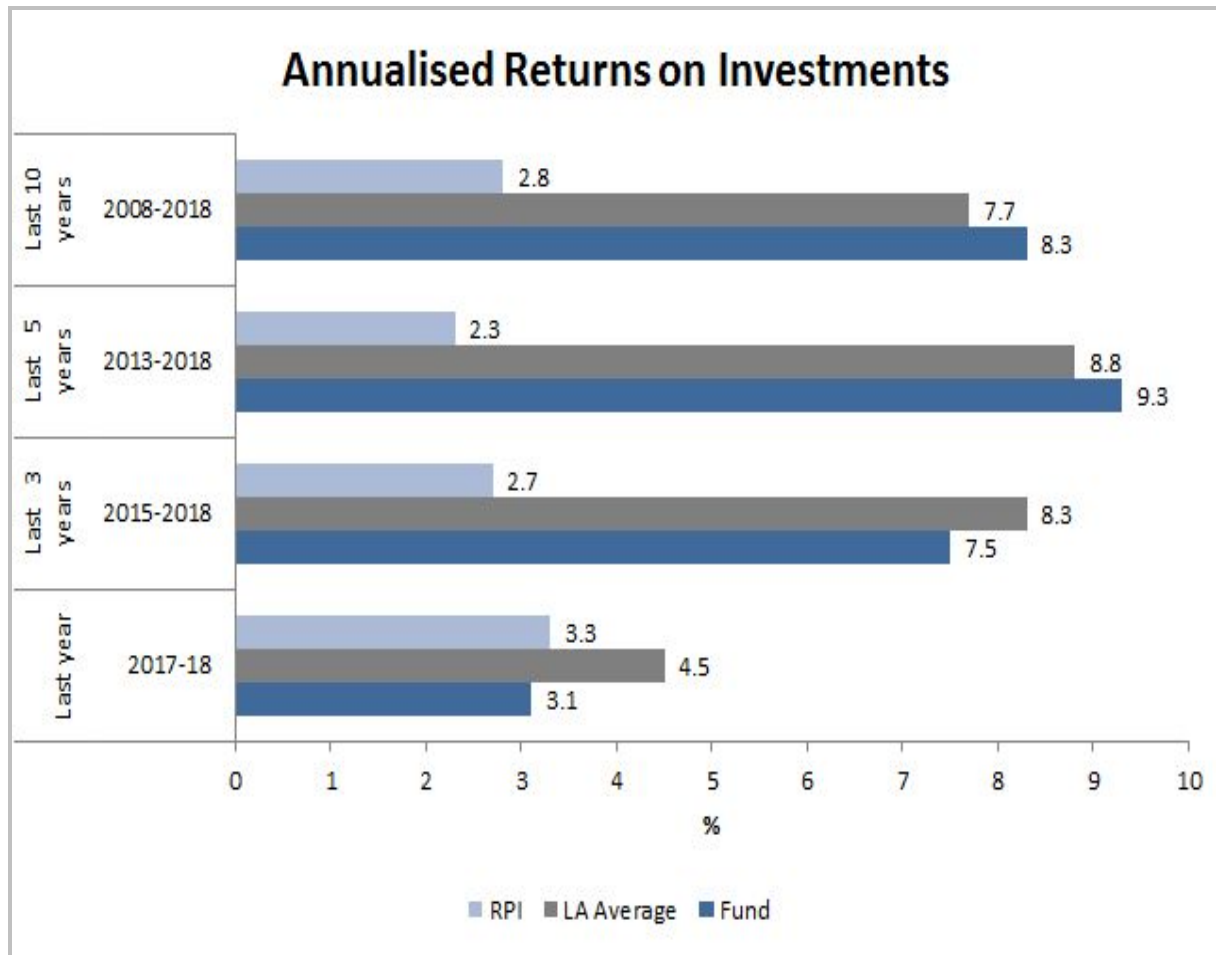
Total Pension Fund Investment Returns



Annualised Investment Returns

The chart below shows the Fund's performance compared to the local authority average, and price inflation (Retail Price Index - RPI) over various durations.

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ADMINISTRATION AND BENEFITS

Scheme Administration

Sutton and Kingston formed a Shared Service with staff transferring to London Borough of Sutton on 1 April 2016. The Shared Pension Service is based within the Sutton Civic Offices and is responsible for the administration of both Councils' Local Government Pension Scheme (LGPS) including the administration of their Additional Voluntary Contribution (AVC) arrangements¹. The service also administers the LGPS on behalf of Sutton Housing Partnership, Carshalton College, Kingston University and scheduled and admitted bodies such as academy schools and contractors. The Shared Service now administer the LGPS on behalf of more than 100 scheme employers.

¹ Aviva is the AVC provider for Royal Borough of Kingston. The Equitable Life Assurance Society scheme is closed to new members.

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There is continuing demand for retirements, transfers and refunds from members across both Councils and other scheme employers. In addition, the growing demand for actuarial assessment for staff being TUPE transferred into shared services, schools converting to academies or other commissioning arrangements has created substantial administrative work within the team.

Following the introduction of the revised Career Average Revalued Earnings (CARE) scheme from 1 April 2014, it now means that pension is accrued each year based on salary earned and then revalued. There is an underpin for members born before 1 April 1956 to ensure that their benefits are no less than they would have received under the 2008 Scheme.

2016/17 benefit statements were issued to all members for whom information was received from their employer by the deadline of 31 August 2017.

It is critical that the employer data is correct on the annual returns as the CARE pension will be established using the actual pensionable pay provided each scheme year. Extensive communication and engagement continues to take place with the scheme employers to support them in this process.

In December 2017, the Pension Fund Panel agreed a pension administration strategy that sets out the expectations of both the Shared Pension Service and Scheme employers. It includes a schedule of charges that, under Regulation 70 of the 2013 Local Government Pension Scheme Regulations, include charging for late and/or poor data quality of annual returns.

The annual revaluation of employee contribution bands - being based on actual pensionable pay was implemented by the Borough payroll provider and other off payroll employers in April 2017. Employee contributions are reassessed each month based on the actual (contractual) pay received in that period.

The Staff Pensions web page includes a link to the national "LGPS 2014" website www.lgps2014.org.

Triennial Valuation as at 31 March 2016

The new employer contribution rates arising from the 2016 actuarial valuation became operational in 2017/18 and will continue for the next two years.

Fund Membership 5 Year Analysis

Year	2013/14	2014/15	2015/16	2016/17	2017/18
Contributing members	4,385	4,479	5,565	5,900	5,558
Deferred	4,483	4,683	4,836	5,043	5,533
Pensioners and Dependents	3,673	3,731	4,039	4,195	4,378
Early Retirement (Efficiency/Redundancy)	11	30	40	30	32
Ill Health Retirement	3	4	3	4	2

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Communications

There is an extensive website for Scheme Administration which contains the following:

- A link to the 2014 Scheme website to calculate the cost of buying extra pension by paying Additional Pension Contributions and produce an application form.
- Information about Additional Voluntary Contributions with Aviva.
- Forms for Expression of Wish and nominating a cohabiting partner
- Opt in and opt out forms
- Links to other relevant websites

Technology

The administration system used by the team has a self serve module for scheme employers that has been rolled out to the majority of scheme employers who use third party payroll providers. It allows them to view their membership data, make certain changes and enable them to run retirement estimates. UPM Self Serve (Pensions On Line) for active members has been rolled out within Kingston and Sutton Councils. The roll out will continue to all scheme employers. In addition, the online function will also be extended to deferred members of the scheme.

Dispute Resolution

From the day a person starts a job with an employer, to the day when benefits or dependant's benefits are paid, the employer and the Scheme administering authority have to make decisions under the Pension Scheme rules that affect the member and their dependents.

If the member is not satisfied with any decision made about them in relation to the Scheme, they are able to access the Council's Internal Dispute Resolution Procedure (IDRP). If the member is still dissatisfied, they can take their case to the Pensions Ombudsman.

IDRP guidance including links to other information can be found on the RBK website <http://www.kingston.gov.uk/pensions>. There are also links to related websites including the 2014 Scheme.

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Pension Fund Panel

The Pension Fund Panel meets six times a year. The responsibilities of the Panel include:

- Setting the investment policy for the Fund;
- Appointing investment managers, advisers and custodians;
- Reviewing the performance of the fund managers and the investments held by the Fund; and
- Corporate governance policy.

In addition, the Panel formally reviews the Fund's investment management arrangements on a three yearly cycle. However, if circumstances dictate, the arrangements may be reviewed at any time.

Council Members Serving on the Panel During 2017-2018

Cllr Eric Humphrey (Chair) - until 18 April 2017
Cllr Andrew Day (Chair) - from 28 June 2017
Cllr Roy Arora (Vice Chair) - until 18 April 2017
Cllr Eric Humphrey (Vice Chair) - from 28 June 2017
Cllr Mike Head
Cllr John Ayles
Cllr Thay Thayalan

Observer Members

Janis Brumwell	(Kingston College) - until 28 June 2017
Lesley Diston	(Kingston University)
Majid Mafi	(Staff Representative)
Chris Coke	(Association of Retired Council Officers (ARCO))

Co-opted Member for Independent Advice:

Matthew Lambe

Management Contacts

Management and administration of the Pension Fund is delegated to the Director of of Corporate & Commercial (S151 Officer). The Shared Pension Service is responsible for the day-to-day administration of the Pension Fund. The Investment, Risk and Commercial Finance Team within the Service has responsibility for the investment of the Pension Fund. The Head of Investment, Risk and Commercial Finance is responsible for the production of the Annual Report.

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**Director of Corporate & Commercial
Head of Investment, Risk and Commercial Finance
Sutton & Kingston Shared Pension Service**

Sarah Ireland
Lyndsey Gamble
David Kellond

Scheme Administration Contacts

If you have any questions about Scheme Administration you should contact the Pensions Service. They can also supply you with copies of any of the Scheme's official documents (for example, the Pensions Charter or Scheme booklet) if you do not have access to the internet.

How to Contact us

We would prefer that you contact us by email.

Email us: skpensions@sutton.gov.uk www.kingston.gov.uk/pensions

If you do not have access to email you can telephone a member of the Pensions Team on 0208 770 5290; or

If you want to write to us, this is our address:

Sutton & Kingston Shared Pension Service, Sutton Civic Offices, St Nicholas Way, Sutton, SM1 1EA

Fund Managers and Advisers Contacts

Name:	Address:	Website:
<i>Investment Managers</i>		
UBS Global Asset Management	5 Broadgate London EC2M 2QS	www.ubs.com
Fidelity Investment Management	25 Cannon Street London EC4M 5TA	www.fil.com
Henderson Global Investors	201 Bishopsgate London ECM 3AE	www.henderson.com
Schroders Investment Management Ltd	31 Gresham Street London EC2V 7QA	www.schroders.com
ColumbiaThreadneedle Investments	60 St Mary's Axe London	www.columbiathreadneedle.com

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	EC3A 8JQ	
Standard Life Investments	30 St Mary's Axe London EC3A 8EP	www.standardlifeinvestments.co.uk
Pyrford International Ltd	% London CIV 59½ Southwark Street, London SE1 0AL	www.londonciv.org.uk
Baillie Gifford & Co	% London CIV 59½ Southwark Street, London SE1 0AL	www.londonciv.org.uk
Ruffer LLP	% London CIV 59½ Southwark Street, London SE1 0AL	www.londonciv.org.uk
Custodian		
JP Morgan Chase Bank	25 Bank Street London E14 5JP	www.jpmorgan.com
Investment Consultant		
Aon Hewitt	10 Devonshire Sq. London EC2M 4YP	www.aonhewitt.com
Fund Actuary		
Hymans Robertson LLP	20 Waterloo Street Glasgow G2 6DB	www.hymans.co.uk
Auditor		
Grant Thornton UK LLP	Melton Street London NW1 2EP	www.grant-thornton.co.uk
AVC Provider (current)		
Aviva	PO Box 520 Norwich NR1 3WG	www.aviva.co.uk
AVC Provider (previous provider - now closed to new members)		

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Equitable Life Assurance Society	PO Box 177 Walton Street Aylesbury Buckinghamshire HP21 7YH	www.equitable.co.uk
Legal Services		
South London Legal Partnership	DX 31515 Royal Borough of Kingston Upon Thames Guildhall 2 High Street Kingston Upon Thames Surrey KT1 1EU	
Bankers		
Lloyds Bank	City Office, PO Box 72, Bailey Drive, Gillingham, Business Park, Kent, ME8 OLS	
Independent Performance Measurer		
PIRC Ltd	Exchange Tower 8th Floor 2 Harbour Exchange London E14 9GE	www.pirc.co.uk

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APPENDICES

The following documents will also be made accessible via the following link

www.kingston.gov.uk/pensions

- Auditors Report 2017-18
- Pension Fund Statement of Accounts 2017-18
- Investment Strategy Statement
- Governance Compliance Statement
- Actuarial Valuation Report as at 31 March 2016
- Funding Strategy Statement
- Communications Policy Statement

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APPENDIX 1: Auditors Report 2017-18

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BOROUGH OF
KINGSTON UPON THAMES**

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APPENDIX 2: Pension Fund Statement of Accounts 2017-18

Pension Fund Accounts – Explanatory Foreword 2017/18

The following sets out the statutory accounts of the Royal Borough of Kingston upon Thames Pension Fund and covers the period that runs from 1 April 2017 to 31 March 2018. The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. The Accounts for the Pension Fund are audited separately from the Council's main accounts.

The Pension Fund is administered according to the Local Government Pension Scheme (LGPS) Regulations and covers employees of the Council and a number of other bodies – these are listed in Note 1 to the Accounts.

The Accounts of the Pension Fund are maintained separately from the Council's main accounts and consist of the Fund Account, Net Assets Statement and notes. The Pension Fund has been built up over many years by contributions from the member employers and participating employees to provide pensions and lump sum payments for members of the Fund upon reaching retirement age, and other benefits as specified. Every three years the appointed actuary values the Fund's assets to assess whether there are sufficient monies available to meet its current pension liabilities. Each employer's contribution to the Fund is based on these triennial valuations, whilst members pay a fixed percentage dependent on their earnings. The latest triennial valuation was carried out as at 31 March 2016. The results of this were published on 31 March 2017, and are reflected in employer contributions from 1 April 2017. Details of the valuation as at 31 March 2016, used in this set of accounts, can be seen in Note 18.

The Council is responsible for the investment of the assets of the Fund and agreeing the investment policy within the regulations covering the Local Government Pension Scheme. These duties are carried out by a panel of Councillors, the Pension Fund Panel, who are advised by the Director of Corporate & Commercial (S151 Officer), and the Fund's Professional Investment Adviser Aon Hewitt.

The value of the Fund's investment assets increased during the 2017/18 financial year, from £795m to £818m. Global equities reached record highs during the final quarter of 2017, which helped drive the Fund's investments to £847m. However, they declined in the first quarter of 2018, as markets suffered a setback, with volatility picking up sharply from low levels.

The arrangements regarding teachers' pensions and NHS pensions are different, as they are not part of the RBK Pension Fund. Teachers' pensions are within a national scheme overseen by the Teachers' Pensions Agency which is responsible for administering and paying teachers' pensions. NHS Pensions are also within a national scheme overseen by the NHS Business Services Authority.

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. The statutory Chief Finance Officer was the Director of Corporate & Commercial (S151 Officer).
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets, and
- approve the Statement of Accounts.

Responsibilities of Director of Corporate & Commercial (S151 Officer)

The Director of Corporate & Commercial (S151 Officer) is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts Director of Corporate & Commercial (S151 Officer) has:

- selected suitable accounting policies and applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Local Authority Code.

The Director of Corporate & Commercial (S151 Officer) has also:

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

CERTIFICATE OF THE DIRECTOR OF CORPORATE & COMMERCIAL (S151 OFFICER)

I certify that the Pension Fund Statement of Accounts set out on the following pages present a true and fair view of the financial position of the Pension Fund as at 31 March 2018 and its income and expenditure for the year then ended.

Sarah Ireland
Director of Corporate & Commercial (S151 Officer)
31 May 2018

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NET ASSETS STATEMENT

31 March 2017 £000	Note	31 March 2018 £000
795,019 Investment Assets:	14	818,110
<u>795,019</u> Total Net Investments		<u>818,110</u>
1,474 Current Assets	20	13,959
(4,740) Current Liabilities	21	(61,791)
<u>791,753</u> Net Assets of the Fund available to fund benefits at the end of the reporting period		<u>770,278</u>

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FUND ACCOUNT

2016/17 £000s	Note	2017/18 £000s
Dealings with members, employers and others directly involved in the Fund		
(37,948) Contributions	7	(35,188)
(1,540) Transfers in from other pensions funds	8	(15,405)
<u>(39,488)</u>		<u>(50,593)</u>
28,721 Benefits	9	29,786
2,492 Payments to and on account of leavers:	10	62,854
<u>31,213</u>		<u>92,640</u>
(8,275) Net (additions) / withdrawals from dealings with members		42,047
4,295 Management expenses	11	4,855
(3,980) Net (additions)/withdrawals including fund management expenses		46,902
Returns on Investments		
(7,193) Investment income	12	(14,681)
48 Taxes on income	13	241
(133,516) (Profit) loss on disposal of investments and changes in the market value of investments	14a	(10,987)
(140,661) Net Return on Investments		(25,427)
(144,641) Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		21,475
(647,112) Opening Net Assets of the Scheme		(791,753)
(791,753) Closing Net Assets of the Scheme		(770,278)

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NOTES TO THE PENSION FUND ACCOUNTS

1. DESCRIPTION OF THE FUND

a) General

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the Royal Borough of Kingston upon Thames. The Scheme is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Royal Borough of Kingston upon Thames and the admitted and scheduled bodies in the Pension Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1 April 2015 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index (CPI).

The Fund is governed by:

- the Public Service Pensions Act 2013
- the LGPS Regulations 2014 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- the LGPS (Management and Investment of Funds) Regulations 2016

b) Funding

The Pension Fund is financed by contributions from employees, the Council, admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employers also pay contributions into the Fund based on triennial funding valuations. The last valuation was at 31 March 2016.

In 2017/18, employer contribution rates ranged from 15.0% to 26.2% of pensionable pay. Employer contribution rates payable from 1 April 2017 were set by the triennial valuation as at 31 March 2016, the results of which were published on 31 March 2017. The Fund excludes teachers, who have a separate Teachers Pensions Scheme managed by the Teachers Pensions Agency. The Fund also excludes those contributing to the NHS Pensions Scheme.

c) Membership

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the Scheme or to "opt out" and make their own personal arrangements outside the

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Scheme. Organisations participating in the Royal Borough of Kingston Pension Fund include:

- Scheduled bodies which are local authorities or other similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. This includes designated admitted bodies.

Member bodies at 31 March 2018 were as follows:

<i>Scheduled bodies</i>	
Royal Borough of Kingston upon Thames	Southborough High School
Kingston University	St Agatha's School
Castle Hill Primary School	Tiffin Girls School
Coombe Boys School	Tiffin School
Coombe Girls School	Tolworth Girls School
Hollyfield School	Kingston Academy
Holy Cross School	Kingston Community School
Knollmead Primary School	Bedelsford School
Latchmere School	Dysart School
Richard Challoner School	St Philip's School
<i>Admitted bodies</i>	
Balance CIC	
London Grid for Learning	
Your Healthcare	
Engie	
NSL	
<i>Admitted bodies (Designated bodies)</i>	
Achieving for Children CIC	

The following scheduled body left the Fund during the year ended 31 March 2018:
Kingston College.

The following admitted bodies left the fund during the year ended 31 March 2018:
Kingston & Sutton Educational Partnership, Hillcroft College.

The following admitted body joined the fund during the year ended 31 March 2018:
NSL

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The following table summarises the membership numbers of the scheme:

31 March 2017		31 March 2018
28	Number of Employers with active members	26
Active Members (Employees)		
2,988	Royal Borough of Kingston upon Thames	2,676
2,229	Other scheduled bodies	2,230
683	Admitted bodies	652
5,900		5,558
Deferred Members		
3,412	Royal Borough of Kingston upon Thames	3,630
1,449	Other scheduled bodies	1,667
182	Admitted bodies	236
5,043		5,533
Retired Members & Dependents		
3,239	Royal Borough of Kingston upon Thames	3,339
861	Other scheduled bodies	928
95	Admitted bodies	111
4,195		4,378
15,138	Total	15,469

d) Pension Fund Panel

The Council has delegated oversight of the Fund to the Pension Fund Panel who make recommendations on the investment policy most suitable to meet the liabilities of the Fund. The Panel is made up of five Members of the Council each of whom has voting rights.

The Panel considers the views of the Director of Corporate & Commercial (S151 Officer) and obtains, as necessary, advice from the Fund's appointed investment advisers, fund managers and actuary. The implementation of these decisions is delegated to the Director of Corporate & Commercial (S151 Officer)

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 require administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The Panel approved its Investment Strategy Statement on 22 February 2017 which can be seen on the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

https://www.kingston.gov.uk/downloads/file/299/investment_strategy_statement

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The Panel has delegated the management of the Fund's investments to external investment managers (see Note 14c) appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position as at 31 March 2018. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/18' (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The Accounts have been prepared on a going concern basis.

The Accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The Accounts do not account for 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 at Note 19 of these Accounts.

Accruals Concept

Income and expenditure has been included in the Accounts on an accruals basis. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The adequacy of the Fund to pay future pensions and other benefits is reported upon separately in these accounts.

Valuation of Investments

Investments are stated at their market values as at 31 March 2018 and are determined as follows:

- All investments priced within the Stock Exchange Electronic Trading Service (SETS), a Recognised or Designated Investment Exchange or Over-The-Counter market, are valued at the bid-market prices at close of business on the exchange or market on which the investment trades, or at the last trading price recorded.
- Securities which are not covered by the above are valued at their estimated realisable value. Suspended securities are valued initially at the suspended price but are subject to constant review.
- Investments held in foreign currency have been valued on the relevant basis and translated into Sterling at the rate ruling at the balance sheet date.
- Transactions in foreign currency are translated into Sterling at the exchange rate ruling at the time of transaction.

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Transfer Values

The pending bulk transfer payable to London Borough of Croydon in respect of the Household Refuse and Recycling Centre service, for 28 staff, estimated at £0.4m has been provided for in the Accounts. This was a small group of low paid staff who joined the LGPS between July 2013 and November 2015 so had short periods of pension accrual.

As at 31 March 2018, also provided for in the Accounts, were the following group transfers payable to the London Borough of Sutton:

- In respect of the transfer of the Shared Finance Service, 79 staff, estimated at £11.0m
- In respect of the transfer of the Customer Contact Centre, estimated at £3.5m

There are two further transfers payable provided for in the Accounts, as follows:

- To the London Boroughs of Wandsworth and Richmond upon Thames in respect of the transfer of Hillcroft College, estimated totalling £2.5m.
- To the London Pensions Fund Authority In respect of the transfer of Kingston College and the Kingston and Sutton Educational Partnership, estimated at £40.0m

There are two transfers receivable from the London Borough of Sutton, provided for in the Accounts:

- In respect of the transfer of the Environment Service, estimated at £5.9m
- In respect of the transfer of the Human Resources, estimated at £5.0m

On 1 April 2017, 79 staff transferred to the London Borough of Sutton in respect of the Shared Finance service. It is intended that the bulk transfer for this will be aligned with that for the transfer in respect of the Customer Contact Centre those transfers in the opposite direction, and netted off to minimise the need for both funds to liquidate investment assets (and hence avoid unnecessary costs).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

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Augmentation is the cost of additional membership awarded by an employer. This was applied only by Kingston University who awarded up to two additional years membership to employees who leave under their early retirement scheme (£248,850 in 2017/18, £72,616 in 2016/17).

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in or out are accounted for when received or paid which is normally when the member liability is accepted or discharged. When judged as material, individual transfers are accrued for. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis.

c) Investment income

- Interest income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- Dividend income

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

- Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the financial year is disclosed in the Net Assets Statement as a current financial asset.

- Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

Pensions and lump sum benefits include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

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

Investment income, Note 12, is shown gross of irrecoverable taxes deducted, which in 2017/18 totalled £240,650 (Note 13). The Fund is reimbursed VAT by HM Revenue and Customs, and the accounts are shown exclusive of VAT.

f) Management expenses

Pension Fund management expenses are accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

- Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension Administration Team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund

- Oversight and Governance Costs

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

The cost of obtaining investment advice from external consultants is included in investment management expenses

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- **Investment Management Expenses**

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

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

Net Assets Statement

g) Financial assets

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

h) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (Note 19).

i) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund (see Note 22). AVCs are paid to the AVC providers by employers, specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement from the AVC provider company showing the amount held in their account and the movements in year.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies as set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is within accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised at Note 18.

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This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions, illustrated in Note 19, depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

The actuarial assumptions are largely prescribed at any point and reflect the market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment); can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Changes in assumptions for year ended 31 March 2018	Approximate % increase to Employer liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	10%	116
1 year increase in member life expectancy	4%	47
0.5% increase in the salary increase rate	1%	15
0.5% increase in the pension increase rate	8%	95

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6. EVENTS AFTER THE REPORTING PERIOD END

The Statement of Accounts was authorised for issue by the Director of Corporate & Commercial (S151 Officer) on 31 May 2018. At this date there was one non-adjusting event to report:

The latest value of the investments of the Fund show an increase from £818.110m to £838.022m (as valued at 30 April 2018). This is an increase of £19.912m or 2.45%.

7. CONTRIBUTIONS RECEIVABLE

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain solvency of the Fund. The table below shows a breakdown of the total amount of employers' and employees' contributions.

2016/17 £000s		2017/18 £000s
	<i>From Employers:</i>	
	Royal Borough of Kingston upon Thames	
(5,884)	- Normal Contributions	(5,533)
(709)	- Capitalised Cost of Early Retirements	(841)
(6,719)	- Deficit Recovery Contributions	(4,871)
(13,757)	Scheduled Bodies	(13,528)
(1,302)	Admitted Bodies	(889)
(1,801)	Admitted Bodies (Designated Bodies)	(2,040)
<u>(30,172)</u>		<u>(27,702)</u>
	<i>From Members:</i>	
	Royal Borough of Kingston upon Thames	
(2,596)	- Normal Contributions	(2,415)
(141)	- Additional Contributions	(133)
(3,758)	Scheduled Bodies	(3,700)
(468)	Admitted Bodies	(351)
(813)	Admitted Bodies (Designated Bodies)	(887)
<u>(7,776)</u>		<u>(7,486)</u>
<u>(37,948)</u>		<u>(35,188)</u>

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8. TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17 £000s		2017/18 £000s
(1,540)	Individual transfers	(4,255)
0	Group transfers	(11,150)
<u>(1,540)</u>		<u>(15,405)</u>

9. BENEFITS PAYABLE

The tables below show a breakdown of the total amount of benefits payable by category and by authority:

2016/17 £000s		2017/18 £000s
23,554	Pensions	24,518
4,581	Commutation and Lump sum retirement benefits	4,574
586	Lump sum death benefits	694
<u>28,721</u>		<u>29,786</u>

2016/17 £000s		2017/18 £000s
20,134	Administering authority	19,947
7,270	Scheduled bodies	8,031
1,317	Admitted bodies	1,808
<u>28,721</u>		<u>29,786</u>

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £000s		2017/18 £000s
161	Refunds to members leaving service	223
400	Group transfers	57,000
1,931	Individual transfers	5,631
<u>2,492</u>		<u>62,854</u>

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11. MANAGEMENT EXPENSES

2016/17 £000s		2017/18 £000s
565	Administration Expenses	605
206	Oversight and Governance	168
21	Audit Fees	21
3,503	Investment Management Expenses & transaction costs	4,061
<u>4,295</u>		<u>4,855</u>

11a. INVESTMENT MANAGEMENT EXPENSES

Investment Management Expenses are further analysed below in line with CIPFA Guidance on Accounting for Management Costs in the LGPS.

2016/17 £000s		2017/18 £000s
3,272	Management Fees	3,617
4	Performance Fees	32
41	Custody Fees	66
186	Transaction Costs	346
<u>3,503</u>		<u>4,061</u>

12. INVESTMENT INCOME

2016/17 £000s		2017/18 £000s
(4,291)	Equity Dividends	(4,184)
(2,905)	Pooled Investments	(10,464)
3	Interest on Cash Deposits	(4)
0	Class Action Income	(29)
<u>(7,193)</u>	Total before Taxes	<u>(14,681)</u>

13. TAXES ON INCOME

2016/17		2017/18
47	Withholding tax - equities	72
1	Withholding tax - pooled	169
<u>48</u>		<u>241</u>

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14. INVESTMENT MANAGEMENT ARRANGEMENTS AND ANALYSIS OF INVESTMENTS

The Fund's investments are managed by nine investment managers. The Fund's longest standing manager is UBS, appointed in 2007, who retain approximately 4.95% of the Fund in a property portfolio. Since then, as a result of high level investment strategy reviews:

- In September 2009, the Panel appointed three active equity managers and an active corporate bonds manager.
- In June 2013, to reduce the Fund's exposure to the potential impact of rising bond yields (and hence falling underlying asset values), one third of the Fund's bond allocation was moved to a total return bond mandate (managed by the existing corporate bond manager).
- In January 2014, to reduce the potential volatility of the Fund's investments, whilst maintaining an appropriate level of return, an allocation to Diversified Growth Funds (DGF) was approved, and two managers using different approaches were appointed.
- In October 2017, to ensure the Fund's investment strategy continued to be appropriate in the context of the Fund's actuarial position, the Panel appointed another two DGF managers in October 2017, which also adopt different approaches.

The Government is requiring LGPS funds to work towards pooling the bulk of their investment assets to reduce investment management costs and increase funds' ability to access different asset classes. The RBK Fund has joined the London Collective Investment Vehicle (CIV).

In October 2017, funds were disinvested from Standard Life and Fidelity in favour of two further investment managers appointed prior, Baillie Gifford and Ruffer, to manage Diversified Growth Funds under the London CIV.

All investment managers have written agreements with the Council in respect of the services they provide. The Financial Services Authority also regulates them in carrying on investment management business. They are entitled, at their discretion, to manage the assets of the Scheme by buying and selling investments in order to seek to achieve their specific objectives within the agreed investment guidelines and regulations. When choosing investments, they must have regard to the need for diversification of investments and the overall suitability of those investments to the Scheme. In managing the portfolio, they aim to attain a level of performance based on a benchmark return.

The management fees charged by the fund managers are mainly calculated on a sliding scale, based on the value of the funds managed at the end of each quarterly period.

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INVESTMENTS

Market Value at 31 March 2017 £000	Analysis of Investments	Market Value at 31 March 2018 £000
	<i>Equities Quoted:</i>	
33,363	Consumer	31,061
22,250	Manufacturing	19,264
17,748	Energy & Utilities	14,590
35,771	Financial Institutions	32,767
24,137	Health & Care	20,815
40,766	Information Technology	35,395
28,035	Other	21,897
<u>202,070</u>		<u>175,789</u>
	<i>Pooled Investment Vehicles:</i>	
29,901	Property	40,497
283,612	Unitised Insurance Policies	293,332
0	Unit Trusts	70,430
268,069	Other Managed Funds	230,307
<u>581,582</u>		<u>634,566</u>
	<i>Other Investment Balances</i>	
150	London CIV	150
783,802	Total of Investments	810,505
1,201	Accrued Income	1,652
(513)	Outstanding Transactions	(146)
<u>784,490</u>		<u>812,011</u>
784,490	Total Investment Assets	812,011
	<i>Cash held by Fund Managers:</i>	
2,339	Sterling	3,155
4,050	Foreign Currency	2,944
4,140	Cash held internally by Kingston Pension Fund	0
<u>10,529</u>	Total Cash Deposits	<u>6,099</u>
795,019	Net Investment Assets	818,110

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14a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

	Value 31 March			Change	Value at
2017-18	2017	Purchases	Sales	in	31 March
		at Cost	Proceeds	Market	2018
Equities	202,070	122,174	(152,383)	3,928	175,789
Managed and Unitised Funds	581,582	139,725	(92,087)	5,346	634,566
Currency Contracts/Futures	0			0	0
Outstanding Traded Securities	(513)			367	(146)
London CIV	150			0	150
	<u>783,289</u>	<u>261,899</u>	<u>(244,470)</u>	<u>9,641</u>	<u>810,359</u>
Cash and cash equivalents	10,529			895	6,099
Investment income due	1,201			451	1,652
Totals	<u>795,019</u>	<u>261,899</u>	<u>(244,470)</u>	<u>10,987</u>	<u>818,110</u>

	Value 31 March			Change	Value at
2016-17	2016	Purchases	Sales	in Market	31 March
		at Cost	Proceeds	Value	2017
	£000	£000	£000	£000	£000
Equities	157,205	100,402	(98,367)	42,830	202,070
Managed and Unitised Funds	486,306	150,550	(145,592)	90,318	581,582
Currency Contracts/Futures	0			0	0
Outstanding Traded Securities	(565)			52	(513)
London CIV	150			0	150
	<u>643,096</u>	<u>250,952</u>	<u>(243,959)</u>	<u>133,200</u>	<u>783,289</u>
Cash and cash equivalents	6,146			316	10,529
Investment income due	976				1,201
Totals	<u>650,218</u>	<u>250,952</u>	<u>(243,959)</u>	<u>133,516</u>	<u>795,019</u>

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14b. ANALYSIS OF INVESTMENTS

Market Value at 31 March 2017 £000		Market Value at 31 March 2018 £000
	<i>Equities</i>	
	UK	
150	London CIV	150
226,805	Quoted	9,425
	Overseas	
23,864	Quoted	211,734
250,819		221,309
	Pooled funds	
	UK	
99,279	Fixed income unit trust	101,542
171,865	Other managed funds	168,274
0	Unit trusts	70,430
	Overseas	
159,598	Fixed income	168,952
69,954	Hedge funds overseas equity	35,616
500,696		544,814
29,901	Pooled property investments	40,497
12,915	Cash deposits	9,984
1,201	Investment income due	1,652
(513)	Outstanding transactions	(146)
13,603		11,490
795,019	Net Investment Assets	818,110

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14c. INVESTMENTS ANALYSED BY FUND MANAGER

The market value of the investment assets under the management of each fund manager as at 31 March 2018 is shown below.

2017			2018	
£000s	%		£000s	%
4,140	0.52	Internally Invested Funds	0	0.00
32,442	4.08	UBS Global Asset Management	43,860	5.36
231,341	29.10	Fidelity Pensions Management	202,871	24.80
159,598	20.07	Threadneedle Asset Management	168,951	20.65
118,567	14.91	Schroder Investment Management	116,997	14.30
99,279	12.49	Janus Henderson Investors	101,542	12.41
69,954	8.80	Standard Life	35,616	4.35
79,548	10.01	Pyrford International *	77,694	9.50
0	0.00	Baillie Gifford*	35,639	4.36
0	0.00	Ruffer*	34,790	4.25
150	0.02	London CIV	150	0.02
795,019	100.00		818,110	100.00

* Managed via London CIV

In addition to individual performance benchmarks for each fund manager, the Pension Fund's overall performance is analysed relative to the Pensions and Investments Research Consultants Ltd (PIRC) Local Authority Universe which is representative of the UK Local Authority Pension Fund peer group. During 2017/18, the Pension Fund Panel reviewed in detail the performance of the investment managers at two all day meetings. At these two meetings the managers presented to the Panel to account for their performance against their respective set mandate benchmarks. In addition, at its four quarterly meetings the Panel monitored the activity and performance of the various fund managers. Fund investments performance showed a one year positive return of 3.1% compared with the average return for the PIRC Local Authority Universe of 4.5%. The annualised return over three years for the fund was 7.5%, a relative underperformance of 0.8% against the PIRC Local Authority Universe average return of 8.3%. The market value of the Fund's investment assets increased from £795.019m as at 31 March 2017 to £818.110m as at 31 March 2018.

Major investments

The following investments represent more than 5% of the net investment assets of the scheme (£818.110m):

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Market Value 31 March 2017 £000		Major Investments		Market Value 31 March 2018 £000	
	as % of investment assets 31 March 2017				as % of investment assets 31 March 2018
159,598	20.07	Threadneedle Asset Management Ltd TPN Global Equity Fund		168,951	20.65
118,567	14.91	Schroder Inv. Management Ltd QEP Global Active Value Fund		116,997	14.30
62,968	7.92	Janus Henderson Investors Ltd All Stocks Credit Fund		101,542	12.41
79,548	10.01	Pyrford Global Total Return Fund *		77,694	9.50

*Managed via London CIV

15. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is in accordance with the guidance contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

15a. Fair value – hierarchy

Asset and liability valuations are classified into three levels, according to the quality and reliability of information used to determine fair values. The investment assets of the Pension Fund are classed either as Level 1 or Level 2, as set out in the tables below, and are described as follows:

Level 1

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

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value

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Values at 31 March 2018	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets at fair value through profit and loss	344,482	465,873	0	810,355
Non-financial Assets at fair value through profit and loss	0	0	0	0
Financial liabilities at fair value through profit and loss	0	0	0	0
Net Investment assets	<u>344,482</u>	<u>465,873</u>	<u>0</u>	<u>810,355</u>

Values at 31 March 2017	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets at fair value through profit and loss	713,698	69,954	0	783,652
Non-financial Assets at fair value through profit and loss	0	0	0	0
Financial liabilities at fair value through profit and loss	0	0	0	0
Net Investment assets	<u>713,698</u>	<u>69,954</u>	<u>0</u>	<u>783,652</u>

16. Financial instruments

16a. Classification of financial instruments

Accounting policies describe how different classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The

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following table analyses the carrying amounts of financial instruments, by category and net assets statement heading.

No financial assets were re-classified during the financial year.

At 31 March 2017			At 31 March 2018		
Fair value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000	Fair value through profit and loss £000	Loans and Receivables £000	Financial liabilities at amortised cost £000
Financial Assets			Financial Assets		
202,070		Equities	175,789		
551,681		Pooled Investments	594,069		
29,901		Pooled Property Investments	40,497		
	10,529	Cash Deposits		6,099	
	1,474	Debtors		13,959	
	838	Other Investment balances		1,656	
Financial Liabilities			Financial Liabilities		
		(4,740) Creditors			(61,791)
783,652	12,841	(4,740)	810,355	21,714	(61,791)

16b. Net gains and losses on financial instruments

At 31 March 2017 '000	At 31 March 2018 '000
Financial Assets	
133,200 Designated at fair value through profit and loss	10,092
316 Loans and receivables	895
<u>133,516</u>	<u>10,987</u>

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key risks

The Pension Fund's activities expose it to a variety of financial risks:

- market risk – the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

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- credit risk – the possibility that other parties might fail to pay amounts due to the Pension Fund.
- liquidity risk – the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.
- re-financing risk – the possibility that the Pension Fund might be required to sell a financial instrument below its purchase price.

Overall Procedures for Managing Risk

The Pension Fund's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013 and the associated regulations. These regulations set out permissible financial instruments, require the Administering Authority to maintain and invest on behalf of the, Pension Fund in accordance with its investment principles, to take professional advice, to review investment performance and to operate a separate Pension Fund bank account. Overall these procedures require the Administering Authority to manage Pension Fund risk by maintaining and investing in accordance with a:

- Investment Strategy Statement;
- Funding Strategy Statement;
- Statement of Governance Policy;
- Governance Compliance Statement.

The Pension Fund Investment Strategy is reviewed at least triennially following actuarial valuation by the Pension Fund Panel who monitor investment performance and compliance quarterly, including the internal control arrangements of external fund managers and the custodian.

a) Market risk

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

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

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

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Other price risk

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

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

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

Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset type	Values as at 31 March 2018 £'000	Change +/- %	Value on increase £'000	Value on decrease £'000
Global Equities	483,117	17.9	569,595	396,639
Diversified Growth	183,739	15.8	212,770	154,708
Total Bonds	94,131	10.2	103,732	84,530
Cash	16,476	0.0	16,476	16,476
Property	40,497	14.3	46,288	34,706
London CIV	150	0.0	150	150
Total	818,110		949,011	687,209

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

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that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Currency risk

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

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

Currency risk – sensitivity analysis

Following analysis of historical data, the council considers the likely volatility associated with foreign exchange rate movements to be 10.0%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2018 along with the impact that a 10.0% strengthening / weakening of the pound against the various currencies in which the Fund holds investments would have on the values.

Asset type	Values as at 31 March 2018 £'000	Value on 10% price increase £'000	Value on 10% price decrease £'000
Overseas Equities	449,551	494,506	404,596
Overseas Corporate Bonds	57,221	62,943	51,499
Overseas Diversified Growth Fund	106,046	116,651	95,441
Total	612,818	674,100	551,536

The value on increase and value on decrease for an individual currency exposure is calculated with reference to that currency's volatility, relative to £UK, over the three years to March 2018. Because currency changes are not necessarily correlated it is not appropriate

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to sum the outputs from each currency. In calculating the increase and decrease at a total fund level, it is necessary to establish the change in value of the aggregate of currencies held. It is this change that is applied to the overall currency exposure.

b) Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund has selected bond managers who have an investment strategy which requires investment only in high investment grade and collateralised products and who use research and market knowledge to minimise exposure to credit risk. The Pension Fund uses a custodian to ensure that all money due is paid in full and on time. Internally invested cash is placed in a special interest bearing account with the Council's bankers.

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case to meet the pensioner payroll costs; and also cash to meet investment commitments. The Pension Fund currently remains cash flow positive with contributions exceeding payable pensions, though this is regularly monitored.

The Council has immediate access to a proportion of its Pension Fund cash holdings, as these are held in an instant access special interest bearing account maintained by Council officers. The remainder is invested in fixed term deposits taking into account likely future cash flows. Surplus funds are invested externally with fund managers. In the event of a funding shortfall the LGPS regulations permit the administering authority to borrow on behalf of the Pension Fund for up to 90 days. If required, funds can also be called back from investment managers to meet liabilities.

d) Refinancing risk

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

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18. FUNDING ARRANGEMENTS

Actuarial Position

Rates of contributions paid by the participating Employers during 2017/18 were based on the actuarial valuation carried out as at 31 March 2016, by the Fund's actuary, Hymans Robertson.

The following table shows a summary of the results of the valuation:

Past Service Position	31 March 2016 £m
Past Service Liabilities	794
Market Value of Assets	649
Surplus (Deficit)	(145)
Funding Level	81.7%

Financial Assumptions	31/03/2016	
	Nominal	Real
Discount Rate	4.0%	1.9%
Salary Increases*	2.6%	0.5%
Pension Increases	2.1%	-

**Excluding promotional increases.*

The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. Their contribution rates are calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers using the projected unit actuarial method.

The rates of contributions payable by each participating employer over the period 1 April 2017 to 31 March 2020 are set out in a certificate dated 31 March 2017 which is appended to the actuary's report on the actuarial valuation. For those bodies which have become separate employers within the Fund since the valuation date, their contributions rates have been calculated individually and certified by the Fund's actuary.

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19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2018, of the actuarial valuation of promised retirement benefits as set out in IAS26, and that the actuarial present value should be calculated on an IAS 19 basis.

IAS26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the International Financial Reporting Standards (IFRS).

31 March 2017 £m	31 March 2018 £m
(1,148) Actuarial Fair Value of Promised retirement benefits	(1,173)
792 Net Fund Assets available to fund benefits	770
<u>(356)</u>	<u>(403)</u>

20. CURRENT ASSETS

31 March 2017 £000	31 March 2018 £000
86 HMRC Tax	86
1,228 Contributions due	1,121
158 Other debtors	1,366
0 Group Transfers	10,900
2 Cash	486
<u>1,474</u>	<u>13,959</u>

21. CURRENT LIABILITIES

31 March 2017 £000	31 March 2018 £000
0 Fund Custodian Fees	(9)
(520) Fund Managers' Fees	(602)
(212) Benefits Payable	(609)
(437) Transfer Values	(57,054)
(3,571) Other Creditors	(3,517)
<u>(4,740)</u>	<u>(61,791)</u>

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22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

A number of active Fund members have elected to pay additional voluntary contributions to increase their personal benefits. Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that these are not paid into the Pension Fund.

The total AVCs paid by members in 2017/18 were £79,104 (£94,975 in 2016/17), as below:

2016/17 £000		2017/18 £000
0.1	Equitable Life	0.1
94.9	Aviva	79.0
<u>95.0</u>		<u>79.1</u>

These are invested with the Council's approved AVC providers and are a money purchase arrangement. At 31 March 2018, the total value of the AVC fund with Aviva was £953,410 (£964,322 at 31 March 2017) and with Equitable Life was £123,552 (£122,262 at 31 March 2017).

23. RELATED PARTY TRANSACTIONS

The Council is a related party to the Fund and in accordance with the regulations the Council's expenses in administering the Scheme are charged to the Fund. The amount charged by the Council for 2017/18 was £727,846 (£691,108 in 2016/17)

None of the Councillors voting on the Pension Fund Panel are members of the Pension Fund.

The Council has a significant interest in one designated body (Achieving for Children Ltd) which is within the Fund and it received £2.040m in employer contributions, deficit and early retirement costs from this body (£1.823m in 2016/17)

23a. KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel for the Pension Fund are the Head of Financial Services and the Assistant Director, Resources Directorate (shared Finance for the London Borough of Sutton and the Royal Borough of Kingston upon Thames). Their costs have been reasonably apportioned between the Pension Fund Accounts and the Authority's Accounts, and are within scheme administration and investment management expenses as above. The total remuneration payable to the key management personnel is as follows:

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31 March 2017 £000	31 March 2018 £000
33 Short - term benefits	27
2 Post - employment benefits	1
35	28

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no known contingent liabilities or contingent assets as at 31 March 2018. There are no outstanding contractual commitments and no material relating non-adjusting events occurring subsequent to the period end.

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APPENDIX 3: Investment Strategy Statement

Updated and approved at Pension Fund Panel meeting on 14 June 2018 - accessible via the link below

<https://moderngov.kingston.gov.uk/documents/s78343/Investment%20Strategy%20Statement%20April%202018%20tracked.pdf>

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APPENDIX 4: Governance Compliance Statement

With effect from 1 April 2008, the Local Government Pension Scheme Regulations 1997 (as amended) require administering authorities to prepare, maintain and publish a written statement of compliance with a set of best practice governance principles, and where an authority is non-compliant, to state the reasons.

The table below sets out the extent to which Royal Borough of Kingston upon Thames, as administering authority, complies with the governance principles.

	Governance Principle	Compliant			Comment
		N O T	P A R T I A L L Y	F U L L Y	
1	Structure				
	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.			✓	The Pension Fund Panel consists of 5 elected members reflecting the political representation on the Council and 5 non-voting members. The Panel is responsible for the management of the administration of benefits and strategic management of the Fund's assets. The Panel has Terms of Reference.
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.			✓	Non-voting Panel members are representatives of key scheduled bodies, scheme members (including pensioner and deferred), and one independent co-opted individual.

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	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.			✓	The Pension Fund Panel reports to the Council's Treasury Committee.
	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.			✓	Three of the five elected Members of the Panel also sit on the Treasury Committee.
2	Committee Membership and Representation				
	a) That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure These include:- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) where appropriate, independent professional observers; and iv) expert advisors (on an ad-hoc basis)		✓		The main employers and scheme members are represented on the Pension Fund Panel. However not all individual employers are represented.
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.			✓	Non-voting members of the Pension Fund Panel have equal access to information, training, opportunity to contribute to Panel discussions and ability to influence the Panel's decisions.
3	Selection and Role of Lay Members				
	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.			✓	All new members of the Panel are given training as part of their induction to enable them to play a full role on the Panel. Additional training is tailored to enhance members' governance capacity as the pension fund environment change.

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	b) 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			✓	At the start of Pension Fund Panel meetings, members must declare if they have an interest in any of the items on the agenda. Interest may be personal or pecuniary. Depending on the interests declared, it might be necessary for the member(s) to leave the meeting. The detail on interests is in Part 5A of the Council's Constitution – Members' Code of Conduct.
4	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.			✓	Elected Members of the Pension Fund Panel have voting rights. Voting rights have not been extended to employer and member/pensioner/co-opted representatives as they are not elected Members of the Council.
5	Training/Facility Time/Expenses				
	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.			✓	There is a clear policy on training. The Fund pays for approved training courses for all members. The training plan reflects the Panel's work programme and the needs of the committee agenda.
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.			✓	The Training Policy applies equally to all members of the Panel and the Pension Board.
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training			✓	A training plan is in place for the Pension Fund Panel and the Pension Board and a log of training

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	undertaken.				undertaken is maintained.
6	Meetings (Frequency/Quorum)				
	a) That an administering authority's main committee or committees meet at least quarterly.			✓	The Treasury Committee meets five times a year.
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.			✓	Formal meetings of the Pension Fund Panel are held quarterly. In addition, a "Manager Day" meeting is held twice a year. Panel meeting dates are synchronised with the dates of the Treasury Committee meetings and Pension Board meetings.
	c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented				N/A
7	Access				
	That subject to any rules in the Councils' 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.			✓	All members of the Pension Fund Panel have equal access to meeting papers and advice considered at meetings.
8	Scope				
	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements			✓	The Panel's Terms of Reference covers investment management and the wider pension administration matters. A review of Fund governance was carried out in 2013-14 ahead of the introduction of the Pension Board in 2015.
9	Publicity				

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	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.			✓	All statutory and other material relating to the Scheme governance are published on the Council's website allowing stakeholders to follow up on any matter.
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Note: A review of Fund Governance arrangements was undertaken in 2014/15, to ensure that the new requirements (in particular that for a local Pension Board) was in place from 1 April 2015.

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APPENDIX 5: Actuarial Valuation Report 2016

Presented to the Pension Fund Panel meeting on 28 June 2017 - accessible via the link below

https://www.kingston.gov.uk/downloads/file/1864/actuarial_valuation_2016

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APPENDIX 6: Funding Strategy Statement

Approved at Pension Fund Panel meeting on 22 February 2017- accessible via the link below

https://www.kingston.gov.uk/site/scripts/google_results.php?q=Funding+Strategy+Statement

APPENDIX 7: Communications Policy Statement

STATEMENT OF POLICY CONCERNING COMMUNICATION AS REQUIRED BY REGULATION 61

The Local Government Pension Scheme Regulations 2013

Prospective Members

Prospective members will be provided with a brief guide to the Scheme to assist them in their decision regarding membership of the Scheme.

New Members

A new member will be issued with a statutory notice, a letter about Combined Annual Benefit Statements, and details of where information about the Pension Scheme can be found, within the timescale detailed in the Pension Charter. This will normally be sent to the member's home address where it is available but otherwise will be sent to the employer to distribute. A copy of the Pensions Charter is available on the web pages at www.kingston.gov.uk/pensions. A senior member of Pension Services will be available to provide a PowerPoint presentation on the advantages of joining the Scheme as required by the employer.

Contributing Members

A newsletter will be issued at least twice each year. This will be sent to the employer to distribute. There will be a presentation from the Head of Investment, Risk and Commercial Finance on the performance of Pension Fund investments, the Pensions Manager on Scheme administration and another presenter on a topical issue.

Briefing sessions on changes to the Scheme will be held when necessary.

Deferred Members

Changes to the Scheme affecting a deferred member will be notified when annual benefit statements are issued unless earlier communication is necessary. Deferred members will be advised that a copy of the Annual Report can be viewed on the web pages.

Pensioner Members

A newsletter will be issued once each year. Issued in April, the newsletter will give a breakdown of payments made over the previous year and advise of the percentage of pensions increase.

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Representatives of Employees

For R.B Kingston, information will be provided through Staff Consultative Committee as necessary. For other employers this will be provided on request.

Employers

All appropriate information received by R.B Kingston will be forwarded on to the named contact at each active employer within 5 days of receipt unless not required to do so by the employer.

Web Pages

All policy statements are on the web pages. A range of forms will be available together with links to other websites with the most up-to-date information.

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GLOSSARY

Absolute Return - an investment strategy that tries to achieve a given level of long-term return, often related to cash, rather than related to a benchmark.

Accounting Period - The timescale during which accounts are prepared. Local Authority accounts have an overall accounting period of one year from 1 April to 31 March.

Accounting Policies - Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. Accounting policies define the process whereby transactions and other events are reflected in the financial statements.

Accounting Standards - A set of rules explaining how accounts are to be kept. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practice.

Accruals - This is the concept that income and expenditure are recognised as they are earned or incurred and not as money is received or paid.

Actuarial Valuation – An investigation by the Scheme actuary into the ability of a pension scheme to meet its liabilities.

Actuary – An adviser on financial information and assumptions relating to a pension scheme.

Admitted Body – A body which can be admitted to the LGPS with the agreement of the Administering Authority. It must be non profit-making and will normally be in receipt of a grant from either central or local government.

Agency Services - Services provided by or for another local authority or public body where the cost of carrying out the service is reimbursed.

Assets – Any item of economic value owned by an individual or corporation, especially that which could be converted to cash.

Contingent Assets - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future event not wholly within the Council's control.

Contingent Liabilities - These are potential losses for which a future event will establish whether a liability exists. As it is not appropriate to establish provisions for such amounts, they are not accrued in the financial statements, but disclosed separately in a note to the Comprehensive Income and Expenditure Statement.

Contributing Member – A member of an occupational pension scheme, who is building up pension benefits in either a defined benefit, or a defined contribution scheme from their current job.

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Creditors - These are amounts owed by the Council for goods and services supplied, but for which payment has not been made at the end of the financial year.

Debtors - These are amounts owed to the Council but not received at the end of the financial year.

Deferred Member – A member who is no longer active in the Scheme but is not yet in receipt of a pension.

Defined Benefits Pension Scheme - Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The scheme may be funded or unfunded.

Diversified Growth Fund – A fund that invests in a wide variety of asset classes in order to deliver real capital appreciation over the medium to long term.

Equity – The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

Fair Value - Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial Instruments - A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Fixed Interest Security – A security which yields fixed and regular income (interest).

International Financial Reporting Standards (IFRS) - The accounting standards adopted by the International Accounting Standards Board (IASB). Local authorities are required to produce 2014/15 accounts using IFRS.

Interest Cost (Pensions) - For a defined benefit scheme, the expected increase during the period, in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Liability – A financial obligation, debt, claim, or potential loss.

London Collective Investment Vehicle (London CIV) - An FCA Regulated fund manager that represents the pooled investments of 32 London Local Authority Pension Funds (including the City of London).

Past Service Costs - For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

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Post Balance Sheet Events - Events arising after the balance sheet date should be reflected in the statement of accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included.

Related Parties - Two or more parties are defined to be related parties when at any time during the financial period concerned, one party has direct or indirect control or influence on the other party, for example;

the parties are subject to common control from the same source; or

one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; **or**

the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Related Party Transaction - A related party transaction is the transfer of assets or performance of services by to or for a related party irrespective of whether a charge is made.

Scheduled Body – There are a number of employers who are required to provide membership of the Local Government Pension Scheme to all their employees. These employers are listed in a schedule that appears at the back of the Local Government Pension Scheme Regulations. Unlike admitted bodies, scheduled bodies cannot refuse membership of the Scheme to their employees.

Security – Any kind of transferable certificate of ownership.

Investment Strategy Statement (ISS) – Trustees of Pension Funds are required to prepare and keep up to date this written statement to show the governance decisions on the investment of the scheme assets.

Unitised Fund – An investment vehicle whereby the contributions of unit-holders are pooled and the total amount is then used to purchase assets such as shares, bonds, property and cash.