

London Borough of Merton

# Pension Fund

Annual Report 2013/2014





## **The Pension Fund Annual Report 2013/14**

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## The London Borough of Merton Pension Fund Annual Report

### Introduction

The Local Government Pension Scheme [LGPS] (Administration) Regulations 2008, Section 34 (1) require each LGPS Administering Authority to prepare a Pension Fund Annual Report. A key purpose of this is to facilitate independent audit of the Authority's pension arrangements. The Regulations prescribe the content of the report, but not its format or media, and allow the detail of prescribed content to be provided via reference to where the data may be obtained. The report is to be signed-off by the Director of Corporate Services and the Chair of the relevant Pensions Committee, and is to include a report by the independent auditors. This report is based upon guidance issued by the Department of Communities and Local Government.

The LGPS provides defined pension benefits determined by national regulations. The benefits are mandatory, and not subject to local amendment or Pension Fund performance and they are adjusted for inflation. The liability to pay these benefits, both currently and in future years is financed by employee and employer contributions and income from investment of the Pension Fund. The scheme has to be fully funded (i.e. employer contributions must be set to meet 100% of existing and prospective pension liabilities including pension increases) or have a plan to become so.

Employee contribution rates are set by statutory regulations and therefore effectively fixed. The employer's contribution is determined, triennially, by an actuarial review that takes into account both the amount of employee contribution and the value and investment return of the Pension Fund. Thus the amount and performance of Pension Fund investment is significant to the level of the employer's contribution, and determines the need for effective management of the Fund.

The Borough has been joined by other Scheduled and Admitted bodies in providing pension benefits under the LGPS, but the Borough is the Administering Authority and is responsible for administering the Pension Fund either directly or by means of outsourcing or shared service arrangements with other LGPS funds as well as arranging its investment. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body.

#### As at 31 March 2014

##### **Administering Body**

- LB Merton

##### **Scheduled bodies:**

- Wimbledon and Putney Commons Conservators
- Harris Academy Merton
- Harris Academy Morden
- St. Marks Academy
- Benedict Academy

##### **Admitted bodies:**

- Greenwich Leisure
- Merton Priory Homes
- Central and Cecil Housing Trust
- Environmental Waste Control (cessation July 2013)
- CHAS (Contractors Health and Safety Assessment Scheme)

Merton Pension Fund has experienced a 4% increase in the market value of assets in the 12 months to 31 March 2014.

## **Changes to the LGPS**

From 1<sup>st</sup> April 2014 the new 2014 scheme will be in place. The scheme remains a Defined Benefit Scheme but there are some important changes.

- Final Salary to Career Average Revalued Earnings (CARE): From 1 April 2014 the method of pension build up will change, based on pensionable pay (which now also includes non-contractual overtime) each scheme year rather than final salary.
- Flexibility in when pension can be taken: There is more flexibility about when a pension can be taken with the option to take it at any age from 55 to 75. In the new scheme Normal Pension Age (NPA) is linked to State Pension Age (SPA). Pensions taken before NPA will normally be reduced and after NPA normally increased.
- Flexibility in amount paid to scheme: The introduction of the 50/50 option gives members flexibility in amounts paid into the scheme allowing members to pay half contributions and build up half of the normal pension.
- CPI not RPI: Pension increases will be linked to the Consumer Prices index rather than the Retail Price index. CPI excludes housing costs and has historically been below RPI.

# Statement of Responsibilities for the Pension Fund

## The Council's Responsibilities

The Council is required to:

- ◆ make arrangements for the proper administration of the financial affairs of the Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For the Council, that officer is the Director of Corporate Services;
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Pension Fund Advisory Committee has examined the Pension Fund accounts and annual report and authorised the Chairman of the General Purpose Committee to approve them on its behalf.

## The Responsibilities of the Director of Corporate Services

The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Corporate Services has:

- ◆ selected suitable accounting policies and then applied them consistently;
- ◆ made judgements and estimates that were reasonable and prudent;
- ◆ complied with the Code of Practice.

The Director of Corporate Services has also:

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

CAROLINE HOLLAND  
Director of Corporate Services

# MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

## 1. Governance and Management

The Council of the London Borough of Merton is the designated Statutory Body responsible for administering the Pension Fund. For practical purposes, the Council implements this responsibility via delegation to its General Purposes Committee and its supporting Pension Fund Advisory Committee.

The General Purposes Committee and Pension Fund Advisory Committee (PFAC) comprise Council Members who are appointed to the Committee at the Annual General Council Meeting, and there is cross-party representation. Both Committees are supported by the Director of Corporate Services, and other officers and advisors as necessary.

PFAC is not a full Committee and is ordinarily referred to as a Panel.

The Pension Fund Advisory Committee focuses on Pension Fund matters, and includes appointed Council Members, the Assistant Director of Resources and the Treasury and Insurance Manager, together with an independent professional investment advisor. A Staff-Side and a Pensioner Representative also attend Committee meetings. The Committee is chaired by a Councillor, and only the appointed Council Members have voting rights.

The Committee obtains on-going, independent, professional advice regarding investment of the Pension Fund and its performance, and the actuarial position is reviewed by an appointed actuary every three years in compliance with statutory regulations.

## 2. Scheme management and advisors

Shown below is a list of the Pension Fund management and advisors, names and contact details.

1. Director of Corporate Services and Scheme Administrator (Section 151 Officer Local Government Act)  
Caroline Holland, Director of Corporate Services, LB Merton, Merton Civic Centre, Morden, Surrey, SM4 5DX.
2. Investment managers  
Aberdeen Asset Management, Bow Bells House, 1 Bread Street, EC4M 9HH  
UBS Asset Management, 21 Lombard Street, London, EC3V 9AH  
Black Rock, 12 Throgmorton Avenue, London, EC2N 2DL  
RREEF, 1 Appold Street, London, EC2A 2UU
3. Custody  
State Street Bank and Trust (re. Aberdeen Asset Management and RREEF)  
1 Camden Square, Canary Wharf, London E14 5AP  
J.P. Morgan (re. UBS Asset Management),  
60 Victoria Embankment, London, EC4Y 0JP

4. AVC Providers  
Prudential PLC, Prudential, LGAVCS, Craigforth, Sterling. FK9 4UE  
Bank of Ireland, Professional & Corporate Business, P.O. Box 27, One  
Temple Quay, Bristol. BS99 7AX
5. Fund Actuary  
Barnett Waddingham, 163 West George Street Glasgow G2 2JJ
6. Legal advisors  
Fiona Thomsen, Head of Shared Legal Services, London Borough of Merton
7. Bankers  
Lloyds TSB, City Office, Bailey Drive, Gillingham, Kent, ME8 0LS.
8. Auditor  
Ernst & Young LLP, Apex Plaza, Forbury Road, Reading RG1 1YE
9. Scheme Administration Contact  
Pensions Section, London Borough of Wandsworth
10. Independent Investment Advisor  
Allenbridge Epic Investment Advisers Ltd, 26<sup>th</sup> Floor, 25 Old Broad Street,  
London EC2N 1AR
11. Performance monitoring and analysis.  
State Street Global Services Investment Analytics (WM Company), 525 Ferry  
Road, Edinburgh, EH5 2AW.

## **2. Risk**

### **2.1 Risk Management**

The risks to the sustainability and affordability of financing the Pension Scheme in its present form are apparent through actuarial and other advice. Triennial and interim actuarial reviews and the annual IAS26 report by the fund's actuary, focus the governance process on the risks inherent in the mechanism of the schemes financing; (i.e. the relationship between employee and employer contributions and the value and income of the pension fund.) Data obtained regarding risks allows those concerned with the fund's governance and management to consider and take advice on how to mitigate them.

Risk in the Pension Fund can be broadly classified into two types – fund management and administration risks. Fund management risks consider the risk associated with investments, strategic risks and investment related regulations.; whereas the administration risks include the risks associated with Regulations and systems. In managing the Pension Fund it is not possible to avoid risk, so the key question is how risks are controlled, managed, accepted, terminated and transferred.

The key broad risk areas and the means of their mitigation are as follows:

### Risk Management - Summary

Type of Risk	Mitigation Details
<b>Financial Risk</b> The risk that investment strategy fails to produce the investment return assumed in funding strategy and actuarial assessment.	Investment asset allocation has been guided by an asset/liability modelling exercise, and consideration of the Authority's tolerance of volatility in the employer contribution. Monitoring of the funds' investment allows any significant drift of allocations away from their target level to be considered and corrected where necessary. It is the Pension Fund policy to diversify investment across a range of asset classes, sectors, markets, and investment managers, and to avoid excessive concentration of investment in any one stock or area.
<b>Demographic Risk</b> The risk that a continuing improvement in mortality rates increases the fund's liabilities.	The fund's actuary has advised that a general increase in life expectancy of 1 year, for all members of the Fund, will reduce the funding level by between 0.5% to 1%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.
<b>Regulatory Risk</b> The risk of changes in the Regulations governing the Scheme or its tax status.	The Administering Authority monitors and participates in the consultation process for changes in Regulations and seeks advice from the fund actuary on the financial implications of any proposed changes.
<b>Governance Risk</b> The risk of structural changes in an individual employers membership or closure to new membership, or their financial stability, or their ceasing to exist without having fully funded their pension liabilities.	These risks are addressed by the Administering Authority maintaining adequate contact with the individual employers participating in the Fund, and ensuring that it has current information on their status. Scheduled and Admitted members considered a significant risk might be asked to provide an indemnity or performance bond. Costs incurred where contributions due are paid significantly later than expected can be recovered from the relevant employer.
<b>Asset Security Risk</b> The risk of loss of investment assets or cash by fraud or negligence	The processing of investments is split between investment managers, who make decisions on the purchase and sale of investments, and separate, independent custodians who settle and pay investment transactions and receive proceeds. The Authority obtains SAS70 audit reports (an in-depth audit examination of an organisations internal controls) on its investment managers to ensure that they are handling the Authority's investment affairs in a proper and secure manner; it also monitors the creditworthiness of the custodians that hold assets and cash.

## 2.2 Risk Register

Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice. This enables risks broadly classified above to be looked at in more detail.

The Council uses the 5-stage risk management process that involves identifying, analysing, prioritising, managing and monitoring the risks.

- The register is consolidated into one overall strategy risk and included in the Council corporate risk register.

- Members review the register annually.

The current risk register is shown as **Appendix A**.

### 3. Financial Performance

#### 3.1 Funding Strategy and Investment Policy

As at 31 March 2014 the value of the Fund was £472m, an increase of £16m on the value of the Fund from the previous year.

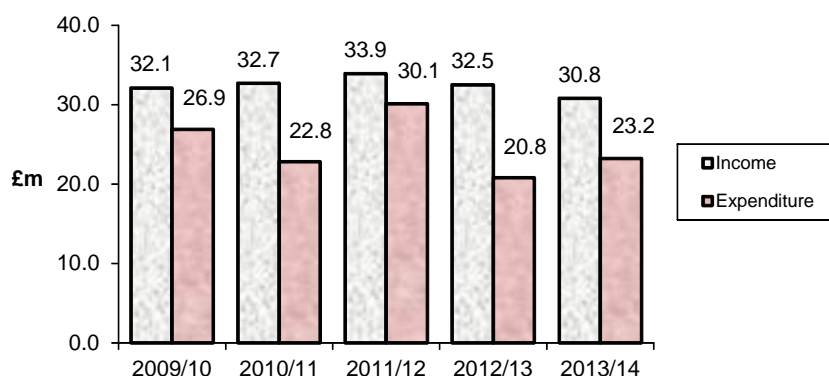
The change in the Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

Over the 5 years (01/04/09 to 31/03/14) there has been an increase in the fund of £211m. This increase is largely due to change in market value (£173m) and investment income (£42m). The change in market value is mostly unrealised.

#### Fund Five Year Summary

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions & Transfers In	(24,579)	(23,745)	(23,644)	(22,957)	(21,628)
Less Benefits, Transfers Out & Admin Expenses	26,451	22,435	29,111	20,263	22,310
Net (Additions)/Withdrawals	1,872	(1,310)	5,467	(2,694)	682
Investment Income (net of expenses & tax)	(7,062)	(8,612)	(9,237)	(8,996)	(8,362)
Change in Market Value	(89,619)	(19,532)	(8,172)	(47,557)	(8,351)
Net Return on Investments	(96,681)	(28,144)	(17,409)	(56,553)	(16,713)
Net (Increase)/Decrease in fund	(94,809)	(29,454)	(11,942)	(59,247)	(16,031)
Assets at start of year	(260,760)	(355,569)	(385,023)	(396,965)	(456,212)
<b>Fund Balance at 31 March (Market Value)</b>	<b>(355,569)</b>	<b>(385,023)</b>	<b>(396,965)</b>	<b>(456,212)</b>	<b>(472,243)</b>

## Pension Scheme Income and Expenditure 2009/10 to 2013/14 (including investment income)



The longer-term pattern of the assets and liabilities of the scheme are assessed in a triennial valuation review and International Accounting Standard 26 (IAS26) statements, which are included in the annual accounts. (The latter having implications for the level of Employer contributions.)

### 3.2 Movement in Assets and Liabilities

The actuary provides an assessment of the fund every 3 years. Barnett Waddington LLP carried out the last actuarial valuation in 2013, and the results are shown below. Between March 2010 and March 2013 the value of scheme liabilities has increased by 23% and the value of scheme assets has increased by 31%. The 2013 valuation results will be applicable to employers and employees from 1 April 2014.

	Valuation 31 <sup>st</sup> March 2004 £m	Valuation 31 <sup>st</sup> March 2007 £m	Valuation 31 <sup>st</sup> March 2010 £m	Valuation 31 <sup>st</sup> March 2013 £m
Active Members	117.9	151.4	139.7	165.4
Deferred Pensioners	43.2	51.3	59.7	87.6
Past Service Liabilities	111.4	149.0	211.3	251.1
<b>Value of Scheme Liabilities</b>	<b>272.5</b>	<b>351.7</b>	<b>410.7</b>	<b>504.1</b>
<b>Assets</b>	<b>204.2</b>	<b>318.2</b>	<b>343.5</b>	<b>450.9</b>
Deficit	(68.3)	(33.5)	(67.1)	(53.2)
Funding Level	75%	90.5%	84%	89%

### 3.3 Management performance - Membership

5 Year Membership Data	March 2010	March 2011	March 2012	March 2013	March 2014	% Change '10 to '14
Active members	3,168	3,147	3,055	3,196	3,265	3%
Deferred members	2,885	2,973	3,192	3,293	3,344	16%
Pensioner Members	2,584	2,660	2,793	2,859	2,929	13%
Widows / Dependents	456	472	467	471	479	5%
Frozen Refunds	510	503	498	494	494	(3%)

Although there has been an increase in active members both deferred and pensioner members continue to increase at a significantly higher rate. Therefore, those drawing benefits or about to draw benefits are growing at a much faster rate than those contributing to the fund.

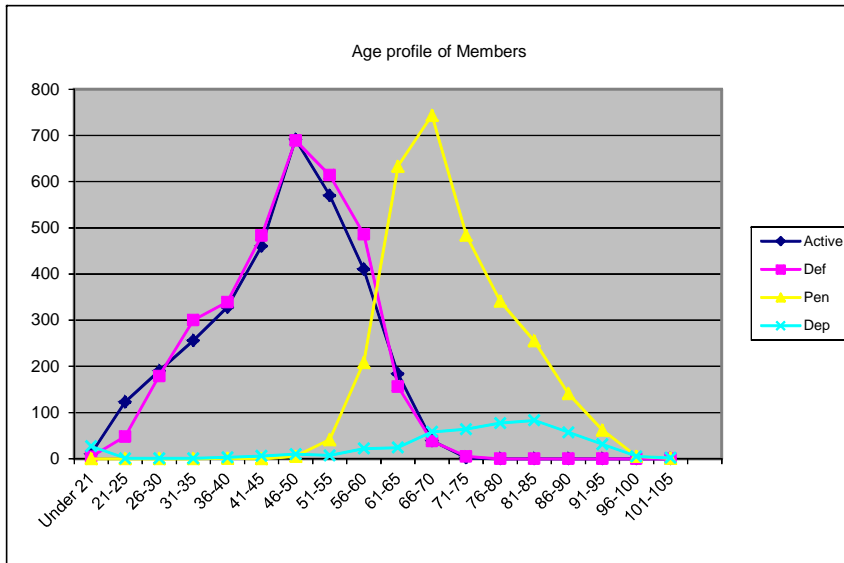
#### 3.3.1 Key Management Performance indicators

The extent of compliance with key performance indicators is as follows:

Performance indicator	Target Response Time	2009/10 %	2010/11 %	2011/12 %	2012/13 %	2013/14 %
Payment of Retirement Allowance	10 Days	98.00	96.75	97.00	96.85	94.08
Benefit Estimates	8 Days	77.50	90.37	93.86	94.29	94.05
Death Cases – First Letter	5 Days	85.60	95.90	91.74	86.32	82.98
Death Benefit Letters	5 Days	77.40	97.30	80.95	84.00	95.24
Onward Transfer Quotes	10 Days	93.00	94.10	96.55	85.71	93.24
Inward Transfer Quotes	10 Days	82.10	98.10	80.95	83.93	76.74

#### 3.3.2 Age Profile /Longevity

The graph provides an analysis in five-year bandings of active and deferred members, pensioners, widows and dependants. The graph shows that the age profile of members is conventional with the number of normal pensioners peaking at around 70yrs.



The average age of each category is indicated in the table below.

	Average age for category
Active Members	46 years 2 months
Deferred Members	46 years 10 months
Pensioners	70 years 9 months
Widows/Dependants	72 years 2 months

The funds actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31<sup>st</sup> March 2014 the assumed life expectancy from age 65 was as follows:

Life Expectancy from age 65 are		
Retiring March 2013	Males	22.3
	Females	25.5
Retiring in 20 years	Males	24.5
	Females	27.9

The actuaries' analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer.

### 3.3.3 Pension Scheme Case Load

5 Year Case type Analysis	March 2010	March 2011	March 2012	March 2013	March 2014
Active members	3,168	3,147	3,034	3,196	3,265
Retirements	257	166	196	128	143
Deaths	128	111	93	115	82
Transfers Received	86	65	51	52	14
Deferred Benefits	404	258	321	229	177
Transfers Paid	72	67	37	26	30
New Starters	386	387	371	565	422
Widows Benefits	37	37	20	35	31
Benefit Estimates	200	135	114	99	141
Redundancy Estimates	193	741	194	87	137
Bulk Estimates	4,500		0	0	
Transfer In Estimates	67	53	42	57	96
Transfer Out Estimates	58	51	45	35	74

**Note:** Estimates refer to cases where the member or the employer has requested a provisional calculation of the relevant benefit rather than the benefit event actually occurring.

### 3.3.4 Pension Scheme Case Load Trends

5 Year Analysis	March 2010	March 2011	March 2012	March 2013	March 2014
% Retirement of active members (includes actual redundancies)	8.1	5.3	6.5	4	4.4
% Redundancy estimates of active members (not including bulk transfer)	6.1	23.5	6.4	2.7	4.2
% Change in Deferred Benefits	28.3	(36.1)	24.4	(28.7)	(22.7)
% Change in Redundancy Benefits (not including bulk transfer)	(7.7)	284	(73.8)	(55.1)	57.5

### 3.3.5 Analysis of Amounts due to the Fund and Membership Contribution Bands

An analysis of individual contributions by employer and employees is provided below for administering, admitted and scheduled bodies.

Contributor Bodies	ER's £000	EE's £000	5.5% £000	5.8% £000	5.9% £000	6.00% £000	6.5% £000	6.8% £000	7.2% £000	7.5% £000
<b>Administering Body</b>										
L B Merton	9,537	4,426	53	516	563	17	1,833	835	526	83
L B Merton (additional)	5,579	0	0	0	0	0	0	0	0	0
<b>Scheduled Bodies</b>										
Wimbledon Putney CC	188	53	0	0	0	0	36	8	5	4
St Marks Academy	93	42	2	14	22	0	0	0	4	0
Harris Academy (Merton)	121	49	3	8	8	0	22	3	5	0
Harris Academy (Morden)	66	19	0	5	5	0	9	0	0	0
Benedict Academy	16	6	0	4	1	0	1	0	0	0
<b>Admitted Bodies</b>										
Greenwich Leisure	30	7	0	0	0	0	5	2	0	0
Central & Cecil Housing	58	16	0	0	4	0	9	3	0	0
Environmental Waste Control	1	0.4	0	0	0	0.4	0	0	0	0
Merton Priory Homes	347	160	0	14	7	0	97	34	8	0
CHAS	33	16	0	0	7	0	7	2	0	0
<b>Total</b>	<b>16,069</b>	<b>4,794</b>	<b>58</b>	<b>561</b>	<b>617</b>	<b>17</b>	<b>2,019</b>	<b>887</b>	<b>548</b>	<b>87</b>

# INVESTMENT POLICY AND PERFORMANCE REPORT

## 4.1. Investment Policy

A set of Investment Principles has been established so as to allow those parties concerned with investment to understand the parameters within which investment activity is to be undertaken, and to allow the practical investment process to be managed consistently and effectively.

Overall responsibility for the Pension Fund and its investment rests with the Council of the London Borough of Merton in its role as administering authority, who exercise this responsibility via the General Purposes Committee and the Pension Fund Advisory Committee.

The investment objective is to achieve a fund value and investment performance that allows actuarial assessment to determine a tolerably stable, minimised, employers' contribution.

Regulations require that the administering authority shall obtain and take regard of proper advice. It must also consider the appropriateness of investments and the need for diversification and manage risk.

## 4.2. Subscriptions to Supporting Organisations

The Authority's Pension Fund is a subscribing member of the National Association of Pension Funds, which provides access to advisory, conference and training services and the Chartered Institute of Public Sector Accountants Pensions Advisory Network. The Authority also subscribes to reports from State Street Analytics (WM Company) which provide performance analysis for the whole fund and ISS, which provide data regarding corporate voting (governance).

## 4.3. Asset Allocation

The allocation of the Pension Fund's value across the major asset classes of Equities, Bonds, and Property in accordance with Funding Strategy has been further structured to cover sectors of the market within those classes. The target allocations are as follows:

	%		%		%
Equities	70	UK	41.8	UK	41.8
		Overseas	28.2	US	5.4
				North America	3.7
				Europe ex UK	7.8
				Japan	2.6
				Pacific ex Japan	2.6
				Pacific Inc. Japan	2.5
				Emerging Markets	3.6
Bonds	25	UK Fixed Income	6.25	UK Bonds	6.25
		UK Index Linked	12.50	UK Index-Linked	12.50
		Overseas Fixed	6.25	Overseas	6.25
Property	5	UK	5.00	UK	5.0
Total	100		100.0		100.0

At times the actual asset allocation will fluctuate from the target allocations because of the relative movement of investment values in the markets, or because an investment manager believes that a marginally different allocation would, at a particular time, improve the fund's investment performance. This may be tolerated within +/-10% or any agreed

tolerance level of the target allocation, but thereafter investment managers may be instructed to revert the allocations to target.

#### 4.4. Actual Asset Allocation by Manager

Investment Manager	31 March 2013 £m	%	31 March 2014 £m	%
Aberdeen Asset Management <b>Equities (Active)</b>	92,665	20	94,609	20
UBS Asset Management <b>Equities (Active)</b>	77,709	17	82,651	18
<b>Equities (Passive)</b>	157,008	34	171,094	36
Aberdeen Asset Management <b>Bonds (Active)</b>	113,631	25	108,073	23
RREEF UK <b>Property Managed Funds</b>	92	0	1	0
Blackrock <b>Property Managed Funds</b>	4,828	1	5,406	1
UBS UK <b>Property (Managed Funds)</b>	7,376	1	8,112	2
Change in Derivative Valuation	18	0	4	0
<b>Total Investment at Market Value</b>	<b>453,327</b>	<b>100</b>	<b>469,950</b>	<b>100</b>

The tactical changes in asset allocation that occurred between 31<sup>st</sup> March 2013 and 31<sup>st</sup> March 2014 was due to professional investment advice provided to the Pensions Fund Advisory Panel, as described in paragraph 4.7, and to the underlying movement in the market prices of equities.

#### 4.5. Investment Management

The practical implementation of investment strategy is delegated to external professional and competent investment managers. It is policy to employ more than one manager so as to avoid an imprudent concentration of performance risk in a single manager, and also to allow for specialisation and risk reduction.

The managers' remit may be for either actively or passively managed investment. In the case of active management, the manager will invest and realise investments according to strategic guidelines given by the fund and their house view of an investment's prospects. In the case of passive management, the manager will buy and sell investments to replicate a market index; e.g. FTSE 100 or All-Share, and by this mirror market conditions, sentiment and performance.

The managers operate within mandates that allow them to make and realise investment on a discretionary basis without referral to the Authority; provided that the investment complies with the set of investment principles prescribed by the Authority, and which form part of their remit.

The following table shows the fund managers and their respective percentage of the fund at market value as at 31st March 2014.

Asset Class	Investment Management Style	Investment Manager	Nominal % of Total Fund
Equities	Active	Aberdeen Fund Management Ltd.	20
	Active	UBS Asset Management Ltd.	18
	Passive	UBS Asset Managed Ltd.	36
Bonds	Active	Aberdeen Fund Managed Ltd.	23
Property	Active	RREEF Property Management Ltd.	0
	Active	Blackrock Property Management Ltd	1
	Active	UBS Triton Property Management Ltd.	2
			<b>100</b>

#### 4.6. Investment Administration and Custody

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

Sub-Fund	Custodian
Aberdeen Active Equity	State Street Bank and Trust
UBS Active Equity	JP Morgan Chase Bank
UBS Passive Equity	JP Morgan Chase Bank
Aberdeen Active Bonds	State Street Bank and Trust
UBS Triton Property	JP Morgan Chase Bank
RREEF Property	State Street Bank and Trust
Blackrock Property	State Street Bank and Trust

Both the investment managers and custodians report monthly on the investment transactions undertaken and officers of the Authority consolidate and analyse the data for accounting and management information purposes.

#### 4.7. Pension Fund Advisory Committee (Panel) Actions and Initiatives

The key themes in 2013/14 were the monitoring of fund performance and managers to benchmark, consideration of options for investments once the 2013 actuarial results was conclude, progress on auto-enrolment and implementation of the 2014 pension fund administration regulatory changes

At the start of the financial year, the Committee received detailed information on fund membership from 2005/06 to 2012/13 as well as forecast for 2013/14. There has notably been a year on year increase in pensioner numbers and deferred pensioner numbers.

The pension fund administration shared service with London Boroughs of Wandsworth and Camden commenced on 1 December 2013. Corporate governance was also considered in light of the RBS 'Corporate Actions' while legal advice was sought on the Fund's position on ethical investments and any changes which may be required to the Statement of Investment Principles. The committee approved the revised Statement of Investment Principles in June 2014.

The 2013 actuarial valuation results were presented to the committee, funding level increased from 84% to 89%.

The Panel met with all investment managers during the year. Managers were questioned on performance, market views and future expectations, along with this the Committee considered WM Company performance data, which comprised the fund's performance, performance against its peer groups as well as investment sector and asset allocation data. London Borough of Merton fund performed better than the Local Authority average.

The forward plan for 2013/14 and future years was reviewed and key future topics to be included to the forward plan were put forward by the Committee.

Fund membership was reviewed on a quarterly basis following the commencement of auto-enrolment for new members while employers like the administering authority deferred auto-enrolment staging date to 1 October 2017. In addition to the impact of auto-enrolment, its impact on the fund and employers, the impact of the cuts to local authority staffing and the membership reduction continued to be an issue for the Fund and consideration was given to ways by which benefits of joining the LGPS could be publicised.

The Fund's external auditors Ernst & Young met with the Committee in June 2014 to present the 2013/14 audit plan and draft accounts.

On the recommendations of the Committee to Cabinet, the Administering Authority on behalf of the Fund joined the Collective Investment Vehicle arranged by London Councils.

#### **4.8. Market Returns**

The funds investment performance is achieved within the context of the wider investment market. The fund holds a diversified portfolio of investments across geographical areas, and is benefited or disadvantaged by relative performance in particular areas during the year.

#### **2013/14 Market Summary Overview**

- Eurozone equities (17.3%) fared better than there UK (8.8%) and US (10.3%) counterparts.
- Japanese (-1.6%) and Pacific (-5.8%) equities performed poorest.
- UK Bonds (-2.6%) and Overseas Bonds (-8.5%) performed poorly as did UL Indexed linked (-3.8%).
- Property returns were strong at 14% compared to 3% in the previous year.

#### 4.9 Portfolio Diversification

Largest Shareholding	Investment Sector	Fund at 31 March 2014 %	Market Value 31 March 2014 £m
<b>Pooled</b>			
Aberdeen Global Index Linked		11.58%	54.40
UBS Life Global Optimal Thirds		6.72%	31.57
UBS Life USA Equity Tracker		6.62%	31.11
Aberdeen Global Aggregate		5.65%	26.57
UBS Life UK Equity Tracker		5.30%	24.89
AG2 Aberdeen Long Dated		3.93%	18.46
UBS Life Europe Ex UK Equity Tracker		3.02%	14.21
Aberdeen Global Long Dated		1.84%	8.63
Aberdeen Global Emerging Markets		1.74%	8.18
UBS Triton Property Unit Trust		1.70%	7.99
UBS Life Japan Equity Tracker		1.39%	6.51
UBS Life Pac/Ex Japan Equity Tracker		1.37%	6.46
Aberdeen Global Japanese Equity		1.37%	6.44
Aberdeen Global Asia Pacific Fund Sterling		1.25%	5.89
UBS Global Emerging Markets		1.11%	5.20
Blackrock Investment Managers Property		1.09%	5.10
Aberdeen A M L&P North America Equity		1.04%	4.90
UBS Life UK Smaller COS Equity		0.55%	2.59
Aberdeen UT MGRS		0.53%	2.48
<b>Direct</b>			
HSBC Holdings	Banks	2.15%	10.09
Glaxosmithkline	Pharmaceuticals	1.48%	6.94
BP	Oil and Gas	1.40%	6.59
British American Tobacco	Tobacco	1.22%	5.75
Vodafone Group	Telecommunication	1.10%	5.18
Prudential	Banking	1.09%	5.10
BG Group	Oil and Gas	1.07%	5.05
Royal Dutch Shell (Dutch List)	Oil and Gas	1.04%	4.89
Rio Tinto	Mining	0.91%	4.30
Standard Chartered	Banks	0.91%	4.29
BHP Billington	Mining	0.86%	4.04
Centrica	Electricity and Gas	0.81%	3.81
Unilever Plc	Consumer Goods	0.79%	3.70
Royal Dutch Shell (UK List)	Oil and Gas	0.78%	3.67
Other Smaller Investments	Various	26.59%	124.97
<b>Total Investments at Market Value</b>		<b>100.00</b>	<b>469.95</b>

#### 4.10. Investment Performance

The return on investments often varies substantially from year to year, and so performance (investment return) is measured over a range of periods of time, and a key issue is the extent to which the fund's value has grown in the long-term.

The benchmark target for the fund's investment performance is the return achieved by investments in the equivalent investment sectors of the market overall. The Authority's investments do not cover or replicate the whole market, and so a difference in performance is to be expected.

The difference in return between what was available from the market overall and that which was achieved from investment through the Authority's investment managers,

prompts the Pension Fund Advisory Panel to consider the effectiveness of the managers' performance.

Over 2013/14 the Fund return of 4.0% under achieved the benchmark, over the medium-term of 3 years and 5 yrs the fund achieved the benchmark.

#### 4.11. Benchmarking

The below table provides the percentage investment returns achieved, together with the benchmark for each asset class over a 5 year period. (Data obtained from W.M. Performance Services.)

Asset Class	1 Year		3 Year		5 Year	
	Benchmark	Performance Achieved	Benchmark	Performance Achieved	Benchmark	Performance Achieved
	%	%	%	%	%	%
Total Equities	7.9	6.7	7.8	8.5	15.5	16.5
Total Bonds	4.5	4.3	5.0	4.7	5.1	6.1
UK Index Linked	-4.4	-4.6	8.9	8.4	8.8	8.3
Cash		3.8		2.9		0.3
Property	11.9	11.7	5.8	1.0	7.6	3.6
Total Fund	4.9	4.0	7.8	7.8	13.3	13.3
Relative Return		-0.9		-0.0		-0.0

#### 4.12 Comparative Performance

The funds performance compared to that of other Local Authorities has been relatively good.

##### Fund Returns

	12 Months	3 Yrs	5 Yrs
LBM return	4.0	7.8	13.3
Benchmark	4.9	7.8	13.3
Ranking out of all Local Authorities	100 <sup>th</sup>	48 <sup>th</sup>	40 <sup>th</sup>

#### 4.13. Socially and Environmentally Responsible Investment and Governance

The Council's investment managers are required to identify investments that are expected to produce good returns. However, before making a new investment, or in considering whether to retain an existing investment, they are expected to consider and monitor the compatibility of the investment with reasonable social and environmental concerns. This is not simply the making of value judgements, but whether an investment's value can be sustained relative to social trends, legislation and litigation risk.

The Authority's primary responsibility in managing the Pension Fund is fiduciary; that is to invest the fund to produce a return that makes the Pension Scheme economic and sustainable over time. The Fund has in time past sought legal guidance on its responsibility to its members and stakeholders in relation to its ethical investment policy.

This aim is pursued in the interests all of its stakeholders, including both the pension scheme members who have contributed a percentage of their pay into the pension fund, and Council Tax payers who will want the scheme's cost to be minimised. Within this whole, there will be a range of opinions on what is or is not an appropriate investment. The Council's policy for investment recognises this and seeks to avoid subjective

judgements.

Precluding a particular type of investment excludes its investment return, and that investment return may be good, or tend to be sustained at times in the economic cycle when other investments are losing value. The Council would therefore preclude an investment or require sale of an existing investment, only where there is a clear mandate to take such action.

## **SCHEME ADMINISTRATION REPORT**

### **5. Pension Scheme Administration Strategies and Performance**

The Authority does not have a formalised written statement of its Pension Scheme Administration Strategy. (This is allowed by 'Section 65(1) of the 2008 Regulations which refer to an option to prepare a written statement). However, the effectiveness and efficiency of Pension Scheme administration can be summarised as follows:

The council has a dedicated intranet site providing advice and guidance on pension fund matters. The Pension Fund accounts and annual report can also be found on the Council's Internet site.

#### **5.1. Pensions Scheme Communications**

The authority has produced a Governance Policy Statement and a Communication Policy Statement.

The Governance Policy Statement shows there is robust compliance with standards.

#### **5.2. Scheme Administration Costs**

The Administration and Fund Management costs in 2013/14 were £1.37m (£0.52m Administration Expenses, £0.85m Investment Management Expenses).

#### **5.3. Scheme member and pensioner administration**

The Administering Authority Pension Section is part of a Shared Pension Service with the London Borough of Wandsworth and the London Borough of Camden. The Shared Service deals with the arrangements for scheme member and pensioner administration. This includes all issues relating to retirement, transfers, calculations and providing guidance and advice to members and employers.

#### **5.4 Internal Dispute Resolution Procedure**

The authority has an employee's guide that is available from the Pensions Shared Service (and the web) for advice regarding disputes relating to pensions and payments in respect thereof. Advice is provided giving details on the complaints procedure and access to the Pensions Advisory Service and the Pensions Ombudsman. The authority currently has no cases relating to a dispute on pensions related matters.

# ACTUARIAL REPORT ON FUND

## 6.1. Actuarial Report on the Pension Fund (Background)

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddington LLP). The last valuation was as at 31<sup>st</sup> March 2013.

The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

Regulations require the Actuary to set the employer's contribution rate so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases, or plan to do so

The valuation of the fund is underpinned by 'economic' and statistical assumptions. The major 'economic' assumptions relate to price inflation, pay escalation and the rate of dividend growth. The 'statistical assumptions cover future rates of withdrawal and retirement from service, mortality, the proportion of members married and the progression of pensionable pay through increasing responsibility and promotion.

A summary of the assumptions adopted in the valuation is set out below:

Future Assumed Returns at 2013		Risk Adjusted Discount Rate Weighting (rounded)
Equities	6.9% per annum	71%
Gilts	3.3% per annum	25%
Cash	3.1% per annum	1%
Property	6.0% per annum	3%
Expense allowance	0.1% per annum	
Financial Assumptions	2013	2010
Discount Rate	5.9% per annum	6.7% per annum
Retail Price Inflation (RPI)	3.5% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.7% per annum	3.0% per annum
Pension and Deferred Pension Increases	2.7% per annum	3.0% per annum
Short Term Pay Increases	In line with the CPI assumption for the 2 years to 31 March 2015	Pay freeze for those earning over £21k for the 2 years to 31 March 2012
Long Term Pay Increases	4.5% per annum	5.0% per annum

## 6.2 Executive Summary of the 2013 triennial valuation report

The overall funding level has increased from 84% in 2010 to 89% in 2013.

The average required employer contribution to restore the funding position to 100% over the next 12 years is 21.0% of pensionable salaries.

The following table sets out the principle reasons for the change in the funding position since the last valuation. The table shows overall the deficit decreased during the intervaluation period.

Change in Past Service Position		
	£(000)	£(000)
<b>Surplus(Deficit) at 31 March 2010</b>		<b>(67,109)</b>
Benefits Accrued	(40,382)	
Early Retirements	(2,010)	
Contributions Paid	60,826	
<b>Deficit Funded (Use of Surplus)</b>	<b>18,434</b>	
Interest Cost	(11,708)	
Asset Gain/Loss	38,790	
Change in Market Conditions	(41,428)	
<b>Financial Gain(Loss)</b>	<b>(14,345)</b>	
Salary Increases	5,368	
Pension Increases	(4,423)	
Membership Movements	10,246	
<b>Experience</b>	<b>11,192</b>	
Change in Assumptions	(1,370)	
<b>Surplus(Deficit) at 31 March 2013</b>		<b>(53,199)</b>

A comparison of the actual financial experience with the assumptions adopted at the previous valuation is summarised below:

Intervaluation Experience		
	Actual	Expected
Investment Return	8.8% pa	6.7% pa
Pay Increases **	1.3% pa	2.5% pa
Pension Increases	3.5% pa	3.0% pa
** includes short term overlay		

The principal conclusions are:

- Investment returns were more than assumed
- Pay increases were less than expected
- Pension increases were more than expected.

## **Governance Policy and Compliance Statement**

(Local Government Pension Scheme (Administration) Regulations 2008 as amended (Regulation 31))

### **1. Governance Policy**

- 1.1 The governance policy for the Pension Fund is that on behalf of its stakeholders it is to be directed and managed effectively, efficiently, and transparently, and in accordance with Statutory Regulation, the fund's Statement of Investment Principles and its Funding Strategy Statement.

### **2. Responsibility for Governance**

- 2.1 Governance of the London Borough of Merton Pension Fund is the responsibility of the Administering Authority for the Pension Fund: the Council of the London Borough of Merton.
- 2.2 To implement governance effectively in practice, the Administering Authority, (The Council of the London Borough of Merton), delegates authority for the operational maintenance and management of the Pension Fund as described below; (such delegation being allowed under Section 102 (4) of the Local Government Act 1972).
- 2.3 In effecting delegation, the Council recognises that Section 2 of Schedule 1H of the Local Authorities (Functions and Responsibilities) (England) Regulations SI2000 no. 2853, precludes functions related to Local Government Pensions being made the sole responsibility of an Executive of the Local Authority.

### **3. Delegations and Terms of Reference** (under the Council's Constitution)

- 3.1 The Pension Fund Advisory Panel is *in consultation with the Council's investment advisors and the Chief Finance Officer to determine policy and strategy concerning the management of the (Pension) Fund.*
- 3.2 The Chief Finance Officer is *to determine guidelines for Pension Fund investment on the basis of advice obtained from the Council's professional investment advisors.*

### **4. Structure and Operational procedure of the delegation**

- 4.1 The Chief Finance Officer:
- Maintains, with relevant professional support, awareness and knowledge of relevant Pension Fund matters.
  - Advises the Pension Fund Panel on the regulatory framework and practical options for Pension Fund investment.
  - Advises the Panel on the fund's investment performance, and that of its investment managers, custodians and professional advisers.
  - Makes recommendations for action as appropriate.
  - Arranges implementation of the Panel's approved policy and strategy, and makes decisions and takes all practical actions necessary to maintain and support investment within approved policy and strategy, and to administrate and to account for fund investment activities.

#### 4.2 The Pension Fund Advisory Panel:

- Considers information and recommendations received regarding the funds establishment, investment options, operation, and performance.
- Considers the investment implications of actuarial reviews.
- Consults with advisors and Council officers as appropriate.
- Determines fund structure, investment policy and strategy, (further to consideration of advice and recommendations received), and approves the Statement of Investment Principles and Funding Strategy Statement.
- Approves the appointment of external investment managers, and consultants and custodians.
- Guides the fund's development in the best interests of its stakeholders, and to achieve the performance and other objectives that are set for the fund.

#### 4.3 The General Purposes Committee:

- Receives Pension Fund Advisory Panel reports on Pension Fund developments and performance, and where considered appropriate endorses them for reporting to Council.

### **5. Decision-Making**

5.1 The Pension Fund Advisory Panel is the key decision-making body in respect of the governance of the Pension Fund.

5.2 Determination of policy and strategy is made, (further to consideration of advice received), by the exercising of the voting rights that reside with the London Borough of Merton Council Members appointed to the Panel.

(Since the Panel is considered a Pensions Committee under the Superannuation Act 1972, the Local Government (Committee and Political Groups) Regulations 1990 SI no.1553 5 (1) (d) determine that voting rights reside with any person appointed to the Sub-Committee who is an elected Member of the Authority which appointed the Committee).

5.3 Other appointees to the Panel may be in an advisory role, and make recommendations, but they have not been allocated voting rights.

(Sections (13) (1) (a) and (2) (a) of the Housing and Local Government Act 1989 provide that a person who is a member of a Committee appointed by an Authority under the Superannuation Act 1972, but who is not a Member of that Authority shall be treated (*normally*) as non-voting member of that Committee. However, Sections 13 (3) and (4) of the Local Government and Housing Act 1989 allow an Administering Authority discretion as to whether or not a member of a Pensions Committee who is not an elected Member of the Administering Authority is to be treated as a voting or non-voting member.

### **6. Representation of employing bodies and scheme members.**

6.1 DCLG advice notes that Administering Authorities should recognise the desirability of achieving an effective and comprehensive level of stakeholder

representation within the Local Government Pension Scheme nationally. However, formal responsibility for the LGPS and fund investment remains with the Administering Authority, which is accountable for the effective and prudent management of the Scheme. Therefore the extent to which other parties should have influence and voting rights, (without joint and several responsibilities), should reflect this. Section 7 of the Superannuation Act 1972 allows the Administering Authority to determine the number of Pension Committee members, and the political composition of that Committee.

- 6.2 The Pension Fund Advisory Panel's includes; the Director of Corporate Services, the Assistant Director of Corporate Services, the Head of Accountancy, the Treasury and Pensions Manager, A pensions representative and a union representative.
- 6.3 The Council Members will be appointed to the Pension Fund Advisory Panel on an annual basis as part of the Council's appointment process. Specialist officers and advisors are invited to attend where required.
- 6.4 Whilst the Admitted and Scheduled Body membership of the London Borough of Merton's pension arrangements is proportionately relatively minor, such employing bodies may request that their own representative attend the Panel.
- 6.5 It is recognised that since Admitted and Scheduled bodies are not currently represented on the Panel, they need to be engaged by other means, (which may include discussion forums, and access to meetings concerning the triennial actuarial valuation).
- 6.6 Whilst all Panel attendees may contribute to the assessment and review of matters considered by the Panel, decision-making is to be exercised through the voting rights of the London Borough of Merton Council Members appointed to the Panel.

## **7 Frequency of associated Committee meetings**

- 7.1 The Chief Finance Officer will, through the Head of Accountancy, and in consultation with the Chair of the Pension Fund Advisory Panel, convene meetings as often as is necessary, and normally quarterly, to allow adequate monitoring of fund performance and consideration of any matters that require the Panel's direction and endorsement.
- 7.2 In the interim to Panel meetings, the Chief Finance Officer will correspond with the Panel Chair and Panel members as necessary.

## Governance Compliance Statement

(London Borough of Merton - Local Government Pension Scheme)

The Borough has published a Governance Policy Statement as required by the Local Government Pension Scheme Regulations 2008 as amended Regulations 31. [The Statement describes how the Council has organised governance of pension-related matters]. The Borough is also required to publish, further to the Local Government Pension Scheme (Amendment) Regulations 2008 as amended Regulations 31 (3), a Governance Compliance Statement that describes the extent to which the governance arrangements comply with a set of best-practice principles established by the Department for Communities and Local Government (CLG):

A	CLG Best-practice	Extent of Compliance		Explanation
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.		Fully Compliant	The General Purposes Committee (GPC) discharges the Council's functions in this respect.
b)	Representatives of participating LGPS employers, admitted bodies and scheme members, (including pensioners and deferreds), are members of either the main or secondary Committee, established to underpin the work of the main Committee.	Compliant in principle		Representation of all relevant groups is allowed. 9 Admitted and Scheduled Bodies make just 6% of contributions, and have not elected to attend.
c)	Where a secondary Committee or Panel has been established, the structure ensures effective communication across both levels.		Fully Compliant	PFAC communicates to General Purposes Committee issues which require Committee approval.
d)	Where a secondary Committee or Panel has been established, at least one seat on the main Committee is allocated for a member from the secondary Committee or Panel	N/A		
<b>B</b>				
a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary Committee structure. These include: a) Employing Authorities (including non-scheme employers, e.g. admitted as well as scheduled bodies). b) Scheme members (including deferred and pensioner members). c) Independent professional observers. d) Expert advisors (on an ad-hoc basis).		Fully Compliant	The Pension Fund Advisory Committee is open to representatives of all the prescribed categories, and an independent observer/advisor is a member of the PFAC (until 31/03/2015).
b)	That where lay members sit on a main or secondary Committee, they are treated equally in terms of access to papers and meetings, and training, and are given full opportunity to contribute to the decision-making process with or without voting rights.		Fully Compliant	Whilst members other than Councillors do not have voting rights, their active involvement and contribution is encouraged, and they have access to the facilities described in best practice.

<b>C</b>				
<b>a)</b>	The 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. They are invited to declare pecuniary/financial interest in agenda items.		Fully Compliant	Council Officers provide new members with an explanation of their role and responsibilities and terms of reference of the committee. The Director of Corporate Services holds induction training sessions for members.
<b>D</b>				
<b>a)</b>	The policy 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		Fully Compliant	The Administering Authority (AA) is responsible for the Pension Fund, and accounts for 95% of contributions, and to reflect this retains the voting rights.
<b>E</b>				
<b>a)</b>	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.	Compliant		Members are aware of their entitlement to training, facility time and expenses, but this needs to be clarified in dedicated Pension-related policy documentation.
<b>b)</b>	That where such a policy exists, it applies equally to all members of Committees, Sub Committees, Panels or any other form of secondary forum.		Fully Compliant	No restrictions on the availability of relevant data to GPC and PFAC members.
<b>F</b>				
<b>a)</b>	That an administering Authority's main Committee(s) meet at least quarterly.	Compliant		Normal meeting cycle is quarterly.
<b>b)</b>	That an administering Authority's secondary Committee or Panel meet at least twice a year and is synchronised with the dates the main Committee sits.		Fully Compliant	Meetings at least twice a year, with scope for effective liaison between the PFAC and GPC.
<b>c)</b>	That administering Authorities who do not include lay-members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		Fully Compliant	All key stakeholder groups can be involved in governance via PFAC meetings, and otherwise via correspondence and separate meetings.
<b>G</b>				
<b>a)</b>	That subject to any rules in the Council's constitution,		Fully	No preclusions have been set to limit the availability of relevant data to

	all members of main and secondary Committees or Panels have equal access to Committee papers, documents and advice that fall to be considered at meetings of the main Committee.		Compliant	GPC and PFAC members.
<b>H</b>				
<b>a)</b>	That administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.		Fully Compliant	Wider scheme issues are brought to the attention of Committee / Panel for consideration.
<b>b)</b>	Details of governance arrangements are published 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.		Fully Compliant	Details have been issued directly to interested parties, are included in an Annual Report, and are available on the Authority's Intranet.

### **Pension Fund Advisory Panel 2013/14**

As at 31<sup>st</sup> March 2014 the Panel consisted of three elected members who held voting rights, Councillor Richard Williams (Chair), Councillor Samantha George and Councillor Mark Allison.

From 4<sup>th</sup> June 2014 the elected members were Councillor Imran Uddin (Chair), Councillor Suzanne Grocott (Vice Chair) and Councillor Mark Allison.

### **Conflicts of Interest**

During the year no conflicts of interest were identified.

# Pension Fund Accounts

Fund Account	Notes	2012/13 £000	2013/14 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	(20,627)	(20,863)
Transfers in from other pension funds	8	(2,330)	(765)
<b>Total Income</b>		<b>(22,957)</b>	<b>(21,628)</b>
Benefits	9	19,261	20,265
Payments to and on account of leavers	10	654	1,524
Administration Expenses	11	348	521
<b>Total Expenditure</b>		<b>20,263</b>	<b>22,310</b>
Net (additions)/withdrawals from dealing with members		<b>(2,694)</b>	<b>682</b>
<b>Returns on Investments</b>			
Investment and other income	12	(9,787)	(9,512)
Taxes on Income	13	205	296
Gains and losses on disposal and change in the market value of investments:	15.3	(47,557)	(8,351)
Investment Management Expenses	14	586	854
Net Returns on Investments		(56,553)	(16,713)
<b>Net (increase)/decrease in the fund during the year</b>		<b>(59,247)</b>	<b>(16,031)</b>

As at 31<sup>st</sup> March 2013, the net assets totalled £456.2m. During 2013/14, the fund's net assets increased by £16.0m to £472.2m at 31<sup>st</sup> March 2014.

## Net Assets Statement

2012/13 £000		Notes	2013/14 £000
452,582	Investment assets	15	469,578
2,226	Cash deposits	15	2,535
<b>454,808</b>			<b>472,113</b>
(1,479)	Investment liabilities	15	(2,163)
4,038	Current assets	20	3,170
(1,155)	Current liabilities	21	(877)
<b>456,212</b>	<b>Net assets of the fund available to fund benefits at period end</b>		<b>472,243</b>

**Note1:** The financial statements summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statement by the consulting actuary in the annual report and these accounts should be read in conjunction with that.

## Notes to the Pension Fund Accounts

### 1. Description of Fund

The Local Government Pension Scheme Regulations require the authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

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

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. The Admitted and Scheduled Bodies that currently contribute to the London Borough of Merton Pension Fund are:

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"><li>• Greenwich Leisure</li><li>• Merton Priory Homes</li><li>• Central and Cecil Housing Trust</li><li>• CHAS (Contractors Health and Safety Assessment Scheme)</li><li>• Environmental Waste Control (Until July 2013)</li></ul>	<ul style="list-style-type: none"><li>• Wimbledon and Putney Commons Conservators</li><li>• Harris Academy Merton</li><li>• Harris Academy Morden</li><li>• St Mark's Academy</li><li>• Benedict Academy</li></ul>

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments.

A Pension Fund Advisory Committee (PFAC) oversees and advises on investment of the Fund. This Committee comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The authority takes independent professional advice on investment policy and strategy. The Committee is not a full Committee and is ordinarily referred to as a Panel.

The contribution rates in the following table are from the 2010 valuation.

London Borough of Merton Pension Fund	2012/13 No.	2013/14 No.
Contributors	3,196	3,265
Pensioners	3,330	3,408
Deferred Pensioners	3,293	3,344
Employers' contribution rates as included in the certificate of adequacy of the contribution rate:	2012/13	2013/14
<b>Scheduled bodies:</b>		
• LB Merton	14.1% plus £4.8m	14.1% plus £4.8m
• Wimbledon and Putney Commons Conservators	25.4%	25.4%
• Harris Academy Merton	15.6%	15.6%
• Harris Academy Morden	n/a	21.4%
• St. Mark's Academy	14.1%	14.1%
• Benedict Academy	n/a	21.4%
<b>Admitted bodies:</b>		
• Moat Housing Association	24.1%	24.1%
• Greenwich Leisure	16.8% plus £12.6k	16.8% plus £12.6k
• Merton Priory Homes	13.8%	13.8%
• Central and Cecil Housing Trust	24.2%	24.2%
• Environmental Waste Control	15.1%	15.1%
• CHAS (Contractors Health and Safety Assessment Scheme)	12.9%	12.9%
Since April 2008, member's contributions have been set by reference to the whole time pay for their post and fall in the range 5.5% to 7.5%, as set by the Local Government Pension Scheme Regulations 2013. Moat Housing Association ceased to have any active members in the Fund since 2013.		

## 2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, which is based upon International Financial Reporting Standards (IFRS).

The Fund Account is operated on an accruals basis except where otherwise stated.

## 3. Summary of Significant Accounting Policies

### 3.1 Investments

The Pensions SORP requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP

promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then fund managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value. Based upon these principles, investments are valued as follows:-

- Quoted securities are valued at current market “bid” price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at Bid Price.
- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices. The value of futures is determined using fair value for the asset and book cost for the liability.

### **3.2 Investment income**

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

The figure shown as investment income is made up of different types of income (dividend income for equity, rental income for property, interest income for the bond yields).

### **3.3 Interest income**

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

### **3.4 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.

### **3.5 Movement in the net market value of investment**

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

### **3.6 Foreign currency**

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2014.

### **3.7 Cash**

Cash comprises cash in hand and demand deposits.

### **3.8 Contributions**

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

Employer deficit funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit funding contributions are made on the advice of the authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently fifteen years).

Refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

### **3.9 Benefits**

Benefits are accounted for on the basis of the date of leaving or the date of decision on the type of benefit, if later.

### **3.10 Transfers**

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

### **3.11 Actuarial present value of promised retirement benefits**

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

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

### **3.12 Administrative Expenses**

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1<sup>st</sup> December 2013.

### **3.13 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. They are deducted from fund asset by the fund managers.

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

A proportion of the council's costs representing management time spent by officers on investment management are charged to the fund.

### **3.14 Taxation**

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

By virtue of Merton Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

### **3.15 Provisions**

Provisions are liabilities of uncertain timing or amount. Provision is made for unusual items which meet the definition of a provision but only when these are judged to be material to the accounts.

### **3.16 Additional Voluntary Contributions**

Merton Pension fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The two AVC providers appointed by Merton are the Prudential PLC and the Royal Bank of Ireland.

AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 22).

### **3.17 Going Concern**

The Pension Fund Accounts have been prepared on a going concern basis.

## 4. Critical Judgements in Applying Accounting Policies

An actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the pension fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2014 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £11.5m and a -0.1% reduction would increase the obligation by £11.7m. An adjustment to the mortality age rating assumption of -1 yr would increase the obligation by £23.4m.

## 6. Events After The Reporting Date

### Non-Adjusting Event

From the 1st April 2014, a new scheme has been introduced for the LGPS which governs benefits to staff and their contributions into the Pension Fund. The main features of this scheme are as follows-

1. The new LGPS 2014 scheme design is based on career average and actual pay and pensions will accrue at a rate of 1/49th. Career averaged pay is used for normal benefits but final years pay is still used for any additional years of service awarded for death in service or ill health retirement.
2. The definition of pensionable pay has been amended to include voluntary overtime as a pensionable element. Voluntary overtime was previously excluded from pensionable pay. Additionally, the regulations contain a new provision providing that the pay for each year should be increased (for pension purposes only) where it has been reduced on account of any sickness absence.
3. The pension revaluation is in line with a specified price index, currently this is CPI. Normal pension age (NPA) for both active members and members with

deferred pension entitlements is linked to the State Pension Age (SPA) so that if a person's SPA rises, then NPA under the scheme will also rise for all LGPS 2014 service. A pension entitlement is available after 2 years membership (as opposed to 3 months in the LGPS 2008 currently).

4. The Government expects average member contribution yield to be 6.5% (about the same yield as available under the LGPS 2008) with tiered contribution bands ranging from 5.5% of pay to 12.5% of pay rather than 5.5% to 7.5% under the LGPS 2008. Despite the widening of rates the overall yield stays the same because part-time employees will make contributions based on actual pay rather than full time equivalent pay in the LGPS 2008.

## 7. Contributions Receivable

2012/13 £000		2013/14 £000
	<b>Employers</b>	
	London Borough of Merton	
8,673	• Normal	9,537
4,800	• Deficit Funding Contributions (Additional)	4,800
1,877	• Early Retirements (Additional)	779
383	• Scheduled Bodies	484
483	• Admitted Bodies	469
<b>16,216</b>		<b>16,069</b>
	<b>Members</b>	
	London Borough of Merton	
4,080	• Normal	4,475
125	• Scheduled Bodies	120
206	• Admitted Bodies	199
<b>4,411</b>		<b>4,794</b>
<b>20,627</b>	<b>Total</b>	<b>20,863</b>

## 8. Transfers In From Other Pension Funds

2012/13 £000		2013/14 £000
2,330	Individual Transfers	765
<b>2,330</b>	<b>Total</b>	<b>765</b>

## 9. Benefits Payable

2012/13 £000		2013/14 £000
	<b>Pensions Payable</b>	
16,115	London Borough of Merton	16,824
623	Scheduled Bodies	496
276	Admitted Bodies	262
<b>17,014</b>		<b>17,582</b>
	<b>Lump Sum Benefits Payable</b>	
	<b>Retirement Benefits</b>	
1,856	London Borough of Merton	2,012
59	Scheduled Bodies	111
97	Admitted Bodies	178
	<b>Death Benefits</b>	
235	London Borough of Merton	382
<b>2,247</b>		<b>2,683</b>
<b>19,261</b>	<b>Total</b>	<b>20,265</b>

## 10. Payments to and on Account of Leavers

2012/13 £000		2013/14 £000
652	Individual Transfers	1,517
2	Refunds of Contribution	7
<b>654</b>	<b>Total</b>	<b>1,524</b>

## 11. Administrative Expenses

2012/13 £000		2013/14 £000
283	Employee cost	154
21	External audit fees	21
0	Actuarial Fees	44
44	Running Costs	302
<b>348</b>	<b>Total</b>	<b>521</b>

Included in administrative expenses is the pension administration shared service cost.

## 12. Investment Income

2012/13 £000		2013/14 £000
2,999	Fixed Interest Securities	1,054
5,677	Equities	7,438
186	Pooled Investments	84
503	Pooled Property Investments	470
422	Other	466
<b>9,787</b>	<b>Total</b>	<b>9,512</b>

## 13. Taxes on Income

2012/13 £000		2013/14 £000
184	Non-Recoverable Tax	269
21	Recoverable Tax	27
<b>205</b>	<b>Total</b>	<b>296</b>

## 14. Investment Expenses

2012/13 £000		2013/14 £000
586	Management Fees and Custody	854
<b>586</b>	<b>Total</b>	<b>854</b>

Management expenses in 2012/13 were based on the best available estimates of expenses, however, these did not provide fully for actual 2012/13 expenditure. The residual has been charged to 2013/14.

## 15. Investments

### 15.1 Fund management arrangements

The management of Pension Fund investments is delegated to external investment managers. The table below shows the market value of the assets (including accrued dividends) by fund manager and the proportion managed by each manager as at 31 March 2014. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2012/13		Fund Manager	2013/14	
£000	%		£000	%
206,296	46	Aberdeen	202,683	43
242,113	53	UBS	261,859	56
4,920	1	RREEF/Blackrock	5,408	1
<b>453,329</b>	<b>100</b>	<b>Total</b>	<b>469,950</b>	<b>100</b>

## 15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2014 is shown below. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2013 £000		Market Value 31 March 2014 £000
	<b>Investment Assets</b>	
113,623	Fixed Interest Securities	108,064
177,106	Equities	189,623
147,737	Pooled Investments	155,516
11,681	Pooled Property Investments	13,197
	<b>Derivative contracts</b>	
1,461	Futures	2,159
2,226	Cash Deposits	2,535
974	Investment income due	1,019
<b>454,808</b>	<b>Total Investment Assets</b>	<b>472,113</b>
	<b>Investment Liabilities</b>	
	Derivative contracts	
(1,479)	Futures	(2,163)
<b>(1,479)</b>	<b>Total Investments liabilities</b>	<b>(2,163)</b>
<b>453,329</b>	<b>Net Investment assets</b>	<b>469,950</b>

### 15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2013/2014. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

	Market Value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2014 £000
<b>Fixed Interest Securities</b>	<b>113,623</b>	30,845	(30,121)	(6,283)	<b>108,064</b>
<b>Equities</b>	<b>177,106</b>	26,803	(20,584)	6,298	<b>189,623</b>
<b>Pooled Investments</b>	<b>147,737</b>	5,311	(4,815)	7,283	<b>155,516</b>
<b>Pooled Property</b>	<b>11,681</b>	547	0	969	<b>13,197</b>
	<b>450,147</b>	<b>63,506</b>	<b>(55,520)</b>	<b>8,267</b>	<b>466,400</b>
<b>Derivatives (Futures)</b>					
Future contracts	1,461			698	2,159
Cash Liability	(1,479)	9,547	(8,938)	(1,293)	(2,163)
	<b>450,129</b>	<b>73,053</b>	<b>(64,458)</b>	<b>7,672</b>	<b>466,396</b>
<b>Other Investment Balances</b>					
Cash UK (Fund Managers)	2,226			679	2,535
Investment Income Due	974				1,019
	<b>3,200</b>				<b>3,554</b>
<b>Total Investments at Market Value</b>	<b>453,329</b>			<b>8,351</b>	<b>469,950</b>

## Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2012/2013.

	Market Value 1 April 2012 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2013 £000
<b>Fixed Interest Securities</b>	<b>103,109</b>	6,353	(3,682)	7,843	<b>113,623</b>
<b>Equities</b>	<b>154,984</b>	30,619	(21,500)	13,003	<b>177,106</b>
<b>Pooled Investments</b>	<b>120,981</b>	5,206	(2,998)	24,548	<b>147,737</b>
<b>Pooled Property</b>	<b>14,272</b>	(5,294)	0	2,703	<b>11,681</b>
	<b>393,346</b>	<b>36,884</b>	<b>(28,180)</b>	<b>48,097</b>	<b>450,147</b>
<b>Derivatives (Futures)</b>					
Future contracts	1,203			258	1,461
Cash Liability	(1,237)	7,533	(7,470)	(305)	(1,479)
	<b>393,312</b>	<b>44,417</b>	<b>(35,650)</b>	<b>48,050</b>	<b>450,129</b>
<b>Other Investment Balances</b>					
Cash UK (Fund Managers)	3,213			(18)	2,226
Investment Income Due	891				974
	<b>4,104</b>				<b>3,200</b>
Cash Adjustment				(475)	
<b>Total Investments at Market Value</b>	<b>397,416</b>			<b>47,557</b>	<b>453,329</b>

#### 15.4 Detail analysis of investments (excluding derivative contracts)

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'. The analysis excludes derivatives.

Market Value 31 March 2013 £000		Market Value 31 March 2014 £000
	<b>Fixed Interest Securities</b>	
85,791	Public Sector : UK quoted	81,495
27,832	: Overseas quoted	26,569
<b>113,623</b>		<b>108,064</b>
	<b>Equities (Direct)</b>	
153,153	UK quoted	167,425
23,814	Other European quoted	21,769
0	American	139
139	Other Overseas	290
<b>177,106</b>		<b>189,623</b>
	<b>Pooled Investments</b>	
27,694	UK (Equities)	32,376
13,331	Other European (Equities)	15,116
33,772	American (Equities)	36,011
12,896	Japanese (Equities)	12,944
44,592	Other Overseas (Equities)	45,688
15,452	Developing Markets (Equities)	13,381
4,601	Property Managed Fund/Units quoted	5,105
7,080	Property Managed Fund/Units un-quoted	8,092
3,200	Other Investment Balances	3,554
<b>162,618</b>		<b>172,267</b>
<b>453,347</b>	<b>Total</b>	<b>469,954</b>

#### 15.5 Analysis of derivatives

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. The futures contracts have not been used for speculative purposes but rather to facilitate strategic change in the effective composition of the funds more efficiently than could be obtained through sale or purchase of underlying investments at a point in time. At 31 March 2014, the value of FTSE futures amounted to less than 0.7% (0.5% in 2012/13) of all equity investment in the fund.

The following table reflects the fund's exposure to future contracts.

Type	Expires	Economic exposure £000	Market value 31 March 2013 £000	Economic exposure £000	Market value 31 March 2014 £000
UK Equities	Three – Six months	1,479	1,461	2,163	2,159

## 15.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2014.

## 15.7 Value and realisation of investments

The valuation of investments at year-end incorporates the value of purchases, gains/losses realised on the sale of investments, and changes in the assessed market value of investments retained in the portfolio.

The BlackRock property portfolio is valued each quarter with the last valuation being at 31 March 2014.

The majority of investments are quoted and in compliance with our Statement of Investment Principles, easily realised in normal circumstances. Property Unit Trusts may be illiquid and realisation protracted but the allocation to Property investment is less than 5% of the total investment portfolio and it is recognised as being a longer-term investment vehicle.

The table below shows investments exceeding 5% of total net assets (All these investments are pooled.)

Security	% Market Value
Aberdeen Global II Index Linked	11.58
UBS Life Global Optimal Thirds	6.72
UBS Life USA Equity Tracker	6.62
Aberdeen Global II Global Aggregate	5.65
UBS Life UK Equity Tracker	5.30

The largest single direct holding is in HSBC at 2.15%.

## 16. Financial Instruments

### 16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2013				31 March 2014		
Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			<b>Financial Assets</b>			
113,623			Fixed Interest Securities	108,064		
177,106			Equities	189,623		
147,737			Pooled Investments	155,516		
11,681			Pooled Property Investments	13,197		
1,461			Derivative Contracts	2,159		
	2,223		Cash		2,535	
974			Other Investment Balances	1,019		
	4,038		Debtors		3,170	
<b>452,582</b>	<b>6,261</b>	<b>0</b>		<b>469,578</b>	<b>5,705</b>	<b>0</b>
			<b>Financial Liabilities</b>			
(1,479)			Derivative Contracts	(2,163)		
		(1,155)	Creditors			(877)
<b>(1,479)</b>	<b>0</b>	<b>(1,155)</b>		<b>(2,163)</b>	<b>0</b>	<b>(877)</b>
<b>451,103</b>	<b>6,261</b>	<b>(1,155)</b>		<b>467,415</b>	<b>5,705</b>	<b>(877)</b>

## 16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2013 £000		31 March 2014 £000
	<b>Financial Assets / Liabilities</b>	
47,389	Fair Value through profit and loss	8,261
168	Loans and Receivables	90
0	Financial Liabilities at Amortised Cost	0
<b>47,557</b>	<b>Total</b>	<b>8,351</b>

## 16.3 Valuation of financial Instruments carried at fair value

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the fund are classified as level 1, 2 and 3, as follows:

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

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

Level 3 – those financial instruments where at least one input, that could have a significant effect on the instrument's valuation, is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 and 2, based on the level at which the fair value is observable.

31 March 2013			31 March 2014	
Quoted market price Level 1 £000	Quoted market price Level 2 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000
440,718	11,879	<b>Financial Assets</b>	456,380	13,197
2,223		Fair Value through profit and loss	2,535	
		Loans and Receivables		
(1,461)		<b>Financial Liabilities</b>	(2,159)	
0		Fair Value through profit and loss	0	
		Financial Liabilities at Amortised Cost		
<b>441,480</b>	<b>11,879</b>	<b>Total</b>	<b>456,756</b>	<b>13,197</b>

## 16.4 Fair value of financial instruments and liabilities

The table below compares the carrying value to the fair value of financial assets and financial liabilities. The derivatives (both assets and liabilities) are recognised at market value.

31 March 2013			31 March 2014	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
345,477	452,597	<b>Financial Assets</b>		
		Fair Value through profit and loss	361,773	469,578
2,222	2,223	Loans and Receivables	2,532	2,535
		<b>Financial Liabilities</b>		
(1,479)	(1,461)	Fair Value through profit and loss	(2,163)	(2,159)
0	0	Financial Liabilities at Amortised Cost	0	0
<b>346,220</b>	<b>453,359</b>	<b>Total</b>	<b>362,142</b>	<b>469,954</b>

## 17. Nature and Extent of Risks Arising From Financial Instruments

### 17.1 Risk and risk management

The fund's main long-term risk is that the fund's assets will fall short of its liabilities of paying benefits to its members. Investment risk management aims to reduce the risk of the overall reduction of the fund while increasing returns. To achieve this, the fund is diversified through its asset allocation thereby reducing its price, currency and interest rate risks. Liquidity risk in the fund is managed by monitoring the cash flow forecast of the fund and ensuring that there is sufficient cash to pay its benefits payable obligations.

The Fund manages these investment risks as part of its overall pension fund risk management programme.

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

The fund also ensures reputable investment managers are used through its rigorous fund manager's selection process. In addition the fund employs an independent advisor who provides advice on investment issues.

### 17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity

investments. The Fund has one future valued at £2,159,355 as at 31 March 2014 (£1,460,730 as at 31 March 2013).

### 17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Pounds Sterling. Riskier assets in the fund such as equities display greater potential price volatility than bonds.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,440	0.02	2,440	2,440
<b>Investment portfolio assets</b>				
UK Equities	200,763	12.08	225,015	176,511
Overseas Equities	144,477	11.56	161,179	127,775
Bonds and Index Linked	108,064	6.45	115,034	101,094
Property	13,197	4.45	13,784	12,610
Income Due	1,011	0.00	1,011	1,011
<b>Total Assets</b>	<b>469,952</b>		<b>518,463</b>	<b>421,441</b>

**Note:** The % change for Total Assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>				
Cash	2,223	0.02	2,223	2,223
<b>Investment portfolio assets</b>				
Total Equities	324,666	12.61	365,606	283,726
Bonds and Index Linked	113,623	6.2	120,611	106,635
Property	11,874	4.22	12,375	11,373
Income Due	974	0.0	974	974
<b>Total Assets</b>	<b>453,360</b>		<b>501,789</b>	<b>404,931</b>

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2014 asset mix as shown in the following table (Note 17.4):

### 17.4 Other price risk

Potential price changes are 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, so the overall outcome will depend largely on fund asset allocations. The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-)
UK Equities	12.08%
Overseas Equities	11.56%
Bonds and Index Linked	6.45%
Cash	0.02%
Property	4.45%

### 17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2014, the fund's fixed rate investments were in pooled investments. There are no internally managed investments.

### 17.6 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 GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2014.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	144,477	5.16	151,930	137,025
Overseas Bonds	26,569	5.16	27,939	25,199
<b>Total Overseas Assets</b>	<b>171,046</b>		<b>179,869</b>	<b>162,224</b>

The table below shows the currency exposure by asset type as at 31 March 2013.

Asset Type	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	14,008	5.92	14,838	13,179
Overseas Bonds	27,832	5.92	29,480	26,184
<b>Total Overseas Assets</b>	<b>41,840</b>		<b>44,318</b>	<b>39,363</b>

The following table calculates the aggregate currency exposure within the fund as at 31 March 2014. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	518	6.26	550	485
EURO	9,271	6.31	9,857	8,686
Norwegian Krone	506	8.79	550	462
Swedish Krona	2,203	7.03	2,358	2,049
Swiss Franc	3,124	7.42	3,356	2,892
US Dollar	131	8.07	141	120
<b>Total</b>	<b>15,753</b>		<b>16,812</b>	<b>14,694</b>

Currency	Value at 31 March 2013 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	391	7.73	422	361
EURO	8,686	7.80	9,364	8,009
Norwegian Krone	418	9.04	456	380
Swedish Krona	1,784	8.13	1,929	1,639
Swiss Franc	2,564	9.36	2,804	2,324
US Dollar	27,997	8.74	30,444	25,550
<b>Total</b>	<b>41,840</b>		<b>45,419</b>	<b>38,263</b>

### 17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or 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.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria.

The average long term credit rating in the bond portfolio is AA as at 31 March 2014. The table below shows the credit quality.

Value at 31 March 2013	Credit Quality	Value at 31 March 2014
4,485	AAA	2,270
85,663	AA	80,838
11,915	A	11,240
8,267	BBB	11,456
721	BB or below	648
<b>111,051</b>		<b>106,452</b>

The fund's cash balance under its treasury management arrangements as at 31 March 2014 was held with Lloyds bank with a credit rating of A.

### **17.8 Liquidity risk**

The Council has immediate access to its pension fund cash holdings to enable it to meet its financial obligations when due. Within the bond portfolio, the fund is permitted to hold up to 10% of the fund in cash for this reason and to ensure that the fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.

Management prepares quarterly cashflow forecasts to understand and manage the timing of the fund's cash; this is reviewed by the Pension Fund Panel on a quarterly basis.

### **17.9 Refinancing risk**

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

## **18. Funding Arrangements**

### **18.1 Actuarial position**

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

- (i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
- (ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

### **18.2 Actuarial assumption**

Barnett Waddingham LLP carried out the last actuarial valuation in 2013. This gave an assessment of the value of the fund as at 31 March 2013. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31<sup>st</sup> March 2013 was £ 451.0m, whilst the liabilities accrued in respect of pensionable service were £504.2m. The assessed actuarial value of £451.0m was different to the market value of the assets at 31 March 2013 (shown in Note 18.4) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

The following tables show financial assumptions used in the actuarial valuations. The format of the 2013 table differs from the 2007 and 2010 as the actuaries have altered the basis upon which they present their assumptions. Only nominal returns are reported in 2013.

Financial Assumptions	2007		2010	
Investment Return	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Equities	7.6	4.3	7.4	3.9
Gilts	4.7	1.3	4.5	1.0
Bonds & Property	5.4	2.0	5.6	2.1
Index Linked Gilt yields	3.4			
Equity Risk Premium	3.0			
Equity Return	7.6			
Discount Rate	6.9	3.5	6.7	3.2
Pay Increases	4.9	1.5	5.0	1.5
Price Inflation	3.4		3.5	
Pension Increase	3.4		3.0	(0.50)

Future Assumed Returns at 2013 % p.a.		Risk Adjusted Discount Rate Weighting %
Equities	6.9	71
Gilts	3.3	25
Cash	3.1	1
Property	6.0	3
Expense allowances	0.1	-
<b>Financial Assumptions</b>	<b>2013</b>	<b>2010</b>
Discount Rate	5.9	6.7
Retail Price Index (RPI)	3.5	3.5
Consumer Price Inflation (CPI)	2.7	3.0
Pension & Deferred Pension Increases	2.7	3.0
Short Term Pay Increase	In line with the CPI assumption for the 2 yrs to 31 March 2015	Pay freeze for those earning over £21k for the 2 years to 31 March 2012
Long Term Pay Increase	4.5	5.0

### 18.3 Funding policy

Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover any deficiency in the Fund over the next fifteen years from 1<sup>st</sup> April 2010 (twelve years from 1<sup>st</sup> April 2014), and this is consistent with the funding strategy.

#### 18.4 Funding position

The overall funding level increased from 84% in 2010 to 89% in 2013.

Investment returns were higher than assumed and pay increases lower than assumed.

The table below shows the funding level and deficit for the past three triennial valuations.

	2007 Valuation	2010 Valuation	2013 Valuation
Funding Level %	90.5	84.0	89.0
<b>Funding (Deficit) £m</b>	<b>(33.5)</b>	<b>(67.2)</b>	<b>(53.2)</b>

The funding deficiency of £53.2 million at the time of the 2013 valuation was equivalent to 11% of accrued liabilities, compared to 16% as at the time of the 2010 valuation.

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll. From 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017 the Common Rate of Contribution will be 21% of pensionable pay.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 and 2013 actuarial valuation reports.

The table below shows the reconciliation of past service position from the 2007 and 2010 valuations.

	Funding Position £m	
Deficit at 2007 Valuation	<b>(34)</b>	
New Liabilities	(50)	
Contributions Paid		59
Interest on Deficit	(6)	
Asset Gain/Loss	(70)	
Liability Gain/Loss	(28)	
Experience		3
Change in Assumptions/CPI		59
<b>Deficit at 2010 Valuation</b>	<b>(67)</b>	

The table below shows the reconciliation of past service position from 2010 and 2013 valuations.

	Funding Position £m	
<b>Deficit at 2010 Valuation</b>	<b>(67)</b>	
Deficit Funded (Use of Surplus)		18
Financial Loss	(14)	
Experience		11
Change in Assumptions	(1)	
<b>Deficit at 2013 Valuation</b>	<b>(53)</b>	

The following tables show the past service funding position for the 2010 and 2013 valuations.

	31 March 2010 £000	
<b>Smoothed Asset Value</b>		<b>343,541</b>
<b>Past Service Liabilities</b>		
Active Members	139,683	
Deferred Pensioners	59,740	
Pensioners	211,227	
<b>Value of Scheme Liabilities</b>		<b>410,650</b>
<b>Surplus (Deficit)</b>		<b>(67,109)</b>
<b>Funding Level</b>		<b>84%</b>
<b>Employer Contribution Rates</b>		<b>% of Payroll</b>
Future Service Contribution Rate		14.1
Deficit Recovery (15 years)		7.3
<b>Total Contribution Rate</b>		<b>21.4</b>
	31 March 2013 £000	
<b>Asset Value</b>		<b>450,974</b>
<b>Past Service Liabilities</b>		
Active Members	165,417	
Deferred Pensioners	87,644	
Pensioner Members	251,112	
<b>Total</b>		<b>504,173</b>
<b>Surplus (Deficit)</b>		<b>(53,199)</b>
<b>Funding Level</b>		<b>89%</b>
<b>Employer Contribution Rates</b>		<b>% of Payroll</b>
Future Service Cost		14.0
Deficit Recovery (12 years)		7.0
<b>Total Contribution Rate</b>		<b>21.0</b>

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long

term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

## 19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes.

In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2014, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

	Assumptions as at 31/03/14 %
<b>Inflation/Pension increase rate</b>	2.8
<b>Salary rate increase</b>	4.6
<b>Discount Rate</b>	4.4

The value of the Fund's promised retirement benefits as at 31 March 2014 was £685.2m

Year Ended	31/03/13 £m	31/03/14 £m
<b>Present value of promised retirement benefits</b>	637.6	685.2

## 20. Current Assets

	31/03/13 £000	31/03/14 £000
<b>Debtors</b>		
Contributions due	2,650	2,066
<b>Cash Balances</b>		
Cash in Hand	1,388	1,104
<b>Current Assets</b>	<b>4,038</b>	<b>3,170</b>

## 21. Current Liabilities

Creditors	31/03/13 £000	31/03/14 £000
Cash overdrawn	(377)	(217)
Fund Managers Fees	(181)	(160)
Sundry	(597)	(500)
<b>Current Liabilities</b>	<b>(1,155)</b>	<b>(877)</b>

## 22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the pension fund accounts but are paid over by the Council's shared payroll service and invested by specialist AVC providers, Prudential PLC and Bank of Ireland independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2013/14 to AVC schemes outside the authority's responsibility was £0.187m (£0.133m at 31 March 2013). The external providers have reported that at 31 March 2014 the total value of accumulated AVCs is £1.450m (£1.263m at 31 March 2013).

## 23. Related Parties

Related parties to the pension fund include: -

- i) **The London Borough of Merton**, a separate pension fund bank account is in full operation which holds pension fund cash balances. The Council recharges the Fund for incurred overheads while the pension fund recharges the council for any employers recharge to pensioners pay.
- ii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.
- iii) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There are two serving Councillor Members on the Pension Fund Advisory Panel who are contributors to the Pension Fund. In addition, there is one Pensioner representative on the Panel who is in receipt of pension benefits.

The relevant senior officer in the financial management of Merton Pension Fund is the Director of Corporate Services who is remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. However the pension fund is recharged by the Administering Authority for officers time spent in the management of the pension fund. Further information on remuneration is available within the financial statements of Merton Council.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services and the use of the council's financial systems which may result in occasional cross transactions. The former were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.521m (£0.348m in 2012/13).

## **24. Contingent and Contractual Liabilities**

There is a contingent liability in respect of the bulk transfer for South Thames College (formerly Merton College). This transfer is particularly difficult to quantify at this stage as neither the data nor the actuarial basis for quantifying the liability have been agreed between the parties.

# **Funding Strategy Statement**

## **1. Introduction**

- 1.1. This is the Funding Strategy Statement (“FSS”) for the London Borough of Merton Pension Fund (“the Fund”) which is administered by London Borough of Merton (“the Administering Authority”). It has been prepared in accordance with the Local Government Pension Scheme (Administration) Regulations 2013 (“the Regulations”).
- 1.2. It should be read in conjunction with the Fund’s Statement of Investment Principles (“SIP”).

## **2. Purpose of the Funding Strategy Statement**

- 2.1. The purpose of the FSS is to explain the Fund’s approach to meeting the pension scheme’s liabilities and in particular:
  - to establish a clear and transparent Fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
  - to take a prudent longer-term view of funding those liabilities; and
  - to support the regulatory framework to maintain as nearly constant employer contribution rates as possible.
- 2.2. These objectives are desirable individually but may be mutually conflicting. This FSS seeks to set out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers’ contributions and prudence in the funding basis.

## **3. Purpose of the Fund**

- 3.1. The purpose of the Fund is to:
  - Pay pensions, lump sums and other benefits provided under the Regulations;
  - Meet the costs associated in administering the Fund;
  - Receive contributions, transfer values and investment income; and
  - Accumulate and invest money received, and facilitate the management of this.

# Funding Strategy Statement

## 4. Funding Objectives

- 4.1. Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.
- 4.2. The funding objectives are to:
- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund.
  - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.
  - Ensure effective and efficient management of employers' liabilities; and
  - Allow the return from investments to be maximised within reasonable risk parameters.

## 5. Key Parties

- 5.1. The key parties involved in the funding process and their responsibilities are as follows:

### **The Administering Authority**

- 5.2. The Administering Authority for the Pension Fund is London Borough of Merton. The main responsibilities of the Administering Authority are to:
- Operate the Pension Fund;
  - Collect and account for employee and employer contributions;
  - Invest the Fund's assets ensuring sufficient cash is available to meet liabilities as and when they become due;
  - Pay the benefits due to Scheme members;
  - Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
  - Manage the actuarial valuation process in conjunction with the Fund Actuary;

## **Funding Strategy Statement**

- Prepare and maintain this FSS and also the SIP after consultation with other interested parties;
- Monitor all aspects of the Fund's performance and funding and ensure that the FSS and SIP are updated as necessary;
- Prepare the Fund accounts; and
- Effectively manage any potential conflict of interest arising from its dual role as both Fund administrator and Scheme employer.

### **Individual Employers**

5.3. In addition to the Administering Authority, a number of scheduled and admitted bodies participate in the Fund.

5.4. The responsibilities of each individual employer that participates in the Fund, including the Administering Authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority. Payments should be made monthly and no later than the 19<sup>th</sup> day of each month.
- Each payment should be accompanied by a statement of the total pensionable pay received by members during the period covered by the statement, the total employee contributions deducted from the pensionable pay and the total employer contributions in respect of the pensionable pay;
- Notify the Administering Authority of any new Scheme members and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs, particularly in respect of early retirement strains, in accordance with agreed policies and procedures.

# Funding Strategy Statement

## Fund Actuary

5.5. The Fund Actuary for the Pension Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare the actuarial valuation, including the setting of employer contribution rates, after agreeing assumptions with the Administering Authority and having regard to the FSS;
- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- Prepare advice and valuations on the termination of admission agreements;
- Provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations;
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## 6. Funding Strategy

6.1. The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

## **Funding Strategy Statement**

- 6.2. The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:
- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
  - As stable an employer contribution rate as is practical.
- 6.3. The funding strategy recognises that the funding level will fluctuate with changing levels of employment, retirements and investment income, and the employer contribution has to be adjusted to a level sufficient to maintain the pension scheme's solvency and to achieve a funding level of 100% over the longer term.
- 6.4. The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.
- 6.5. The last Actuarial Valuation was carried out as at 31 March 2013 with the assets of the Fund found to represent 89% of the accrued liabilities for the Fund.

### **7. Funding Method**

- 7.1. The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.
- 7.2. The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund; or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.
- 7.3. For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

## **Funding Strategy Statement**

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit; and
- The future service funding rate which is the level of contributions required from the individual employers which, in combination with employee contributions, is expected to support the cost of benefits accruing in future.

7.4. The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.

7.5. For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

### **8. Valuation Assumptions and Funding Model**

8.1. In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

8.2. The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

# **Funding Strategy Statement**

## **Future Price Inflation**

- 8.3. The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date, using the Bank of England Inflation Curves, to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI"). The resultant figure used in the 2013 valuation is 3.5% per annum.

## **Future Pay Inflation**

- 8.4. As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The assumption adopted in the 2013 Valuation is that pay increases will, on average over the longer term, exceed price inflation by 1.0% per annum. In addition, given the current economic climate, it was also assumed that pay increases would be in line with CPI for a period of 2 years.

## **Future Pension Increases**

- 8.5. Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment of 0.8% per annum is therefore made to the RPI assumption to derive the CPI assumption.

## **Future Investment Returns/Discount Rate**

- 8.6. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.
- 8.7. The discount rate that is adopted will depend on the funding target adopted for each employer.

## **Funding Strategy Statement**

- 8.8. For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate.
- 8.9. For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer either wishes to leave the Fund, or the terms of their admission require it.
- 8.10. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.
- 8.11. The adjustment to the discount rate for closed employers is to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis. The aim is to minimise the risk of deficits arising after the termination date.

### **Asset Valuation**

- 8.12. For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

### **Statistical Assumptions**

- 8.13. The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

# Funding Strategy Statement

## 9. Deficit Recovery/Surplus Amortisation Periods

- 9.1. Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs from the actuarial assumptions. Accordingly, the Fund will normally either be in surplus or in deficit.
- 9.2. Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.
- 9.3. The deficit recovery period for each employer will depend upon the significance of the surplus or deficit relative to that employer's liabilities, the covenant of the individual employer and any limited period of participation in the Fund, and the implications in terms of stability of future levels of employers' contribution.
- 9.4. At the 2013 valuation, a maximum deficit recovery period of 12 years is used for all employers. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers.
- 9.5. Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding 3 years depending on the same issues set out in 9.3.

## 10. Pooling of Individual Employers

- 10.1. The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.
- 10.2. However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.
- 10.3. Currently there are two pools within the Fund, namely the London Borough of Merton pool and the Academy pool.

# **Funding Strategy Statement**

10.4. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

## **11. New Admissions**

11.1. On admission to the Fund, new employers are required to carry out an assessment of the level of risk to the Fund should their participation within the Fund cease due to certain circumstances, for example, insolvency, winding up or liquidation. This assessment will be to the satisfaction of the Administering Authority, having sought actuarial advice.

11.2. Depending on this assessment, the administering authority may require a new employer to enter into agreement to set up an indemnity or bond, in a form approved by the administering authority and in accordance with the Local Government Pension Scheme Regulations 2013, or those prevailing at the time of the admission.

## **12. Cessation Valuations**

12.1. On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer, and where any residual liabilities remain a termination assessment may still be due.

12.2. In assessing the deficit on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

# **Funding Strategy Statement**

## **13. Early Retirement Costs**

13.1. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The calculation of these costs is carried out with reference to a calculation method approved by the Actuary to the Fund.

## **14. Links with the Statement of Investment Principles (SIP)**

14.1. The main link between the Funding Strategy Statement (FSS) and the SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the SIP.

14.2. As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

## **15. Risks and Counter Measures**

15.1. Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

15.2. The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

## **16. Financial Risks**

16.1. The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

## **Funding Strategy Statement**

- 16.2. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5 per cent per annum in the real discount rate will decrease/increase the liabilities by ten per cent, and decrease/increase the required employer contribution by around 2.5 per cent of payroll.
- 16.3. The Fund Actuary can provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### **17. Demographic Risks**

- 17.1. Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.
- 17.2. The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.
- 17.3. The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 17.4. However, the Administering Authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### **18. Regulatory Risks**

- 18.1. The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government.
- 18.2. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

# Funding Strategy Statement

18.3. However, the Administering Authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

## 19. Governance

19.1. Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees;
- An employer ceasing to exist without having fully funded their pension liabilities; and
- New employers being created out of existing employers.

19.2. However, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

19.3. In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

## 20. Monitoring and Review

20.1. This FSS should be reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

20.2. The Administering Authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

**London Borough of Merton Pension Fund**

**STATEMENT OF INVESTMENT PRINCIPLES**

Approved by Pension Fund Advisory Panel: 23 June 2014

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## 1. Statutory Requirement

### 1.1 Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("**Regulations**") requires that:

*(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.*

*(2) The statement must cover its policy on—*

*(a) the types of investment to be held;*

*(b) the balance between different types of investments;*

*(c) risk, including the ways in which risks are to be measured and managed;*

*(d) the expected return on investments;*

*(e) the realisation of investments;*

*(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;*

*(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and*

*(h) stock lending.*

*(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.*

*(4) The first such statement must be published no later than 1st July 2010.*

*(5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.*

*(6) A statement revised under paragraph (5) must be published.*

### 1.2 The following sections of this Statement of Investment Principles ("**SIP**") provide separate information on each of the prescribed policy issues.

### 1.3 In addition to the provisions of the Regulations, the Council of the London Borough of Merton as Administering Authority ("**Authority**") of the London Borough of Merton Pension Fund ("**Fund**") will comply with the statutory requirements for choosing investments (in so far as these provisions apply to the Local Government Pension Scheme) set out in sections 33 to 36 of the Pensions Act 1995, sections 3 to 7 of the Trustees Act 2000 and the Occupational Pension Schemes (Investment) Regulations 2005.

## 2. Consultation

- 2.1 Regulation 12(1) of the Regulations require that: *An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.*
- 2.2 The Authority is responsible for administration of the Fund on behalf of itself and constituent Scheduled and Admitted Bodies ("**ASB**"). In respect of its responsibilities for the investment of the assets of the Fund, it has delegated this responsibility to the Pension Fund Advisory Panel ("**PFAP**") and its representative councillor members from the Council of the London Borough of Merton.
- 2.3 Whilst the ASB may request attendance at meetings of the PFAP, so as to be involved in the setting of policy, they have not elected to do so (the ASB membership of the Fund is relatively minor).
- 2.4 The PFAP developed the investment principles applicable to the Fund after consulting with an actuarial advisor in respect of asset/liability modelling, an independent investment advisor and its investment managers (who have been chosen and appointed to invest the assets of the Fund in accordance with their Investment Management Mandate detailed in Section 5).
- 2.5 The SIP has been revised by the PFAP to take into account developments affecting the Local Government Pension Schemes since it was last reviewed. In preparing the revised SIP, the PFAP were advised by an independent investment adviser[, an actuarial adviser, its investment managers] and the legal adviser to the Authority.

### **3. Investment Objectives and Performance**

#### **3.1 Investment Objectives**

- 3.1.1 The Authority's investment objective is to achieve full financing of pension liabilities at least cost over time. The objective requires that the return on the investment of the assets of the Fund are maximised, but since investment performance can be variable, and its fluctuations affect actuarial results, the objective has to be tempered by seeking its achievement via reasonably stable performance and tolerable risks. To this end asset/liability modeling has been used to determine an asset allocation that offers a reasonable and employer-acceptable balance between the aspiration for investment growth (to moderate the employer contributions and impact on council taxpayers) with stability of contributions.
- 3.1.2 For the purpose of implementing investment arrangements, the asset allocation is divided into component parts related to investment market sectors to which specialist investment managers, performance targets and monitoring can be applied.

## **3.2 Investment Performance**

- 3.2.1 Whilst the Authority's overall investment objective relates to servicing its actuarial need, subsidiary interim performance objectives/targets based on market benchmarks are used for performance evaluation of the sub-funds. These investment objectives and performance targets are reflected in the Investment Management Mandates given to investment managers. See Section 5.
- 3.2.2 Performance will be monitored by an independent third-party performance approval specialist (currently WM Company). The data produced as a result is to be available and reviewed by representatives of the PFAP quarterly and considered at PFAP meetings. There will be a comprehensive performance appraisal annually.
- 3.2.3 To allow for inevitable fluctuations in performance, a key performance review will take place over a rolling three-year period. However, particular categories of investments, such as Development Capital, may require an extended assessment period as considered appropriate by the PFAP.
- 3.2.4 Should an investment fund performance fall below the required standard over a significant period, PFAP will consider the matter and instigate appropriate action.
- 3.2.5 Overall investment fund performance will be considered by the Authority's actuary as part of the triennial actuarial valuation of the Fund and resultant conclusions on performance relative to the financing requirements of the Fund will prompt appropriate action as necessary.
- 3.2.6 Apart from assessment of an investment fund's performance relative to the market, performance relative to peer groups and other benchmarks may be considered. Peer group and similar benchmarks are not primary performance objectives, but rather means to facilitate management of performance standards.

### 3.3 Investment Performance Targets

- 3.3.1 Professional advice is obtained to identify appropriate performance targets for each sub-fund (which together supports achievement of the overall performance objective and target). The review of individual fund-performance against market benchmarks is compatible with the overall focus on the actuarial requirement for investment performance.
- 3.3.2 The performance targets for sub-funds identify both the relevant market benchmark and the extent to which appointed investment managers are expected, over an appropriate period, to produce investment performance that matches or exceeds that benchmark. The performance increment seeks to incentivise the active investment manager to produce performance better than that of a passively managed fund, as the active manager needs to perform better than the relevant benchmark to justify the higher fee charged.
- 3.3.3 The performance targets are set with recognition that higher targets imply that higher risks will be incurred. Professional advice is employed to establish a reasonable risk/reward balance for the characteristics of this Fund. The PFAP will review the desirability of good performance in conjunction with its implication in respect of risk.

Sub-fund:	Active Global Equity 1	Active Global Equity 2	Passive Global Equity	Active Global Bond	Property 1	Property 2	Total Fund
<b>Performance target</b>	+1.25%	+1.25%	Par	+0.75%	Benchmk plus	Benchmk plus	
<b>Benchmark Index</b>	%	%	%	%	%	%	%
FTSE All Share	55.00	55.00	66.00				41.80
FTSE AW USA			18.00				5.40
FTSE AW North America	12.34	6.00					3.70
FTSE AW Europe ex UK	12.33	14.50	8.00				7.80
Topix		7.25					1.40
FTSE AW Japan			4.00				1.20
MSCI AC Asia Pac exc Japan		7.25					1.40
FTSE AW Pac ex Japan			4.00				1.20
FTSE Pacific inc Japan	12.33						2.50
MSCI Emerging Mkts		10.00					2.00
FTSE All Emerging	8						1.60
	100.00	100.00	100.00				<b>70.00</b>
BAML GBP Broad Mkt + 10 yrs				25.00			6.25
BARCAP GBP Global Agg Bond				25.00			6.25
FTSE UK Gilts Index + 5yrs				50.00			12.50
				100.00			<b>25.00</b>
IPD All Properties					100.00	100.00	5.00
	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

The total Fund allocation to benchmarks is aligned to the Funds overall asset allocation, set out in Section 4.2.5 (i.e. 70% equities, 25% bonds, 5% property). Sub-fund allocation to benchmarks reflects the proportion of the Fund allocated to each sub-fund and the investment manager's investment vehicles within that sub-fund.

## 4. Statement of Investment Principles

### 4.1 Types of Investment

- 4.1.1 PFAP may invest the assets of the Fund on behalf of the Authority in any type of investment permitted under the Regulations.
- 4.1.2 The assets of the Fund are currently invested in Equities, Fixed interest and Index Linked Bonds, Property and Cash.
- 4.1.3 PFAP may decide to invest assets of the Fund in other investments permitted under the Regulations, after obtaining proper advice from a person whom PFAP reasonably believes to be qualified by their ability in and practical experience of financial matters (including any officer of the Authority) ("**Proper Advice**").
- 4.1.4 In addition to the provisions of the Regulations, PFAP will comply with the statutory requirements for choosing investments (in so far as these provisions apply to the Local Government Pension Scheme) set out in sections 33 to 36 of the Pensions Act 1995, sections 3 to 7 of the Trustees Act 2000 and the Occupational Pension Schemes (Investment) Regulations 2005.
- 4.1.5 UK, Overseas and Emerging market investments (primarily US, Europe and Japan/Asia-Pacific) are permitted within the allocations and parameters set out in the relevant Investment Management Mandates detailed in Section 5.
- 4.1.6 Bond investments, which may include both UK and Overseas Government and Corporate issues, are to comply with a minimum credit rating approved by PFAP as set out in the relevant Investment Management Mandate. See Section 5.
- 4.1.7 Derivative products (including options and futures) may, for the reasons set out in regulation 4(8) of the Occupational Pension Schemes (Investment) Regulations 2005 and within any limits approved by PFAP, be used to facilitate asset allocation adjustments, hedge currency proceeds into Sterling or hedge index movements. In the latter case subject to exposure being limited to 5% of a sub-fund's market value and appropriate securities/cash is held to cover the Authority's exposure.
- 4.1.8 Warrants are permitted when attached to a purchased investment or received via a corporate action on an existing investment.
- 4.1.9 Apart from direct segregated investments, PFAP may approve investments in collective investment vehicles (such as the proposed London Local Government Pension Scheme Collective Investment Vehicle) subject to the limits imposed by the Regulations and set out in Section 4.10.
- 4.1.10 Underwriting is permitted only where the prospective stock would be an acceptable and appropriate investment for holding in its own right.

- 4.1.11 PFAP must approve any investments in unquoted stocks or those not easily realised before any significant investment is made.
- 4.1.12 In accordance with regulation 5 of the Regulations, the Authority can finance investments in advance of cash being available for settlement by borrowing from the assets of the Fund. Such borrowing is limited to 2% of a sub-fund's market value and may only occur if, at the time of borrowing, the Authority reasonably believes that the amount borrowed and any interest charged in respect of the sum borrowed can be repaid from the assets of the Fund within 90 days of the date of the borrowing.
- 4.1.13 Investments may be actively managed through manager selection, or passively managed to track a specified index, in accordance with the mandate approved by the PFAP.

## **4.2 The Balance between Types of Investment (asset allocation)**

4.2.1 The balance between types of investment in the Authority's asset allocation policy is determined after obtaining professional advice, including asset/liability modelling. The objective of the asset allocation is to set an investment mix that can support full financing of pension liabilities at least cost to the Fund over time (recognising that this will incur interim fluctuations in employer contribution).

4.2.2 To achieve this objective, the asset allocation is to be set to:

- Exploit the performance characteristics of different types of investment(s).
- Reflect the expectation that equities will out-perform bonds over the longer term.
- Allow for the Authority and ASB's tolerance of performance volatility.
- Balance investment performance, risk and volatility, so as to obtain target performance with reasonable consistency.
- Limit risk by diversification of investments across types of investments, sectors, UK and Overseas markets and strategies.
- Establish a dedicated Bond fund to facilitate an allocation to Bonds appropriate to the membership profile of the Fund.

4.2.3 The allocation to each category of investment should be sufficient for the category to make a significant contribution to investment performance. Where such an allocation is not practical, usage of that category may be precluded.

4.2.4 The Authority's asset allocation policy reflects its particular requirements and performance aspirations and not drift toward that of any peer group funds used for performance appraisal purposes.

4.2.4 The asset allocation and investment structure is to be reviewed when prompted by disappointing performance and/or professional advice, to determine whether it remains appropriate to support financing of the liabilities of the Fund and how it may be improved.

4.2.5 The current asset allocation target, the distribution across sub-funds and variance parameters are as follows:

	%		%		%
<b>Equities</b>	<b>70</b>	UK	41.8	UK	41.8
		Overseas	28.2	US	5.4
				North America	3.7
				Europe ex UK	7.8
				Japan	2.6
				Pacific ex Japan	2.6
				Pacific inc Japan	2.5
				Emerging Markets	3.6
<b>Bonds</b>	<b>25</b>	UK Fixed Income	6.25	UK Bonds	6.25
		Index Linked	12.50	UK Index-Linked	12.50
		Overseas	6.25	Overseas	6.25
<b>Property</b>	<b>5</b>	UK	5.00	UK	5.00
<b>Cash</b>	<b>0</b>		0.00		0.00
	<b>100</b>		<b>100.00</b>		<b>100.00</b>

4.2.6 A margin of +/-10% against allocation targets is allowed before action to correct is prompted. This margin accommodates investment purchases, sales income, market movements and also provides scope for investment managers to adjust allocations to exploit particular market circumstances. *[PFAP / the independent third-party performance approval specialist / the Authority]* monitors actual asset allocation to identify excess variances, and take action to redress them.

## 4.3 Risk

- 4.3.1 Investment is to be diversified across markets, sectors, investment types, strategies and stocks, so as to limit the risk that any loss of value on a particular investment or category of investment could have a significant effect on the Fund overall.

### Asset Allocation Risk

- 4.3.2 Asset allocation is to be set to offer the prospect of tolerable stability in the Fund's financing and employer contributions, whilst aspiring to achieve a high funding level and minimum employer contribution. It is to be based on the outcomes of asset/liability modelling undertaken by an actuarial consultant. The risk that the allocation fails to deliver its objective will be observed in actuarial reviews which will also act to prompt re-consideration of the allocation, with the help of professional advice.

### 4.3.3 Investment Performance Risk (Markets)

The Authority recognises that in particular periods, the investment performance available from the market may fall below the assumptions made by the Authority's actuary. The actuary is expected to adopt cautious return assumptions and make appropriate adjustments to the assumptions over time.

### Investment Performance Risk (Investment Management)

- 4.3.4 Investment is expected to achieve or better the performance available from the market. This is addressed by the structure of investment management within the Fund.
- 4.3.5 A key performance risk is the equity sector, which is the major part of the Funds asset allocation. To control equity performance risk, the allocation is to be divided between passively managed investment funds and actively managed investment funds. The passively managed component seeks to secure the delivery of market returns (and therefore the actuary's return assumptions). The actively managed component is to offer the prospect of better than market performance in both rising and falling markets.
- 4.3.6 The respective advantages and limitations of passive and active management are to be addressed by setting the split between active and passive management in accordance with Proper Advice.

4.3.7 The current target split as target percentages of the total fund (which may be rounded to nearest 0.5% for practical implementation) is:

	% of total Fund		% split		% Actively Managed	% Passively Managed
<b>Equities</b>	<b>70.00</b>	UK	60.00	UK	63.00	37.00
		Overseas	40.00	US	0.00	100.00
				North America	100.00	0.00
				Europe ex UK	77.00	23.00
				Japan	65.00	35.00
				Pacific ex Japan	65.00	35.00
				Pacific inc Japan	100.0	0.00
				Emerging Markets	100.0	0.00
<b>Bonds</b>	<b>25.00</b>	UK	25.00	UK Fixed	100.00	0.00
		Overseas	25.00	O'seas Fixed	100.00	0.00
			50.00	UK Index Linked	100.00	0.00
<b>Property</b>	<b>5.00</b>	UK	100.00	UK	100.00	0.00
<b>Cash</b>	<b>0.00</b>			Cash	0.00	0.00
	<b>100.00</b>					

4.3.8 Active management incurs the risk that a manager under-performs. The consequence of under-performance by a manager is to be mitigated by the spread of investments in the major equity asset-class across three sub-funds, so as to offer the possibility of compensating effects. The current target split as target percentages of the total fund (which may be rounded to nearest 0.5% for practical implementation) is:

	% of total Fund	% of total Fund in Active Global 1	% of total Fund in Active Global 2	% of total Fund in Passive Global
UK	41.8	11.00	11.00	19.80
US	5.40	0.00	0.00	5.40
North America	3.70	2.50	1.20	0.00
Europe ex UK	7.80	2.50	2.90	2.40
Japan	2.60	0.00	1.40	1.20
Pacific ex Japan	2.60	0.00	1.40	1.20
Pacific inc Japan	2.50	2.50	0.00	0.00
Emerging Markets	3.60	1.60	2.00	0.00
	<b>70.00</b>	<b>20.10</b>	<b>19.90</b>	<b>30.00</b>

- 4.3.9 Bond investment is a significantly smaller allocation of the Fund than that of equities. The PFAP considers that its size limits the feasibility of its division into sub-funds to spread risk. Therefore, the use of a single active manager offers the prospect of out-performance without incurring unreasonable risk to the Fund overall.
- 4.3.10 Due to the limited investment of the assets of the Fund in Property, investments have been made across a narrow spread of individual investments. For this reason property investment is divided between UBS Property Management and Blackrock Asset Management, so as to diversify risk.
- 4.3.11 The risk that an active investment manager fails to deliver the performance available from an investment class, and so fails to deliver the return assumed by the actuary, is to be addressed by careful selection of competent investment managers who operate under a remit that links their investment activities to a market benchmark. This linkage should constrain the investment manager from taking extreme investment positions relative to the benchmark and the investment managers' performance and level of risk incurred are to be monitored by an independent third-party performance appraisal specialist. Each investment manager is engaged under an Investment Management Mandate detailed in Section 5.

#### Risk Measurement

- 4.3.12 Data regarding investment-related risks is to be obtained from both investment managers and through an independent third-party performance appraisal specialist (currently WM Company). Any comments made in actuarial reviews regarding risk are to be considered, together with other supporting data, by the PFAP.

#### Credit and Conflict of Interest Risk

- 4.3.13 The processing of investments is to be split between fund managers who initiate the buying and selling of investments and independent administrator/custodian banks who settle the transactions, make payments and receive proceeds.

#### Risk Management

- 4.3.14 PFAP will consider current investment risk and its implications and determine whether action is necessary to reduce that risk (or whether risk might reasonably be increased to obtain higher investment returns).
- 4.3.15 Where the PFAP considers it appropriate, investment managers will be instructed to reduce risk (notwithstanding the asset-allocation tolerance margins detailed in Section 4) and the PFAP will consider lowering investment managers' performance targets, so as to maintain an appropriate risk/return balance.

## 4.4 Return on Investments

- 4.4.1 The required performance for the investments of the assets of the Fund is that they achieve or better the investment returns assumed by the Authority's actuary when calculating the funding level of the Fund and employer contributions. The currently assumed investment returns, based on the most recent actuarial valuation of the Fund as at 31<sup>st</sup> March 2013, are:

	% Gross	% Net of Inflation (RPI)
Equities	6.9	3.4
Gilts	3.3	(0.2)
Property	6.0	2.5
Cash	3.1	(0.4)
Inflation (RPI)	3.5	

- 4.4.2 The above returns are the assumed long-term return from the asset classes, and may not be available consistently from the market in the short-term. This being so, the investment managers are expected to deliver or better the return available from the market (should over time the market returns fail to deliver the assumed return, then it would be for the actuary to adjust their assumptions).
- 4.4.3 The next actuarial valuation of the Fund will be undertaken as at 31<sup>st</sup> March 2016. This valuation will need to be signed off by 31<sup>st</sup> March 2017 and the assumed returns updated accordingly.
- 4.4.4 Although these assumptions are normally updated, on the advice of the Authority's actuary, as part of the triennial valuations, interim updates may occur, if the actuary advises that circumstances make this appropriate.

## **4.5 Realisation of Investments**

- 4.5.1 The PFAP and the Authority's investment managers will have regard to the provisions in regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005 when making investment decisions regarding investing assets of the Fund. The Investment Managers Mandate (referred to in Section 5) sets out the terms by which the investment manager can invest assets of the Fund.
- 4.5.2 Investment managers are to ensure that virtually all investments are securities easily traded and realised to cash as required (so as to provide financing of pension payments if necessary). This will usually mean those quoted on a recognised stock exchange.
- 4.5.3 Stocks that are not quoted on a recognised stock exchange or otherwise actively traded or are illiquid, may only be purchased in exceptional circumstances approved by the PFAP, having obtained Proper Advice (whether for an individual case or a particular category (e.g. Property and Development Capital)).
- 4.5.4 Until such time as the PFAP advises the investment managers that cash needs to be withdrawn from the investment pool, investment managers have discretion to realise investments for investment reasons, rather than cashflow needs.
- 4.5.5 Whilst the process of realisation may in the short term generate cash for re-investment, the Authority may from time to time instruct investment managers to maintain cash balances at a level that anticipates a planned cash withdrawal.
- 4.5.6 The realisation policy is not expected to prejudice the efficient pursuit of a dynamic investment strategy.

## **4.6 Socially Responsible, Environmental and Ethical Considerations**

- 4.6.1 The Authority's primary statutory responsibility for the fund is fiduciary; that is to ensure that it chooses investments that are in the best financial interests of the members of the Fund, taking into account the appropriate level of risk. Since social, environmental and ethical issues can over time impact on the performance of companies, their share price and dividends, such issues are of concern to the Authority.
- 4.6.2 When investment managers consider the suitability of investments for the Fund, appraisal of the nature of business and the manner in which it is conducted is to be integral to the investment selection process.
- 4.6.3 Investment managers are expected to remember that their client is a Local Authority with public responsibilities, accountable to its electorate. They should take this into account in an appropriate manner, as one part of their decision-making process when selecting or reviewing investments.
- 4.6.4 Investment managers are expected to operate consistently within their own house guidelines, where these do not conflict with the PFAP's policy or instruction.
- 4.6.5 Where investment managers have doubts about the acceptability to the PFAP of particular investments on socially responsible, environmental or ethical grounds and they can provide the PFAP with an alternative investment which would be acceptable on such grounds and which provides the same potential financial return to the Fund, these doubts and the alternative investment are to be referred to the PFAP for approval.
- 4.6.6 It is recognised that in the case of pooled investments, individual investor sensitivities regarding socially responsible, environmental or ethical issues cannot be easily accommodated. The PFAP will, therefore, exercise control when it considers investment in such pooled investment vehicles.
- 4.6.7 Whilst the Authority will normally rely on the investment manager to select stocks that are acceptable within the Authority's general policy, the Authority may instruct the investment managers as to proscriptions and exclusions of particular stocks.
- 4.6.8 The examination and review of investments in respect of socially responsible, environmental and ethical considerations is to apply to and affect the retention or realisation of both existing investments and the selection of prospective investments. A number of screening methods - passive screening, positive screening and in exceptional and rare cases, negative screening may be applied by investment managers. However, before any such screening methods are applied, they must be agreed by the PFAP on the basis of Proper Advice obtained from the Authority's investment adviser, as well as advice from its legal adviser and, if necessary, its actuarial adviser.

- 4.6.9 The PFAP has not currently agreed that any screening methods are to be applied by investment managers when investing assets of the Fund.

## **4.7 Exercise of Rights including Voting Rights (responsible ownership)**

- 4.7.1 It is the Authority's policy to be an active shareholder and to exercise voting rights to promote and affect good corporate governance.
- 4.7.2 Voting is normally delegated to the investment manager on a discretionary basis, subject to the investment manager being guided by the UK Corporate Governance Code appended to the Stock Exchange Listing Rules and the UK Stewardship Code.
- 4.7.3 Investment managers are to discuss high profile/contentious issues with representatives of the PFAP and report such issues to the Chair of the PFAP. Where feasible, these issues are to be discussed by the PFAP as a whole, before action. Voting actions are to be recorded in quarterly reports, which will be available to the PFAP. Where required, voting on contentious issues should be explained to the PFAP by investment managers at meetings of the full PFAP. This will serve to strengthen the Authority's compliance with the UK Stewardship Code with regard to monitoring and disclosure of voting activity. In addition the Fund is a member of the Local Authority Pension Fund Forum, a collaborative body which exists to serve the investment interests of local authority pension funds.
- 4.7.4 Unless the PFAP has made independent arrangements and advised the investment managers accordingly, the investment managers have discretion to make (and are expected to make and implement) corporate governance and voting judgments. For operational purposes, investment managers will work within their own internal operational guidelines, which are to be explained to and agreed with the PFAP.
- 4.7.5 In the case of pooled investments, the fund manager will act within the terms of the relevant pooled fund agreement, but any high profile or contentious cases should nonetheless be reported to the PFAP. PFAP will review corporate governance issues in respect of pooled funds and consider and take action as appropriate.
- 4.7.6 PFAP may subscribe to a voting issues service to provide information on governance issues independently of investment managers.
- 4.7.7 In support of responsible ownership, investment managers are expected to engage with the directorates of investee and potential investee companies to investigate business plans and practices and question performance and compliance-related issues, wherever appropriate and feasible.
- 4.7.8 The PFAP may (should it consider it appropriate to act independently of investment managers) appoint a corporate governance, proxy voting, and/or engagement manager(s) to provide voting and engagement services to it.

- 4.7.9 The investment managers have been issued with copies of this SIP, which is compliant with the UK Stewardship Code, and publication of the SIP affects compliance with the disclosure requirement of the UK Stewardship Code.

## **4.8 Stock Lending**

- 4.8.1 Stock-Lending to third parties is not permitted.

## 4.9 Compliance with Guidance

The Authority has set out below how it complies with the Myners principles as applicable to Local Authorities.

### 4.9.1 Effective decision-making

*Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.*

The Authority has delegated responsibility to PFAP. Decisions are taken by PFAP's elected council members. Training for these members is available as required. The elected council members are supported by relevant officers of the Authority and its professional advisors. With the range of support available, PFAP is able to evaluate and challenge advice received and PFAP's composition, which includes staff-side and pensioner representatives, allows conflicts of interest to be addressed and managed.

### 4.9.2 Clear objectives

*An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.*

The overall objective is to achieve full financing of pension liabilities at least cost over time; recognising that this will incur interim fluctuations in employer contribution. To this end PFAP has used an asset/liability model to determine an asset allocation that offers a reasonable and employer-acceptable balance between investment growth (to moderate the employer contributions and impact on council taxpayers) with stability of contributions. The target asset-allocation and its implications are known to the Authority's actuary and key stakeholders. The asset-allocation has been divided into market-sector components with separate mandates that provide investment managers with clear market-related benchmark targets to be achieved at modest risk.

### 4.9.3 Risk and liabilities

*In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of their liabilities. These include the implications for local tax- payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.*

The liabilities of the Fund are financed in part by investment. Where, over time, the pattern and value of liabilities changes (for example through employee demographics and longevity prospects) this is identified in actuarial reviews which will prompt adjustment of employer contribution and, if

appropriate, asset-allocation and investment strategy. The Fund employers are considered financially robust, but nonetheless sensitive to increases in employer contributions. Therefore, the Authority's asset allocation is set having recognised its risks, and configured to be tolerable and acceptable to the business characteristics of the Authority and the ASB. These business characteristics will, in the case of the Authority, include the impact on local taxpayers.

#### **4.9.4 Performance Assessment**

*Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

The performance of investment funds and investment managers are monitored and appraised by the independent third-party performance appraisal specialist (currently WM Company). Reports of their performance are given directly to PFAP and published in the Annual Report of the Fund and, from time to time, in summary reports provided to the members of the Fund. The effectiveness of the independent investment advisor and PFAP will be seen relative to the progress made in to maintaining and improving fund performance. Staffside and Pensioner representatives attend PFAP meetings as observers and performance will be apparent to PFAP's parent Committee and the Audit Committee via internal and external audit and other reporting. The senior Committees may instigate action as necessary.

#### **4.9.5 Responsible Ownership**

*Administering authorities should: adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents; include a statement of their policy on responsible ownership in the Statement of Investment Principles and report periodically to scheme members on the discharge of such responsibilities.*

PFAP understands that the investment managers take due account of the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, but that in particular cases they may consider local factors are overriding. There is a statement on responsible ownership (exercise of rights including voting rights) in the SIP, which is copied into the Annual Report of the Fund and is available on request to interested parties.

#### **4.9.6 Transparency and Reporting**

*Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives and*

*provide regular communication to scheme members in the form they consider most appropriate.*

PFAP is open to attendance by appointed Pensioner and Staffside representatives and representatives of ASB. An Annual Report including performance and governance data is produced each year and is available to all interested parties. From time to time summary reports are also produced for the members of the Fund.

## 4.10 Investment Limits

- 4.10.1 Schedule 1 of the Regulations sets out standard limits which the Authority must comply with, for particular categories of investment. Limits may be increased, to a prescribed extent, to suit local circumstances, but where the option to implement a higher limit is applied, it must be reported in an updated SIP.
- 4.10.2 The Authority's use of pooled investment vehicles needs to be considered in relation to the standard investment limits. A significant feature of the Authority's investment policy is the use of a passive equity fund (with one investment manager) which can account for approximately 33% of the assets of the Fund.
- 4.10.3 The Regulations restrict investment in individual pooled funds, operated by any one investment manager, to a normal maximum of 25% of the total fund value for all managers. However, this can be increased to 35%, if specifically approved by the PFAP in compliance with the requirements of regulations 14 and 15 of the Regulations.
- 4.10.4 The Authority has received Proper Advice that the use of pooled investment vehicles is beneficial, given the size of the Fund and the investment policy of the Authority. It has considered the implications of this with its independent investment advisor, including the need to invest assets of the Fund in a wide variety of investments and the suitability of the different types of investments which the assets of the Fund are invested in.
- 4.10.5 To accommodate the needs of the passive equity fund, the Authority has approved the application of the higher limit of 35% in respect of the investment of assets of the Fund in individual pooled funds. This increase to the limit for individual pooled funds will apply until *[insert date here]*. [The decision to increase limits will be reviewed by *[insert date here]*.]
- 4.10.6 In making this decision PFAP complied with the requirements set out in regulations 14 and 15 of the Regulations.

## **5. Investment Management Mandates**

- 5.1 Investment managers will be selected, in accordance with regulations 7 and 8 of the Regulations, and appointed, under an Investment Management Mandate, which includes the terms set out in regulation 9 of the Regulations, to manage the assets of the Fund in accordance with the Regulations and the SIP.
- 5.2 Additionally, the Investment Management Mandate will, amongst other matters, specify:
- The asset class or mix of investment to be undertaken.
  - The range of investment products/instruments that may be used.
  - The investment style/type, including whether active or passive.
  - The extent to which pooled investment vehicles may be used.
  - The benchmark for performance measurement, and any out-performance target.
  - The duration of the key performance appraisal period.
  - Any subsidiary parameters, targets and benchmarks that are to apply.
- 5.2 Investment Management Mandates will also specify the basis for charging fees. The agreed terms are as far as possible to include an incentive for investment managers to achieve target performance and, to this end, the charging system will normally relate the fees payable to a sub-fund's market value at the relevant charging dates.
- 5.3 Investment Management Mandates will be given to investment managers on the basis that PFAP reasonably believes that the investment manager's ability and practical experience of financial matters means that he is suitably qualified to make investment decisions for it. In addition the investment manager should be authorised and regulated by the Financial Conduct Authority to manage the assets of the Fund.

5.3 The current Investment Management Mandates are as follows. Fees are based on market value of each sub-fund at the calculation date.

<b>Sub-fund:</b>	Active Global Equity 1	Active Global Equity 2	Passive Global Equity	Active Global Bond	Property 1	Property 2
Manager	Fees	Fees	Fees	Fees	Fees	Fees
Aberdeen Asset Management	1 <sup>st</sup> £100m 0.32% Thereafter 0.25%					
UBS Asset Management		1 <sup>st</sup> £30m at 0.375%. 2 <sup>nd</sup> 0.30%				
UBS Asset Management			1 <sup>st</sup> £20m at 0.13%. Thereafter 0.04% *			
Aberdeen Asset Management				0.25%		
UBS Asset Management					0.70%	
RREEF Property Management						0.75% plus 0.25% perf.

- Net of in-house pooled vehicles.
- Custody at 0.02-0.05% of market value dependent on investment domicile.

## 6 Monitoring and Review

The cycle of investment-related monitoring and review will be as follows:

### 6.1 Ad-hoc

Any significant investment issue reviewed by representatives of PFAP and referred as necessary to PFAP as a whole.

If a material change to the Authority's investment policy is made, PFAP is to review and update the SIP within six months from the date of the material change in accordance with Regulation 12(5) of the Regulations.

### 6.2 Monthly

Fund valuation/trading reports received by representatives of PFAP and the Authority's independent investment advisor. Representatives of PFAP and investment adviser question the investment managers as necessary.

### 6.3 Quarterly

Fund valuation/trading reports reviewed by representatives of PFAP in conjunction with the investment managers, with copy valuations or summaries available for the PFAP as a whole.

The investment activity in relation to the assets of the Fund and performance to date is reviewed at a meeting of the whole of the PFAP. Proposals for future strategy are put forward by the PFAP. Investment manager(s) may be invited to present to PFAP.

### 6.4 Annually

The third-party independent performance appraisal specialist provides PFAP with a presentation on fund and manager performance over the year. The Authority's actuarial advisor may be invited to report to PFAP, if necessary.

PFAP receives copies of the draft and audited Accounts and Annual Report for scrutiny before their recommendation to General Purposes Committee.

PFAP to review and update the SIP in accordance with Regulation 12(5) of the Regulations. PFAP to receive reports on the Statement of Auditing Standard 70 (SAS70) for investment managers and custodians.

### 6.5 3-yearly

PFAP considers and initiates action on the investment implications of the triennial actuarial review of the Fund, including a review of the SIP.

### 6.6 5-yearly or as required

PFAP reviews investment manager's longer-term performance and usage.

## Myners Statement Summary

Principle	Compliance Status	Comment
1. Effective decision-making	Compliant	Clearly defined decision-making process. Member's skills and training reviewed periodically.
2. Clear objectives	Compliant	The Authority's actuary and investment advisors consulted in establishing the funds investment objective taking account scheme liabilities and risk appetite.
3. Risks and Liabilities	Compliant	As 2 above
4. Performance Assessment	Compliant	Performance reviewed quarterly by an independent external advisor. The contribution of the Actuary and other independent advisors is subject to evaluation, and to re-tendering and re-selection as required.
5. Responsible Ownership	Compliant	The Authority has a Statement of Investment Principles (SIP) that provides guidance to the Authority's Fund Managers.
6. Transparency and Reporting	Compliant	Transparency is delivered by an annual Pension Fund report and other reports as necessary. There is a Communications Policy and annual pension statements which members are provided with.

## **Myner's Investment Principles – Compliance Statement**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require the Statement of Investment Principles to record the extent of compliance with ten principles of good practice set out after the Myners Review. The principles are:

1. Effective decision-making
2. Clear objectives
3. Focus on asset allocation
4. Expert advice
5. Explicit mandates
6. Activism
7. Appropriate benchmarks
8. Performance measurement
9. Transparency
10. Reporting

The extent of compliance has been considered relative to the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel *Compliance Checklist*. The current arrangements for the fund's supervision and operation are compliant with the Myner's principles.

<b>Principle 1 - Effective Decision Making</b>		
	<b>Myners /CIPFA Principle</b>	
<b>1.1.</b>	Decisions should be taken only by persons or organisations with the skills, information, and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.	<p>The Pension Fund Advisory Panel, which is responsible for the investment decision making process, comprises selected Council Members, supported by relevant Council Officers. Staff-side and Pensioner representatives also attend.</p> <p>The Panel obtains independent advice from external professional sources, and delegates' day-to-day investment selection and realisation decisions to professional investment managers. The Panel promotes training for all members, and endeavours to maintain appropriate continuity of experience and skill within Panel membership.</p>
<b>1.2.</b>	Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities.	The Chief Finance Officer is responsible for recommending and implementing an adequate level of in-house staffing support.
<b>1.3.</b>	Trustees should also be paid, unless there are specific reasons to the contrary.	Allowances for Member attendance and work related to Superannuation Fund matters are subject to Council policy, and are reviewed as necessary.
<b>1.4.</b>	It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.	Merton Council has delegated to the Pension Fund Advisory Panel responsibility for practical supervision and direction of Fund investment.
<b>1.5.</b>	Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.	The Panel's membership, structure, procedure, operation, support and training needs are reviewed periodically to ensure effectiveness in: developing investment policy; monitoring the execution of policy and investment performance; and making timely decisions on investment matters.
<b>1.6</b>	Trustees should draw up a forward looking business plan.	The initiatives and actions agreed by the Pension Fund Advisory Panel form components of an overall business plan for managing investment matters. Whilst decisions and plans are minuted, efforts are to be made to improve the coherence of separate items and actions, and extend the forward planning horizon.

<b>Principle 2 - Clear Objectives</b>		
	<b>Myners /CIPFA Principle</b>	
<b>2.1.</b>	<p>Trustees should set out an overall investment objective for the fund that:</p> <ul style="list-style-type: none"> <li>Represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and</li> <li>Takes account of their attitude to risk, specifically their willingness to accept under-performance due to market conditions.</li> </ul>	<p>The Authority's actuary and investment advisors are consulted in establishing the funds investment objective, and investment performance target(s), and the Authority has commissioned asset / liability modelling in support of this. (In general terms, the fundamental objective of the fund's investment is to achieve or better the investment return assumed by the Authority's consulting actuary when calculating funding level and employer's contribution).</p> <p>It is intended that the required investment return be achieved through reasonably stable performance obtained at an appropriate, modest, level of risk. Appropriate parameters for investment risk are established in consultation with the Authority's actuary and investment advisors. Whilst there is ongoing monitoring of investment performance relative to set targets and benchmarks, due account is taken of prevailing market conditions when considering the consequence and action required on under and over performance.</p>
<b>2.2.</b>	<p>Objectives for the overall fund should not be expressed in terms, which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.</p>	<p>The fundamental objective of the fund's investment is to consistently achieve, or better, the investment return assumed by the Authority's consulting actuary in the actuarial assessment of the Pension Scheme's funding. Performance comparison against peer groups is used as a general benchmark indicator, but is not the driver of investment strategy objectives or investment management policy.</p>

<b>Principle 3 - Focus on Asset Allocation</b>		
	<b>Myners /CIPFA Principle</b>	
<b>3.1.</b>	Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective.	<p>Asset allocation is considered a key issue, and is established on the basis of professional investment advice, taking into account the scheme's liability profile, and the investment performance assumed by the Authority's actuary.</p> <p>It is recognised that appropriate asset allocation between various types of investment, (Equities, Bonds, Property, Cash, etc.), allows for coverage of a range of investment opportunities, whilst spreading and limiting risk; and an appropriate degree of diversification is encouraged. It is also recognised that short term market circumstances may make it appropriate for investment managers to adjust target allocations marginally to limit risk or enhance performance, but this to be for short term expediency, with reversion to target allocation in due course.</p>
<b>3.2.</b>	Decision makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.	It is recognised that different types of investment have different performance characteristics, and these differences are used to gear investment performance to its target, and to control investment risk. Products and instruments are only precluded where their characteristics and means of implementation fail to satisfy the fund's requirements for performance, risk, practicality and relative economy.
<b>3.3.</b>	Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.	It is intended that asset allocation be geared to the fund's own characteristics, not the average allocation of other funds. To this end the Authority has undertaken asset/liability modelling, which will be reviewed at appropriate intervals, together with objective study of the relationship between the fund's prevailing asset allocation and the investment performance characteristics expected in actuarial assumptions.

Principle 4 - Expert Advice		
	Myners /CIPFA Principle	
4.1.	Contracts for actuarial services and investment advice should be opened to separate competition.	<p>The Authority's actuarial advisors, performance assessment services and investment managers, are separate organisations, independent of each other, (with separate business contracts and Terms of Reference applying to each), and they are expected to provide independent, objective, advice. Where investment advice is sought, (independent of investment managers), this is open to providers other than the company hosting the Authority's actuary, although it may be relevant to obtain investment advice from close to the source of actuarial expertise. Nonetheless, the relevance of obtaining investment advice from more than one source is recognised, and efforts are made to question and balance advice received.</p>
4.2.	The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	<p>The Chief Finance Officer is responsible for the selection of appropriately qualified professional advisors, and for the appropriate presentation of their work and data to relevant Council Members and Officers.</p> <p>The selection of advisory services for Superannuation Fund matters will be undertaken as objectively as possible. The ambition is to identify the most appropriate service provider(s) on qualitative grounds, with cost constraint being considered as a secondary issue and in the context of the Superannuation Fund's size, investment contribution and long term nature.</p>

## Principle 5 - Explicit mandates

Myners /CIPFA Principle		
5.1.	<p>Trustees to agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:</p> <ol style="list-style-type: none"> <li>1. An objective, benchmark(s) and risk parameters that altogether with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;</li> <li>2. The manager's approach in attempting to achieve the objective; and</li> <li>3. Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for under performance alone.</li> </ol>	<p>Investment management Agreements refer to components of the Authority's investment objective, performance and risk criteria. (These criteria are set in the context of the fund's overall asset allocation and performance targets).</p> <p>Investment Management Agreements require investment managers to operate within the overriding parameters of relevant Local Authority Statutory Regulation. The manager's approach to achieving the investment objective is clarified in subsidiary documentation, and it is intended that new investment management agreements express the investment style/strategy to be applied.</p> <p>Whilst investment performance is examined quarterly, it is recognised that performance can be volatile or take time to accrue, and so a key review is undertaken for performance over three year rolling periods. Action on under- performance will therefore not be taken prematurely unless shorter term indicators suggest unacceptable risk is being incurred. Agreements will allow for appointments to be reconsidered and any necessary action taken at appropriate and reasonable notice.</p>
5.2.	The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.	Particular investment products and instruments are only precluded where their characteristics and means of implementation fail to satisfy the fund's requirements for performance, risk, practicality and relative economy, or where they contravene the proscriptions of the Local Government Pension Scheme (Management & Investment of Funds) Regulations.
5.3.	Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. Trustees should understand all the options open to them in respect of transaction costs, and should have an active strategy, whether through direct financial incentives or otherwise, for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.	When employing an investment manager, Panel members are made aware of how the manager will charge for their services and transaction costs. Decisions are made regarding the options of separate transaction charges and investment management fees, (offering transparency), against the option of an inclusive charge, (offering convenience and self-regulation). Currently fees for investment management, (largely inclusive of transaction charges) are geared to fund value, providing managers with an incentive to control costs.
5.4.	Trustees should not without good reason permit soft commissions to be paid in respect of the fund's transactions.	Generally, Soft Commission arrangements are not to apply to this fund, and Commission Recapture schemes may be implemented where appropriate.

Principle 6 - Activism		
	Myners /CIPFA Principle	
6.1.	The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism.	<p>The Authority subscribes to the principles of best practice Corporate Governance of those companies invested in, and requires its investment managers to engage with companies and to vote shares in the interests of investment value.</p> <p>Whilst the US Department of Labour Interpretative Bulletin's wording on activism has not been specifically incorporated into the fund's policies or investment management agreements, the Authority's aspirations and expectations for investment manager activism are considered to be of an equivalent standard.</p>
6.2.	Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.	<p>The Authority expects its managers to be active in the field of corporate governance, and to pursue this within a consistently applied voting and engagement policy framework that can be published and its effectiveness demonstrated for the Authority's appraisal. Accordingly, the Authority has received corporate governance policy documentation from its investment managers.</p> <p>The Authority expects its investment managers to report on relevant Corporate Governance actions; (and in respect of potentially contentious issues to do so in sufficient time for the Authority to issue specific voting instructions). The Authority reviews investment manager voting policies and patterns and questions the managers as appropriate to maintain an active stance and to effect monitoring of results. The Authority retains the option to use external voting agencies if considered necessary or appropriate.</p>

<b>Principle 7 - Appropriate benchmarks</b>		
	<b>Myners /CIPFA Principle</b>	
<b>7.1.</b>	Trustees should explicitly consider, in consultation with their investment managers(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies.	<p>Where index benchmarks are applied, they are selected on the basis of professional advice, and practical issues associated with their application are discussed with investment managers.</p> <p>These discussions include issues of investment efficiency and effectiveness with particular concern to ensure that remits for active investment can operate as intended and are not unduly restricted nor become in effect quasi passive investment vehicles.</p>
<b>7.2.</b>	Trustees should, when setting limits on divergence from an index, ensure that these reflect the approximations involved in index construction and selection	Whilst investment managers are expected to maintain their asset allocation, strategies and investment performance within appropriate limits of divergence from established benchmarks, efforts are made to ensure that an adequate margin is allowed for variance in the interest of good active management and to take into account the nature of the selected index. Independent professional advice is sought when setting these criteria.
<b>7.3.</b>	Trustees should consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned.	Both active and passive management techniques are considered as possible means to achieve required performance. Selection of the most appropriate technique is based on assessment of asset allocation, performance and risk factors, set against efficiency and the economics of implementation and running costs.
<b>7.4.</b>	Trustees should, where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.	In setting performance targets for active management, account is taken of the degree of risk that could be expected in seeking the expected level of performance, and the parameters set reflect an appropriate balance between risk and reward.

<b>Principle 8 - Performance measurement</b>		
	<b>Myners /CIPFA Principle</b>	
<b>8.1.</b>	Trustees should arrange for measurement of the performance of the fund.	Performance is reviewed quarterly using objective data provided by a firm of independent performance appraisal specialists. These reports specify the return on investment achieved, and relate this to that potentially available from the market and that achieved by peer groups and other benchmarks during the review period.
<b>8.2.</b>	Trustees should make formal assessment of their own procedures and decisions as trustees.	The operational effectiveness of the Pension Fund Advisory Panel's structure and procedure is considered periodically, with a view to improving the extent of focus on key issues.
<b>8.3.</b>	Trustees should arrange for a formal assessment of performance and decision making delegated to advisers and managers.	Actuarial and other independent advisors are subject to periodic evaluation of their contribution, and to re-selection and tendering processes as required. Independently obtained performance data is used to justify the retention or change of investment managers.

## Principle 9 - Transparency

Myners /CIPFA Principle		
<b>9.1.</b>	<p>A strengthened Statement of Investment Principles should set out:</p> <ol style="list-style-type: none"> <li>1. Who is taking which decisions and why this structure has been selected;</li> <li>2. The fund's investment objective;</li> <li>3. The fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;</li> <li>4. The mandates given to all advisers and managers; and</li> <li>5. The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.</li> </ol>	<p>The Statement of Investment Principles (SIP) is maintained to reflect current regulatory requirements, and seeks to set the standards for a fund that aspires to best practice. The Statement:</p> <ol style="list-style-type: none"> <li>1. Describes the fund's decision making framework and the investment structure, and the rationale behind this.</li> <li>2. Describes the fund's current investment objective.</li> <li>3. Describes Asset Allocation via explanation of 'Investment Balance.'</li> <li>4. Describes the mandates given to individual investment managers in terms of the split of the fund into specific-purpose sub-funds, and includes a statement of the performance target for each of those sub-funds.</li> <li>5. The Statement of Investment Principles includes details of investment manager fee structures, and why these have been used.</li> </ol>

## Principle 10 - Regular reporting

Principle 10 - Regular reporting		
	<b>Myners /CIPFA Principle</b>	
<b>10.1.</b>	<p>Trustees should publish:</p> <ol style="list-style-type: none"> <li>1. Their Statement of Investment Principles</li> <li>2. The results of their monitoring of advisers and managers.</li> <li>3. Key information from the above annually to members of the fund, including an explanation of why the fund has chosen to depart from any of the principles.</li> </ol>	<p>The Statement of Investment Principles has been published and distributed to relevant parties, (including admitted and scheduled bodies) who will be advised of updates, addenda and re-issue.</p> <p>Monitoring data is available to the Pension Fund Advisory Panel, and key data identified for publication to relevant parties.</p> <p>An annual report on the superannuation fund is produced, and supported by a summary pamphlet. The latter is distributed to all pension scheme members, and the former full document distributed to Scheduled and Admitted Bodies, selected individuals, and, on request, to other interested parties. The documents detail/refer to fund performance and will identify areas where there has been, or is to be, significant deviation from established principles.</p>

## **Myner's Compliance Statement (Revised)**

### **I. Introduction**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require the Statement of Investment Principles to record the extent of compliance with ten original principles of good practice set out after the Myners Review.

Subsequently in November 2008, the government published a second set of investment principles and established a new Investment Governance Group (IGG) to oversee the implementation of the new principles.

(The new principles may though be subject to future change)

1. Effective decision-making
2. Clear objectives
3. Risks and Liabilities
4. Performance Assessment
5. Responsible Ownership
6. Transparency and Reporting

## 2. Revised Myners Compliance Statement (pages 93-98)

Principle 1 - Effective Decision Making	
Myners Principle	Extent of Compliance
Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.	<p>Merton Council has delegated to the Pension Fund Advisory Panel responsibility for practical supervision and direction of Fund investment.</p> <p>The Pension Fund Advisory Panel, which is responsible for the investment decision making process, comprises selected Council Members, supported by relevant Council Officers. Staff-side and Pensioner representatives also attend. Training is available as required.</p> <p>The Chief Finance Officer (Section 151) is responsible for recommending and implementing an adequate level of in-house staffing support.</p> <p>The Panel obtains independent advice from external professional sources, and delegate's day to day investment selection and realisation decisions to professional investment managers.</p>
Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	<p>The Panel's membership, its structure, procedure, operation, support and training needs are considered periodically to ensure effectiveness in developing investment policy, monitoring the execution of policy and investment performance, and making timely decisions on investment matters.</p> <p>Training is available for all panel members, and efforts are made to maintain appropriate continuity of experience and skill within the Panel membership. Panel members are aware of their responsibilities in this respect.</p> <p>The Chief Finance Officer is responsible for the selection of appropriately qualified professional advisors, and for the appropriate presentation of their work and data to relevant Council Members and Officers.</p> <p>The selection of advisory services for Superannuation Fund matters is undertaken as objectively as possible. The ambition is to identify the most appropriate service provider(s) on qualitative grounds, with cost constraint being considered as a secondary issue in the context of the Superannuation Fund's size, investment contribution and long term nature.</p>

<b>Principle 2 - Clear Objectives</b>	
<b>Myners Principle</b>	<b>Extent of Compliance</b>
Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	<p>The Authority's actuary and investment advisors are consulted in establishing the funds investment objective, and investment performance target(s), and the Authority has commissioned asset / liability modelling in support of this.</p> <p>(In general terms, the fundamental objective of the fund's investment is to achieve or better the investment return assumed by the Authority's consulting actuary when calculating funding level and employer's contribution).</p> <p>It is intended that the required investment return be achieved through reasonably stable performance obtained at an appropriate, modest, level of risk. Appropriate parameters for investment risk are established in consultation with the Authority's actuary and investment advisors. Whilst there is ongoing monitoring of investment performance relative to set targets and benchmarks, due account is taken of prevailing market conditions when considering the consequence and action required on any under performance.</p> <p>Performance comparison against peer groups is used as a general benchmark indicator, but is not the driver of investment strategy objectives or investment management policy.</p>

<b>Principle 3 - Risks and Liabilities</b>	
<b>Myners Principle</b>	<b>Extent of Compliance</b>
In setting and reviewing their investment strategy, trustees should take account of the form and structure of risks and liabilities.	<p>The Authority's actuary and investment advisors are consulted in establishing the funds investment objective, and investment performance target(s), and the Authority has commissioned asset / liability modelling in support of this.</p> <p>The actuary as part of the annual FRS17 assessment of the fund analyses pensioner mortality and longevity assumptions and experience. Interim valuations may be conducted to monitor significant changes in market conditions. The Panel is guided by advice to ensure investment strategy will support 100% funding of liabilities in the long term Pension Fund Actuary.</p>

<b>Principle 4 - Performance Assessment</b>	
<b>Myners Principle</b>	<b>Extent of Compliance</b>
Trustees should arrange for the formal measurement of the performance of investments.	<p>Performance is reviewed quarterly using objective data provided by a firm of independent performance appraisal specialists. These reports specify the return on investment achieved, and relate this to that potentially available from the market and that achieved by peer groups and other benchmarks during the review period.</p> <p>Actuarial and other independent advisors are subject to evaluation of their contribution, and to re-selection and re-tendering as required.</p>
Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.	<p>The operational effectiveness of the Pension Fund Advisory Panel is considered periodically, with a view to improving focus on key issues.</p> <p>The Panel meets on a regular basis under the framework of the Governance Policy Statement. Panel members follow guidelines to ensure that any conflict of interests is identified and neutralised.</p>

<b>Principle 5 - Responsible Ownership</b>	
<b>Myners Principle</b>	<b>Extent of Compliance</b>
Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.	<p>The Authority has a Statement of Investment Principles that provides guidance to the Authority's Fund Managers responsible for the investment of the Authority's Pension Fund.</p> <p>The Statement of Investment Principles (SIP) is maintained to reflect current regulatory requirements, and seeks to adopt the standards of a fund that aspires to best practice. The Statement:</p> <ul style="list-style-type: none"> <li>• Describes the fund's decision-making framework and the required investment structure.</li> <li>• Describes the fund's current investment objective.</li> <li>• Defines the required Asset Allocation.</li> <li>• Determines the mandates given to individual investment managers, and the performance target for each sub-fund.</li> <li>• Describes investment manager fee structures.</li> <li>• Describes the Funds Corporate Governance policy</li> </ul> <p>The Statement of Investment Principles has been published and distributed to relevant parties, (including Admitted and Scheduled Bodies) who will be advised of updates.</p>
A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles	The Statement of Investment Principles contains a statement of the Authority's policy.
Trustees should report periodically to members on the discharge of such responsibilities.	<p>The Pension Fund Advisory Panel meets periodically throughout the year to ensure that it discharges its responsibilities in respect of the Pension Fund.</p> <p>New statutory requirements require that the Pension Fund has separate audit arrangements and that a separate Pension Fund Annual Report and Accounts is produced. These allow transparent reporting.</p>

<b>Principle 6 - Transparency and Reporting</b>	
<b>Myners Principle</b>	<b>Extent of Compliance</b>
Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, it's governance and risks, including performance against stated objectives.	Transparency is delivered by reports through the yearly annual pension fund report and accounts, and the Panel's committee reports.
Trustees should provide regular communication to members in the form they consider most appropriate.	<p>The authority has a communications policy statement, which outlines information on the provision of information and publicity about the scheme to members, their representatives and employing authorities.</p> <p>It is intended that each Pension Scheme member receive an annual update on his or her pension provision through an individual annual statement.</p> <p>The authority operates a dedicated web site for stakeholders and provides newsletters..</p>

# **London Borough of Merton**

Local Government Pension Scheme  
Communications Policy Statement

Updated August 2014

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# Introduction

This is the Communication Policy of the Merton Pension Fund, administered by the London Borough of Merton Council (the administering authority). The Council has delegated its administration to the Pensions Shared Service, Camden, Merton and Wandsworth.

The Fund liaises with 22 employers and approximately 10,700 scheme members in relation to the Local Government Pension Scheme. As at 31 March 2014, 10 employers had active members in the Fund. The delivery of the benefits involves communication with a number of other interested parties. The statement provides an overview of how we communicate with interested parties.

Any enquiries in relation to this Communication Policy Statement should be sent to:

E-mail: [pensions@wandsworth.gov.uk](mailto:pensions@wandsworth.gov.uk)

Telephone: 0208 871 8036

Address: Pensions Shared Service  
Camden, Merton and Wandsworth  
PO Box 72351  
London SW18 9LQ

# Regulatory Framework

The Local Government Pension Scheme Regulations 2013 require each administering authority to prepare, publish and maintain a written statement setting out their policy concerning their communications with:

- (a) prospective members;
- (b) members;
- (c) representatives of members; and
- (d) employing authorities.

In particular, the statement must set out their policy on—

- (a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities.

# Communication with key stakeholders

## Who we communicate with

We communicate with a number of stakeholders. For the purposes of this communications policy statement, we will consider communications with the following stakeholders:

- Prospective Members
- Active Members And Their Representatives
- Participating Scheme Employers
- Pension Fund Advisory Committee
- Other Stakeholders and Interested Parties

## How we communicate

The majority of our communications fall into one of the following categories:

### 1. Paper based

- Scheme booklets
- Newsletters
- Leaflets
- Guides
- Reports

### 2. Electronic

- email

### 3. Online

- via the Pensions Shared Service's website:
- For employees:  
***[www.wandsworth.gov.uk/pensionssharedservice](http://www.wandsworth.gov.uk/pensionssharedservice)***

and

- via the council's internal Intranet (<http://intranet/departments/cs-index/cs-who/resources/pensions.htm>)
- For employers:
- ***[www.wandsworth.gov.uk/info/200260/finance\\_department/417/pensions\\_service/4](http://www.wandsworth.gov.uk/info/200260/finance_department/417/pensions_service/4)***

# Prospective Members

## Our Objectives

Our objectives with regard to communication with prospective members are:

- to provide information relating to the LGPS
- for public relations purposes

How we meet our objectives:

- As we, in the Pension Fund, do not have direct access to prospective members, we will work in partnership with employing authorities in the Fund to meet these objectives.

In summary, we communicate with prospective members in the following ways:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of Issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Overview of the LGPS leaflet	Paper Based/Online	On issuing contract	Via employers	New employees
Website	Electronic	Continually available	Advertised on all communications	All

Further details on the methods of communications can be obtained from the Explanation of Communication Methods section on pages 12 and 13 of this document.

# Members (including Active, Deferred and Pensioners) And Their Representatives

## Our Objectives

Our objectives with regard to communication with members are:

- for better education on the benefits of the LGPS
- to provide more opportunities for face to face communication
- improved communication to reduce queries and complaints
- to reassure stakeholders

How we meet our objectives

- providing communications over and above the individual communication with members

In summary, we communicate with members and their representatives in the following ways:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Active Member Scheme Booklet	Paper based and website	At joining and major scheme changes	Post to home address/via employers	All
Newsletter	Electronic	After any scheme changes	Via employers	Active Members
Newsletter	Electronic/Paper Based	Annual	Via Website with Paper Copies on Request	Pensioners
Newsletter	Electronic/Paper Based	After any relevant changes	Via Website with paper copies post to home address on request	Deferred Members
Pension Fund Report and Accounts	Paper based and website	Annually	On request	All
Pension Fund Accounts - Summary	Website	Annually	Advertised on all communications	All

Factsheets	Paper based and Website	On request	On request	Active and deferred members
<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Estimate Benefit Statements	Paper based	Annually	Post to home address/via employers for actives. Post to home address for deferred members	Active and deferred members
Website	Electronic	Continually available	Advertised on all communications	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses/via employer	Active members

Further details on the methods of communications can be obtained from the Explanation of Communication Methods section on pages 12 and 13 of this document.

# Participating Scheme Employers

## Our Objectives

Our objectives with regard to communication with employers are:

- to improve relationships
- to assist them in understanding costs/funding issues
- to work together to maintain accurate data
- to ensure smooth transfer of staff
- to ensure they understand the benefits of being an LGPS employer
- to assist them in making the most of the discretionary areas within the LGPS

How we meet our objectives

We meet our objectives by communicating with employers in the following ways:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Administration Guide for Employers	Employer website	At joining and updated as necessary	Weblink or via e-mail	Main contact for all employers
Employers News Letter	Electronic	After any scheme changes	Via e-mail	All contacts for all employers
Employers' meeting	Face to face	As and when required	Invitations via e-mail	All contacts for all employers
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or e-mail	Senior management involved in funding and HR issues

Further details on the methods of communications can be obtained from the Explanation of Communication Methods section on pages 12 and 13 of this document.

# Pension Fund Advisory Panel

## Our Objectives

Our objectives with regard to communication with Panel members are:

- to ensure they are aware of their responsibilities in relation to the scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme

How we meet our objectives

We meet our objectives by communicating with committee members in the following ways:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Training sessions	Face to face	When new Pension Fund Panel and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Fund Panel
Briefing papers	Paper based and electronic	As and when required	E-mail or hard copy	All members of the Pension Fund Panel
Pension Fund Panel Meetings	Meeting	quarterly / As and when required	Members elected onto Pension Fund Panel	All members of the Pension Fund Panel

Further details on the methods of communications can be obtained from the Explanation of Communication Methods section on pages 12 and 13 of this document.

# Other Stakeholders and Interested Parties

## Our Objectives

Our objectives with regard to communication with other stakeholders and interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes

How we meet our objectives

We meet our objectives by communicating with other stakeholders and interested parties in the following ways:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Pension Fund valuation reports  E.g. R&A certificates Revised R&A certificates Cessation valuations	Electronic	Every three years	Via e-mail and post	Communities and Local Government (CLG) / HMRC / All scheme employers
Details of new employers entered into the Fund	Hard Copy	As new employers are entered into the Fund	Post	CLG / HMRC
Completion of questionnaires	Electronic or hard copy	As and when required	Via e-mail and post	CLG / HMRC / Pensions Regulator

Further details on the methods of communications can be obtained from the Explanation of Communication Methods section on pages 12 and 13 of this document.

# Training

Our objectives with regard to communication with Shared Pensions Service staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

<b>Method of communication</b>	<b>Media</b>	<b>Frequency of issue</b>	<b>Method of Distribution</b>	<b>Audience Group</b>
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

# Explanation of Communication Methods

## **Active Member Scheme Booklet**

A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

## **Member Newsletter**

A newsletter, which provides updates in relation to changes to the LGPS as well as other related news. These include, national changes to pensions, a summary of the accounts for the year, contact details, etc.

## **Pension Fund Report and Accounts**

Details of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request.

## **Pension Fund Report and Accounts Summary**

Provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

## **Estimated Benefits Statements**

For active members these include the current value of benefits as well as the projected benefits at age 65. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well.

## **Factsheet**

These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

## **Website (External and Internal)**

The website will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and reports and accounts), frequently asked questions and answers, links to related sites and contact information.

## **Overview of the LGPS leaflet**

A short leaflet which summarises the cost of joining the LGPS, and the benefits of doing so.

## **Administration Guide for Employers**

A detailed document that provides guidance on the employer responsibilities, including the forms and other necessary communications with the Pensions Shared Service and scheme members.

**Pension Fund Panel Newsletter**

A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions Shared Service is run and other relevant information so as to keep employers fully up to date.

**Adviser Meetings**

Gives employers the opportunity to discuss their involvement in the scheme with advisers.

**Pension Fund Valuation Reports**

A report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three-year period commencing one year from the valuation date.

**Details of New Employers**

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission one year from valuation date).

**Completion of Questionnaires**

Various questionnaires from third parties requesting specific information in relation to the structure of the LGPS or the make up of the Fund

## **Contact Details – Pensions Shared Service, Camden, Merton and Wandsworth**

The Pensions Shared Service can be contacted :-

E-mail: [pensions@wandsworth.gov.uk](mailto:pensions@wandsworth.gov.uk)

Telephone: 020 8871 8036

Address:

Pensions Shared Service  
Camden, Merton and Wandsworth  
PO Box 72351  
London, SW18 9LQ

# **GLOSSARY OF PENSION TERMS**

## **Active Management**

A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination of these).

## **Active Members**

Current employees who are contributing to an organisations' pension scheme.

## **Actuary**

An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The actuary then produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

## **Actuarial assumptions**

The assumptions that an actuary must make in order to arrive at a valuation for a pension fund. These include life expectancy, rates of inflation, expected earnings and the income that will be received from pension scheme investments.

## **Actuarial Valuation**

A review of the assets and liabilities of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

## **Additional Voluntary Contributions (AVCs)**

An option available to individual members to secure additional pension benefits by making regular payments to the Pension Fund's AVC provider up to a maximum of 15% of total earnings.

## **Administering Authority**

A local authority required to maintain a pension fund under the local government pension scheme regulations.

## **Admitted Bodies**

Bodies, including those from the voluntary and charitable sectors and contractors, whose staff can become members of an LGPS fund by virtue of an admission agreement between the administering authority and the relevant body.

## **Asset Allocation**

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation.

**Asset Class**

A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

**Benchmark**

A yardstick against which investment strategy and performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group to customised.

A 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured, e.g. for a global equity fund the benchmark against which it will be measured could be made up of 70% UK equities and 30% overseas equities. A target return is generally expressed as some margin over the benchmark.

**Bond**

A security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest

**Cash Transfer Values**

The capital value of a benefit entitlement paid into or withdrawn from the Fund when an employee joins or leaves the scheme with a pension transfer.

The value of accrued pension rights when any worker ceases to be an active member of a scheme before pension is payable.

**Corporate Bond**

Corporate bonds are those issued by companies. Generally, the term is used to cover all bonds other than those issued by governments in their own currencies. The 'credit' sector includes issues by companies, supranational organisations and government agencies.

**Custody**

Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income; process tax reclaims and provide other services, according to client instructions. The custodian physically holds the securities for safekeeping

**Deferred Members**

The pension benefit payable from Retirement Age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

**Defined Benefit Scheme**

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

**Derivatives**

Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby adjusting the risk characteristics of a fund. Common types of derivative include forward contracts, futures, options, and swaps. Derivatives may be traded on an exchange, or OTC.

**Diversification**

The spreading of investment funds across different types of assets, markets and geographical areas in order to reduce risk. Diversification is a basic principle of multi-asset management.

**Dividend**

A payment distributed by a company to equity shareholders.

**Emerging Markets**

Financial market in a developing or newly industrialised country.

**Ethical Investment**

Where investment is restricted to companies undertaking business in accord with an ethical definition. This could cover companies not engaging in arms manufacture.

**Equities**

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

**Final Pensionable Pay**

Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

**Final Salary Scheme**

A pension scheme that provides a pension and a lump sum benefit calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

**Fixed Interest**

An income stream, which remains constant during the life of the asset, such as income, derived from bonds and preference shares.

**Fixed Interest Securities**

Investments, which offer a fixed rate of interest.

**FRS 17 Retirement Benefits**

Is an accounting standard which has been incorporated in the Code of Practice on Local Authority Accounting in the UK. This standard requires an annual assessment of the funds financial position if the fund had to be realised at the Balance Sheet date.

A financial reporting standard that sets out accounting treatment for retirement benefits. From April 2011 this standard is replaced by IAS19.

**FTSE 100**

The FTSE 100 Index is a share index of the 100 most highly capitalised UK companies listed on the London Stock Exchange

**Futures**

An obligation to make or take delivery of a specified quantity of an underlying asset at a particular time in the future and at a price agreed upon when the contract was made. Exchange-traded futures contracts have standard terms, and are subject to daily margining.

**Hedging**

Any technique designed to reduce or eliminate financial risk. A hedge is an investment position established to offset exposure to price fluctuations in another opposite position with the goal of minimising one's exposure to unwanted risk.

**IAS19**

An international accounting standard that sets out the accounting treatment for employee benefits, including post employment benefits such as pensions.

**Index**

A figure derived from the price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

**Index Linked securities**

UK government issued stocks on which the interest and eventual repayment of the loan are based on movements in the retail price index.

**Liability**

A financial obligation or cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation. In the case of a pension fund, liabilities are linked to the age structure of scheme members, and are often dependent on uncertain future factors such as inflation and mortality.

**Liquidity**

The capability of a market to accommodate supply and demand without unreasonable price changes. Liquidity is a vital requirement for healthy capital markets.

**Longevity**

Related to the number of years an individual is expected to live. This future life expectancy is an important component of a pension scheme's liability calculation as an assumption is required to assess how long the scheme will have to pay pensions for in the future.

**Mandate**

The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.

**Market Risk**

The risk that the investments in a portfolio do not provide the returns expected of them due to underperformance of the chosen assets and markets. Also known as systematic risk.

**Market Value**

The price at which an investment can be bought or sold at a given date.

**Maturity**

The maturity of a pension scheme indicates the number of active members relative to the number receiving pensions. An immature scheme, such as the NHs scheme, is one that has more active members building up pensions than pensioner members receiving pensions.

**Option**

An agreement giving the holder the right to buy or sell a specific security at a specified price within a specified period of time.

**Passive Management**

A style of investment management that seeks to attain performance equal to market or index returns.

**Pensionable Pay**

Basic pay excluding non-contractual overtime, bonus and shift payments.

**Private Equity**

Funds put up by investors to finance new and growing businesses. Also known as venture capital.

**Pooled Funds**

Pooled Funds are funds, which manage the investments of more than one investor on a collective basis. Each investor is allocated units, which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

**Relative Return**

The degree by which the Fund has out or under performed the Benchmark over a period.

**Return**

The value received (income plus capital) annually from an investment, usually expressed as a percentage and can be positive or negative.

### **SAS 70 (Statement of Auditing Standards) Audit Report**

Provides investors and their auditors with an assessment of the quality and security of an investment manager's internal process and controls.

US Statement on Auditing Standards NO. 70. The SAS70 is an auditor's report on controls and processes placed in operation within core Operations and Fund services. This is one of the options available to replace FRAG 21.

### **Scheduled Bodies**

These are the organisations listed in the LGPS (Administration) Regulations 2008 (Schedule 2, Part 1) and include county councils and district councils.

### **Security**

A generic term for a financial asset such as a bond or equity (share).

### **Sub-Fund**

Is a part of the overall fund that is invested by a particular investment manager to achieve a specified asset-related performance.

### **Surplus**

In the context of pensions, a scheme is in surplus when the assets are assessed to be more than enough to meet the value of the liabilities. There are a number of ways in which liabilities can be calculated and a surplus should always be looked at in the context of the method used.

### **Total Contribution Rate**

The total of the future service rate and the past service adjustment.

### **Transfer Value**

The amount of the transfer payment which is made to another pension arrangement.

### **Unconstrained Equity Investing**

Mandates where the investment manager constructs and manages their portfolio of stocks in a way that reflects their judgment, without being constrained by specific asset allocation limits. The manager may be free to invest a high proportion in cash if they have a negative view on equity markets.

### **Underwriting**

Where an institutional investor undertakes to acquire for a fee or commission shares unsold in a public offering or a rights issue.

### **Unit Trust**

A pooled fund established under trust in which investors can buy and sell ongoing basis. Known as mutual funds in the US and some other countries.

### **Unlisted Securities**

Holdings in companies, which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not

openly traded. Unlisted securities are usually less liquid than those traded in the main markets.

**Valuation**

A summary of an investment portfolio showing the holdings and their value as at a certain date.

**Warrants**

A certificate giving the holder the right to purchase shares or stock at a stipulated price within a specified time span, or in some cases, forever.

**WM**

The WM Company - One of the two leading performance measurers.

Risk No	Short Name	Cause	Consequences	Likelihood	Impact	Risk Score	RAG Status					Direction of travel	Risk Owner	Portfolio Holder	Action Plan (Y/N) / Review date
							R	A	G	E					
	Significant rises in employer contributions due to increases in liabilities	a) Scheme liabilities increase disproportionately as a result of longevity, falling bond yields and significant reduction in returns from equities	Employer contribution rates become unacceptable causing upward pressure on Council Tax and employers' costs.	5	3	15	R					g	Caroline Holland	Pension Panel	<a href="#">Y</a>
	Significant rises in employer contributions due to poor/negative investment returns	a) Poor economic conditions, wrong selection of investment strategy and poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates. Employee Contribution rates are fixed by legislation	4	3	12	R					h	Caroline Holland	Pension Panel	<a href="#">Y</a>
	Failure to communicate properly with stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members	Scheme Members are not aware of the rights and privileges off being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, etc and so the data flow from them is poor and they misadvise their employees.  Possible financial penalties for employers and the pension fund from non-compliance and maladministration.	3	2	6	G					g	Caroline Holland	Pension Panel	<a href="#">Y</a>
	Failure of pension fund assets to fund liabilities Changes in interest rates	Changes in bond prices (rates) cause the level of liabilities to rise	Although there is little the fund can do to mitigate this risk. The fund will regularly monitor the effect of interest rate rises on the fund. This is ultimately underwritten.	4	2	8	A					g	Caroline Holland	Pension Panel	<a href="#">Y</a>
	Failure of pension fund assets to fund liabilities due to - a) equity investment , b) changes in interest rates, c) changes in inflation and d) changes in Longevity	a) Equity values fail to outperform bonds in the long term	Continue to monitor economic situation and modify asset allocation for economic bubbles. b) little can be done with regards to changes in interest rates, investing in matching assets carries a potentially high cost in terms of lost investment returns. c) Investing in real assets like property and index-linked gilts as well as monitoring of economic environment will mitigate some of the inflation risks. d) The actuary has used prudent estimates, Hutton has proposed changes to the scheme retirement age linked to State Retirement to transfer this risk to employees and this might continue if the State Retirement Age keeps pace with longevity improvements.	4	2	8	A					g	Caroline Holland	Pension Panel	<a href="#">Y</a>
	Failure of pension fund assets to meet fund liabilities due to fund managers underperforming their benchmark or underperformance due to loss of key staff.	Active managers take risk that can result in underperformance. Performance sometimes is due to specialist staff in the investment manager house. It may take a while for the managers to recover after large key personnel departure.	This risk is managed partially by keeping a substantial share of the fund invested passively and by regular manager monitoring.	3	2	6	A					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Fund Manager House Collapse	Impact of world economic issues.	Constant monitoring of managers, due diligence during selection and economic issues monitoring	3	3	9	A					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Underperformance of investments	In appropriate advice from Independent Adviser leading to wrong investment decisions.	Investment performance falls and fund may fail to meet its funding objectives in the medium term. High cost of changing investment decision	2	2	4	G					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Failure of Merton payroll shared service to provide accurate payroll data to the Wandsworth pensions administration shared service	Pension payments are inaccurate resulting in overpayments which may be difficult to collect	Financial loss to the fund.	2	3	5	G					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Failure to pay pensions accurately	Pension payments are inaccurate resulting in overpayments which may be difficult to collect.	Reconciliations between AXIS and Payroll system	2	2	4	G					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Smoothing risk	During actuarial valuation, utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position.	Review during the actuarial valuation to ensure that any impact of the adjustment remains within acceptable limits.	2	2	4	G					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Ratio of active members who will contribute to the Fund reducing in comparison to the pensioners and deferred members of the Fund.	Continuous spending cuts, budget reductions, employee contribution increasing as a result of Government policy as well as the impact of outsourcing which will result of new employees being employed on different terms.	The underlying fundamental assumption that staff will continue to be recruited into the scheme will be broken. This also has an impact on the pension fund cashflow.  May be a need to match assets and liabilities more closely by moving to a higher proportion of lower risk / lower return investments e.g. bonds. This would impact on employer contributions.	5	3	15	R					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>
	Failure of the Pensions Administration Shared Service	The specialist nature of the work means that there are inevitably relatively few experts in investments and the local authority pension's regulations. The council will be left without any staff should the staff employed by Wandsworth to work on the Merton pensions decide against any future TUPE arrangements.	In the event of a knowledge gap the Fund can call on external consultants in the short-term. (Although this risk is largely mitigated by the use of a larger shared service as opposed to a small specialist in-house team).	1	2	2	G					g	Caroline Holland / Paul Dale	Pension Panel	<a href="#">Y</a>

#### Key

Red risks are of greatest priority and require immediate attention.

Amber risks should be reviewed, as further risk mitigation action may be required

Green risks are likely to require no further action but should be monitored, in case the situation changes, i.e. the direction of travel deteriorate

# London Borough of Merton Pension Fund

## Rates and Adjustments Certificate

**Client:** London Borough of Merton Pension Fund

**Date** 15 September 2014

**Subject:** Contribution Schedule for Employers

The Common Rate of Contribution as defined by Regulation 36 for the period 1 April 2014 to 31 March 2017 is 21.0% of pensionable payroll.

However, each employer pays contributions based on their particular circumstances and so individual adjustments are made. These give the following minimum total contributions as set out below.

Code	Employer	Employer contributions due as a % of salary for the year beginning			Additional employer contributions due as monetary amounts in the year beginning			Further Lump Sum Payable
		1 Apr 2014	1 Apr 2015	1 Apr 2016	1 Apr 2014	1 Apr 2015	1 Apr 2016	
1	London Borough of Merton	13.9%	13.9%	13.9%	£5,097,000	£4,205,000	£4,395,000	£10,000,000
8	Wimbledon And Putney Commons Conservators	15.1%	15.1%	15.1%	£91,000	£95,000	£100,000	
19	Moat Housing Group	0.0%	0.0%	0.0%	£15,000	£15,000	£15,000	
21	Central And Cecil Housing Trust	22.2%	22.2%	22.2%	£27,000	£28,000	£30,000	
22	Greenwich Leisure Limited	24.2%	24.2%	24.2%	£15,000	£16,000	£17,000	
23	St Marks Academy	14.1%	14.1%	14.1%	£10,000	£10,000	£10,000	
24	Harris Academy	14.1%	14.1%	14.1%	£14,000	£14,000	£15,000	
26	Environmental Waste Co	22.4%	22.4%	22.4%				
27	Merton Priory Homes	16.8%	16.8%	16.8%				
28	Harris Academy (Morden)	14.1%	14.1%	14.1%	£5,000	£5,000	£6,000	
	Benedict Primary School	14.1%	14.1%	14.1%	£7,000	£7,300	£7,700	
	CHAS	12.0%	12.0%	12.0%				

### Notes

- Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumptions discussed with us.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.
- Contributions are due to be paid monthly in arrear unless otherwise agreed between an employer and the Administering Authority. Any such agreements are reflected in the amounts certified above.
- Additional lump sum – it has been agreed that London Borough of Merton will pay an additional lump sum contribution of £10m in the year beginning 1 April 2014.



**Alison Hamilton FFA**  
Partner, Barnett Waddingham LLP

## Appendix 5. Rates and Adjustments Certificate

Grant Miles  
Director of Resources  
The London Borough of Merton  
Merton Civic Centre  
London Road  
MORDEN SM4 5DX

Dear Sirs

On your instruction, we have made an actuarial valuation of the London Borough of Merton Pension Fund ("the Fund") as at 31 March 2010.

In accordance with Regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 we have made an assessment of the contributions which should be paid to the Fund by the employing authorities as from 1 April 2011 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the following Contribution Schedule.

Yours faithfully



**Graeme D Muir FFA**



**Alison Hamilton FFA**

## Contribution Schedule

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll.

Individual Adjustments payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates are as set out below: -

Code	Employer	Contribution rate as % payroll			Additional monetary amount for deficit recovery		
		2011/12	2012/13	2013/14	2011/12	2012/13	2013/14
1	London Borough of Merton	14.1%	14.1%	14.1%	£4,800k	£4,800k	£4,800k
8	Wimbledon And Putney Commons Conservators	25.4%	25.4%	25.4%			
19	Moat Housing Group	24.1%	24.1%	24.1%			
21	Central And Cecil Housing Trust	24.2%	24.2%	24.2%			
22	Greenw ich Leisure Limited	16.8%	16.8%	16.8%	£12.6k	£12.6k	£12.6k
23	St Marks Academy	14.1%	14.1%	14.1%			
24	Harris Academy	15.6%	15.6%	15.6%			
25	Connaught PLC	14.9%	14.9%	14.9%			
26	Environmental Waste Co	15.1%	15.1%	15.1%			
27	Merton Priory Homes	13.8%	13.8%	13.8%			

## Notes

1. Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumption issued by us from time to time.
2. The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.