London Borough of Merton

Pension Fund

Annual Report 2016/2017

The Pension Fund Annual Report 2016/17

Introduction

The Local Government Pension Scheme (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 or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources.

Employee contribution rates are set by statutory regulations and therefore fixed. The employer 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 contribution, and supports the need for effective management of the Fund.

A new LGPS scheme was introduced with effect from 1st April 2014. The scheme remains a Defined Benefit Scheme but there are some important changes. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as Career Average Re-valued Earnings (CARE) scheme. Everything built up in the scheme before 1st April 2014 is protected so benefits accrued prior this change will be based on the scheme member's final year's pensionable pay.

Key points of the CARE scheme:

- Pension based on career average re-valued earnings, (re-valued in line with the Consumer Price Index).
- Pensionable pay to include non-contractual overtime.
- Flexibility in when pension can be taken, with the option to take it at any age from 55 to 75.
- Flexibility in amount paid to scheme: allowing members to pay 50% contributions for 50% of the pension benefit.
- Normal Pension Age (NPA) linked to the member's State Pension Age (SPA).
- Option to trade £1 of pension for £12 tax-free lump sum at retirement.
- Early payment of pensions in the event of ill health.

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The Regulations prescribe the content of the report and this report complies with these regulations.

The report is signed-off by the Director of Corporate Services and the Chair of the Pension Fund Advisory Panel (PFAP), and includes a report by the independent auditors.

London Borough of Merton is joined by other Scheduled and Admitted bodies in providing pension benefits under the LGPS. Scheduled bodies have a right to be incorporated, whereas admitted bodies require the agreement of the administering authority.

Administering, Scheduled and Admitted Bodies as at 31 March 2017

Administering Body

- LB Merton

Scheduled Bodies

- Wimbledon and Putney Commons Conservators
- Harris Academy Merton
- Harris Academy Morden
- Harris Academy Primary
- St. Marks Academy
- Benedict Academy
- Park Community School
- CHAS
- Beecholme Academy

Admitted Bodies

- Greenwich Leisure
- Merton Priory Homes
- CATCH 22

London Borough of Merton, as administering authority is responsible for administering the Pension Fund. The Council is currently in a shared service arrangement with London boroughs of Wandsworth, Camden and Waltham Forest.

The Council is also responsible for organizing the investment of the Fund. It has delegated the management of the Pension Fund assets to external fund managers.

As part of the government pooling agenda, L.B Merton is preparing to pool its pension fund assets with 31 other London LGPS Funds under the umbrella of London Collective Investment Vehicle (London CIV) with the aim of reducing costs, improving performance and increasing diversification and capacity across a range of asset classes including Infrastructure.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements. The Fund anticipates being able to transition some of the liquid assets across in advance of April 2018.

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 2014/15 ('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 Standards and General Purposes Committee (SGPC) and its supporting Pension Fund Advisory Panel (PFAP).

The SGPC and PFAP comprise elected Council Members who are appointed to the Panels at the Annual General Council Meeting, and there is cross-party representation. Both the Committee and the Panel are supported by the Director of Corporate Services, and other officers and professional advisers as necessary.

The PFAP focuses on Pension Fund matters, and includes appointed Council Members, the Director of Corporate Services, the Assistant Director of Resources and the Interim Head of Pensions, Treasury and Insurance. A Staff-Side (Union) and a Pensioner Representative also attend Panel meetings. The Panel is chaired by a Councillor, and only the elected Members of the Panel have voting rights.

The Panel 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.

Merton Pension Board has been established to assist the administering authority to comply with the regulations and requirements of The Pensions Regulator. The Board consists of 2 employer and 2 scheme member representatives. All Board members have voting rights. Like the Panel, the Board is supported by internal and external resources.

2. Scheme management and advisers

Below is a list of the Pension Fund internal management contact, external managers and advisers.

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.
   BlackRock, 12 Throgmorton Avenue, London, EC2N 2DL.

3. Custody
   State Street Bank and Trust (re. Aberdeen Asset Management and BlackRock)
   1 Camden Square, Canary Wharf, London E14 5AP.
   J.P. Morgan (re. UBS Asset Management),
   60 Victoria Embankment, London, EC4Y 0JP.

4. <u>AVC Providers</u>
   Prudential PLC, Prudential LGAVCS, Craigforth, Sterling, FK9 4UE.

5. <u>Investment Adviser</u>
   JLT, The St Botolph Building, 138 Houndsditch, London EC3A 7AW

6. <u>Fund Actuary</u>
   Barnett Waddingham, 163 West George Street, Glasgow G2 2JJ.

7. <u>Legal Advisers</u>
   Fiona Thomsen, Head of Shared Legal Services, London Borough of Merton.

8. <u>Bankers</u>
   Lloyds Bank Plc, City Office, Bailey Drive, Gillingham, Kent, ME8 0LS.

9. <u>Auditor</u>
   Ernst & Young LLP, Apex Plaza, Forbury Road, Reading RG1 1YE.

10. <u>Scheme Administration</u>
    Pensions Shared Service, London Borough of Wandsworth, Town Hall, Wandsworth High Street, London SW18 9LQ.

11. <u>Performance Monitoring and Analysis.</u>
    - State Street Global Services Investment Analytics, 525 Ferry Road, Edinburgh, EH5 2AW.
    - Pensions & Investment Research Consultants Limited (PIRC Limited), Exchange Tower, 2 Habour Exchange Square, London E14 9GE

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 scheme's 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:

(1) Fund management risk considers the risk associated with investments, strategic risk and investment related regulations.
(2) Administration risk includes the risk associated with Regulations and internal systems and processes.

In managing the Pension Fund it is not possible to avoid risk, so the main focus is identifying, monitoring, controlling, managing, mitigating or transferring risk.

Assurance is sought over third party operations through the review of AAF01/06 and SSAE16 reports of fund managers and custodians on an annual basis by Members of the Panel.

Third party risks such as late payment of contributions are managed through monthly monitoring of payment schedules and reconciliation of payments received.
Investment risk is managed through regular review of performance and against the investment strategy agreed by the Panel. The Fund also obtains on a need-by-need basis advice from professional advisers including JLT, Barnet Waddingham LLP, State Street Global Services Investment Analytics and PIRC. The Fund is currently implementing the new investment strategy (set out in the Investment Strategy Statement appended to this annual report) via the London CIV where possible or through collaboration with other London Boroughs.

The key risk areas and the means of mitigating them are as follows:

Risk Management - Summary

Type of Risk	Mitigation Details
Financial Risk 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 Fund's 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.
Demographic Risk The risk that a continuing improvement in mortality rates increases the Fund's liabilities.	The Fund 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 2% to 3%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.
Regulatory Risk 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, LGA, London CIV, PLSA and CIPFA on the financial implications of any proposed changes.
Governance Risk The risk of structural changes in an individual employer's 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 bodies 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.
Asset Security Risk 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 AAF01/06 and SSAE16 audit reports (an in-depth audit examination of an organisation's internal control) 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.

Risks associated with Financial Instruments – price risk, currency risk, credit risk etc. - are disclosed in the Pension Fund Accounts as Note 17.

2.2 Risk Register

Guidance issued by CIPFA on the application of the Myners Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Panels 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's corporate risk register.
- Members review the register periodically.

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

3. Financial Performance

3.1 Funding Strategy and Investment Policy

Analytical Review

Fund Account

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Net (Additions)/Withdrawals	(2,694)	161	(12,100)	2,391	(1,020)
Management Expenses	586	1,499	856	1,230	1,854
Returns on Investments	(9,582)	(9,216)	(10,638)	(11,064)	(11,326)
Change in Market Value	(47,557)	(8,475)	(48,464)	19,211	(109,202)
Net (Increase)/Decrease in fund	**(59,247)**	**(16,031)**	**(70,346)**	**11,768**	**(119,694)**

Net Asset Statement

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Fixed Interest Securities	106,419	108,064	127,116	130,929	153,178
Equities	175,153	189,623	200,755	194,037	236,697
Pooled Investment Vehicles	156,099	155,516	181,736	179,624	232,468
Property Investments	12,476	13,197	15,391	21,183	21,321
Other	6,065	5,843	17,592	5,048	6,852
Total Investment Assets	**456,212**	**472,243**	**542,590**	**530,821**	**650,516**

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions Receivable					
Employers	(16,216)	(16,069)	(29,005)	(16,489)	(17,413)
Members	(4,441)	(4,794)	(5,335)	(5,497)	(5,762)
Transfers In	(2,330)	(765)	(983)	(2,153)	(2,748)
Total Income	**(22,987)**	**(21,628)**	**(35,323)**	**(24,139)**	**(25,923)**
Benefits/Expenses					
Pensions	17,014	17,582	18,473	19,239	19,746
Lump sums retirements & death benefits	2,247	2,683	3,607	4,495	3,654
Transfers out	652	1,517	1,109	2,732	1,430
Refunds	2	7	34	64	73
Total Expenditure	**19,915**	**21,789**	**23,223**	**26,530**	**24,903**
Net Dealings with Members	**(3,072)**	**161**	**(12,100)**	**2,391**	**(1,020)**

As at 31 March 2017 the value of the Fund was £651m an increase of £120m on the value of the Fund from the previous year.

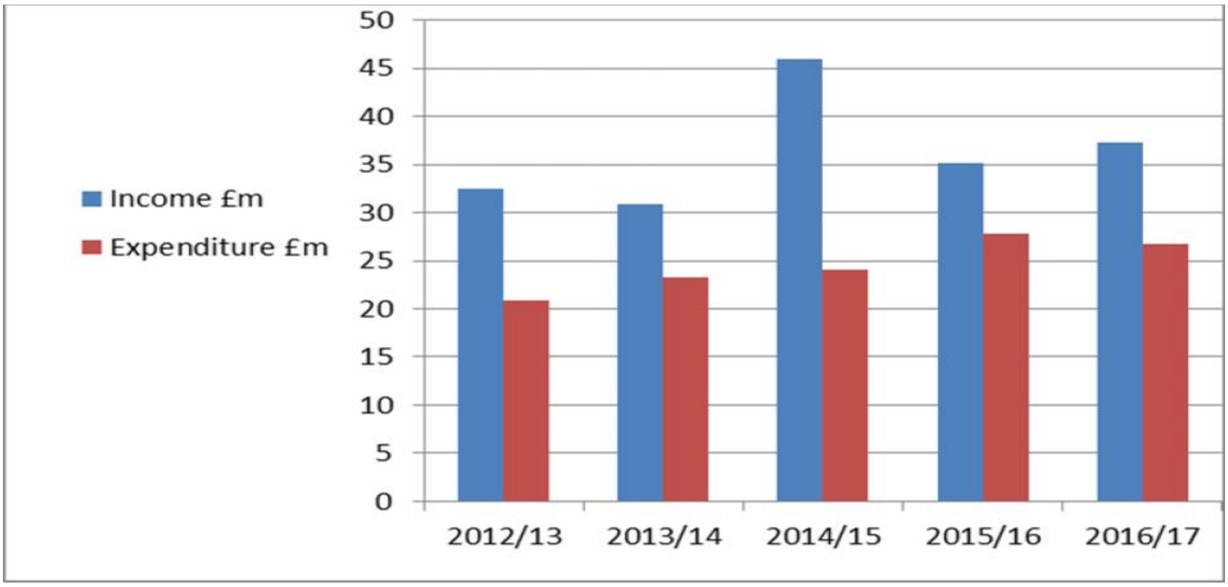
The change in the Fund value over the period is a combination of the net money flows into or out of the Fund, Investment Income received and any gain or loss on the capital value of the investments. The significant increase in market value can also be attributed to the unhedged exposure to overseas equities which benefitted from the fall in the value of Sterling following the Brexit Referendum in June 2016.

Overall member contributions have increased by 30% between 2012/13 and 2016/17. The percentage increase is largely due to the increase in active members as a consequence of auto enrolment.

Over the 5 years (01/04/2012 to 31/03/2017) there has been an increase in the Fund of £194m. This increase is primarily due to change in market value and 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.)

Pension Scheme Income and Expenditure 2012/13 to 2016/17 (including investment income)



A one-off lump sum payment of £10m was made in 2014/15 from the L.B Merton to the Fund as part of steps to reduce the deficit.

3.2 Movement in Assets and Liabilities

The actuary provides an assessment of the Fund every 3 years. Barnett Waddingham LLP carried out the last actuarial valuation in 2016, 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 were applicable to employers and employees from 1 April 2014 and will be valid until 31 March 2017. The 2016 valuation results are applicable from 1 April 2017 to 31 March 2020 and have been shown below for information purposes.

Membership Data	Valuation March 2007	Valuation March 2010	Valuation March 2013	Valuation March 2016
Active Members	151.4	139.7	165.4	172.7
Deferred Pensioners	51.3	59.7	87.6	106.1
Past Service Liabilities	149	211.3	251.1	279.5
Value of Scheme Liabilities	**351.7**	**410.7**	**504.1**	**558.3**
Assets	**318.2**	**343.5**	**450.9**	**525.5**
Deficit	-33.50	-67.10	-53.20	-32.70
Funding Level	90%	84%	89%	94%

3.3 Management Performance - Membership

5 Year Membership Data	March 2013	March 2014	March 2015	March 2016	March 2017	% Change 13 to 17
Active Members	3,196	3,265	3,694	3,722	4,019	26%
Deferred Members	3,293	3,344	3,783	4,163	4,570	39%
Pensioner Members	2,859	2,929	3,017	3,117	3,209	12%
Widows / Dependents	471	479	492	498	516	10%
Frozen Refunds	494	667	500	532	669	35%

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

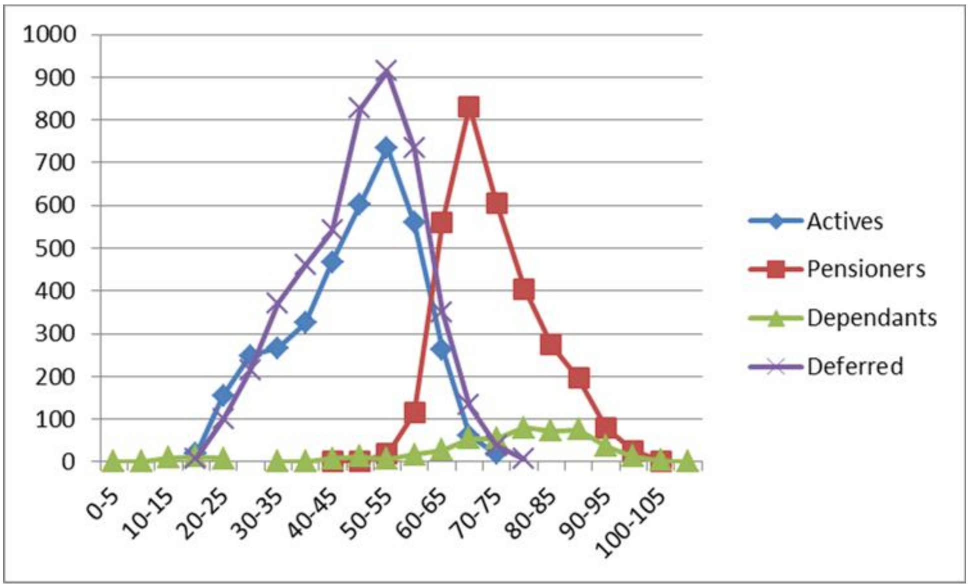
3.3.1 Key Management Performance Indicators

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

Performance Indicator	Target Response Time	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %
Payment of Retirement Allowance	10 Days	96.85	94.08	81.63	92.21	89.42
Benefit Estimates	8 Days	94.29	94.05	91.53	95.31	96.82
Death Cases – First Letter	5 Days	86.32	82.98	99.97	97.92	81.16
Death Benefit Letters	5 Days	84.00	95.24	96.08	100.00	85.00
Onward Transfer Quotes	10 Days	85.71	93.24	78.65	100.00	80.00
Inward Transfer Quotes	10 Days	83.93	76.74	73.91	71.88	71.43

3.3.2 Age Profile /Longevity

The graph below 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 72yrs.



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

	Average age for category
Active Members	46 years 5 months
Deferred Members	47 years 9 month
Pensioners	71 years 11 months
Widows/Dependants	72 years 7 months

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31st March 2017 the assumed life expectancy from age 65 was as follows:

Life Expectancy from age 65 are		
Retiring March 2017	Males Females	24.4 26.0
Retiring in 20 years	Males Females	26.6 28.3

The actuary's 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 2013	March 2014	March 2015	March 2016	March 2017
Active Members	3,196	3,265	3,694	3,722	4,020
Retirements	128	143	146	94	68
Deaths	115	82	103	76	83
Transfers Received	52	14	18	29	26
Deferred Benefits	229	331	291	232	350
Transfers Paid	26	30	19	24	20
New Starters	565	422	537	365	664
Widows Benefits	35	31	41	22	30
Benefit Estimates	99	141	157	209	440
Redundancy Estimates	87	137	320	266	182
Transfer In Estimates	57	96	36	64	56
Transfer Out Estimates	35	74	36	40	60

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 2013	March 2014	March 2015	March 2016	March 2017
% Retirement of active members (includes actual redundancies)	4	4.4	3.95	2.53	1.69
% Redundancy estimates of active members (not including bulk transfer)	2.7	4.2	8.66	7.15	4.53
% Change in Deferred Benefits	(28.7)	44.54	(12.08)	(20.27)	50.86
% Change in Redundancy Benefits (not including bulk transfer)	(55.1)	57.5	211.76	(20.45)	(31.58)

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 in the following table for L.B Merton, admitted and scheduled bodies.

Contributor Bodies	ER's £000	EE's £000	2.75% £000	2.90% £000	3.25% £000	3.40% £000	5.50% £000	5.80% £000	6.50% £000	6.80% £000	7.20% £000	8.50% £000	9.90% £000	10.50% £000	11.40% £000	12.50% £000
			EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE	EE
Administering Body																
L B Merton	10,826	5,298	1	1	10	3	619	834	1,670	925	-	739	362	50	61	23
L B Merton (additional)	4,395	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension Strain	964	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Scheduled Bodies																
Wimbledon Putney CC	120	56	-	-	-	-	-	1	15	27	-	5	8	-	-	-
St Marks Academy	87	40	-	-	-	-	4	18	13	1	-	3	1	-	-	-
Harris Academy (Merton)	121	53	-	-	-	-	3	20	20	5	5	-	-	-	-	-
Harris Academy (Morden)	84	36	-	-	1	-	2	15	13	5	-	-	-	-	-	-
Harris Academy Primary	89	37	-	-	-	-	9	17	11	-	-	-	-	-	-	-
Benedict Academy	59	24	-	-	-	-	12	5	7	-	-	-	-	-	-	-
Park Community	20	9	-	-	-	-	2	3	4	-	-	-	-	-	-	-
CHAS	82	54	-	-	2	-	-	6	9	9	-	14	-	-	14	-
Beecholme	20	9	-	-	-	-	1	6	2	-	-	-	-	-	-	-
Scheduled Bodies Backfunding Total	147	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Admitted Bodies																
Greenwich Leisure	28	11	-	-	-	-	-	-	11	-	-	-	-	-	-	-
Merton Priory Homes	338	134	-	-	-	-	1	22	57	29	-	16	9	-	-	-
CATCH22	1	1	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Admitted Bodies Backfunding Total	32	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**17,413**	**5,762**	**1**	**1**	**13**	**3**	**654**	**947**	**1,832**	**1,001**	**5**	**777**	**380**	**50**	**75**	**23**

INVESTMENT POLICY AND PERFORMANCE REPORT

4.1. Introduction to Investment Policy

The 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, which exercises this responsibility via the Standards and General Purposes Committee and the Pension Fund Advisory Panel, assisted by Merton Pension Board.

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

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

Following the Government's consultation on "Revoking and Replacing the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009", a new set of regulations (Regulation 7) governing investments made by LGPS administering authorities took effect from 1st November 2016. Accordingly, administering authorities are required to prepare and maintain an Investment Strategy Statement (ISS) advising how their investment strategy has been determined and implemented in accordance with the Regulation 7 guidance including:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The above Investment Principles have been established to allow administering authorities 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. Regulation 7 (6) underlines that the ISS must be published by 1st April 2017 (to replace the current Statement of Investment Principles (SIP)) and requires it to be reviewed at least every three years. PFAP approved the Merton Pension Fund ISS on 8 March 2017 and it was published before the 1st April 2017 deadline.

4.2. Subscriptions to Supporting Organisations

The Authority's Pension Fund is a subscribing member of the Pensions and Lifetime Savings Association (formerly National Association of Pension Funds), which provides access to advisory, conference and training services. It is also a member of the Chartered Institute of Public Sector Accountants Pensions Advisory Network and the Local Government Association. The Authority subscribes to reports from State Street Global Services Investment Analytics, which provide performance analysis for the whole Fund, PIRC Limited and Institutional Shareholder Services (ISS), which provide data regarding corporate voting (governance). L.B Merton is a founding member of the London CIV.

4.3. Asset Allocation

(Source: Statement of Investment Principles)

The Pension Fund is exposed to Equities, Bonds, and Property in accordance with the agreed investment strategy and consistent with the Funding Strategy. The target allocations for 2016/17 were as follows

	%		%		%
Equities	70	UK	46	UK	46
		Overseas	24		
				North America	6.3
				Europe ex UK	6.2
				Pacific ex Japan	3.1
				Japan	3.1
				Emerging Markets	5.3
Bonds	25	UK Fixed Income	4.2	UK Bonds (Gov)	4.2
		UK Fixed Income	2.0	UK Bonds (Credit)	2.0
		Overseas Fixed	6.3	Overseas	6.3
		UK Index Linked	12.5	UK Index-Linked (5 Yrs)	12.5
Property	5	UK	5	UK	5
Total	100		100		100

Comparison Between Target and Actual Allocation 2016/17

	Planned %	Actual %	Variance %
Equities	**70.0**	**72.3**	**2.3**
UK	41.8	42.3	0.5
Overseas	28.2	30.0	1.8
Bonds	**25.1**	**23.8**	**-1.3**
UK Fixed Income	6.3	5.9	-0.3
UK Indexed Linked	12.5	11.9	-0.6
Overseas Fixed Income	6.3	5.8	-0.4
Property - UK	**5.0**	**3.3**	**-1.7**

The actual asset allocation may fluctuate from the target allocations due to 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.

Merton tolerated variances 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
(Source: Pension Fund Statement of Accounts 2016/17)

Investment Manager	31-Mar 2016 £000	%	31-Mar 2017 £000	%
Aberdeen Asset Management **Equities (Active)**	97,154	18	121,348	19
UBS Asset Management				
Equities (Active)	52,709	10	64,830	10
Equities (Passive)	226,443	43	287,033	44
Aberdeen Asset Management				
Bonds (Active)	130,945	25	153,315	24
Blackrock **Property (Managed Funds)**	6,737	1	6,950	1
UBS UK **Property (Managed Funds)**	15,054	3	15,133	2
Change in Derivative Valuation	1	0	1	0
Total Investment at Market Value	**529,043**	**100**	**648,610**	**100**

The implementation of investment strategy is delegated to external investment managers. More than one manager is involved in Merton's investment arrangement to avoid an imprudent concentration of performance risk in a single manager, and also to allow for specialisation.

Fund managers are awarded active or passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast passive managers will buy and hold investments to replicate a market index; e.g. FTSE 100 or All-Share, and by this, expect to mirror market or index performance.

The managers have full discretion and operate within agreed deadlines specified in the Investment Management Agreement (IMA) to make investment decisions without referral to the Authority; provided that the activity and action are in compliance with the IMA.

4.5. Pension Fund Advisory Panel Actions and Initiatives

The introduction of the new LGPS from 1st April 2014 requires all scheme employers to review existing discretionary pension arrangements and publish new policy statements by 30 June 2014, effective from 1st April 2014.

A summary is provided below:

Discretionary Power	Merton (Administering Body) Policy
Permitting scheme members to retire with immediate benefits between age 55 and 60	This discretion will not normally be exercised, but the Chief Executive will consider applications that can be justified on financial, equal opportunity or other relevant grounds.
Permitting preserved benefits to be brought into payment on compassionate grounds	This discretion will not normally be exercised, but the Chief Executive will consider applications supported by the Director of Corporate Services and the Head of Human Resources.
Waiving any reduction in benefits arising from early payment	This discretion will not normally be exercised, but the Chief Executive will consider applications supported by the Director of Corporate Services and the Head of Human Resources.
Awarding additional years of service or additional pension	The authority will not generally award added years or additional pension.
Paying existing awards of added years from the Pension Fund	The authority will continue to pay for existing awards from the general fund rather than the Pension Fund.
Payment of spouse's pension on remarriage or cohabitation after 1 April 1998 where the employee retired prior to that date	The authority will not suspend or terminate Widows or widowers pensions in such circumstances.
Abatement of pension on re-employment	The authority will continue to abate pensions in line with the previous regulatory requirements unless the relevant Chief Officer makes a case to the relevant council committee to modify its application.

On 23rd April 2014, the L.B Merton Cabinet agreed to collaborate with other London Councils to establish a Collective Investment Vehicle (CIV), to generate economies of scale by pooling their pension fund assets. London CIV was launched in December 2015 as a fully authorised and regulated investment management entity. The CIV is continuing to strengthen its position and expand its offering to all London LGPS Borough members. During 2016/17, the Panel received quarterly updates on the CIV. The Panel considered draft responses to government consultation on various matters including the landmark LGPS: Investment Reform Criteria and Guidance (DCLG, November 2015) consultation.

During the year, the Panel carried out a review of the Investment Strategy assisted by JLT, the investment adviser appointed from 1st March 2016. The Panel noted the 2016 triennial actuarial valuation timetable and received updates throughout the valuation process and the linkage with the review of the Pension Fund investment strategy. PFAP approved the new Investment Strategy and Investment Strategy Statement on 8th March 2017.

During 2016/17, the Pension Fund Advisory Panel reviewed and noted the key changes in scheme membership. Also the Panel reviewed the Pension Fund risk register and the Fund's approach to Responsible Investing, Environmental, Social and Governance (ESG).

The Panel continued to monitor the performance of fund managers during the year. . It is anticipated the new strategy will be implemented in 2017/18 and the Panel's decisions on asset allocation will be taken in consultation with the investment adviser.

The Panel reviewed the work programme and noted the activity of the Merton Pension Board in accordance with the Public Services Pensions Act 2013.The Panel also noted the membership and the Terms of Reference of the Board.

4.6. Investment Administration and Custody

Investment managers make and implement investment decisions, particularly in respect of the purchase and sale of assets. However, 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.

Manager/Portfolio	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
Blackrock Property	State Street Bank and Trust

Investment managers and custodians provide monthly reports on portfolio activity and Council officers consolidate and analyse the data for accounting and management information purposes.

4.7. Market Returns

Investment performance is monitored in the context of the wider investment market. The Fund holds a diversified portfolio of investments across the globe, and is benefited or disadvantaged by relative performance in particular areas during the year.

Market Performance Summary 2016/17
(Source: State Street Global Performance Services)

- Return on UK equities was 22.0%, this underperformed broader European markets at 27.9%.
- Japanese equities fared better returning 32.8%.
- North American equities performed best amongst the developed markets with a return of 35.0%.
- Bond markets gained 19.9% for UK index linked Bonds, 6.6% for UK Bonds and 11.3% for Overseas Bonds; and
- UK Property achieved 3.8%.

4.8. Investment Performance

Return on investments fluctuates from year to year, and so performance (investment return) is measured over periods of time, and a key issue is the extent to which the Fund's value has appreciated in the long-term.

The Fund's target 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.

4.9. Benchmarking
(Source: Statestreet GS Performance)

The table below provides the weighted percentage investment returns achieved, together with the benchmark for each asset class in the short (1 year) and medium term (3/5 year period).

	1 Year		3 Year		5 Year	
Asset Class	**Benchmark %**	**Fund Performance %**	**Benchmark %**	**Fund Performance %**	**Benchmark %**	**Fund Performance %**
Equities	26.4	26.0	10.8	10.4	11.4	11.0
Bonds	12.8	13.1	11.3	11.3	7.4	7.5
UK Index Linked	22.0	22.5	14.6	14.4	9.9	9.9
Cash		-5.1		-2.2		-0.3
Property	3.7	3.3	10.2	10.2	8.5	5.6
Total Fund	23.0	22.7	11.4	10.7	10.7	10.1
Relative Return		-0.3		-0.7		-0.6

The above analysis shows that the relative return weighted by the level of investment, is performing slightly below the benchmark, over the short (>1 year) and medium term (3-5 years).

4.10. Socially and Environmentally Responsible Investment and Governance

Local Government Pension Scheme (Management of Investment of Funds) Regulations 2016 require administering authorities to address Environmental, Social and Governance (ESG) and Stewardship activities. The new regulations empower administering authorities in making their investment decisions under a new prudential framework urging them to be responsible, for instance, in setting their policy on asset allocation, risk and diversity.

Regulation 7(2)(e) require administering authorities to follow pertinent advice and act prudently when making investment decisions, "…a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence". Administering authorities must consider any factors that are financially material to the performance of their investments, including ESG factors contemplating the time horizon of the liabilities along with their approach to social investments.

Merton Pension Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long-term. In making investment decisions, the PFAP seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

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

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

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

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

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

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

Regulation 7(2)(f) encourage administering authorities "…to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code." Authorities are further encouraged to either vote their shares directly or ask their fund managers to vote in line with their policy under the Regulation 7(2)(f) and to publish a report of voting activities as part of their pension fund annual report under Regulation 57 of the 2013 Regulations.

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

The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy. The Fund will incorporate a report of voting activity as part of its Pension Fund Annual Report which is published on the Council website: www.merton.gov.uk.

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests. In addition the Fund is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.

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 information and guidance on pension fund matters. The Pension Fund annual report and accounts can also be found on the Council's website.

5.1. Pensions Scheme Communications

The authority has produced a Governance Policy Statement and a Communication Policy Statement and these are appended to the annual report**.**

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

5.2. Scheme Administration Costs

The Administration and Fund Management costs in 2016/17 were £1.854m (£0.368m Administration Expenses; £1.069 Investment Management Expenses; £0.226 Transaction Costs and £0.191m Oversight & Governance Expenses).

5.3. Scheme Member and Pensioner Administration

The Administering Authority is part of a Pension Shared Service arrangement with London Boroughs of Wandsworth, Camden and Waltham Forest. The Shared Service deals with 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 (IDRP)

The Authority has an employee's guide to resolving pensions-related complaints. It is available on the Council's website or from the Pensions Shared Service. Information is provided on the complaints procedure and access to the Pensions Advisory Service and the Pensions Ombudsman. The Authority currently has 1 case 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 Waddingham LLP). The last valuation was as at 31st March 2016.

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 married members and the progression of pensionable pay through increasing responsibility and promotion.

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

Financial Assumption		31 March 2016	31 March 2013
Discount rate		5.5%	5.9%
Pay increase	Long Term Short Term	3.9% Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	4.5% CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4% Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	2.7%
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continuous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

6.2 Executive Summary of the 2016 Triennial Valuation Report

The overall funding level has increased from 89% in 2013 to 94% in 2016.

The average required employer contribution to restore the funding position to 100% over the next 12 years is 15.2% of pensionable salaries.

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

Change in past service position	£000
Surplus (Deficit) at 31 March 2013	**(53,199)**
Interest and contributions	
Interest	(7,331)
Contributions paid less cost of benefit accrual	29,448
Financial experience	
Investment return experience	(17,535)
Salary increase experience	3,385
Pension increase experience	14,016
Change in market conditions	19,588
Demographic experience	
Pensioner mortality experience	(6,231)
Other demographic experience	(6,702)
Change in assumptions	
Financial	(5,596)
Mortality	(9,309)
Other demographics	6,755
Surplus (Deficit) at 31 March 2016	**(32,710)**

Governance Policy and Compliance Statement

1. Governance Policy

1.1 This Governance Policy sets out London Borough of Merton's arrangement for carrying out its responsibilities as Administering Authority for Merton Pension Fund as required by Regulation 31 of the Administration Regulations 2008 (Regulation 55 of the Local Government Pension Scheme Regulations 2013).

2. Responsibility for Governance

2.1 Governance of the Merton Pension Fund is the responsibility of the Council as Administering Authority.

2.2 The Council 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 Committee is 'in consultation with the Council's investment advisers and the Director of Corporate Services to determine policy and strategy concerning the management of the (Pension) Fund'.

3.2 The Director of Corporate Services is 'to determine guidelines for Pension Fund investment on the basis of advice obtained from the Council's professional investment advisers'.

4. Structure and Operational procedure of the delegation

4.1 The Director of Corporate Services:

- Maintains, with relevant professional support, awareness and knowledge of relevant Pension Fund matters.
- Advises the Pension Fund Advisory Committee on the regulatory framework and practical options for Pension Fund investment.
- Advises the Committee 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 Committee'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 Committee:

- Considers information and recommendations received regarding the Fund's establishment, investment options, operation, and performance.
- Considers the investment implications of actuarial reviews.
- Consults with advisers 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 (Investment Strategy Statement (ISS) from 1st April 2017) and Funding Strategy Statement.
- Approves the appointment of external investment managers, 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 Standards and General Purposes Committee:

- Receives Pension Fund Advisory Committee reports on Pension Fund developments and performance, and where considered appropriate endorses them for reporting to Council or the Standards and General Purposes Committee.

4.4 Merton Pension Board:

- Assists the Council as Administering Authority (or Scheme Manager) to secure compliance with the regulations and any requirements imposed by The Pensions Regulator.
- Ensure the effective and efficient governance and administration of the scheme.

5. Decision-Making

5.1 The Pension Fund Advisory Committee is pivotal in the decision-making process in respect of the governance of the Pension Fund. However, its decisions must be ratified by the Standards and General Purpose Committee or Council.

5.2 Determination of policy and strategy is made, giving regard to professional advice, via the exercise of voting rights by elected Council Members appointed to the Committee.

(Since the Committee 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 Committee may be in an advisory role, and make recommendations, but they have no 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. 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 Committee comprises; the Director of Corporate Services, the Assistant Director of Corporate Services, the Head of Treasury and Pensions, a Pensioner Representative and a Staff-Side (Union) Representative.

6.3 Council Members are appointed to the Pension Fund Advisory Committee on an annual basis as part of the Council's appointment process. Specialist officers and advisers are invited to attend where required.

6.4 Admitted and Scheduled Body employers as a group is minor, however, they may request that their own representative attend the Committee.

6.5 It is recognised that Admitted and Scheduled bodies are not currently represented on the Committee. However, Merton Pension Board has equal member and employer representation. Also, small employers are engaged by other means, including via discussion forums, and access to meetings concerning, for example, the triennial actuarial valuation.

6.6 Committee attendees may contribute to discussion, assessment and review of matters being considered by the Committee. However, decision-making is exercised through the voting rights of the elected Council Members appointed to the Committee.

7 Frequency of Associated Committee Meetings

7.1 The Director of Corporate Services will, through the Assistant Director of Resources, and in consultation with the Chair of the Pension Fund Advisory Committee, 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 Committee’s direction and endorsement.

7.2 In the interim to Committee meetings, the Director of Corporate Services will correspond with the Committee Chair and Committee members as necessary.

Governance Compliance Statement

The Council 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 Council is also required to publish 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 Standards and General Purposes Committee (SGPC) 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. 11 Admitted and Scheduled Bodies make just 7% of contributions, and have not elected to attend.
c)	Where a secondary Committee has been established, the structure ensures effective communication across both levels.	N/A		
d)	Where a secondary Committee has been established, at least one seat on the main Committee is allocated for a member from the secondary Committee.	N/A		
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..
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.

C				
a)	The Committee 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. Declaration of Interest is a standing item on all meeting agendas.
D				
a)	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 Council as Administering Authority is responsible for the Pension Fund and L.B Merton as employer accounts for 93% of contributions. This is reflected in the voting rights.
E				
a)	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)	That where such a policy exists, it applies equally to all members of Committees, Sub Committees, or any other form of secondary forum.		Fully Compliant	No restrictions on the availability of relevant data to SGPC and PFAC members.
F				
a)	That an administering Authority's main Committee(s) meet at least quarterly.	Compliant		Normal meeting cycle for the SGPC is quarterly.
b)	That an administering Authority's secondary Committee meet at least twice a year and is synchronised with the dates the main Committee sits.	N/A		
c)	That administering Authorities who do not include lay-members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		Fully Compliant	All key stakeholder groups are involved in governance via PFAC meetings, and otherwise via correspondence, special periodic meetings and online through the Council's website. Also, it is anticipated that Merton Pension Board will provide additional forum.
G				
a)	That subject to any rules in the Council's constitution, all members of main and secondary Committees have equal access to		Fully Compliant	No preclusions have been set to limit the availability of relevant data to SGPC and PFAC members.

	Committee papers, documents and advice that fall to be considered at meetings of the main Committee.			
H				
a)	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 for consideration. Merton Pension Board will also assist with ensuring effective and efficient governance of the scheme.
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 of governance arrangement are issued directly to stakeholders and other interested parties, are included in an Annual Report, and are available on the Authority's Intranet. Also, PFAC meetings are conducted in accordance with the Openness of Local Government Bodies Regulation 2014.

Pension Fund Advisory Panel 2016/17

As at 31st March 2017 the Committee members were:

VOTING
Councillor Imran Uddin (Chair)
Councillor Adam Bush (Deputy)
Councillor Mark Allison
NON-VOTING
Caroline Holland (Director of Corporate Services)
Paul Dale (Assistant Director of Resources)
Paul Audu (Interim Head of Pensions & Treasury)
Tina Pickard (UNISON/Pensioner Representative)
Gwyn Isaac (GMB Union Representative)

Conflicts of Interest

Caroline Holland (Director of Corporate Services) is also a Director of CHAS 2013 Ltd. No conflict of interest was identified in 2016/17.

Merton Pension Board

The Public Service Pensions Act 2013 requires administering authorities to establish a Local Pensions Board to assist with ensuring effective and efficient governance of the scheme. The Council has established Merton Pension Board. The Board held its first meeting on 5 April 2016 and will meet quarterly.

The Board consists of 2 employer and 2 scheme member representatives. All Board members have voting rights. At 31st March 2017, the Board members were:

<u>Scheme Employer Representatives</u>
Kim Brown (L.B Merton)
Ian McKinnon (CHAS)
<u>Scheme Member Representatives</u>
Tina Pickard (UNISON)
Gwyn Isaac (GMB)

Chair of the Board is on a rotating basis, determined at each meeting.

Pension Fund Accounts

Fund Account	Notes	2015/16 £000	2016/17 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	7	(21,986)	(23,175)
Transfers in	8	(2,153)	(2,748)
Total Income		**(24,139)**	**(25,923)**
Benefits	9	23,734	23,400
Payments to and on account of leavers	10	2,796	1,503
Total Expenditure		**26,530**	**24,903**
Net (additions)/withdrawals from dealings with members		**2,391**	**(1,020)**
Management expenses	11	1,230	1,854
Net (additions)/withdrawals including fund management expenses		**3,621**	**834**
Returns on investments			
Investment income	12	(11,423)	(11,575)
Taxes on income	13	359	249
(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	19,211	(109,202)
Net returns on investments		**8,147**	**(120,528)**
Net (increase)/decrease in the net assets available for benefits during the year		**11,768**	**(119,694)**
Opening net assets of the scheme		**(542,590)**	**(530,822)**
Closing net assets of the scheme		**(530,822)**	**(650,516)**

Net Assets Statement

2015/16 £000		Notes	2016/17 £000
530,717	Investment assets	14	651,090
(1,527)	Investment liabilities	14	(2,330)
529,190	**Total Investments**		**648,760**
2,619	Current assets	20	2,720
(987)	Current liabilities	21	(964)
530,822	**Net assets of the Fund available to Fund benefits at period end**		**650,516**

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

Notes to the Pension Fund Accounts
1. Description of Fund

The London Borough of Merton Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton (“the Authority”). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority for these arrangements.

(a) General

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

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

The Pension Fund Advisory Panel (PFAP) oversees and advises on investment of the Fund. This Panel 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 Public Service Pensions Act 2013 requires each Fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton’s Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAP. The Board has four members comprising two employer and two scheme member representatives.

(b) Membership

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 Authority. In addition to the Authority, the Admitted and Scheduled Bodies that currently contribute to the Fund are shown in the following table:

Admitted Bodies	Scheduled Bodies
• Greenwich Leisure • Merton Priory Homes • CATCH 22	• Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy

At 1 February 2017 there was a bulk transfer of 62 staff from Merton Green Spaces to Idverde. 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.

The following table summarises the membership numbers of the scheme.

2015/16		2016/17
	Active Members	
3,432	London borough of Merton	3,705
205	Scheduled bodies	240
85	Admitted bodies	74
3,722		**4,019**
	Pensioners	
3,361	London borough of Merton	3,455
151	Scheduled bodies	113
103	Admitted bodies	157
3,615		**3,725**
	Deferred Pensioners	
4,326	London borough of Merton	4,821
254	Scheduled bodies	306
115	Admitted bodies	112
4,695		**5,239**

(c) Funding

The scheme is financed by contributions from employees and employers, together with income and proceeds from investment of the Pension Fund administered by the Authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013.

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2017. The employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred at 31 March 2016. Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

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

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

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

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

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its financial position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. 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 disclosed in Note 19.

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

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 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 twelve years).

Refund 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.

3.2 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.

3.3 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.

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.

The figure shown as investment income is made up of different types of income (dividend income for equity and interest income for bond).

3.4 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.

Revenue account – expense items

3.5 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.6 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 LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.7 Management Expenses

The code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016).*

(a) Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets by the Fund Managers.

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

(b) Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.8 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 1st December 2013.

Net Asset Statement

3.9 Investment Assets

The Pensions Statement of Recommended Practice (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.

3.10 Financial liabilities

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

3.11 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.

3.12 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 2017.

3.13 Cash

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

3.14 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).

3.15 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 Fund only uses one provider, the Prudential PLC. 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 in note 22.

3.17 Going Concern

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

3.18 Contingent Assets and Contingent Liabilities

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

3.19 Events After The Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and;
b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

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 2017 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 £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 year would decrease the obligation by £35.5m.

6. Events After The Reporting Date

At 1 April 2017 there was a bulk transfer of 185 staff from Merton Waste Services to Veolia. 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.

7. Contributions Receivable

2015/16 £000	By Category	2016/17 £000
16,489	Employers	17,413
5,497	Members	5,762
21,986	**Total**	**23,175**

2015/16 £000	By Authority	2016/17 £000
20,386	Administering	21,486
1,004	Scheduled	1,145
596	Admitted	544
21,986	**Total**	**23,175**

2015/16 £000	By Type	2016/17 £000
11,601	Employers normal	11,901
5,497	Employees normal	5,762
4,205	Deficit funding	4,548
683	Employers additional	964
21,986	**Total**	**23,175**

8. Transfers In From Other Pension Funds

2015/16 £000		2016/17 £000
2,153	Individual Transfers	2,748
2,153	**Total**	**2,748**

9. Benefits Payable

2015/16 £000	By Category	2016/17 £000
19,239	Pensions	19,746
3,625	Commutations and lump sum retirement benefits	3,387
870	Lump sum death benefits	267
23,734	**Total**	**23,400**

2015/16 £000	By Authority	2016/17 £000
21,908	Administering	21,597
997	Scheduled	978
829	Admitted	825
23,734	**Total**	**23,400**

10. Payments to and on Account of Leavers

2015/16 £000		2016/17 £000
2,732	Individual transfers	1,430
29	Refunds of contribution	88
35	State scheme premiums	(15)
2,796	**Total**	**1,503**

A payment of £1.98m was made in 2015/16 following the bulk transfer and cessation valuation for South Thames College (previously Merton College).

11. Management Expenses

2015/16 £000		2016/17 £000
323	Administrative costs	368
755	Investment management expenses	1,295
152	Oversight and governance costs	191
1,230	**Total**	**1,854**

11a. Investment Management Expenses

2015/16 £000		2016/17 £000
563	Management fees	1,043
0	Performance related fees	9
11	Custody fees	17
181	Transaction costs	226
755	**Total**	**1,295**

12. Investment Income

2015/16 £000		2016/17 £000
2,604	Income from bonds	2,359
7,347	Income from equities	7,566
332	Pooled investments – unit trusts and other managed funds	79
616	Pooled property investments	832
524	Other	739
11,423	**Total**	**11,575**

13. Taxes on Income

2015/16 £000		2016/17 £000
308	Non-recoverable tax	200
51	Withholding tax	49
359	**Total**	**249**

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). 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 2017. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2015/16			2016/17	
£000	%	Fund Manager	£000	%
228,098	43	Aberdeen	274,663	42
294,206	56	UBS	366,997	57
6,737	1	Blackrock	6,950	1
529,041	**100**	**Total**	**648,610**	**100**

£0.15m internally managed funds have not been included in the above analysis.

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2017 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2016 £000		Market Value 31 March 2017 £000
	Investment Assets	
130,929	Bonds	153,178
194,037	Equities	236,697
179,624	Pooled investments	232,468
21,183	Pooled property investments	21,321
1,528	Derivative contracts - Futures	2,328
2,005	Cash held with fund managers	3,638
1,261	Investment income due	1,310
530,567	**Total Investment Assets**	**650,940**
	Investment Liabilities	
(1,527)	Derivative contracts - Futures	**(2,330)**
150	**Internally managed funds**	**150**
529,190	**Net investment assets**	**648,760**

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2016/2017. 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 2016 £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 2017 £000
Bonds	**130,929**	5,881	(4,026)	20,394	**153,178**
Equities	**194,037**	46,780	(39,711)	35,591	**236,697**
Pooled Investments	**179,624**	24,016	(24,079)	52,907	**232,468**
Pooled Property	**21,183**	203	0	(65)	**21,321**
	525,773	**76,880**	**(67,816)**	**108,827**	**643,664**
Derivatives (Futures)					
Future Asset	1,528	10,251	(9,837)	386	2,328
Future Liability	(1,527)				(2,330)
	525,774	**87,131**	**(77,653)**	**109,213**	**643,662**
Other Investment Balances					
Cash with Fund Managers	**2,005**				**3,638**
Investment Income Due	**1,261**				**1,310**
Realised Loss on FX				(11)	
External Investments at Market Value	**529,040**			**109,202**	**648,610**
Internally Managed Funds	**150**				**150**
Investment Assets	**529,190**			**109,202**	**648,760**

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2015/2016.

	Market Value 1 April 2015 £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 2016 £000
Bonds	**127,116**	12,152	(10,356)	2,017	**130,929**
Equities	**200,755**	39,676	(29,574)	(16,820)	**194,037**
Pooled Investments	**181,736**	17,372	(14,118)	(5,366)	**179,624**
Pooled Property	**15,391**	4,808	0	984	**21,183**
	524,998	**74,008**	(54,048)	**(19,185)**	**525,773**
Derivatives (Futures)					
Future Asset	1,682	7,020	(7,139)	(35)	1,528
Future Liability	(1,681)				(1,527)
	524,999	**81,028**	**(61,187)**	**(19,220)**	**525,774**
Other Investment Balances					
Cash with Fund Managers	**2,145**				**2,005**
Investment Income Due	**1,428**				**1,261**
Realised Loss on FX				9	
External Investments at Market Value	**528,572**			**(19,211)**	**529,040**
Internally Managed Funds	**13,000**				**150**
Investment Assets	**541,572**			**(19,211)**	**529,190**

14.4 Detail Analysis of Investments

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 2016 £000		Market Value 31 March 2017 £000
	Bonds	
97,855	Public Sector : UK quoted	115,432
33,074	: Overseas quoted	37,746
130,929		**153,178**
	Equities (Direct)	
180,088	UK quoted	219,251
13,949	Other European quoted	17,446
194,037		**236,697**
	Pooled Investments	
39,997	UK (Equities)	55,303
27,585	Other European (Equities)	35,301
53,701	American (Equities)	66,106
21,563	Japanese (Equities)	27,652
20,716	Other Overseas (Equities)	25,917
16,062	Developing Markets (Equities)	22,189
6,721	Property Managed Fund/Units quoted	6,935
14,462	Property Managed Fund/Units unquoted	14,386
1,261	Other Investment Balances	1,310
2,005	Cash with Fund Managers	3,638
1,528	Derivatives (Futures)	2,328
205,601		**261,065**
	Investment Liabilities	
(1,527)	Derivatives (Futures)	**(2,330)**
150	Internally Managed Funds	**150**
529,190	**Total**	**648,760**

14.5 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. These instruments are essentially used by the Fund Managers for efficient portfolio management.
At 31 March 2017, the value of FTSE futures amounted to less than 0.5% of all equity investment in the Fund (0.5% in 2015/16).

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

Type	Expires	Economic exposure £000	Market value 31 March 2016 £000	Economic exposure £000	Market value 31 March 2017 £000
UK Equities	Three – Six months	1,527	1,528	2,330	2,328

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2017.

14.7 Investments exceeding 5% of net assets

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

% Market Value 2015/16	Security	% Market Value 2016/17
12.37	Aberdeen Global II Index Linked	11.90
9.09	UBS Life North America Equity Tracker	9.34
6.25	UBS Life UK Equity Tracker	7.23
6.28	Aberdeen Global II Global Aggregate	5.84
5.11	UBS Life Europe Ex UK Equity Tracker	5.34

The largest single direct holding is HSBC at 1.62% (1.47% in 2015/16).

The following investments represent more than 5% of their asset class.

% Market Value 2015/16		Security	% Market Value 2016/17	
£000	% of asset class		£000	% of asset class
		Bonds		
65,173	49.78	Aberdeen Global II Index Linked	-	-
33,074	25.26	Aberdeen Global II Global Aggregate	37,746	24.64
22,520	17.20	AG2-Long Dated Sterling Bond	-	-
10,162	7.76	Aberdeen Global II Sterling long dated	-	-
-	-	Aberdeen Fund Mana Sterling	76,902	50.20
-	-	Aberdeen Sterling Long Dated Gov Bond	26,224	17.12
-	-	Aberdeen Sterling Long Dated Corp Bond	12,306	8.03
		Pooled Investments		
47,897	26.72	UBS Life North America Equity Tracker	60,310	25.94
32,919	18.37	UBS Life UK Equity Tracker	46,694	20.09
26,942	15.03	UBS Life Europe Ex UK Equity Tracker	34,522	14.85
14,180	7.91	UBS Life Pacific/Ex Japan Eqty Tracker	17,692	7.61
13,438	7.50	UBS Life Japan Equity Tracker	17,165	7.38
10,104	5.64	Aberdeen Global Emerging Markets	13,805	5.94
		Pooled Property Investments		
14,231	67.17	UBS Triton Property Unit Trust	14,145	66.35
6,721	31.73	Blackrock UK Property	6,935	32.53
1,528	100	**Derivative Contracts - Futures**	2,328	100

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Current market “bid” price	Not required	Not required
Quoted bonds	Level 1	Current market “bid” price	Not required	Not required
Derivatives	Level 1	Valued from prices set by independent participants in the market	Not required	Not required
Property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

15a Fair Value Hierarchy

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 interest securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of investment is based on the bid market quotation of the relevant stock exchange.

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 2016			31 March 2017	
Quoted market price Level 1 £000	Quoted market price Level 2 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000
507,379	21,183	Financial assets at fair value through profit and loss	625,981	21,321
2,158		Loans and Receivables	3,788	
		Financial Liabilities		
(1,527)		Fair Value through profit and loss	(2,330)	
508,010	**21,183**	**Total**	**627,439**	**21,321**

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2016				31 March 2017		
Designated at fair value through profit and loss £000	Loans and receivables Restated £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
			Financial Assets			
130,929			Bonds	153,178		
194,037			Equities	236,697		
179,624			Pooled Investments	232,468		
21,183			Pooled Property Investments	21,321		
1,528			Derivative Contracts	2,328		
	2,008		Cash With Fund Managers		3,638	
	150		Internally Managed Funds		150	
1,261			Other Investment Balances	1,310		
	1,256		Debtors		2,641	
528,562	**3,414**	**0**		**647,302**	**6,429**	**0**
			Financial Liabilities			
(1,527)			Derivative Contracts	(2,330)		
		(726)	Creditors			(708)
(1,527)	**0**	**(726)**		**(2,330)**	**0**	**(708)**
527,035	**3,414**	**(726)**		**644,972**	**6,429**	**(708)**

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 2016 £000		31 March 2017 £000
	Financial Assets / Liabilities	
(19,176)	Fair Value through profit and loss	109,173
(35)	Loans and Receivables	29
(19,211)	**Total**	**109,202**

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows. 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 Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Statement of Investment Principles (SIP), superseded by Investment Strategy Statement from 1 April 2017 and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous fund manager selection process. In addition the Fund employs an adviser, JLT, 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 £2,328,160 (£1,528,250 as at 31 March 2016)

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Sterling. Riskier assets in the Fund such as equities display greater potential price volatility than bonds. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	3,638	0.01	3,638	3,638
Investment portfolio assets				
UK Equities	274,554	8.05	296,656	252,452
Overseas Equities	194,611	10.29	214,636	174,586
Bonds and Index Linked	153,178	11.03	170,074	136,282
Property	21,321	2.40	21,833	20,809
Income Due	1,310	0.00	1,310	1,310
Fixed Deposits (Internally managed)	150	0.00	150	150
Total Assets	**648,762**		**708,297**	**589,227**

Note: The % change for total assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,008	0.01	2,008	2,008
Investment portfolio assets				
UK Equities	220,085	10.33	242,820	197,350
Overseas Equities	153,576	9.16	167,644	139,508
Bonds and Index Linked	130,929	8.26	141,744	120,114
Property	21,183	5.09	22,261	20,105
Income Due	1,261	0.00	1,261	1,261
Fixed Deposits (Internally managed)	150	0.00	150	150
Total Assets	**529,192**		**577,888**	**480,496**

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 2017 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

The Fund is exposed to share price risk.This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund’s investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %
UK Equities	8.05
Overseas Equities	10.29
Bonds and Index Linked	11.03
Cash	0.01
Property	2.40

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 2017, the Fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

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 2017.

Asset Type	Value at 31 March 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	194,611	8.46	211,075	178,147
Overseas Bonds	37,746	8.46	40,939	34,553
Total Overseas Assets	**232,357**		**252,014**	**212,700**

The table below shows the currency exposure by asset type as at 31 March 2016.

Asset Type	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	153,576	6.47	163,512	143,640
Overseas Bonds	33,074	6.47	35,214	30,934
Total Overseas Assets	**186,650**		**198,726**	**174,574**

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2017. 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 2017 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	1,007	9.15	1,099	915
EURO	8,463	9.13	9,236	7,690
Norwegian Krone	351	10.96	389	313
Swedish Krona	2,289	9.07	2,497	2,081
Swiss Franc	5,364	12.46	6,032	4,696
US Dollar	37,785	9.13	41,235	34,335
Total	**55,259**		**60,488**	**50,030**

Currency	Value at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	694	6.83	741	647
EURO	8,653	6.77	9,239	8,067
Norwegian Krone	394	9.40	431	357
Swedish Krona	2,164	7.65	2,330	1,998
Swiss Franc	4,318	9.95	4,748	3,888
US Dollar	33,185	7.78	35,767	30,603
Total	**49,408**		**53,256**	**45,560**

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 Authority's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2017. The investment manager reports on the credit quality of the portfolio on a quarterly basis.
The table below shows the credit quality for the Aberdeen Bond portfolio.

Credit Quality	Value at 31 March 2016 £000	Value at 31 March 2017 £000
AAA	3,535	3,829
AA	95,840	117,793
A	12,308	14,399
BBB	16,497	14,399
BB or below	1,309	1,379
Cash	1,440	1,379
Settled Cash	16	29
	130,945	**153,207**
N/A	150	150
Total	**131,095**	**153,357**

17.8 Liquidity risk

The Authority 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.

Fund cashflow is periodically reviewed by the Pension Fund Panel on a quarterly basis.

17.9 Refinancing risk

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

18. Funding Arrangements

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

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 12yrs and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2016 actuarial valuation, the Fund was assessed as 94% funded. This corresponded to a deficit of £32.7m. at that time.

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

	2010 Valuation	2013 Valuation	2016 Valuation
Funding Level %	84.0	89.0	94.0
Funding (Deficit) £m	**(67.2)**	**(53.2)**	**(32.7)**

The assessed value of assets held by the Fund at 31 March 2016 was £525.5m (2013 valuation: £451.0m), whilst the liabilities accrued in respect of pensionable service were £558.2m (2013 valuation: £504.2m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

Financial Assumptions

Financial Assumption		31 March 2016	31 March 2013
Discount rate Pay increase	 Long Term Short Term	5.5% 3.9% Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	5.9% 4.5% CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4% Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	2.7%
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions

The main assumptions are detailed below:

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 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 2017, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31/03/17 %
Inflation/Pension Increase Rate	2.7
Salary Rate Increase	4.2
Discount Rate	2.7

The value of the Fund's promised retirement benefits as at 31 March 2017 was:

Year Ended	31/03/16 £m	31/03/17 £m
Present value of promised retirement benefits	790.3	1,002.2

20. Current Assets

	31/03/16 £000	31/03/17 £000
Debtors		
Contributions Due	1,363	79
Sundry Debtors	28	189
Cash in Hand	1,228	2,452
Current Assets	**2,619**	**2,720**

Analysis of Debtors

	31/03/16 £000	31/03/17 £000
Administering Body	1,274	38
Admitted and Scheduled Bodies	89	41
Sundry Debtors	28	189
Current Debtors	**1,391**	**268**

21. Current Liabilities

Creditors	31/03/16 £000	31/03/17 £000
Fund Managers Fees	(214)	(628)
Sundry	(512)	(80)
Payroll	(261)	(256)
Current Liabilities	**(987)**	**(964)**

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 Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.
The amount of additional voluntary contributions paid by members during 2016/17 to AVC schemes outside the Authority's responsibility was £0.172m (£0.127m at 31 March 2016). The external providers have reported that at 31 March 2017 the total value of accumulated AVCs is £2.048m (£1.710m at 31 March 2016).

23. Related Parties

Merton Council
Merton Pension Fund is administered by Merton Council consequently there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £0.36m (2015/16 £0.36m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of scheme members and contributed £16.2m to the Fund in 2016/17 (2015/16: £15.3m).

Governance
C Holland, (Director of Corporate Services) is an active member of the Pension Fund.

There are no members of the Pension Fund Advisory Panel (PFAP) in receipt of pension benefits.

Each member of the PFAP is required to declare their interests at each meeting.

Key Management Personnel
The key management personnel of the fund are the Director of Corporate Services, the Interim Assistant Director of Resources and the Interim Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31/03/16 £000	31/03/17 £000
Short-term benefits	86,449	88,570
Post-employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total remuneration	**86,449**	**88,570**

24. Contingent Asset

LB Merton is one of the groups of claimants involved in a class action against Royal Bank of Scotland (RBS). This claim stems from the collapse of the financial markets in 2008 following the failures of Northern Rock, Lehman Brothers and others.

RBS put out a Rights Issue between May – June 2008. Merton Pension Fund was one of the many institutional and other investors that subscribed to shares based on the Prospectus put out by RBS.

The shares made losses and the claim is to recover those losses. The timing and amount of compensation remain uncertain.

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 Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 ("the Regulations").

1.2. The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

1.3. It should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the 2016 guidance issued by CIPFA.

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 ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met;
- to take a prudent longer-term view of funding those liabilities; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

2.2. These objectives are desirable individually but may by their nature 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. Aims of the Fund

3.1. The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resource are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters

4. Purpose of the Fund

4.1. The purpose of the Fund is to:

- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income; and
- Accumulate and invest money received, and facilitate the management of this.

5. Funding Objectives

5.1. 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.

5.2. 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;
- Ensure the solvency and long-term cost efficiency of the Fund, while having regard to the desirability of maintaining as nearly constant employer contribution rates where practical;
- Set contributions to target a 100% funding level over an appropriate time period using appropriate actuarial assumptions;
- Ensure effective and efficient management of employers' liabilities;
- Allow the return from investments to be maximised within reasonable risk parameters; and
- Have regard to the likely outcomes of the review under Section 13(4)(c)

6. Key Parties

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

The Administering Authority

6.2. 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, investment income and other amounts due to the Fund;
- 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;

- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance and funding and ensure that the FSS and ISS are updated as necessary;
- Prepare the Fund accounts;
- Effectively manage any potential conflict of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the actuarial valuation process as they see fit.

Individual Employers

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

6.4. 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 19th 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;
- Promptly notify the Administering Authority of any new Scheme members and any other membership changes promptly;
- Exercise any discretions permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs, particularly in respect of early retirement strains, in accordance with agreed policies and procedures; and
- Pay any exit payments on ceasing participation in the Fund.

Fund Actuary

6.5. 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 to ensure fund solvency and long-term cost efficiency, after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations;
- 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 the funding aspects of individual benefit-related matters;
- Prepare advice and valuations on the exiting of employers from the Fund;
- 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 permitted or 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.

7. Funding Strategy

7.1. 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.

7.2. The funding strategy seeks to achieve (via employee and employer contributions and investment income) two key objectives:

- Maintain the solvency of the Fund with an aim of targeting a funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the Regulations; and
- Maintaining the long-term cost efficiency of the Fund with a desire to retain stability of employer contributions.

7.3. 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.

7.4. 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.

7.5. The last Actuarial Valuation was carried out as at 31 March 2016 with the assets of the Fund found to represent 94% of the accrued liabilities for the Fund.

8. Funding Method

8.1. 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.

8.2. 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.

8.3. 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:

- 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.

8.4. 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.

8.5. 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.

9. Valuation Assumptions and Funding Model

9.1. 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.

9.2. 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.

9.3. A summary of the key assumptions is included in the following table and can be found in the actuarial valuation report as at 31 March 2016. Further details regarding the derivation of these assumptions can be found in the Fund Actuary's initial results and assumptions advice to the Fund dated 13 September 2016.

Financial assumptions		Value at 31 March 2016
		% p.a.
Discount rate		5.5%
Pay increases	Long-term	3.9%
	Short-term	CPI for period from 31 March 2016 to 31 March 2020
Consumer Price Inflation (CPI)		2.4%
Pension increases		2.4%
Post-retirement mortality		S2PA tables with a multiplier of 80% for males and 85% for females, projected into the future with the 2015 CMI Model with a long-term rate of improvement of 1.5% p.a.

Future Price Inflation

9.4. 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 2016 valuation is 3.3% per annum.

Future Pay Inflation

9.5. 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. However in recent years the gap between pay increases and price inflation has been lower than historic levels. The assumption adopted in the 2016 Valuation is that pay increases will, on average over the longer term, exceed price inflation by 0.6% per annum. In addition, given the current economic climate and salary increase restrictions applied to public sector workers, it was also assumed that pay increases would be in line with CPI for the period to 31 March 2020.

Future Pension Increases

9.6. 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 and constituents that make up these indices. An adjustment of 0.9% per annum is therefore made to the RPI assumption to derive the CPI assumption.

Future Investment Returns/Discount Rate

9.7. 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.

9.8. The discount rate that is adopted will depend on the funding target adopted for each employer.

9.9. 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.

9.10. 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.

9.11. The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

9.12. 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

9.13. 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

9.14. 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 its individual employers.

10. Deficit Recovery/Surplus Amortisation Periods

10.1. 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.

10.2. 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.

10.3. 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.

10.4. At the 2016 valuation, a maximum deficit recovery period of 12 years from 1 April 2017 is used for all employers. This will help protect against future adverse experience and help to reduce the interest cost paid by employers.

11. Pooling of Individual Employers

11.1. 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.

11.2. 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.

11.3. Currently there are three pools within the Fund, namely the London Borough of Merton pool and two Academy pools; one which consists of academies that existed within the Fund at the 2013 valuation and one that is formed of Academies that joined the Fund after 31 March 2013.

11.4. 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.

12. New Admissions

12.1. 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.

12.2. 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.

13. Cessation Valuations

13.1. 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 an exit payment, 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.

13.2. 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.

14. Early Retirement Costs

14.1. 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.

15. Links with the Investment Strategy Statement (ISS)

15.1. The main link between the Funding Strategy Statement (FSS) and the ISS 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 ISS.

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

16. Risks and Counter Measures

16.1. 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.

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

17. Financial Risks

17.1. 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.

17.2. The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.1% per annum in the real discount rate will decrease/increase the liabilities by around 2.0%, and decrease/increase the required employer contribution by around 0.5% of payroll.

17.3. The Fund Actuary can provide funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

18. Demographic Risks

18.1. 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 increase the value of liabilities by approximately 3%.

18.2. The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

18.3. The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

18.4. 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.

19. Regulatory Risks

19.1. 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.

19.2. 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.

19.3. 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.

20. Governance

20.1. 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.

20.2. 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.

20.3. 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.

21. Monitoring and Review

21.1. 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.

21.2. 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 Committee: 15 September 2014

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Section

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 Committee (**"PFAC"**) 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 PFAC, 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 PFAC 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 PFAC to take into account developments affecting the Local Government Pension Schemes since it was last reviewed. In preparing the revised SIP, the PFAC 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 StateStreet Analytics). The data produced as a result is to be available and reviewed by representatives of the PFAC quarterly and considered at PFAC 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 PFAC.

3.2.4 Should an investment fund performance fall below the required standard over a significant period, PFAC 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 PFAC 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**
Performance target	**1.25%**	**1.25%**	**Par**	**0.75%**	**Benchmk plus**	**Benchmk plus**	
Benchmark Index	**%**	**%**	**%**	**%**	**%**	**%**	**%**
FTSE All Share	55.0	87.3	55.0	0.0	0.0	0.0	46.0
FTSE AW North America	6.0	0.0	21.0	0.0	0.0	0.0	6.3
FTSE AW Europe ex UK	14.5	0.0	12.0	0.0	0.0	0.0	6.2
55% MSCI AC Asia Pac exc Japan/45% FTSE Developed Asia Pacific ex Japan	7.25	0.0	6.0	0.0	0.0	0.0	3.1
55% TOPIX (1st Section) / 45% FTSE AW Japan	7.25	0.0	6.0	0.0	0.0	0.0	3.1
55% MSCI Emerging Mkts / 45% FTSE AW Emerging Mkts Free	10.0	12.7	0.0	0.0	0.0	0.0	5.3
	100	**100**	**100**	**0**	**0**	**0**	**70**
17% FTSE-A Brit Govt Fixed >15yrs	0	0	0	17.0	0	0	4.2
8% BofA Merrill Lynch Sterling Non-Gilts >10y	0.0	0.0	0.0	8.0	0.0	0.0	2.0
BARCAP GBP Global Agg Bond	0.0	0.0	0.0	25.0	0.0	0.0	6.3
50% FTA British Govt. Index Linked over 5 Yrs	0.0	0.0	0.0	50.0	0.0	0.0	12.5
	0	**0**	**0**	**100**	**0**	**0**	**25**
IPD UK PPF All Balances Funds	0.0	0.0	0.0	0.0	100.0	100.0	5.0
	100	**100**	**100**	**100**	**100**	**100**	**100**

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 PFAC 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 PFAC may decide to invest assets of the Fund in other investments permitted under the Regulations, after obtaining proper advice from a person whom PFAC 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, PFAC 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 PFAC 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 PFAC, 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, PFAC 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 PFAC 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 PFAC.

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:

	%		%		%
Equities	**70**	UK	46	UK	46
		Overseas	24		
				North America	6.3
				Europe ex UK	6.2
				Pacific ex Japan	3.1
				Japan	3.1
				Emerging Markets	5.3
Bonds	**25**	UK Fixed Income	4.2	UK Bonds (Gov)	4.2
		UK Fixed Income	2.0	UK Bonds (Credit)	2.0
		Overseas Fixed	6.3	Overseas	6.3
		UK Index Linked	12.5	UK Index-Linked (5 Yrs)	12.5
Property	**5**	UK	5	UK	5
Total	**100**		**100**		**100**

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. [*PFAC / 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**
Equities	**70.00**	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
Bonds	**25.00**	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
Property	**5.00**	UK	100.00	UK	100.00	0.00
Cash	0.00			Cash	0.00	0.00
	100.00					

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	46.0	10.0	9.0	22.0
US	6.3	1.0	0	9.0
Europe ex UK	6.2	3.0	0	5.0
Japan	3.1	2.0	0	2.5
Pacific ex Japan	3.1	1.0	0	2.5
Emerging Markets	5.3	2.0	1.0	0
	70.0	**19.0**	**10.0**	**41.0**

4.3.9 Bond investment is a significantly smaller allocation of the Fund than that of equities. The PFAC 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.

<u>Risk Measurement</u>

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 PFAC.

<u>Credit and Conflict of Interest Risk</u>

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.

<u>Risk Management</u>

4.3.14 PFAC 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 PFAC considers it appropriate, investment managers will be instructed to reduce risk (notwithstanding the asset-allocation tolerance margins detailed in Section 4) and the PFAC 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 31st 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 31st March 2016. This valuation will need to be signed off by 31st 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 PFAC 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 PFAC, 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 PFAC 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 PFAC's policy or instruction.

4.6.5 Where investment managers have doubts about the acceptability to the PFAC of particular investments on socially responsible, environmental or ethical grounds and they can provide the PFAC 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 PFAC 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 PFAC 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 PFAC 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 PFAC 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 PFAC and report such issues to the Chair of the PFAC. Where feasible, these issues are to be discussed by the PFAC as a whole, before action. Voting actions are to be recorded in quarterly reports, which will be available to the PFAC. Where required, voting on contentious issues should be explained to the PFAC by investment managers at meetings of the full PFAC. 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 PFAC 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 PFAC.

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 PFAC. PFAC will review corporate governance issues in respect of pooled funds and consider and take action as appropriate.

4.7.6 PFAC 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 PFAC 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 PFAC. Decisions are taken by PFAC'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, PFAC is able to evaluate and challenge advice received and PFAC'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 PFAC 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 PFAC 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 PFAC will be seen relative to the progress made in to maintaining and improving fund performance. Staffside and Pensioner representatives attend PFAC meetings as observers and performance will be apparent to PFAC'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.

PFAC 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.*

PFAC 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 PFAC 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 PFAC 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 PFAC 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.

Sub-fund:	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	1st £100m 0.32% Thereafter 0.25%					
UBS Asset Management		1st £50m at 0.375%. Thereafter 0.30%				
UBS Asset Management			1st £20m at 0.13%. Thereafter 0.04% *			
Aberdeen Asset Management				0.25%		
UBS Asset Management					0.75%	
BlackRock 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 PFAC and referred as necessary to PFAC as a whole.

If a material change to the Authority's investment policy is made, PFAC 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 PFAC and the Authority's independent investment advisor. Representatives of PFAC and investment adviser question the investment managers as necessary.

6.3 Quarterly

Fund valuation/trading reports reviewed by representatives of PFAC in conjunction with the investment managers, with copy valuations or summaries available for the PFAC 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 PFAC. Proposals for future strategy are put forward by the PFAC. Investment manager(s) may be invited to present to PFAC.

6.4 Annually

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

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

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

6.5 3-yearly

PFAC 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

PFAC 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.

Principle 1 - Effective Decision Making		
	Myners /CIPFA Principle	
1.1.	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.	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. 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.
1.2.	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.
1.3.	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.
1.4.	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.
1.5.	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.
1.6	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.

Principle 2 - Clear Objectives		
	Myners /CIPFA Principle	
2.1.	Trustees should set out an overall investment objective for the fund that: • 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 • Takes account of their attitude to risk, specifically their willingness to accept under-performance due to market conditions.	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). 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.
2.2.	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.	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.

Principle 3 - Focus on Asset Allocation		
	Myners /CIPFA Principle	
3.1.	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.	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. 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.
3.2.	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.
3.3.	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.	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.
4.2.	The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.	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. 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.

Principle 5 - Explicit mandates		
	Myners /CIPFA Principle	
5.1.	Trustees to agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on: 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; 2. The manager's approach in attempting to achieve the objective; and 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.	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). 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. 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.
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.	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. 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.
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.	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. 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.

Principle 7 - Appropriate benchmarks		
	Myners /CIPFA Principle	
7.1.	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.	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. 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.
7.2.	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.
7.3.	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.
7.4.	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.

Principle 8 - Performance measurement		
	Myners /CIPFA Principle	
8.1.	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.
8.2.	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.
8.3.	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	
9.1.	A strengthened Statement of Investment Principles should set out: 1. Who is taking which decisions and why this structure has been selected; 2. The fund's investment objective; 3. The fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; 4. The mandates given to all advisers and managers; and 5. The nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.	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: 1. Describes the fund's decision making framework and the investment structure, and the rationale behind this. 2. Describes the fund's current investment objective. 3. Describes Asset Allocation via explanation of 'Investment Balance.' 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. 5. The Statement of Investment Principles includes details of investment manager fee structures, and why these have been used.

Principle 10 - Regular reporting		
	Myners /CIPFA Principle	
10.1.	Trustees should publish: 1. Their Statement of Investment Principles 2. The results of their monitoring of advisers and managers. 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.	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. Monitoring data is available to the Pension Fund Advisory Panel, and key data identified for publication to relevant parties. 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.

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.	Merton Council has delegated to the Pension Fund Advisory Panel responsibility for practical supervision and direction of Fund investment. 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. The Chief Finance Officer (Section 151) is responsible for recommending and implementing an adequate level of in-house staffing support. The Panel obtains independent advice from external professional sources, and delegate's day to day investment selection and realisation decisions to professional investment managers.
Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	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. 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. 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. 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.

Principle 2 - Clear Objectives	
Myners Principle	**Extent of Compliance**
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.	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). 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. 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.

Principle 3 - Risks and Liabilities	
Myners Principle	**Extent of Compliance**
In setting and reviewing their investment strategy, trustees should take account of the form and structure of risks and liabilities.	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. 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.

Principle 4 - Performance Assessment	
Myners Principle	**Extent of Compliance**
Trustees should arrange for the formal measurement of the performance of investments.	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. Actuarial and other independent advisors are subject to evaluation of their contribution, and to re-selection and re-tendering as required.
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.	The operational effectiveness of the Pension Fund Advisory Panel is considered periodically, with a view to improving focus on key issues. 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.

Principle 5 - Responsible Ownership	
Myners Principle	**Extent of Compliance**
Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.	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. 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: • Describes the fund's decision-making framework and the required investment structure. • Describes the fund's current investment objective. • Defines the required Asset Allocation. • Determines the mandates given to individual investment managers, and the performance target for each sub-fund. • Describes investment manager fee structures. • Describes the Funds Corporate Governance policy The Statement of Investment Principles has been published and distributed to relevant parties, (including Admitted and Scheduled Bodies) who will be advised of updates.
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.	The Pension Fund Advisory Panel meets periodically throughout the year to ensure that it discharges its responsibilities in respect of the Pension Fund. 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.

Principle 6 - Transparency and Reporting	
Myners Principle	**Extent of Compliance**
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.	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. It is intended that each Pension Scheme member receive an annual update on his or her pension provision through an individual annual statement. The authority operates a dedicated web site for stakeholders and provides newsletters..

www.merton.gov.uk

London Borough of Merton

Local Government Pension Scheme
Communications Policy Statement

Updated August 2017

Contents

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 2015, 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

Telephone: 020 8871 8036

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

Regulatory Framework

The Local Government Pension Scheme Regulations 2013 (Regulation 67) 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

and

- via the council's internal Intranet: http://intranet/pensions
- For employers: 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:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
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:

Method of communication	Media	Frequency of issue	Method of Distribution	Audience Group
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
Method of communication	**Media**	**Frequency of issue**	**Method of Distribution**	**Audience Group**
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:

Method of communication	Media	Frequency of issue	Method of Distribution	Audience Group
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:

Method of communication	Media	Frequency of issue	Method of Distribution	Audience Group
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:

Method of communication	Media	Frequency of issue	Method of Distribution	Audience Group
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/ LGPS Scheme Advisory Board
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:

Method of communication	Media	Frequency of issue	Method of Distribution	Audience Group
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 must 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 summery 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 pension's 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

Telephone: 020 8871 8036

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

ANY OTHER APPROPRIATE MATERIAL

7.1. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills

The London Borough of Merton Pension Fund aims to achieve good standards of governance in line with or exceeding best practice, and to further enhance the training and development of elected members.

A major factor in the governance arrangements of the Fund is to ensure that Panel members and officers have the relevant skills and knowledge by applying the CIPFA Knowledge and Skills Framework, which will achieve this objective. Six areas of knowledge and skills have been identified as core technical requirements for those members associated with LGPS pension funds:

1. Pensions legislation, admission agreements and governance context;
2. Pension accounting and auditing standards;
3. Financial services procurement and relationship management;
4. Investment performance and risk management;
5. Financial markets and products knowledge, and;
6. Actuarial methods, standards and practices.

It is not the intention that members should individually become technical experts, but that collectively they have the ability, knowledge and confidence to question and challenge the Information and advice they are given, and to make effective and rational decisions.

Training to members is delivered through various means, including:

- Presentations to Panel;
- Internal training events;
- Fund events such as the employer AGM and seminars;
- Seminars and conferences offered by industry wide bodies, such as the LAPFF annual conference, LGC conferences and PLSA conferences;
- Local, free or low cost seminars and training events offered by the Fund's investment managers and advisors, and;
- Online training and reading.

The elected members meet at least three times per year with local trade union representatives and receive updates on benefit administration changes and actuarial matters. At Panel meetings a wide range of topical issues are embraced, covering asset classes and investment products, the economy and market conditions.

7.2. Summary of number of employers in the Fund

A summary of the number of employers within the fund analysed by scheduled or admission bodies and by active (with active members) and ceased (no active members but with some outstanding liability) is given

2016/17	Active	Ceased	Total
Scheduled body	11	5	16
Admitted body	3	16	19
Total	14	21	35

7.3. Fund Asset Analysis

2016/17	UK £000	Non UK £000	Global £000	Total £000
Equities	274,554	186,227	8,384	469,165
Bonds	115,432	37,746	0	153,178
Property	21,321	0	0	21,321
Derivatives	2,328	0	0	2,328
Cash	3,788	0	0	3,788
Total	417,423	223,973	8,384	649,780

2015/16	UK £000	Non UK £000	Global £000	Total £000
Equities	220,085	147,617	5,959	373,661
Bonds	97,855	33,074	0	130,929
Property (Direct Holdings)	21,183	0	0	21,183
Derivatives	1,528	0	0	1,528
Cash	2,155	0	0	2,155
Total	342,806	180,691	5,959	529,456

Note

"Global" holdings are those that include an element of both overseas and UK listed assets.

7.4. Analysis of Investment Income Accrued

2016/17	UK £000	Non UK £000	Global £000	Total £000
Equities	1,222	73	0	1,295
Property	15	0	0	15
Total	1,237	73	0	1,310

2015/16	UK £000	Non UK £000	Global £000	Total £000
Equities	1,168	77	0	1,245
Property	16	0	0	16
Total	1,184	77	0	1,261

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 chartable 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% UKI 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 top 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.

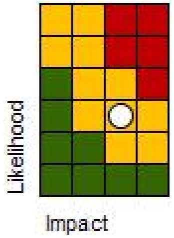
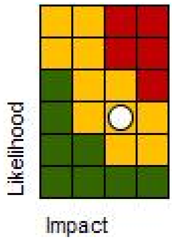
Unlisted Securities
Holdings in companies, which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not

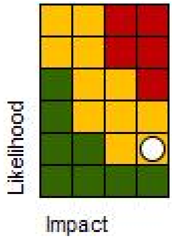
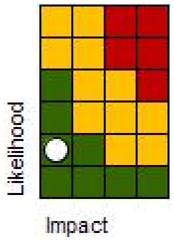
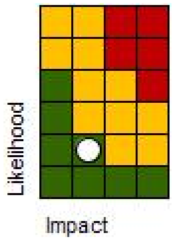
openly traded. Unlisted securities are usually less liquid than those traded in the main markets.

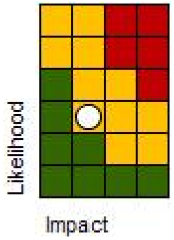
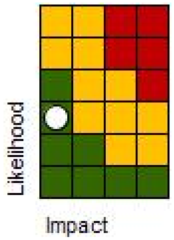
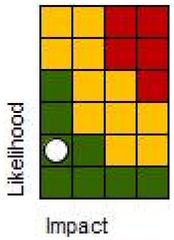
Valuation
A summary of an investment portfolio showing the holdings and their value as at a certain date.

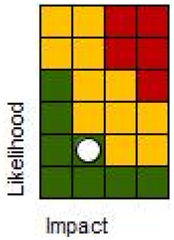
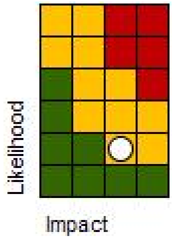
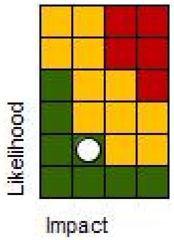
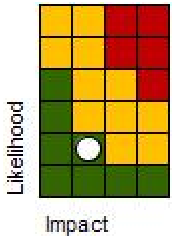
Warrants
A certificate giving the holder the right to purchase shares or stock at a stipulated price within a specified time span, or in some cases, forever.

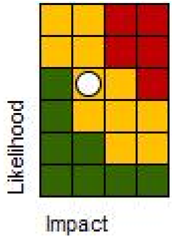
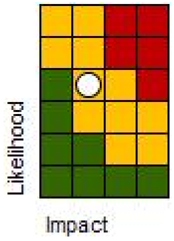
PANELRisks & Issues Register ~ Pensions ~ March 2017

Risk Owner	Code & Name	Risk or Issue	Cause	Consequences	Matrix	Current Score & Review History	Impact code	Control Measures in place	Date of comments
Caroline Holland	MPF02 Significant rise in employer contributions due to scheme liabilities increasing disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns etc	Risk	Economic factors, Fund maturing quicker than expected	Employer contribution rates become unacceptably high causing upward pressure on Council tax and employers' costs.		9 31-Mar-2017 9 03-Oct-2016 9 04-Jul-2016 9 11-Dec-2015	FI, R	Monitor liabilities intervaluation. Past service deficit to be paid as lump sums to avoid impact on employer payroll. Actuarial asset and liability studies as required. Monitor individual employers funding levels. Fund longevity studies as required and benchmark against National LGPS average. Triennial valuation result and asset/liability modelling to inform review of the pension fund investment strategy. Monitor bond yields and the impact of lower yields on pension fund deficits. Monitor the outlook for inflation expectations, implication for funding and pension fund cashflow. Use "Illuminate", the Fund Actuary's on-line valuation tool, to carry out regular roll-forward valuation. Use 'Pfaroe', the investment adviser's tool, to monitor alignment of investment strategy and funding strategy.	31 Mar 2017
Caroline Holland	MPF03 Significant rise in employer contributions due to poor/negative investment returns	Risk	Poor economic conditions, wrong selection of investment strategy and poor selection of investment managers	Increased deficit, rise in employer contributions		9 31-Mar-2017 9 03-Oct-2016 9 04-Jul-2016 9 11-Dec-2015	FI, R	Monitor investment returns, review asset allocation to ensure that actuary's investment return assumptions are met, greater diversification to strengthen pension fund's resilience to market risk, benchmark and monitor fund returns against industry average and LGPS average. Delegated authority to make informed and quick tactical allocation decisions if required. Review/reappraise the likely long-term global economic and markets performance post-Brexit. Use 'Pfaroe' to realign actions with expectations.	31 Mar 2017

Risk Owner	Code & Name	Risk or Issue	Cause	Consequences	Matrix	Current Score & Review History	Impact code	Control Measures in place	Date of comments
Caroline Holland	MPF05 Failure of pension fund assets to fund liabilities due to adverse changes in economic conditions (ie inflation, interest rates)	Risk	Falling interest rates will affect bond prices therefore cause the level of Fund liabilities to rise; market sector falls substantially.	Increase in liabilities, impact on employers' budgets.		8 31-Mar-2017 8 03-Oct-2016 8 04-Jul-2016 6 11-Dec-2015	FI, R	Review the strategic mix of assets to ensure the right balance of growth and income based assets and downside protection to mitigate this risk. Officers will regularly monitor the effect of key economic and market indicators including interest rate on the Fund. Invest in some index-linked investments and ensure that the Fund has sufficient resilience against undesired change in interest rates. Ensure timely and accurate information to support PFAP's decisions. Prepare and publish Investment Strategy Statement (ISS) per the new LGPS Regulations 2016 and government Guidance. Use 'Pfaroe' to monitor the investment strategy.	31 Mar 2017
Caroline Holland	MPF07 Failure of pension fund assets to meet liabilities due to fund managers acting in breach of their investment management agreements	Risk	Active managers take risks that can result in underperformance. Quality of key personnel may impact portfolio performance. It may take time for the managers to implement reorganisation strategies after the loss of key personnel.	Financial loss to the fund as a result of temporary underperformance which may be longer than the manager may have advised.		2 31-Mar-2017 2 03-Oct-2016 2 04-Jul-2016 2 11-Dec-2015	FI, R	Ensure a balance between passive and active management style, clear process for comprehensive and rigorous manager monitoring. Ensure there is sufficient internal knowledge to monitor external fund managers activity, scrutinise performance and capacity to challenge managers' approach to portfolio management. Review IMAs to ensure fund managers do not deviate from the mandate. Cashflow planning and monitoring. Develop PFAP's governance capacity through regular training and technical support. Use 'Pfaroe' to monitor investment strategy and impact of changes to asset allocation and fund managers' mandates.	31 Mar 2017
Caroline Holland	MPF10 Underperformance of investments due to inappropriate investment advice from Investment Adviser	Risk	Inappropriate advice from Investment Adviser leading to poor investment decisions.	Investment performance falls and fund may fail to meet its investment and funding objectives in the medium term. High cost of changing investment decision.		4 31-Mar-2017 4 03-Oct-2016 4 04-Jul-2016 4 11-Dec-2015	FI, R	Ensure strong officer support for PFAP. Challenge adviser's opinion. Take second opinion when major investment decisions are being made, review investment advice given. Raise governance capacity through regular training for PFAP members and Pension Board. Engage with JLT, the investment adviser, the London CIV and Local Authority Pension Fund Forum (LAPFF).	31 Mar 2017

Risk Owner	Code & Name	Risk or Issue	Cause	Consequences	Matrix	Current Score & Review History	Impact code	Control Measures in place	Date of comments
Caroline Holland	MPF11 / KSR72 Failure to procure investment managers in good time and so not improving Fund performance	Key Strategic Risk	Failure to review investment strategy and investment management arrangement within appropriate timescales resulting in failure to improve performance of investments.	Investment mandates incompatible with incumbent fund managers to the detriment of investment performance, fund may fail to meet its investment and funding objectives in the short and medium term.		6 16-Mar-2017 12 19-Dec-2016 12 19-Sep-2016 12 04-Jul-2016	FI, R	Review of the Pension Fund investment strategy is complete. A strategy report was presented to the Pension Fund Advisory Panel (PFAP) on 8th March 2017. The Panel approved the recommended asset allocation and the Investment Strategy Statement (ISS) to be published by no later than 1st April 2017. Work with JLT, the investment adviser, and the London CIV to implement the new strategy as soon as possible. The new asset allocation ensures appropriate balance between expected return and risk and supports the governments pooling agenda. Update PFAP on the implementation including the selection of fund managers for agreed mandates and benchmarks to be adopted.	31 Mar 2017
Paul Dale	MPF13 Pension Fund Overpayments	Risk	Pension overpayments arising as a result of non-notification in change of circumstances.	Financial loss to the Fund. Reputational risk.		3 31-Mar-2017 3 03-Oct-2016 3 04-Jul-2016 3 11-Dec-2015	FI, R	Undertake comprehensive GMP reconciliation to HMRC records via Pensions Shared Services by Dec 2018 deadline. Participate in the National Fraud Initiative. Process in place to investigate return of payments. Pension calculations are peer checked and signed off by senior officer. Comprehensive checks carried out for deferred pensions. Periodic Internal audit reviews. Review/update systems in line with changes in regulation. Ensure staff have required knowledge, training and supervision/support.	31 Mar 2017
Paul Dale	MPF14 Failure of Payroll Shared Services and other payroll providers to pay pensions accurately	Risk	Incorrect member data. Incorrect contributions collected mean that in future errors are likely to occur (for example - incorrect start date).	Financial loss to the fund. Reputational risk.		2 31-Mar-2017 2 03-Oct-2016 2 04-Jul-2016 2 11-Dec-2015	FI, R	GMP reconciliation to HMRC records. Review and monitor information from Payroll Services, review SLA and ensure effective communication with payroll staff. Internal audit reviews	31 Mar 2017

Risk Owner	Code & Name	Risk or Issue	Cause	Consequences	Matrix	Current Score & Review History	Impact code	Control Measures in place	Date of comments
Paul Dale	MPF16 Auto-enrolment staging	Risk	A number of employers in the Fund have staging dates up to 2017	Non-compliance of regulations as a result of failure to implement auto-enrolment by the staging date.		4 31-Mar-2017 4 03-Oct-2016 4 04-Jul-2016 4 11-Dec-2015	FI, R	Continuous communication with employers. Regular review of staging date register of all employers. Quarterly Administration meeting. Ensure systems and procedures are up-to-date.	04 Jul 2016
Caroline Holland	MPF17 Failure of the Fund to implement new regulations	Risk	Workload of Pensions Shared Service, staff knowledge gap, failure to keep abreast with regulatory changes. Failure to communicate changes to employers, Administering Authority staff workload.	Reputational risk, Pensions Regulator, potential impact on pension fund accounts.		6 31-Mar-2017 6 03-Oct-2016 6 04-Jul-2016 6 11-Dec-2015	R, FI	Timely release of actuarial valuation report, Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). Quarterly update on regulations presented to PFAP, officer participation in CIPFA Pensions Network, Peer group sharing of information, attend key conferences. Respond to key Pensions consultations that affect the Fund. Attend CIPFA closure of accounts workshops. Quarterly Administration meeting.	31 Mar 2017
Caroline Holland	MPF19 Failure to communicate properly with stakeholders	Risk	Lack of clear communications policy with employers and scheme members.	Scheme members are not aware of the rights and privileges of 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 challenge from Pensions Regulator.		4 31-Mar-2017 4 03-Oct-2016 4 04-Jul-2016 4 11-Dec-2015	FI, R	Update members via annual newsletter, benefits statement, update website with regulatory changes. Review Fund communication strategy annually or following any regulatory change. Implement pensions regulator recommendations as required. Implement LGPS regulations and recommendations. Monitor Pensions Shared Services implementation of regulations. Regular communications with employers. Quarterly Administration meeting.	04 Jul 2016
Caroline Holland	MPF21 Failure of the London Collective Investment Vehicle (CIV) to meet stated expectations of cost savings	Risk	Investment managers not participating in the CIV reduce fees to rates lower than the CIV fees and CIV unable to provide mix of mandates required by Funds.	Impact on Investment returns and likely intervention from the government by way of mandatory regulations.		4 31-Mar-2017 4 03-Oct-2016 4 04-Jul-2016 4 11-Dec-2015	FI, R	Monitor investment sub-funds offered by the CIV, terms and conditions, performance and governance. Attend meetings and engage positively with the CIV and other Funds. Update PFAP and Pension Board with developments at the CIV.	03 Oct 2016

Risk Owner	Code & Name	Risk or Issue	Cause	Consequences	Matrix	Current Score & Review History	Impact code	Control Measures in place	Date of comments
Paul Dale	MPF22 Post-Brexit economic crisis - UK outside the EU	Risk	The UK voted to leave the EU at the 23 June 2016 referendum (Brexit)	Article 50 triggered on 29th March 2017 - protracted negotiations and uncertainty. Market volatility could undermine the value of the pension fund. Post-Brexit, UK pension funds could face restricted access to EU markets.		8 31-Mar-2017 8 03-Oct-2016 8 04-Jul-2016 04-Apr-2016		Keep overseas exposure unhedged. Fall in long-term gilt yields since the referendum could cause pension fund liabilities and deficit to increase. Monitor the continuing impact on the UK economy of the vote to leave the EU. Review implication for the Fund of economic uncertainty and market movements over time and potential impact on assets and liability values. Update PFAP and Pension Board on post-Brexit developments including investment opportunities and risk and seek investment advice. Hold regular review meetings with fund managers.	03 Oct 2016
Caroline Holland	MPF23 **NEW RISK** Section 13 Valuation Risk	Risk	Under the Public Services Pensions Act 2013, the DCLG are required to commission a “Section 13” valuation to examine the 2016 valuation results for LGPS Funds and check for; compliance with the regulations, consistency with other Funds, solvency and long-term cost efficiency	Stringent long-term cost efficiency test to determine how quickly the Fund deficit is being paid off. In effect, this introduces a minimum funding requirement for the LGPS. The Secretary of State can “intervene” and impose levels of contributions on employers in the Fund		8 31-Mar 2017	FI	Engage with the Fund actuary and check that the actuary understands how the GAD will carry out their s13 valuations and the underpinning assumptions. Ensure consistency of approach to actuarial valuation and in particular, deficit recovery period. L.B Merton as administering authority must act to secure solvency and long-term cost efficiency – it is a regulatory requirement. Prepare and update Funding Strategy Statement in line with CIPFA Guidance.	31 Mar 2017

Rates and Adjustment Certificate

Regulatory background

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2017 to 31 March 2020 is set out in the table overleaf. The primary rate is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017. In addition each employer pays a secondary contribution as required under Regulation 62 (7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates, and is 15.2% of payroll.

The secondary rates across the entire Fund (as a percentage of projected payroll and as an equivalent monetary amount) in each of the three years in the period 1 April 2017 to 31 March 2020 is set out in the table below.

ndary rate	2017/18	2018/19	2019/20
as a % of payroll	4.2%	4.2%	4.2%
Monetary amount	3,539,000	3,672,000	3,758,000

General notes

Employers may pay further amounts at any time and future periodic contributions, or the timing of contributions, may be adjusted on a basis approved by us as the Fund Actuary. The administering authority, with the advice from us as the Fund Actuary may allow some or all of these contributions to be treated as a prepayment and offset against future certified contributions.

The certified contributions include an allowance for expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by participating employers in addition.

The monetary amounts are payable in 12 monthly instalments throughout the relevant year unless agreed by the Administering Authority and an individual employer.

Employer Code	Employer name	Primary rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total contributions (% pay plus monetary adjustment)		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
105	London Borough of Merton	15.2%	£3,338,000	£3,469,000	£3,552,000	15.2% plus £3,338,000	15.2% plus £3,469,000	15.2% plus £3,552,000
5106	Wimbledon And Putney Commons Conservators	16.1%	£100,000	£100,000	£100,000	16.1% plus £100,000	16.1% plus £100,000	16.1% plus £100,000
5116	Moat Housing Group	0.0%	£12,000	£12,000	£12,000	£12,000	£12,000	£12,000
5119	Greenwich Leisure Limited	26.4%	£12,000	£12,000	£12,000	26.4% plus £12,000	26.4% plus £12,000	26.4% plus £12,000
5120	St Marks Academy	14.3%	£13,000	£13,000	£14,000	14.3% plus £13,000	14.3% plus £13,000	14.3% plus £14,000
5121	Harris Academy	14.3%	£20,000	£21,000	£21,000	14.3% plus £20,000	14.3% plus £21,000	14.3% plus £21,000
5123	Merton Priory Homes	21.1%	-4.3%	-4.3%	-4.3%	16.8%	16.8%	16.8%
5124	Harris Academy (Morden)	14.3%	£11,000	£11,000	£12,000	14.3% plus £11,000	14.3% plus £11,000	14.3% plus £12,000
5126	CHAS	13.1%	-1.1%	-1.1%	-1.1%	12.0%	12.0%	12.0%
5127	Benedict Primary School	14.8%	£14,000	£15,000	£15,000	14.8% plus £14,000	14.8% plus £15,000	14.8% plus £15,000
5128	Harris Primary Academy Merton	14.8%	£18,000	£18,000	£19,000	14.8% plus £18,000	14.8% plus £18,000	14.8% plus £19,000
5129	Park Community School	14.8%	£1,000	£1,000	£1,000	14.8% plus £1,000	14.8% plus £1,000	14.8% plus £1,000
5134	Catch 22	13.0%	0.1%	0.1%	0.1%	13.1%	13.1%	13.1%

Investment Strategy Statement

London Borough of Merton

Administering Authority for the London Borough of Merton Pension Fund

Presented to the Pension Fund Advisory Committee and approved – 8 March 2017

1. Statutory Requirement for an Investment Strategy Statement (ISS)

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016. Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State.

The Investment Strategy Statement (ISS) is a document that replaces, and largely replicates, the Statement of Investment Principles under the proposed Investment Regulations. Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the Fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

(a) A requirement to invest money in a wide variety of investments;
(b) The authority's assessment of the suitability of particular investments and types of investments;
(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
(e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1st April 2017 and regularly reviewed and at least every three years. Under transitional arrangements key elements of the 2009 Regulations will remain in force until the ISS is published.

This document is designed to comply with the guidance given by the Secretary of State, and is effective from March 2017. It is proposed to review the ISS regularly with any material changes published, which is more regularly than the Regulations require, but deemed appropriate.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- The Pension Fund Annual Report and Accounts
- Actuarial Valuation.

Background to the Fund

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Merton Pension Fund, and has delegated responsibility for managing the Fund to the Pension Fund Advisory Committee (The Committee). The purpose of the Merton Fund is:

- To collect monies in respect of employee and employer contributions, transfer values and investment income.
- To accumulate and invest money received, and facilitate the management of this.
- To facilitate payment of Local Government Pension Scheme (LGPS) benefits, transfer values, costs, charges and expenses.

Primary Objective

The objectives of the Fund are as follows:

- To ensure that sufficient financial resources are available to meet all accrued Local Government Pension Scheme liabilities as they fall due.
- To ensure effective and efficient management of employer's liabilities.
- To allow the return from investments to be maximised within reasonable risk parameters.
- To enable employer contribution rates to be kept as nearly constant as possible, at reasonable cost to taxpayers, scheduled and admitted bodies.

These overall objectives are supplemented by the funding and investment objectives which are detailed in this document.

London Borough of Merton Pension Fund's Investment Strategy

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a), 7(2) (b) and 7(2) (c); listed below:

2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which Fund monies must be invested.

3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

Objectives of the investment strategy

The Fund'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.

Within this, the fundamental objectives of the Fund's investment are:

- To maximise the return on the Fund's investments and achieve the investment return assumed in the Scheme's actuarial review.
- To achieve the required investment return through reasonably stable performance obtained at modest risk.
- To achieve the investment objective with responsible Corporate Governance and compliance with the Authority's policy regarding Socially Responsible and Ethical Investment.

Since the investment return assumed in actuarial reviews is an assessment of returns over the long term, and in the short term returns may exceed or fall short of this, the Fund will consult its advisors to determine appropriate short-term targets that reflect and contribute to the longer-term objective.

The Fund's overall investment objective relates to its actuarial need, and whilst subsidiary, interim, performance objectives/targets based on market and peer group benchmarks may be used for performance evaluation, these do not represent the fundamental performance objective.

The Fund will establish practical, subsidiary, objectives for any sub-funds into which particular investment categories may be placed for practical purposes; having considered appropriate professional advice.

In formulating the Investment Strategy the Fund must first consider its Funding Strategy.

Funding Strategy

The Fund's funding strategy seeks to achieve (via employee and employer contributions and investment income) two objectives, and these are detailed in the Funding Strategy Statement:

- A funding level of 100%, as assessed by the Fund's appointed actuary, triennially, in accordance with the LGPS regulations.
- As stable an employer contribution rate as is practical.

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

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target.

Setting the Strategy

To invest in assets to target as a minimum a rate of return consistent with the annual growth in liabilities assumed in the actuarial valuation as at 31 March 2016 (the discount rate to value the liabilities was 5.5%), with the weighting between constituent asset classes determined to reduce the expected volatility of the funding level going forward.

The Committee has determined its investment strategy after considering the Fund's liability profile and requirements of the Statutory Funding Objective, their own appetite for risk, the views of the Employers on investment strategy, the Employers' appetite for risk. The Committee have also received written advice from their Investment Advisers – JLT Employee Benefits.

Against these strategic targets, the Committee regularly reviews its Investment Strategy and in doing so considers the risk/return characteristics of each asset class and sub-asset class in this assessment. The Merton Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The basis of the Committee's strategy is to divide the Fund's assets between a "growth" portfolio, comprising assets such as diversified growth funds (DGFs), equities and property, and a "stabilising" portfolio, comprising assets such as bonds. The growth/stabilising allocation is set with regard to the overall expected return objective of the Fund's assets, which is determined by the funding objective and current funding level, as well as the risk tolerance.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers and more recently the London CIV to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Merton Fund considers a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns and liquidity. In setting and reviewing an overall investment strategy for the Merton Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving written advice from their officers and investment adviser. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Plan benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Officers and the London CIV. However, where such decisions are made within a pooled fund; they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the London CIV and the Fund's investment managers with which the Fund invests.

Strategic Asset Allocation

The Committee are permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and index-linked
- UK and overseas corporate bonds
- Multi-asset credit (MAC)
- Convertible bonds
- Property
- Infrastructure
- Hedge Funds
- Private Equity
- Private Credit
- High yield bonds
- Emerging market debt
- Diversified growth
- Cash

The Fund currently invests in mainly pooled portfolios. In addition the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

Current Strategic Benchmark

After the results of the 2016 Actuarial valuation were received, the Fund reviewed its overall asset allocation, with advice received from the Fund's investment consultant, JLT. The results of this review were presented to the Committee in March 2017 and resulted in a revised Strategic Allocation which is shown in the table below. The revised strategy improves the potential return of the Fund's assets to a level higher than the Actuary's discount rate, and reduces the overall risk, when compared to the previous strategy.

The Fund's strategy, as set out below, does not assume any outperformance from the investment managers. The Minimum and Maximum range allowed acts as the Fund's own limit on its investment strategy, and ensures compliance with the guidance which requires this. The expected risks and returns stated in this table are as at the date of the 2016/17 strategic review.

Asset Class	Strategic allocation (%)	Minimum/Maximum range allowed (%)	Expected return p.a.*	Expected Risk (Volatility) p.a. **
Growth Assets				
UK Equity	10	0-45	6.2%	17.5%
Developed Overseas Equity	30	15-40	6.2%	18.0%
Emerging Market Equity	10	0-20	7.1%	25.6%
Diversified Growth	10	0-20	5.9%	12.4%
Property	5.0	0-10	6.0%	3.7%
Infrastructure	7.5	0-15	7.3%	14.7%
Private Credit	5.0	0-10	7.0%	7.8%
Stabilising Assets				
Corporate Bonds	0.0	0-10	n/a	n/a
Long Dated UK Gilts	0.0	0-5	n/a	n/a
Multi-Asset Credit	12.5	0-20	5.0%	1.2%
Index Linked Gilts	10	0-30	1.3%	9.1%

Notes:

- Expected Returns are JLT's forecasts as at the time of modelling, and expected Risk figures are taken from JLT's partner RiskFirst.
- The strategic allocation to Corporate Bonds, and Long Dated UK Gilts are set at 0%; these will be transitioned from the current position over time, and are included for completion.

The inclusion of a diversified range of assets in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund’s expected long term return. This was the case when modelling the revised investment strategy in 2016/17.

4. Approach to risk, including the ways in which risks are to be measured and managed

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate). It also requires that funds ensure that the approach is complicit with that in their Funding Strategy Statement.

Approach to risk

The Fund recognises that there are a number of risks that need to be factored into the Investment Strategy, and the expected estimates of volatility are reflected in the table above. The financial, demographic and regulatory risks are addressed in the Funding Strategy Statement, and so are not repeated here. This statement looks to address the financial risks for the Fund, in particular the risk of the performance of the Fund's assets not achieving the actuary's expected rate of return. The following paragraphs explain Merton's approach to addressing this risk.

Investing heavily in higher risk assets (e.g. equities) would be expected to increase the long term returns achievable from the assets, and thus to reduce the contributions required to Fund the liabilities over time. However, this type of strategy would be expected to lead to volatile short to medium term results, both in absolute terms and, particularly, relative to the Fund's liabilities.

Equally, whilst investing in lower risk assets (e.g., bonds) would be expected to reduce risk within the Fund (in terms of the volatility of returns, the Funding level and contribution rates), this may not be desirable as it would lead to a lower expected return and hence higher contribution rates over the long term.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, a number of these are considered below:

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk including the London CIV

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

- This is monitored according to the level of cash flows required by the Fund over a specified period.
- It is managed by holding an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable. As a result the investments in less liquid asset classes such as property, hedge funds, private equity and infrastructure are limited.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Committee from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Fund's advantage.

Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.

Interest rate risk

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

- The Committee acknowledge that the interest rate risk related to individual debt instruments is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management.

Inflation risk

- This is the risk that the value of the Fund’s liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee acknowledge that inflation risk relating to the Fund’s liabilities is managed by the underlying investment managers through a combination of strategies, such as diversification, investing in assets that move in line with inflation, such as Infrastructure and Index Linked Gilts.

Proper advice

In assessing the Fund’s strategy, including an assessment of the implicit risks, and setting the maximum limits the London Borough of Merton has taken proper advice from JLT (Investment Consultants), with input from the Fund’s Officers and Barnett Waddingham, the Fund’s actuaries.

5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

Pool Characteristics

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

(a) The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform.

(b) The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds assets in life funds. If in the future should it hold life funds within its strategy it intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

The Fund holds some illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to dis-invest.

The Merton Fund intends to invest most of its assets through the London CIV, however it is recognised that this will take a number of years before this can be fully implemented. The London CIV has a road-map for assets to move into the pool, and the Merton Fund intends to transition assets in line with this plan. The transition plan is shown below:

Indicative Sub-Funds Available on London CIV	2015	2016	2017	2018	2019	2020	2021	2022	2033
Global Equities (Active)	1	3	6	6	6	6	6	6	6
Global Equities (Passive)		4	5	4	3	3	3	3	3
UK Equities (Active)			2	2	2	2	2	2	2
UK Equities (Passive)		2	2	1	1	1	1	1	1
Multi Asset / DGFs		4	4	4	4	4	4	4	4
Fixed Interest & income/cashflow generating		1	3	4	5	5	5	5	5
Property				2	3	4	4	4	4
Alternative products				2	2	4	5	5	5
Private Equity					2	3	3	3	3
Real Assets				2	2	3	3	4	4
Infrastructure			1	2	2	3	4	5	6
Total Sub-Funds open	**1**	**14**	**23**	**29**	**32**	**38**	**40**	**42**	**43**

6. Approach to Environmental, Social and Governance issues

Regulation 7(2)(e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the Fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The Committee's primary, statutory responsibility for the Fund is fiduciary; that is, to ensure that the Fund's investments produce the required return within the policy regarding risk. Good practice in terms of socially responsible, environmental and ethical issues is secondary.

The Committee do however, believe that good stewardship can enhance long -term portfolio performance, and is therefore in the best interests of its members.

The Committee believe that environmental social and corporate governance ("ESG") and ethical issues can affect the performance of investment portfolios and should therefore be considered as part of the Fund's investment process.

The London Borough of Merton Pension Fund is a long-term active investor that takes seriously its role in fostering stewardship. We believe that sound corporate governance contributes to long-term value for our clients. These high-level Policies set out the Funds' philosophy on corporate governance and its approach to voting on behalf of clients.

Voting rights give shareholders both the opportunity and responsibility to participate in the stewardship of companies, and the Fund's policy on exercising voting rights is explained in section 7 below.

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

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

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

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

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

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

Social investments

The Government guidance also addresses the issue of "social investments"; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

To date the Merton Fund has not made any social investments.

7. Policy on exercising voting rights

Regulation 7(2) (f) requires administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

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

Voting Policy

It is the Fund's policy to be an active shareholder and to exercise voting rights to promote and affect good corporate governance.

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.

Investment managers are to discuss high profile/contentious issues with representatives of the Committee and report such issues to the Chair of the Committee. Where feasible, these issues are to be discussed by the Committee as a whole, before action. Voting actions are to be recorded in quarterly reports, which will be available to the Committee.

Where required, voting on contentious issues should be explained to the Committee by investment managers at meetings of the full Committee. This will serve to strengthen the Fund'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.

Unless the Committee 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 Committee.

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 Committee. The Committee will review corporate governance issues in respect of pooled funds and consider and take action as appropriate.

The Committee may subscribe to a voting issues service to provide information on governance issues independently of investment managers.

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.

The Committee 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.

The investment managers will be issued with copies of this ISS, which is compliant with the UK Stewardship Code, and publication of the ISS affects compliance with the disclosure requirement of the UK Stewardship Code.

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

UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorised Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS statutory guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a "comply or explain" basis.

The London Borough of Merton as administering authority for the Merton Pension Fund is not currently a signatory to the Stewardship Code. However, the Fund attempts to follow the principles, and plans to become a signatory in time.

The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

The London CIV's draft Stewardship Code Statement of Compliance is attached at Appendix 2.

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Appendix

LONDON CIV

STEWARDSHIP CODE

STATEMENT OF COMPLIANCE

LONDON CIV

UK STEWARDSHIP CODE STATEMENT

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns.

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.

The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a regular basis. A Conflicts of Interest Register is maintained.

Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3
Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund’s assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities.

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund’s investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager’s voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers.

The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF MERTON

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of London Borough of Merton in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Corporate Services and auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities set out on pages 155-156, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the London Borough of Merton Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Melissa Hargreaves

Melissa Hargreaves (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Manchester

29 September 2017

The maintenance and integrity of the London Borough of Merton web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF MERTON ON THE PENSION FUND FINANCIAL STATEMENTS

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

Respective responsibilities of the Director of Corporate Services and the auditor

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

Our responsibility is to report to you my opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Merton, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the London Borough of Merton Pension Fund Annual Report 2016/17.

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

Opinion

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

Melissa Hargreaves

Melissa Hargreaves

For and on behalf of Ernst & Young LLP, Appointed Auditor

Manchester

29 September 2017