Newham London

Newham Pension Fund Annual Report 2013/14

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Members' Introduction

The Newham Pension Fund ('the Fund') suffered a great loss in June 2014 with the passing of the Chair of the Investment and Accounts Committee (IAC), Cllr. Alec Kellaway. Alec had served as a Newham councillor for 27 years, and became Chair of the IAC in 2008. He was an economist and market researcher by profession and brought a vast amount of knowledge and experience to the role. Alec worked tirelessly to promote and protect the benefits of Local Government Pension Scheme (LGPS) membership while leading the IAC through arguably the most challenging and difficult period of the LGPS. Alec will be sadly missed by Members, officers and everyone who worked with him but we are committed to continuing his legacy. I have been appointed as the new IAC chair and will endeavour to continue the legacy of the late chair Cllr Alec Kellaway in his commitment to and management of the Newham Pension Fund.

To that end I am pleased to announce that the Fund had another successful year. The Fund investments continued to perform well – returns for the year exceeded the scheme benchmark by 1.4%, and the Fund closed the year valued at £904m (2013: £840m), an increase of 7.6% on 2013. There has been a 12% increase in the number of contributing members during 2013/14, reversing a trend of steady decline since 2008 following an IAC-led recruitment campaign and auto-enrolment of new and transitional staff. This has helped return the Fund to a cashflow positive position, meaning investment income can continue to be recycled into achieving investment growth.

The IAC has been tough on poor performing managers, withdrawing active mandates on two managers, and has continued to drive down fees. Despite a 7% increase in investment assets, we have managed to reduce investment management costs by 13% (on 2012/13 levels) through on-going manager challenge and fee negotiations.

During the year, the new models developed by our economic and risk advisors helped to forecast the impact of economic changes on the Fund's investment portfolio and quantify the Fund's risk exposure. This advice played a vital role in shaping our strategic asset allocation review in April 2014, which focussed on driving down costs, improving performance and increasing transparency.

The results of the 2013 valuation were finalised during the year – setting the contribution rates for all employers in the Fund for 2014/15 – 2016/17. Despite the challenging economic environment and more conservative actuarial assumptions, I am pleased to say the funding level has increased slightly from 72% to 73%.

The hard work of IAC members to enhance their knowledge and skills has once again been recognised – the Fund was runner-up in the prestigious LGC Investment Awards 2013 for Knowledge and Skills and was a finalist in Public Sector Scheme of the Year and Defined Benefit Scheme of the Year (assets of £500m - £2.5bn) categories of the Professional Pensions Pension Fund of the Year Awards 2014.

The debate on reform of the LGPS has continued – the Fund has actively responded to consultations on the options for reform, and has long argued against compulsory fund mergers and the inevitable loss of local accountability these would lead to. We welcome the decision by central government not to pursue fund mergers at this time, as indicated in their latest consultation, and to support instead other options for collaborative working. The Fund has played an active role in the development of a London LGPS collective investment vehicle (CIV) by London Councils, and will continue to support this work – we feel CIVs like this will allow funds to access economies of scale and share expertise, whilst retaining local democratic control.

Councillor Forhad Hussain
Chair of the Investment and Accounts Committee

Highlights of 2013/14...

- **Fund value at an all-time high (again!):**
  The Fund has continued to build on its strong performance last year, with a further 7.6% increase in its overall value to close the year at £904m. Investment returns once again exceeded the overall benchmark, with equities performing particularly well. A full performance report is on page 21.

- **LGC & Professional Pensions Awards:**
  The Fund's commitment to enhancing the knowledge and skills of our Members was recognised when we were runner-up in the LGC Investment Award 2013 for Knowledge and Skills. The Fund was also a finalist in the Public Sector Scheme of the Year and Defined Benefit Scheme of the Year (assets of £500m - £2.5bn) categories of the Professional Pensions Pension Fund of the Year Awards 2014.

- **Triennial valuation:**
  The 2013 triennial valuation was completed during the year and set the contribution rates for all of the Fund's employers for 2014/15–2016/17. The Fund's funding level had increased since the 2010 valuation, to 73%. Employee contribution rates are set nationally and were not affected by the valuation results.

- **Communications Campaign:**
  The Fund's campaign to increase awareness of the LGPS and boost take-up levels continued in 2013/14 with a series of road shows and targeted communications building on the results of our research into why people are choosing to opt out. Early indications are positive, with active membership increasing this year for the first time since 2008.

- **Investment Models and Strategy Panels:**
  The Fund continues its efforts to reduce costs, improve returns and increase transparency – to help to strengthen the investment decision making process, we have introduced quarterly strategy panels. Building on the SRI policy introduced last year, in November we also held a Member panel session on SRI issues and class actions. With our economic and risk advisors, we developed two new models of the fund to enable us to model the risk exposure of the Fund and the impact of economic forecasts on our investment portfolio.

...And plans for the future

- **Strategic Asset Allocation Review:**
  In April 2014, the Fund undertook a review of its strategic asset allocation and agreed a number of changes which are currently being implemented. These included increasing the passive management of our equity portfolio and more proactively managing the regional allocation to maximise growth whilst driving down costs, with the help of our economic advisor. The strategic asset allocation will be continually reviewed.

- **In-house property management:**
  In April 2014, the Committee agreed to recruit a property advisor to help bring the management of the Fund's property portfolio in house. This will support the Fund's aim to reduce its exposure to costly and opaque fund of fund arrangements, reduce fees, increase transparency and help the fund to take a more concentrated property position to maximise growth.

- **Collaborative Working & Collective Investment:**
  The Fund will continue to be actively involved in the development of a London LGPS Collective Investment Vehicle (CIV) by London Councils, which we believe will help London funds to access lower fees and improved performance, whilst maintaining local accountability. We will also be participating in national frameworks setup for various LGPS support services which should result in substantial cost savings. We welcome recent indications from central government that they will not be pursuing fund mergers, opting instead for collective investment arrangements, and will continue to participate in the debate on these issues.

- **New Governance Arrangements & Consultations:**
  The Public Sector Pensions Act 2013 set out some key requirements for the governance of public service pension schemes, including the establishment of local pension's boards and a scheme advisory board. The DCLG have recently issued a consultation on how these requirements should be implemented for the LGPS. We will continue to actively participate in such consultations affecting the LGPS, to ensure that our members are properly represented when changes are being considered.

LGPS 2014

New LGPS regulations (LGPS) came into effect on 1 April 2014. The key changes under the new scheme are set out in the table below:

	LGPS 2008	LGPS 2014
Basis of Pension	Final Salary	Career Average Revalued Earnings (CARE)
Accrual Rate	1/60th	1/49th
Revaluation Rate	Based on Final Salary	Consumer Prices Index (CPI)
Pensionable Pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Contribution Flexibility	No	Yes – 50:50 option where members pay 50% contributions for 50% of the pension benefit
Normal Pension Age	65	Linked to the State Pension Age
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	No change - trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	No change - 3 x Pensionable Pay
Indexation of Pension in Payment	CPI (RPI for pre-2011 increases)	CPI

Member contributions for 2013/14 were:

Salary Band £	2013/14 contribution rate %
0 – 13,700	5.5
13,701 - 16,100	5.8
16,101 – 20,800	5.9
20,801 - 34,700	6.5
34,701 – 46,500	6.8
46,501 - 87,100	7.2
More than 87,100	7.5

From 1 April 2014, the employee contribution rates have been staggered so that those earning more pay a higher rate:

Salary Band £	2014/15 contribution rate %
0 – 13,500	5.5
13,501 – 21,000	5.8
21,001 – 34,000	6.5
34,001 – 43,000	6.8
43,001 – 60,000	8.5
60,001 – 85,000	9.9
85,001 – 100000	10.5
100,001 – 150,000	11.4
150,001 +	12.5

Contribution rates for part time members are now based on actual pensionable pay, rather than full time equivalent pay – this should mean that most part time staff now pay a lower rate.

For more information about how these regulation changes affect you, please see www.yourpension.org.uk/Newham or contact the LPFA.

Fund Governance And Statutory Information

FUND GOVERNANCE

The Newham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the scheme regulations are set nationally, but the Fund is managed and administered locally. As administering authority, the London Borough of Newham has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Investment and Accounts Committee ('the Committee'), which is the formal decision making body for the Fund.

Investment and Accounts Committee

The Investment and Accounts Committee consists of eight councillor members and co-opted trade union representatives. The councillor members during 2013/14 were:

Councillor Alec Kellaway (Chair – 7)

Councillor Ted Sparrowhawk (Deputy Chair - 5)

Councillor Andrew Baikie (Member - 5)

Councillor Ayesha Chowdhury (Member - 5)

Councillor John Gray (Member – 4)

Councillor Lester Hudson (Member – 4)

Councillor Riaz Mirza (Member – 4)

Councillor Rohima Rahman (Member - 3)

Co-opted trade union representatives during 2012/13 were Bob Lamb (NUT), Gloria Hanson (Unison), Tim Linehan (GMB) and John Gregory (Unite).

The Committee meets quarterly to discuss investment strategy, legislation changes and developments that may affect the Fund, and to review the performance of the fund managers. The Committee may also arrange meetings on an ad hoc basis as required, and attend training sessions throughout the year. During 2013/14 the Committee met 7 times (excluding training sessions) – the number of meetings attended by each member is shown above.

Following local elections in May 2014, the Council re-established the Investment and Accounts Committee with new membership at its AGM on 5 June 2014. Further information on the fund's governance arrangements can be found in the Governance Statement at the end of this report.

FUND MANAGEMENT & ADVISORS

The work of the Investment and Accounts Committee is supported by a number of officers, advisors and external managers as set out below.

The Officers responsible for the Fund

The Corporate Finance Team ensures that members of the Investment and Accounts Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

Deborah Hindson	Director of Finance	020 3373 0932
Roy Nolan	Head of Financial Control	020 3373 4469
Stephen Wild	Corporate Finance Manager	020 3373 3881
Rakesh Rajan	Pension Fund Manager	020 3373 6595

Employee Services monitors and manages the pension's contractors. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Ian Weavers	Pensions Manager	020 3373 8408

The Scheme Administrators

The Fund contracts out its benefits administration to the London Pensions Fund Authority (LPFA) in accordance with the council's best value arrangements. The LPFA maintain pension scheme membership records and provide advice, benefits calculations and estimates.

London Pensions Fund Authority
2nd Floor
169 Union Street
London SE1 0LL

020 7369 6249

The Fund's Custodian Bank

The Fund uses Northern Trust as its custodian to hold and safeguard the Fund's assets. The custodian acts as the Fund's bank, settles transactions and is responsible for income collection.

Northern Trust
50 Bank Street,
Canary Wharf,
London, E14 5NT

In addition to acting as the Fund's custodian, Northern Trust provides performance analysis, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

The Investment Managers used by the Fund

Day to day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 1998 (as amended). During 2013/14, the Fund used the following external managers:

Fund Manager	Mandate	Contact Details
Neptune	Unconstrained Global Equity Active	3 Shortlands, London, W6 8DA
Longview	Unconstrained Global Equity Active	Thames Court, 1 Queenhithe, London, EC4V 3RL
Newton	Unconstrained Global Equity Active	160 Queen Victoria Street, London, EC4V 4LA
Legal & General	Passive Equities and passive bonds	One Coleman Street London, EC2R 5AA
Morgan Stanley	Diversified Alternatives	25 Cabot Square, Floor 07, Canary Wharf, London, E14 4QA
CBRE	Property	3rd Floor, One New Change London, EC4M 9AF
Aberdeen Asset Management	Fixed Income Active	Bow Bells House, 1 Bread Street, London, EC4M 9HH
HarbourVest	Private Equity	Berkeley Square House - 8th Floor, Berkeley Square London, W1J6DB
Arcus	Infrastructure	6 St. Andrew Street, London, EC4A 3AE

During 2013/14, the IAC agreed to terminate the mandate with Neptune and assets were removed from their management on 9 April 2014.

The Fund's Actuary

The Fund's actuary is Barnett Waddingham:

Barnett Waddingham
163 West George Street
Glasgow G2 2JJ

The Advisors to the Fund

The Fund's main investment advisor is Barnett Waddingham, who was appointed December 2009. They are principally used to advise the Investment and Accounts Committee on the Fund's strategic asset allocation and to assist in the monitoring of the fund managers.

Barnett Waddingham
Chalfont Court
Hill Avenue
Amersham HP6 5BB

The Fund's Economic Advisors

Fathom Financial Consulting
48 Gresham Street
London EC2V 7AY

The Fund's Risk Management Advisors

Bfinance UK Limited
Clareville House
26-27 Oxendon Street
London
SW1Y 4EL

In addition to this, the Fund receives Independent Investment Advice from Judy Saunders

The Fund Auditor

PricewaterhouseCoopers (PWC) LLP
7 More London Riverside
London SE1 2RT

The Bankers to the Fund

Lloyds TSB
City Office, PO Box 72
Bailey Drive, Gillingham Business Park
Kent, ME8 0LS

The Fund's AVC Provider

Clerical Medical
PO box 174
Walton Street
Aylesbury
Bucks, HP21 7YP

The Fund Legal Advisor

The Fund receives legal advice from London Borough of Newham's in-house legal team who in turn may outsource any specialist advice to:

Trowers and Hamlins LLP
Sceptre Court
40 Tower Hill
London EC3N 4DX

Subscription bodies

The Fund is a member of the National Association of Pension Funds (NAPF), the Local Authority Pension Fund Forum (LAPFF) and the Institutional Investors Group on Climate Change (IIGCC). The Fund also participates in the London Pension Fund Forum (LPFF).

Risk Management

The Fund recognises the inherent risks involved in many of its activities and its governance arrangements are designed to ensure that risk management is undertaken at the highest level.

The Fund's approach to risk management is covered in the following policies:

- Statement of Investment Principles (SIP) –The key risks and controls are set out in the appendix of that document which can be found elsewhere in this report.
- Funding Strategy Statement
- Socially Responsible Investment (SRI) Policy
- Communications Policy
- Governance Policy

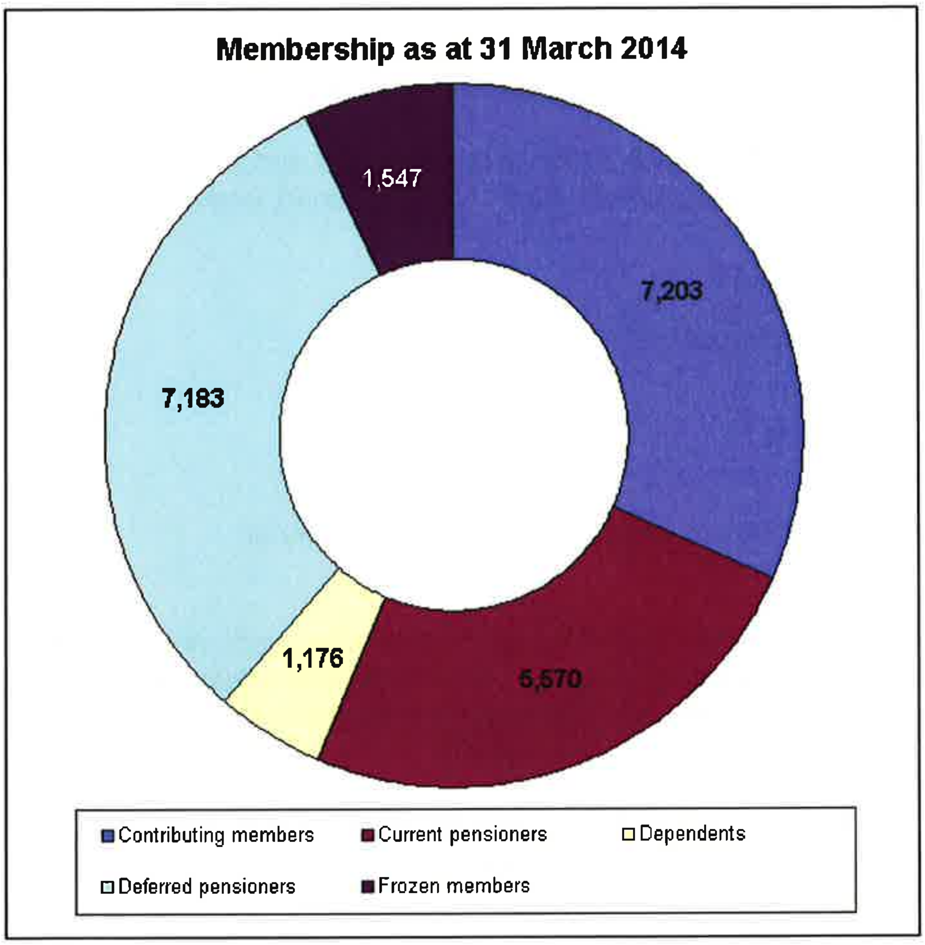
These are included within this report, and are also available online at: www.newham.gov.uk

The latest risk register is included as part of the SIP – this is regularly reviewed and updated. The Fund recently undertook a review of its strategic asset allocation – once this is finalised, the Funding Strategy Statement will be revised accordingly and the updated version published on the Newham website.

In addition, the Fund has commissioned Bfinance to develop a risk model of the Fund's investments and provide quarterly updates to the committee on the Fund's risk exposure and key risk drivers.

Benefits Administration: Robust internal controls ensure that any third party operation risk such as late payments of contribution is immediately highlighted. Additional areas of risk are breach of Data Protection or failure to comply with Disclosure of Information requirements. The impact of this risk would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

FUND MEMBERSHIP



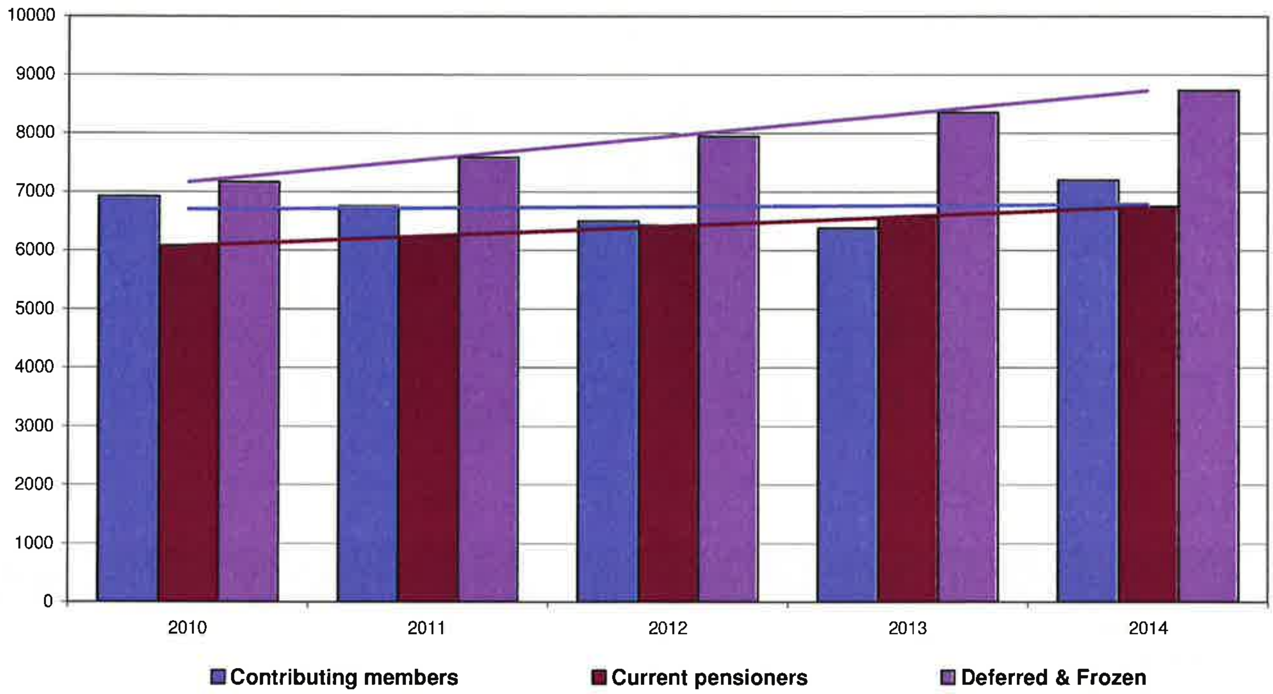
The Fund had a total of 22,679 members as at 31 March 2014, an increase of 1,371 in overall membership since 31 March 2013.

Membership statistics 2010 – 2014

Membership Numbers as at 31 March	2010	2011	2012	2013	2014
Contributing members	6913	6758	6,496	6,381	7,203
Current pensioners (inc dependents)	6083	6231	6,427	6,574	6,746
Deferred pensioners	5596	6017	6,382	6,799	7,183
Frozen members	1569	1568	1,561	1,554	1,547
Total	**20,161**	**20,574**	**20,866**	**21,308**	**22,679**

This year has seen a change in the membership trends that have been evident in recent years – whilst pensioner and deferred membership has continued to increase in line with historic rates, for the first time since 2008 active membership has also increased. As the largest employer in the Fund, overall Fund membership is largely driven by changes in membership at the London Borough of Newham (LBN). LBN has opted for transitional arrangements which defer most auto-enrolment to 2017, but during 2013/14 it started auto-enrolling new and sessional staff which contributed to the increase in active membership.

Membership Breakdown 2010-2014

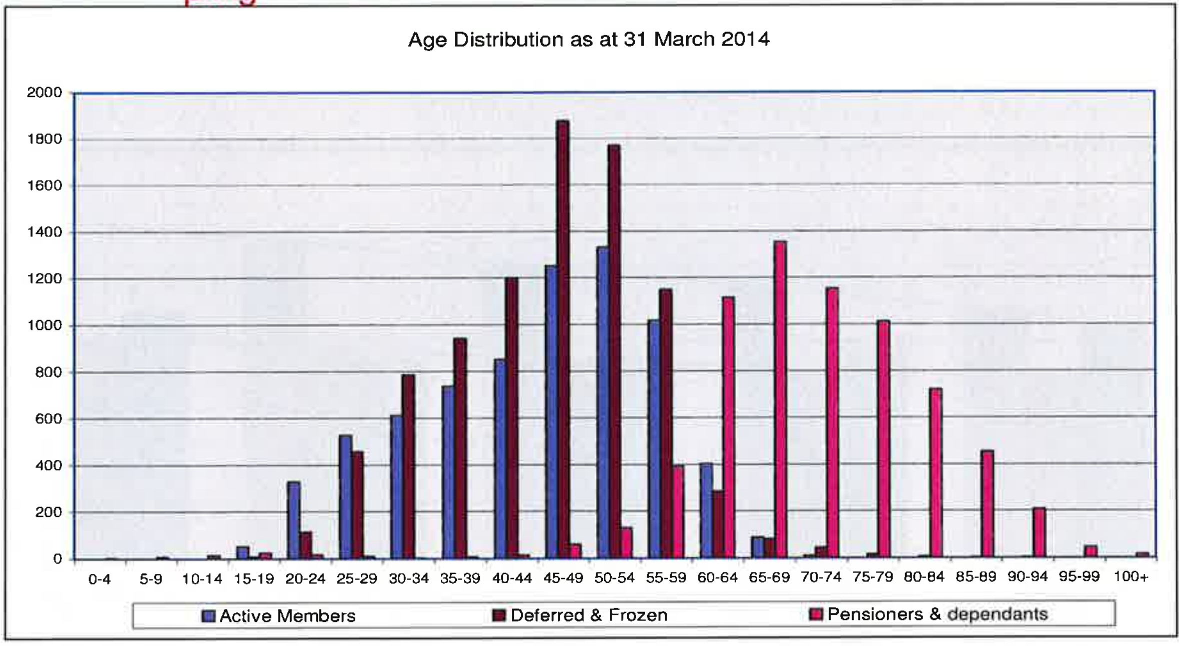


This has been supported by the Fund's communication campaign to boost membership – the Fund recognised the declining active membership and launched a communications campaign with the aim of improving membership levels, especially amongst lower paid and part time staff, where take-up is lowest.

The first stage of this campaign was a survey of London Borough of Newham staff to ascertain why employees are choosing to not participate in the scheme. This survey was the first major capture of such data amongst LGPS funds, many of which are experiencing similar declines in active membership. During 2013/14, we have built on this research with a series of road shows and a targeted communications campaign to make employees aware of the benefits offered by the LGPS.

Whilst the increase in active membership is a positive sign, efforts to promote the benefits of the scheme must continue to encourage staff being auto-enrolled to stay in the scheme and to help manage the impact of increasing pensioner and deferred membership. The Fund currently reinvests its investment income, covering pension payments from employer and employee contributions. If the increases in pensioner and deferred members continue to outpace active membership, the Fund will increasingly need to rely on investment income to fund benefit payments. This in turn would have an impact on the Fund's investment strategy and deficit recovery.

Membership Age Profile at 31 March 2014



Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Contributing Members	0	0	0	52	327	526	612	737	851	1253	1330
Deferred and Frozen Members	0	0	0	7	114	457	787	942	1201	1875	1767
Pensioner Members (inc. dependents)	1	6	13	23	16	8	2	6	13	59	129

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Contributing Members	1017	403	87	8	0	0	0	0	0	0	**7203**
Deferred and Frozen Members	1150	284	80	44	15	4	2	1	0	0	**8730**
Pensioner Members (inc. dependents)	393	1115	1354	1154	1012	720	454	208	45	15	**6746**

As at 31 March 2013

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Contributing Members	0	0	0	21	156	342	544	568	816	1284	1260
Deferred and Frozen Members	0	0	0	4	107	469	773	910	1269	1802	1575
Pensioner Members (inc. dependents)	1	3	16	19	22	8	5	8	16	59	142

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Contributing Members	900	414	68	8	0	0	0	0	0	0	**6381**
Deferred and Frozen Members	1069	244	76	37	13	2	3	0	0	0	**8353**
Pensioner Members (inc. dependents)	375	1062	1328	1120	997	688	459	188	43	15	**6574**

FUND EMPLOYERS

The London Borough of Newham is the administering authority for the Fund. Organisations, known as admitted and scheduled bodies may also participate in the Fund - scheduled bodies have a right to be incorporated, whereas admitted bodies require the agreement of the administering authority. The admitted and scheduled bodies of the Newham Pension Fund are as follows:

Scheduled Bodies:

- Brampton Manor Academy;
- Newham Sixth Form College (New Vic);
- Newham College of Further Education;
- Stratford Academy;
- Stratford Regeneration Partnership;
- Thames Gateway London Partnership (to September);
- London Academy of Excellence;
- School 21;
- Newco;
- Chobham Academy (from 1 September); and
- Langdon Academy (from 1 January).

Admitted bodies:

- Carpenters TMO;
- FM Conway;
- MITIE;
- RM Education;
- Community Links;
- Active Newham; and
- Newham Partnership Working (from 1 May).

Thames Gateway London Partnership ceased to be a scheduled body of the Fund in September 2013, when the last active member left. Newham Partnership working became an admitted body with effect from 1 May 2013. Chobham academy became a scheduled body of the fund from 1 September 2013. Langdon converted to academy status and became part of the Brampton Manor Multi-Academy Trust and a scheduled body of the Fund from 1 January 2014.

The rates of contribution paid by employers are determined by the Fund actuary, in line with LGPS regulations. The rates paid in 2013/14 were set by the 2010 valuation. The 2013 triennial completed this year set the employer contribution rates for 2014/15 – 2016/17.

During 2013/14, the Investment and Accounts Committee agreed to extend the deficit recovery period for academies from 10 to 20 years with effect from 1 January 2014.

Total Employer Contributions 2010 - 2014

	2010	2011	2012	2013	2014
Employer contributions (£m)	**42.1**	**37.1**	**36.2**	**36.8**	**39.0**

Total employer contributions increased by 6% from 2013 to 2014, largely due to the increase in active membership. This also included an increase of £0.9m in contributions for early retirement funding – these contributions are driven by the number and profile of members granted early retirement. A breakdown of contributions by employer is included in the notes to the accounts. Contributions were received from employers in a timely manner, and no interest for late contributions was levied during the year.

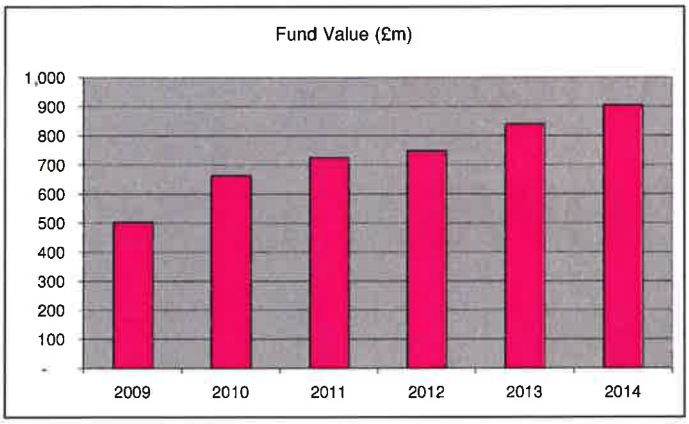
Performance Reviews And Actuarial Statement

FINANCIAL PERFORMANCE

The pension fund accounts are shown in detail on pages 36 to 55. The Annual Report is not fully compliant in respect of Price Sensitivity Analysis information. The directive relating to this came quite late for The Fund to produce and negotiate with our custodian without incurring additional cost. The Fund is in the process of tendering for a new custodian and this requirement will included within the contract and this should be for 2015/16.

Overall the Fund's value increased by £64m to £904m during the year. The Fund returned to positive cash inflow from net dealings with members.

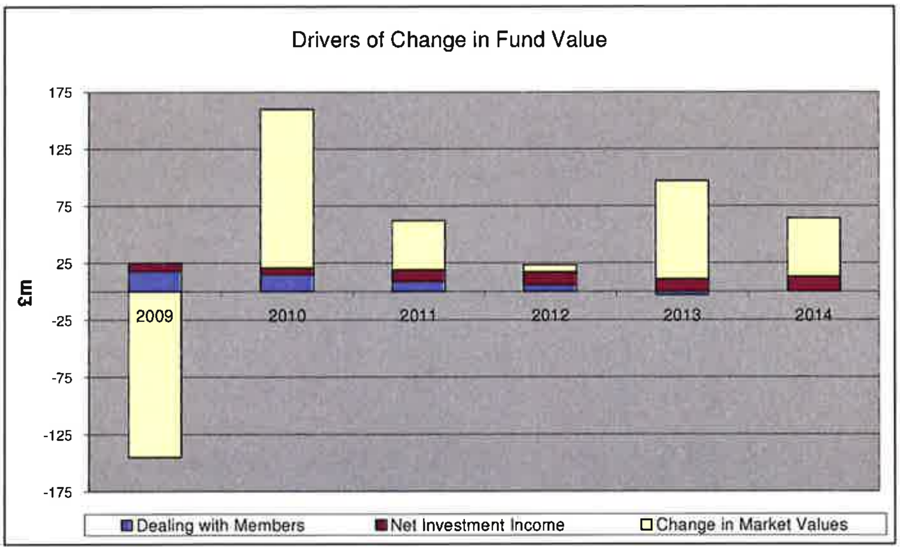
Change in Market Value of the Fund



The Fund's value continued to increase during 2013/14 but at a slower rate than in 2012/13, rising by 7.6% (2013: 13.5%) to £904m during the year.

The Fund received positive cash inflow from dealing with members of £0.12m (see section below) but the main contribution to the increase in fund value was the change in market value of fund investments of £54m.

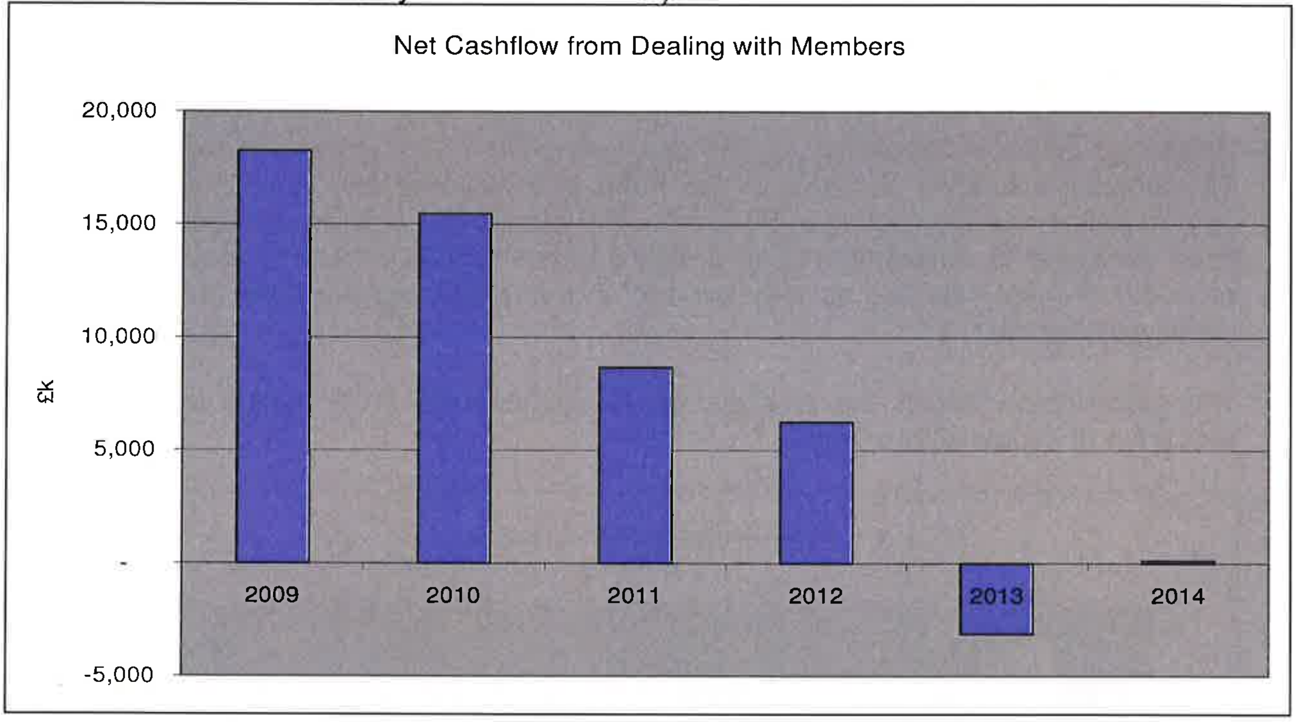
The Fund received net investment income of £13m, an increase of 13% from the previous year. The chart to the right shows the three main components have contributed to the Fund's value since 2008/9 – with only one exception in 2011/12, the biggest driver of Fund value throughout this period has been the change in the market value of investments.



*the change in market values is shown net of investment management expenses

Cashflow from dealing with members

As shown in the chart overleaf, the Fund returned to a position of positive cash inflows from dealings with members in 2013/14 – with net inflows of £0.12m compared to net outflows of £3.12m in 2012/13. The negative cashflow in 2012/13 was largely a consequence of historic declines in active membership, whilst pensioner membership had steadily increased – meaning more benefits needed to be paid out, but lower contributions were being received. In addition to this, lump sum and death grants increased significantly in 2012/13 and transfers out to other schemes exceeded transfers in by £1.5m (compared to 2011/12 where transfers in exceeded transfers out by the same amount).



The return to positive cash inflows in 2013/14 is largely due to an increase in both employer and employee contributions as a result of active membership increasing. Employer contributions were increased further by an increase early retirement funding. Transfers out to other schemes continued to exceed transfers in, but the difference narrowed to £0.6m. Whilst it is positive that cash inflows have been received in 2013/14, these are relatively small and in part driven by one-off factors (such as early retirement funding and unpredictable transfers in and out) and so the position remains vulnerable.

The Fund currently reinvests its investment income, covering pension and lump sum payments from employer and employee contributions. If the Fund moves to an on-going position of negative cash flows from dealing with members, it will increasingly need to rely on investment income to fund benefit payments. This in turn would have an impact on the Fund's investment strategy and deficit recovery. For this reason, the Fund's cash flow from members will need to be carefully monitored and efforts to increase active membership, such as the communications campaign, will continue.

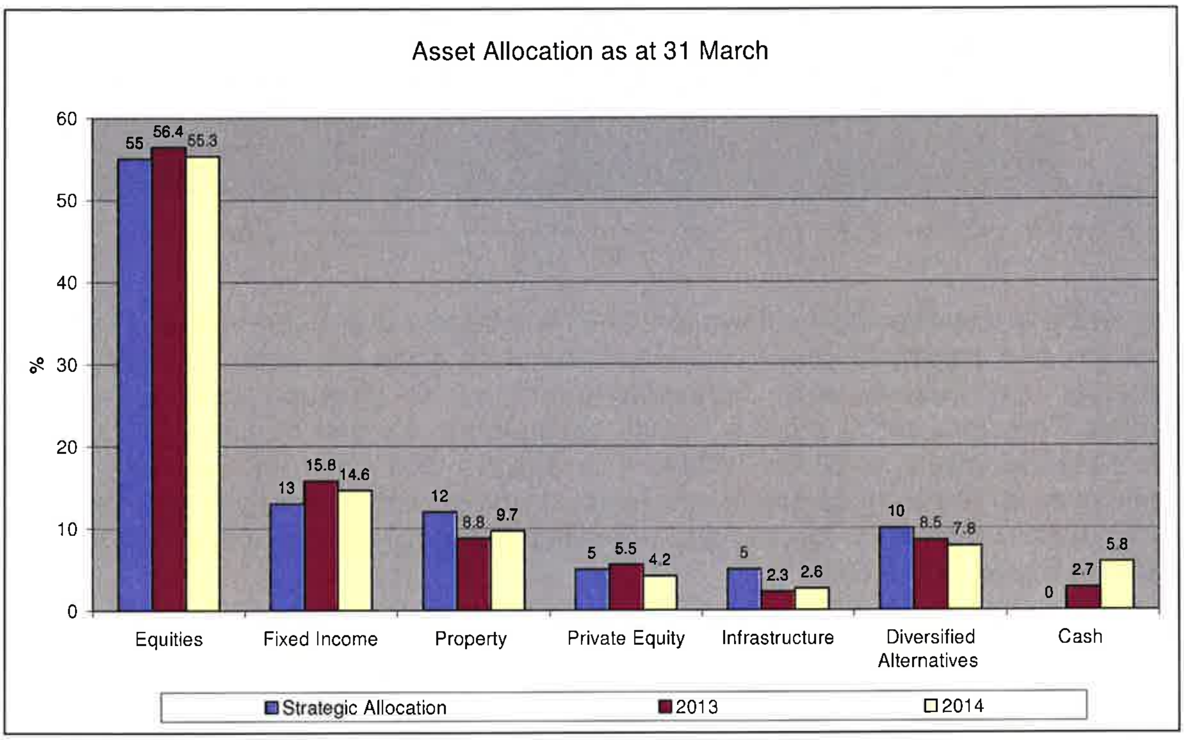
INVESTMENT PERFORMANCE

The Fund's investments performed well during the year generating an overall return of 7.23% against the scheme benchmark of 5.86%. Positive returns were generated by most of the major asset classes, with infrastructure and global equities being the strongest performers with returns of 25.3% and 10.55% respectively.

Strategic Asset Allocation

The long term funding objective of the Fund is to become fully funded within the agreed deficit recovery period of 20 years. The Fund's strategic asset allocation has been designed to meet this objective, whilst ensuring that sufficient resources are available to meet liabilities as they fall due and employer contributions are kept as stable as possible.

The graph below shows the strategic asset allocation for 2013/14 and the actual allocation of assets at year end.



The allocations at year end are based on the market value of assets held, and as such fluctuate with the relative performance of the different asset classes. The Fund ended the year broadly in line with its strategic allocations, with the most significant exception being cash. These cash balances also contributed to the slightly underweight positions in property, private equity and diversified alternatives.

The Fund had high cash balances at year end, 80% of which was held by just four of the Fund's external fund managers. A large proportion of this was held by one of the fund's active global equity managers that were put on a hold and maintain basis during the year. The mandate with this manager was terminated and the assets transferred in April 2014.

The Fund's property, private equity and diversified alternative managers also held significant cash balances at year end, accrued in order to meet outstanding commitments and as a result of high private equity distributions during the year. The Fund's property manager was also put on a hold and maintain basis during the year with a view to bringing the management of the Fund's property portfolio in house, and was prevented from making any new commitments.

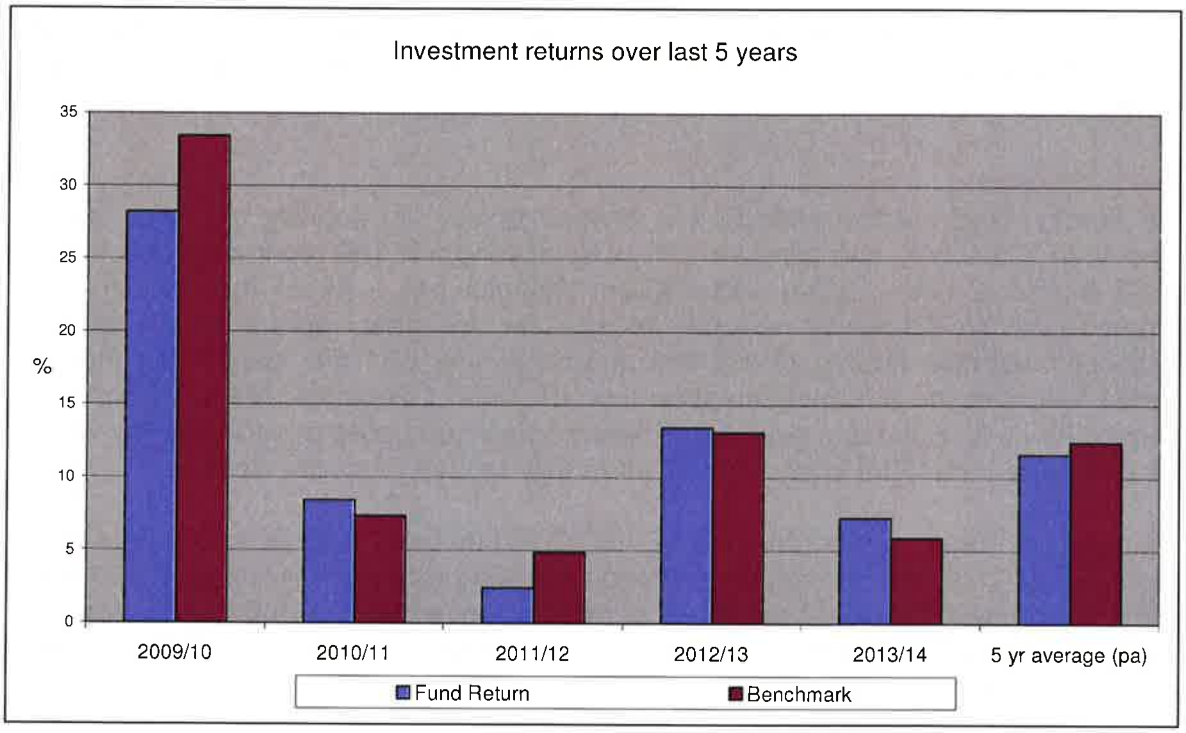
The overweight allocation in fixed income reduced on 2013 levels due to negative net return on this asset during the year.

Since the end of 2013/14, the Fund has undertaken a review of its strategic asset allocation – the new strategic asset allocation agreed will be reflected in the 2014/15 Statement of Investment Principles (SIP) and a revised Funding Strategy Statement (FSS).

Investment Performance

Overall, the Fund's investments generated a return of 7.23% against a benchmark of 5.86%. The Fund has been ahead of benchmark for the last 2 years, but is slightly behind over the 3 year period, with annualised returns of 7.60% against a benchmark of 7.88%. Information on investment performance is provided by the Fund's custodian, Northern Trust.

The chart below shows the investment performance for the last five years.



The actuarial valuation estimated returns of 7.7% per annum (in market value terms) over the three year period between the Fund's 2010 and 2013 valuation, exceeding the assumption used in the 2010 valuation of 6.8% and leaving the Fund in a strong position for the 2013 valuation. More information on the Fund's triennial valuation can be found in the actuarial statement on page 26.

The table below shows a breakdown of the Fund's investment returns to 31 March over one, three and five years.

Asset Class	1yr (% pa.)	3yr (% p.a.)	5yr (% p.a.)
Fixed income - UK unit trusts	-0.22	7.84	6.53
Fixed income - overseas unit trusts	-8.42	-0.65	0.02
Fixed income - global corporate bonds	-2.78	10.80	10.90
Fixed income - index linked	-3.35	10.37	9.65
Global equities	10.55	8.31	14.82
Unit trust equities- overseas and UK	7.47	7.85	15.62
Property	9.77	3.9*	4.7*
Private Equity	9.44	6.52	-11.70
Infrastructure	25.31	25.60	**
Diversified Alternatives	4.53	5.29	**
Whole Fund	**7.23**	**7.60**	**11.61**

*Performance figures provided by Fund Manager
** 5 year performance data not available

Positive returns for the year were generated by all of the major asset classes other than fixed income. The strongest returns were generated by infrastructure and global equities.

Fixed Income

The Fund's fixed income allocation is divided across an actively managed global bond fund (£97.2m), and passive unit trust holdings in UK, overseas and index-linked bonds (£8.4m, £3.5m and £23.2m respectively). All of the Fund's fixed income holdings produced negative returns for the year, predominantly due to significant negative returns in the first quarter in line with the wider fixed income market following the announcement by the US Federal Reserve that it will consider tapering its asset purchase scheme. Fixed income generated positive returns in the last three quarters of the year, but has yet to fully recover from this decline.

The most significant contributor to the Fund's fixed income portfolio is its global bond fund holding – this was ahead of benchmark for the year, with returns of -2.78% vs -6.86% suggesting the negative impact of market movements on the Fund's portfolio had been actively mitigated. Over the five year period, the fund is 5.04% p.a. ahead of benchmark with returns of 10.9% p.a.

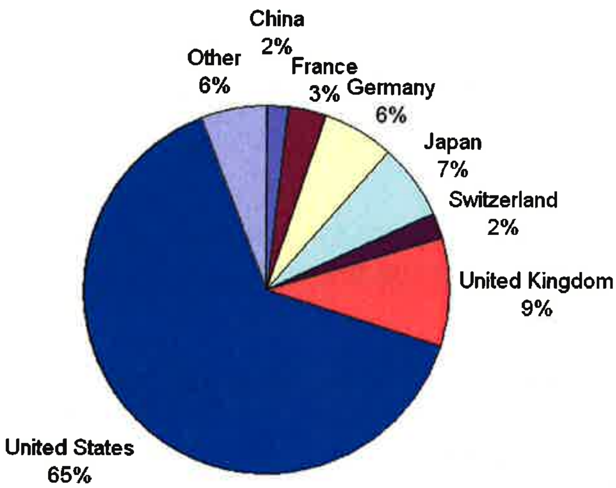
Equities

The Fund has a significant strategic allocation to equities (55%) which is intended to drive the growth of the portfolio. During 2013/14, the Fund's equity allocation was divided across three active managers and one passive fund manager and combined they generated returns of 9.39% for the year. The Fund's equities contributed 75% of the total growth in investment value.

All of the Fund's equities generated positive returns for the year and two of the three active managers outperformed their benchmarks – the outstanding performer with 30% of the Fund's equity holdings generated returns of 16.99% against a benchmark of 8.45%, and is 6.72% p.a. ahead of benchmark over the three-year period.

During 2013/14, the Fund's segregated equities had a large overweight allocation to US equities, with other significant allocations in the United Kingdom Japan and Germany.

Geographical allocation of segregated equities



The Fund's ten largest equity holdings by value at 31 March 2014 were as follows:

Company	Country	Value (£m)
Continental AG	Germany	7.43
Oracle Corp.	United States	6.85
Fidelity National Information Services Inc.	United States	6.48
HCA Holdings Inc.	United States	6.46
Delphi Automotive Plc.	United States	6.43
Bank of New York Mellon Corp.	United States	6.39
Wells Fargo & Co.	United States	6.37
SAP AG.	Germany	6.28
Covidien Plc.	United States	6.16
Amgen Inc.	United States	6.06

The Fund's passive unit trust equities are allocated across six regional funds – UK (50%), US (15%), Europe (15%), Japan (6.25%), Asia Pacific (7.5%) and Emerging Markets (6.25%). The passive holdings generated returns of 7.47% for the year, broadly in line with the benchmark and with negative returns in Japan, Asia Pacific and Emerging Markets more than offset by positive returns in the UK, US and Europe.

Property

The Fund's property portfolio generated positive returns of 9.77% for the year, but lagged behind the benchmark of 12.37%. The portfolio is also behind the benchmark over the three and five year periods, with legacy holdings in healthcare and regeneration funds causing a significant drag on the performance.

At the start of 2013/14, the Fund moved into overseas property with an allocation to a global property fund, which accounted for 8.5% of the total property portfolio at year end. The Fund's property manager was put on a hold and maintain basis during the year with a view to bringing the management of the Fund's property portfolio in house.

Private Equity & Infrastructure

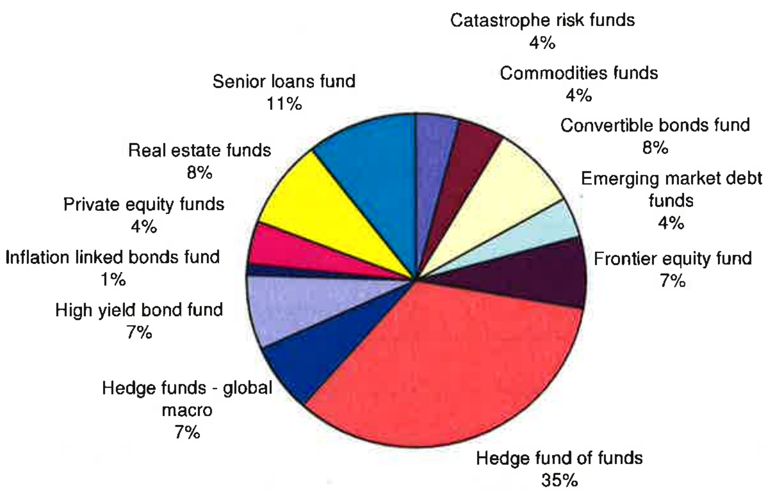
The private equity portfolio generated returns of 1.91% for the year – it was behind benchmark over the year, but remains ahead over the three year period with returns of 8.52% p.a. against a benchmark of 7.21%.

The Fund's infrastructure holding, accounting for 3% of the investment portfolio, was the strongest performer for the year generating returns of 25.31% against a benchmark of 6.54%. The holding remains behind benchmark over the longer term and is yet to recover from poor performance in prior years.

Diversified Alternatives

The diversified alternatives portfolio is made up of a range of asset types, including hedge funds, high yield bonds, private equity, private real estate, catastrophe risk, senior loans, frontier equity and emerging market debt. The portfolio generated returns of 4.5% for the year, with hedge funds, frontier equity and convertible bonds being the biggest contributors to performance.

Allocation of diversified alternatives portfolio at 31 March 2014



ACTUARIAL STATEMENT 2013/14

Introduction

The last full triennial valuation of the London Borough of Newham Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014 and is available online at: www.newham.gov.uk

2013 Valuation Results

The 2013 valuation certified a common contribution rate of 24.9% of pensionable pay to be paid by each employing body participating in the London Borough of Newham Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- Plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset Value and Funding Level

The smoothed market value of the Fund's assets as at 31 March 2013 for valuation purposes was £817.2m which represented 73% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.0% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter
Mortality	110% of the S1PA tables with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2013 valuation

Since March 2013, investment returns have been better than assumed at the 2013 triennial valuation. The liabilities will have increased slightly due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly higher than at 31 March 2013.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017. We will continue to monitor the financial position of the Fund on a quarterly basis.

Alison Hamilton FFA
Partner, Barnett Waddingham LLP

The council's policy is not to carry out interim valuation as this exercise is costly and therefore an annual review of longevity experience, ill health retirements and the use of discretionary powers impacting on the fund's solvency is not undertaken in between triennial valuations.

Summary from the LPFA

On time processing in all categories of work has again exceeded 97% with an overall percentage of 99.94% (99.77%). LPFA continue to process cases ahead of agreed contractual timescale with in excess of 68% (74%) of cases are being completed in advance.

2014 has seen the preparation for the new LGPS 2014 scheme and LPFA have worked with Newham to ensure a smooth transition and support communications to employers and members.

At the time of writing this report 5735, Annual Benefit Statements (ABS) has been issued to the deferred beneficiaries. Annual Benefit Statements (ABS) for active members is due to be issued by 31 August 2014.

Customer satisfaction levels continue to be good. Only one complaint was received during the year, which was resolved promptly.

Janice Watts
Director of Operations

LGPS Regulatory Update

- **LGPS 2014**

The new LGPS went live on 1st April 2014 following publication of the transitional regulations; these amended regulations contained three significant changes to the expected regulations.

- Councillors- would be allowed to remain in the scheme for the duration of their current term of office but no longer
- 85 year rule- reductions for pre 2008 service would be against age 60 (if they would have satisfied the 85 year rule) rather than pension age making early retirement before age 60 slightly more palatable for some scheme members
- AVC's: - The LGPS England & Wales 2013 Regulations currently still allow members to take up to 100% of their AVC pot as a tax-free cash lump sum when the benefits are taken at the same time as the LGPS pension (as long as this isn't more than 25% of the total value of the LGPS pension benefits taken). For new members joining from the 1st April 2014, we refer to 25% of the AVC being available as a tax-free cash lump sum. This is because The Department for Communities and Local Government (DCLG) will be consulting on proposals to amend the Regulations. We expect that the DCLG will clarify that a 25% lump sum limit will be applied to new AVC plans taken out on or after 1st April 2014.

Despite the late regulations, systems were operational to cope with the new scheme.

- **Auto Enrolment**

Since the staging date of the main employer on 01/03/2013 two additional employers have reached their staging date and a total 1629 members across the three employers have auto enrolled to date.

The Council has outsourced arrangements for administering the Benefits Service which is provided by the LPFA. The LPFA has a comprehensive website which enables members and pensioners to use self service options and also contains a wide range of information, advice and guidance on pension matters this is available at www.yourfund.gov.uk

There are contract management arrangements in place between the LPFA and Newham to provide assurance on data and service quality.

The future structure of the Local Government Pension Scheme

Following the call for evidence on structural reform of the LGPS last year the Minister announced his findings in his report and further consultation document of May 2014: "**Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies - Consultation.**"

The principal recommendations of the report were that the following proposals should be considered:

Establishing common investment vehicles; to provide funds with a mechanism to access economies of scale thus helping them to invest more efficiently in listed and alternative assets and to reducing investment costs.

Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.

Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.

The report also confirmed there was no proposal to pursue fund mergers at this time.

Hymans Robertson's analysis accompanying the report identified that there were potential savings of £420 million per annum by moving to passive management of all listed assets through a common investment vehicle and £240 million per annum by ending the use of 'fund of fund' arrangements in favour of a common investment vehicle for alternative assets.

A further consultation on the future Governance arrangements for the LGPS in line with the requirements of the Public Service Pensions Bill is expected to be issued in July. This consultation will help ensure that the necessary structures required for efficient and effective management of the Scheme as a whole can be put in place by April 2015.

Workflow summary

The table below shows a summary of the total case received and completed for the year 1 April 2013 to 31 March 2014. Further graphical representation of this information is shown on the following pages.

Description	Received	Completed	On Time	On Time %
Joiners	648	655	655	100
Transfers In/Out	532	559	559	100
Retirements/Deaths	761	796	796	100
Deferred/Refunds	709	784	784	100
Estimates	1,293	1,310	1,310	100
Other - contractual	5,878	5,721	5,715	99.9
Totals	**9,821**	**9,825**	**9,819**	**99.9**

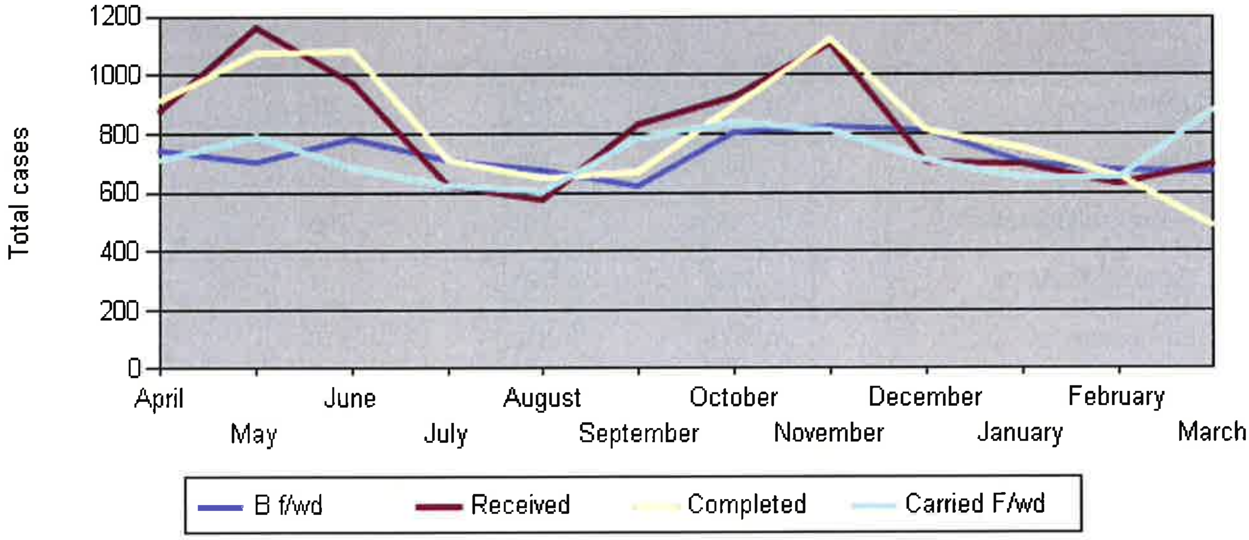
Cases completed

Of the 9819 cases completed on time 6684, were completed early as detailed below

Description	1 Day Early	2 Days Early	3 Days Early	4+ Days Early
Joiners	91	172	148	100
Transfers In/Out	113	23	5	211
Retirement/Deaths	170	29	12	79
Deferred/Refunds	17	1	0	703
Estimates	238	91	34	295
Other - contractual	1,236	320	139	2,457
Totals	**1,865**	**636**	**338**	**3,845**

Workload History

The graph below shows monthly history of cases received and completed, together with carried and brought forward details.



Dispute resolution procedure

There were 4 Dispute resolutions received during the period 1st April 2013 to 31st March 2014. 3 of the 4 cases were in relation to potential ill health retirement cases, and the other was in respect of an application for early payment of benefits on compassionate grounds. 2 appeals were rejected and 2 were successful.

Where a member is unsure of their benefit entitlement or have problems with their benefits, the LPFA should be contacted. If a member is not satisfied with any decision they have a right to ask for it to be re-examined under the formal complaints procedure, which is officially called 'internal dispute resolution procedure'. The formal complaints procedure has 2 stages and full details can be obtained from the LPFA by either phone on 020 7369 62489 or by writing to London Pensions Fund Authority, 2nd Floor, 169 Union Street, London, SE1 0LL

Administrative performance

The Annual Report is not fully compliant in respect of Administrative Performance. This is in relation to the benefits performance elements rather than the financial performance elements. The LPFA provide the benefits information but the CIPFA benchmarking exercise was not undertaken in 2013/2014 and consequently the information provided is limited. The pension administration service is outsourced and it is not included within the Contract. This will be negotiated into the Contract in 2015/16

Financial Statements

Statement of Responsibilities for the Newham Pension Fund Accounts

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- To approve the Newham Pension Fund Accounts.

The Responsibilities of the Director of Finance

The Director of Finance is responsible for the preparation of the Authority's Pension Fund Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom is required to present fairly the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2014.

In preparing the Pension Fund Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice.

The Director of Finance has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with the Accounts and Audit Regulations 2011, I certify that the Accounts set out on pages 36 to 55 of the Annual Pension Report present a true and fair view of the financial position of the Fund at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Date: 18 December 2014

Signature:

D Hindson
Director of Finance

Independent auditors' statement to the Members of the London Borough of Newham (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of the London Borough of Newham for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by the London Borough of Newham, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 10 of the audited Statement of Accounts the Director of Finance is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of the London Borough of Newham. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

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 financial statements. The other information consists only of the Members' Introduction, Fund Governance and Statutory Information, Performance Reviews and Actuarial Statement, Financial Statements and Policy Statements.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Julian Rickett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 December 2014

(a) The maintenance and integrity of the London Borough of Newham website 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 Statement of Accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

2013/14 PENSION FUND ACCOUNTS

2012/13 £000s	FUND ACCOUNT	2013/14 £000s
	Contributions:	
9,910	Contributions from members (note 3)	10,254
36,819	Contributions from employers (note 3)	39,006
3,036	Individual transfers in from other schemes	3,701
	Benefits:	
(33,885)	Pensions (note 4)	(35,981)
(13,694)	Lump sum benefits (note 4)	(11,743)
	Payments to and on account of leavers:	
(6)	Refunds of contributions	(8)
(4,494)	Individual transfers out to other schemes	(4,282)
(809)	Administration expenses (note 5)	(830)
(3,123)	**Net (withdrawals)/additions from dealings with members**	**117**
	Return on investments:	
(3,554)	Investment management expenses (note 6)	(3,003)
89,786	Profit and losses on disposal of investments and changes in the market value of investments (note 8)	53,646
11,241	Investment income (note 7)	12,648
	Taxation	
(729)	- withheld	(656)
166	- refunds received in year	1,068
96,910	**Net return on investments**	**63,703**
93,787	**Net increase in the net assets available for benefits during the year**	**63,820**
746,637	**Opening net assets of the fund**	**840,424**
840,424	**Closing net assets of the fund**	**904,244**

2012/13	NET ASSETS STATEMENT	2013/14
848,367	Investment assets (Note 8)	904,478
191	Current assets (Note 10)	1,536
(8,134)	Current liabilities (Note 10)	(1,770)
840,424	**Net assets of the fund available to fund benefits at 31 March**	**904,244**

The financial statements summarise the transactions and net assets of the Fund. They do not take into account of obligations to pay pensions and other benefits which fall due after the financial year end. Refer to note 13 for details of the actuarial valuation.

1. Accounting Policies

Accounting Standards

The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2013/14 which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Basis of Preparation

The accounts have been prepared on the accruals principle, with the exception of transfer values which are included on the date the liability is accepted by the receiving scheme.

Valuation Principles

Investments are shown in the accounts at their market value that has been determined as follows:

- Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the bid price. Other quoted investments are valued on the bid price quoted on the relevant stock market.
- Foreign currency is translated to sterling at the closing mid-market rate on the 31 March 2014.
- Unit Trusts and managed funds are valued at the bid prices as provided by the Fund's custodian.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represent fair value.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers.
- The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end, which is included separately within accrued investment income.
- Costs of trading are included as appropriate within purchase costs or sales revenues.

The Fund investments also include a cash balance or overdraft - the Fund operates a separate bank account, which is actively invested in the open market. The balance earns 7 day LIBOR.

Returns on Investments

The following accounting policies are used:

- Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded gross of any withholding tax, which is reported separately.
- Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- Income from other investments is accounted for on an accruals basis.

- The change in market value of investments during the year comprises all increases and from decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

- Foreign currencies – Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at the date of the transaction. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Benefits Payable

Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose whether to take a greater retirement grant in return for a reduced pension, these lump sums are accounted for on an accruals basis from the date the option is exercised. Other benefits are accounted for on the date the members leaves the scheme or on death.

Any individual retiring on the 31 March is accounted for in the new financial year. Similarly deaths on 31 March are accounted for in the new financial year.

Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes or previous employers or payable to the pension schemes of new employers for members who have left the plan. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end and where the amount of the transfer can be determined with reasonable certainty.

Investment, Management and Administration Expenses

A proportion of relevant Council officers' time, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters.

Other Expenses

Administration and investment management expenses are accounted for on an accruals basis.

VAT

All expenses are recognised net of any recoverable VAT.

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. Withholding tax may be incurred on overseas investments – this and any other tax deducted on trading activities is shown as a tax charge and the recovery of this tax is not anticipated by the raising of a debtor but is credited as income only when received.

Going Concern

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

2. Critical judgements in applying accounting policies, assumptions made about the future and other sources of estimation uncertainty

The financial statements include some estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates made take into account historical experience, current trends, expertise of advisors and fund managers and other relevant factors. However, because values cannot be determined with certainty, actual results could be materially different from the assumptions made.

The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if actual results differ from assumptions
Private Equity	As private equity and infrastructure investments are not publicly listed, determining their fair value is highly subjective, being based on forward-looking estimates and judgements involving many factors.	The fund's main private equity and infrastructure holdings total £61m (2013:£66m) in the financial statements. In addition to this, the fund holds £3m (2013:£3m) private equity within its diversified alternatives portfolio. There is a risk that these investments may be under or overstated in the accounts.
Hedge funds	The Fund's hedge fund holdings are predominantly in hedge fund of funds within the diversified alternatives portfolio. These are valued by the fund manager based on the fair values of the underlying funds, with any adjustments the fund manager deems necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The hedge fund investments (including global macro) in the financial statements total £28m (2013:£28m). These are all included as part of the diversified alternatives portfolio. There is a risk that these investments may be under or overstated in the accounts.
Pooled Property	The Fund's main property investments are held in a pooled fund of funds. These investments are not all publicly listed and as such there is a degree of estimation involved in the valuation – where a bid price is not available these are valued at a single price provided by the fund manager.	The Fund's main property investment is valued at £87m (2013:£74m) in the financial statements. In addition to this, the Fund has £6m (2013:£6m) real estate investments within its diversified alternatives portfolio. There is a risk that these investments may be under or overstated in the accounts.

Pension Fund liability

The Fund's liability is calculated every three years by the Fund's appointed actuary, with quarterly updates in the intervening years. Estimation on of the present value of promised retirement benefits depends on a number of complex judgements relating to the discount rate, the rate at which salaries are projected to increase, changes in retirement ages, commutation levels, mortality rates and expected returns on pension fund assets. None of these can be known with certainty, but assumptions are made based on the actuary's expert advice. Details of the assumptions made in the last triennial valuation and the most recent valuation update are given in note 13. The pension fund liability is not included in the financial statements.

3. Contributions

The Pension Fund is financed by contributions from employees and employers, together with income and proceeds from investments administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits, including final salary based pensions, death grants and lump sum payments. The employee's basic contributions are based on salary bands and vary from 5.5% to 7.5% of pensionable pay for officers and manual workers. Employers' contribution for 2013/14, paid by the Council, was 22.9% of pensionable pay.

The Local Government Pension Scheme Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements. Certain associated organisations, known as admitted and scheduled bodies may also participate in the Fund. The scheduled bodies have a right to be incorporated, whereas admitted bodies require the agreement of the Administering Authority. The admitted and scheduled bodies that contribute to the London Borough of Newham Pension Fund are:

During 2013/14, the Investment and Accounts Committee agreed to extend the deficit recovery period for academies from 10 to 20 years with effect from 1 January 2014

Contributions by employers and members in the Fund are as follows:

Participating Body	Type	Contribution Rate %	Employee Contribution 2012/13 £000s	Employee Contribution 2013/14 £000s	Employer Contribution 2012/13 £000s	Employer Contribution 2013/14 £000s
LB Newham	Administering Authority	22.9	9,229	9,322	34,875	36,370
Carpenters TMO	Admitted Body	14.2	9	13	20	28
Community Links	Admitted Body	13.4	13	10	26	21
FM Conway	Admitted Body	15.3	2	2	4	4
Greenwich Leisure	Admitted Body	15.2	17	-	25	-
Mitie	Admitted Body	17.4	8	6	21	17
RM Education	Admitted Body	12.2	6	7	11	13
Active Newham	Admitted Body	13.7	8	50	17	103
Newham Partnership Working (from 1 May)	Admitted Body	23.0	-	121	-	400
Newham College of Further Education	Scheduled	18.3	368	383	985	1,029
New Vic	Scheduled	12.1	108	120	195	220
Stratford Regeneration Partnership	Scheduled	22.7	11	11	25	25
Stratford Academy	Scheduled	38.0*	36	36	211	196
Brampton Manor Academy	Scheduled	34.2*	40	40	220	197
Thames Gateway London Partnership	Scheduled	22.7	5	2	18	5
Newco	Scheduled	22.7	43	64	153	207
London Academy of Excellence	Scheduled	13.4	4	7	6	15
School 21	Scheduled	12.0	3	15	7	28
Chobham Academy (from 1 Sep)	Scheduled	12.0	-	21	-	40
Langdon Academy (from 1 Jan)	Scheduled	22.7	-	25	-	87
TOTAL			**9,910**	**10,254**	**36,819**	**39,006**

* Brampton Manor and Stratford Academy had employer contribution rates of 22.7% and 25.1% respectively from 1 January 2014.

The contribution split is outlined below:

Employers	Total 2012/13 £000s	Total 2013/14 £000s
LB Newham	34,875	36,370
Scheduled	1,820	2,049
Admitted	124	587
Total	**36,819**	**39,006**
Members		
LB Newham	9,229	9,322
Scheduled	619	723
Admitted	62	209
Total	**9,910**	**10,254**

Contributions split between future benefits funding, deficit funding and early retirement funding are outlined below:

Employers	2012/13 £000s	2013/14 £000s
Newham Pension Fund		
Future benefits funding	19,839	20,663
Deficit funding	14,213	14,693
Early retirement funding	2,767	3,650
Total	**36,819**	**39,006**

4. Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme regulations.

Participating Body	Pensions 2012/13 £000s	Pensions 2013/14 £000s
LB Newham	33,062	35,017
Scheduled bodies	736	850
Admitted bodies	87	114
Total	**33,885**	**35,981**

Participating Body	Lump Sums 2012/13 £000s	Lump Sums 2013/14 £000s	Death Grants 2012/13 £000s	Death Grants 2013/14 £000s	Total 2012/13 £000s	Total 2013/14 £000s
LB Newham	12,093	9,655	1,164	1,239	13,257	10,894
Scheduled bodies	437	788	-	-	437	788
Admitted bodies	-	61	-	-	-	61
Total	**12,530**	**10,504**	**1,164**	**1,239**	**13,694**	**11,743**

5. Administration Costs

Further analysis, supporting the information in the accounts is detailed below:

Administration costs	2012/13 £000s	2013/14 £000s
Officers' salaries and related costs.	605	573
Direct running costs	22	32
Audit fee	26	26
Professional fees	156	174
London CIV	-	25
Total	**809**	**830**

The administration costs include a contribution of £25k towards the cost of establishing a London LGPS Collective Investment Vehicle (CIV).

6. Investment Management Expenses

Investment management expenses	2012/13 £000s	2013/14 £000s
Fund Management Expenses	3,238	2,860
Performance Fee	316	143
Total	**3,554**	**3,003**

A performance fee of £119k accrued for in 2012/13 was challenged and cancelled by the fund manager, and has been reversed in these accounts. Contractual performance fees of £169k and £94k fell due to two other fund managers during the year and have been accrued for in these accounts.

Most fund manager costs are based on the value of assets under management.

7. Investment Income

Investment income	2012/13 £000s	2013/14 £000s
Interest from fixed interest, index linked securities and fund manager held cash	99	129
Equity dividends	7,247	9,710
Pooled property income	3,876	3,253
Miscellaneous*	-	(470)
Sub total	**11,222**	**12,623**
Bank interest	19	25
Total	**11,241**	**12,648**

*Miscellaneous income includes a £507k correction for income incorrectly included in 2012/13.

8. Investments

8a. Reconciliation of Movements in Investments

Investments	Value at 31.03.13 £000s	Purchases At cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31.03.14 £000s
Pooled Fixed Interest (UK)	8,383	0	0	(19)	8,364
Pooled Fixed Interest (OS)	103,207	533	0	(3,058)	100,682
Pooled Index Linked (UK)	22,061	1,820	0	(659)	23,222
Equities - Quoted (UK)	30,177	10,004	(9,404)	121	30,898
Equities - Quoted (OS)	312,431	103,710	(120,759)	30,242	325,624
Pooled Equity Investment Vehicles	135,828	4,565	(6,918)	10,058	143,533
Pooled Property	74,485	20,810	(13,553)	5,506	87,248
Private Equity/Infrastructure	65,997	5,475	(18,530)	8,284	61,226
Diversified Alternatives	72,094	26,759	(32,344)	3,983	70,492
Subtotal	**824,663**	**173,676**	**(201,508)**	**54,458**	**851,289**
Cash Deposits	23,271	30,360	0	(812)	52,819
Subtotal	**847,934**	**204,036**	**(201,508)**	**53,646**	**904,108**
Investment income due	433	0	(63)	0	370
Total	**848,367**	**204,036**	**(201,571)**	**53,646**	**904,478**

The diversified alternatives portfolio is held with Morgan Stanley and consists of a range of asset classes as detailed in note 8b. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The 'purchases' figure for cash deposits is the net change in the book value of cash holdings. Direct transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees

Investments	Value at 31.03.12 £000s	Purchases At cost £000s	Sales Proceeds £000s	Change in Market Value £000s	Value at 31.03.13 £000s
Pooled Fixed Interest (UK)	7,380	1,068	(1,115)	1,051	8,383
Pooled Fixed Interest (OS)	88,895	88,214	(87,805)	13,903	103,207
Pooled Index Linked (UK)	18,887	2,552	(1,435)	2,057	22,061
Equities - Quoted (UK)	27,272	8,761	(12,454)	6,598	30,177
Equities - Quoted (OS)	261,332	96,480	(84,448)	39,066	312,431
Pooled Equity Investment Vehicles	117,353	2,750	(4,230)	19,954	135,828
Pooled Property	83,139	2,361	(5,352)	(5,663)	74,485
Private Equity/Infrastructure	60,328	6,474	(6,986)	6,181	65,997
Diversified Alternatives	64,851	17,404	(16,139)	5,978	72,094
Subtotal	**729,437**	**226, 064**	**(219,964)**	**89,125**	**824,663**
Cash Deposits	17,229	5,382	0	660	23,271
Subtotal	**746,666**	**231,446**	**(219,964)**	**89,786**	**847,934**
Investment income due	688	0	(255)	0	433
Total	**747,354**	**231,446**	**(220,219)**	**89,786**	**848,367**

8b. Analysis of Investments

31 March 2013 £000s	Analysis of Investments	31 March 2014 £000s
	Pooled Investment Vehicles	
	Fixed Interest & Index Linked Securities	
30,444	UK fixed income unit trusts	31,587
3,257	Overseas fixed income unit trusts	3,509
99,950	Overseas corporate bond fund	97,172
133,651		**132,268**
	Equities	
30,177	UK quoted	30,898
312,431	Overseas quoted	325,624
342,609		**356,522**
	Pooled Equity Investment Vehicles	
68,440	Unit trusts UK equity	70,439
67,388	Unit trusts overseas equity	73,094
135,828		**143,533**
74,485	Pooled property investments	87,248
65,997	Private equity/infrastructure	61,226
	Diversified Alternatives	
3,033	Catastrophe risk funds	2,982
4,142	Commodities funds	3,098
3,432	Convertible bonds fund	5,770
5,170	Emerging market debt funds	2,798
4,330	Frontier equity fund	4,868
22,511	Hedge fund of funds	23,947
5,015	Hedge funds - global macro	4,649
4,905	High yield bond fund	5,179
3,047	Inflation linked bonds fund	838
2,804	Private equity funds	2,939
6,263	Real estate funds	5,905
7,442	Senior loans fund	7,518
72,094		**70,492**
23,271	Cash	52,819
433	Investment income due	370
848,367	**Total Investment Assets**	**904,478**

8c. Investments Analysed by Fund Manager

Investments with fund managers exceeding 5% of total (including cash holdings) as at 31 March 2014 are outlined in the table below:

Fund Manager	Investment Type	Expected Performance	£m	%
Legal and General	Passive global equities & bonds	Track the Benchmark	178.6	19.8
Longview	Global equities	Outperform MSCI World TR ND	157.8	17.5
Newton	Global equities	MSCI World Total Return ND	120.1	13.3
Neptune	Global equities	MSCI World Index GD +4%	108.9	12.0
Aberdeen	Fixed Interest	Barclays Capital Nominal Swap 30 Year Coupon GBP Total Return and Barclays Capital UK RPI 20 Year Real Rate Swap Total Return	97.2	10.7
CBRE	Property	Outperform the IPD by 0.75%	94.0	10.4
Morgan Stanley	Diversified Alternatives	LIBOR plus 5.2%r	78.3	8.7
Harbour Vest	Private Equity	RPI + 4%	43.7	4.8
Other Investments			25.5	2.8
Investment Income due			0.4	0.0
		Total	**904.5**	**100**

The Fund has no individual holdings exceeding 5% of total investments.

Investments with fund managers (including cash holdings) as at 31 March 2013:

Fund Manager	Investment Type	Expected Performance	£m	%
Legal and General	Passive global equities & bonds	Track the Benchmark	169.5	20.0
Longview	Global equities	Outperform MSCI World TR ND	134.7	15.9
Newton	Global equities	MSCI World Total Return ND	111.8	13.2
Neptune	Global equities	MSCI World Index GD +4%	103.0	12.1
Aberdeen	Fixed Interest	Barclays Capital Nominal Swap 30 Year Coupon GBP Total Return and Barclays Capital UK RPI 20 Year Real Rate Swap Total Return	100.0	11.8
CBRE	Property	Outperform the IPD by 0.75%	85.1	10.0
Morgan Stanley	Diversified Alternatives	LIBOR plus 5.2%	74.8	8.8
HarbourVest	Private Equity	RPI + 4%	42.8	5.1
Other Investments			26.2	3.1
Investment Income due			0.4	0.0
		Total	**848.3**	**100.0**

The Fund has no individual holdings exceeding 5% of total investments.

9. Financial Instruments

The accounting policies (note 1) describe how different classes of financial instruments are measured, and how income and expenses and fair value gains and losses are recognised. The following table analyses the value of financial assets by category:

Classification of financial instruments		**31 March 2013**			**31 March 2014**	
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Fixed interest securities	133,651	-	-	132,268	-	-
Equities	342,609	-	-	356,521	-	-
Pooled investments	135,828	-	-	143,532	-	-
Pooled property investments	74,485	-	-	87,248	-	-
Alternative Investments	138,091	-	-	131,719	-	-
Cash	-	23,271	-	-	52,820	-
Debtors	-	433	-	-	370	-
Total	**824,663**	**23,704**	**-**	**851,288**	**53,190**	**-**

Net gains and losses on financial instruments	**2012/13**	**2013/14**
	£000s	**£000s**
Fair value through profit and loss	89,126	54,458
Loans and receivables	660	(812)
Financial liabilities at amortised cost	0	0
Total	**89,786**	**53,646**

Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments 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 Level 1 to 3, based on the level at which the fair value is observable.

Classification of Financial Instruments	31 March 2013 Level 1 £000s	31 March 2013 Level 2 £000s	31 March 2013 Level 3 £000s	31 March 2014 Level 1 £000s	31 March 2014 Level 2 £000s	31 March 2014 Level 3 £000s
Fair value through profit and loss	612,087	-	212,576	632,322	-	218,966
Loans and receivables	23,704	-	-	53,190	-	-
Financial liabilities measured at amortised cost	-	-	-	-	-	-
Total	**635,791**	**-**	**212,576**	**685,512**	**-**	**218,966**

10. Current Assets and Liabilities

Current assets	2012/13 £000s	2013/14 £000s
Contributions from outside bodies	168	228
Cash investments	14	1,308
Prepayments	9	-
Total	**191**	**1,536**

Current liabilities	2012/13 £000s	2013/14 £000s
Fees due to fund managers	(790)	(892)
Investment advisor fees	(4)	(33)
Actuarial fees	(19)	(20)
Custodian fees	(32)	-
Audit fee	(21)	-
Amounts due to administering authority	(7,268)	(825)
Total	**(8,134)**	**(1,770)**

Analysis of Debtors	2012/13 £000s	2013/14 £000s
Public corporations and trading funds	162	220
Other entities and individuals	15	8
Total	**177**	**228**

Analysis of creditors	2012/13 £000s	2013/14 £000s
Other local authorities	(7,268)	(825)
Other entities and individuals	(866)	(945)
Total	**(8,134)**	**(1,770)**

11. Related Party Transactions

Fund administration expenses payable to the administrating authority, the London Borough of Newham are outlined below:

Related Party Transactions	2012/13 £000s	2013/14 £000s
Payroll Support	102	58
Central Finance	141	141
Accounting	9	12
Management Cost	19	6
General Charges	4	6
Total	**275**	**223**

The following Members of the Investment and Accounts Committee are active members of the LGPS:

- Councillor Andrew Baikie
- Councillor John Gray
- Councillor Riaz Mirza

The Late Councillor Alec Kellaway was a related party of the scheme during the year; he sadly passed away in June 2014

Some Members of the Committee have interests in related parties as follows:

- Councillor Kellaway is a Director of Newco and an Independent Governor for Newham Sixth Form College.
- Councillor Lester Hudson is a Trustee of Active Newham.

The remaining Members are not members of the LGPS and have no declared interests in related parties of the fund.

12. Fund Operation and Membership

The Newham Pension Fund is administered by Newham Council and provides pensions and other benefits for former, non-teaching employees of the Council (teachers are covered by a separate Pension Fund).

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in Newham, together with employees of admitted bodies. Subject to certain criteria, all non-teaching employees may choose to join the scheme. Membership of the Fund at the year-end was as follows:

	At 31 March 2013 (number)	At 31 March 2014 (number)
Contributing members	6,381	7,203
Current pensioners	6,574	6,746
Deferred pensioners	6,799	7,183
Frozen members	1,554	1,547
Total	**21,308**	**22,679**

Events after the year end

The LGPS regulations changed with effect from 1 April 2014. The key differences between the new scheme (LGPS 2014) and the existing scheme (LGPS 2008) are set out in the table below:

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Prices Index (CPI)	Based on Final Salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution Flexibility	Yes – new option for members to pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Linked to State Pension Age	65

The average employee contribution remains 6.5%, but the bands have been amended so that members on higher pay scales pay increased contributions. Lump sum and death in service benefits are unchanged. All pension benefits built up prior to 1 April 2014 will be protected. Further regulation changes covering cost management and governance arrangements are still being developed.

The fund undertook a triennial valuation in 2013, which set new employer contribution rates which take effect from 1 April 2014. See note 13 for further details.

13. Actuarial Position and Funding Position

The level of contribution payable by the Council to the Fund during 2012/13 was based on the actuarial valuation as at 31 March 2010. This valuation set the contribution rates for the three years 2011/12 – 2013/14, using the projected unit actuarial method.

During the year the Fund completed the 2013 triennial valuation, which set the employer contribution rates for the three years from 1 April 2014. The Fund was assessed to be 73% funded - the value of the Fund's assets at 31 March 2013 for valuation purposes was £817 million, compared to liabilities of £1,115 million (allowing for future pay increases). Assets were valued at a 6 month smoothed market value straddling the valuation date. A full actuarial report of the actuarial present value of promised retirement benefits can be found at www.newham.gov.uk.

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis. Every year using the same base data as funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions from those used for funding purposes. The actuary also has also valued ill health and death benefits in line with IAS 19.

The pension fund investment strategy is seeking a fully funded position within 20 years, whilst providing stability in employer contribution rates. This long-term strategy allows for short-term market volatility.

The main actuarial assumptions used in the 2010 and 2013 valuations are shown in the following table:

Assumptions	2010 Valuation	2013 Valuation
Rate of Return on Investments	6.7% per annum	6.0% per annum
Rate of general pay increases	4.7% per annum	2.7% p.a. until 31 March 2015, 4.5% p.a. thereafter
Rate of increases to pensions in payment	3.0% per annum	2.7% per annum
Mortality (all members)	Assumptions based on Club Vita Lite tables with mortality improvements in line with the Continuous Mortality Investigation (CMI) Medium Cohort projections.	Assumptions based on 110% of the S1PA tables with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Commutation	Assumed that at retirement, 50% of members will opt to increase their lump sums to the maximum allowed.	Assumed that members will convert 50% of the maximum possible amount of pension into cash
Ill Health	Assumed that 30% of ill health retirements will be eligible for benefits based on full prospective service and 70% will qualify for a service enhancement of 25% of prospective service.	Assumed that 50% of ill-health retirements will be eligible for benefits based on full prospective service and 50% will qualify for a service enhancement of 25% of prospective service
50:50 Option	n/a	It is assumed that 10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme (which comes into effect on 1 April 2014)

14. Post Year-End Transactions

There were no major events following the end of the financial year, which would affect the validity of the figures shown in the fund account and net assets statement.

15. Stock Lending

The Fund has a policy to not engage in stock lending arrangements for any of its direct holdings. The Fund's pooled passive equity manager does engage in stock lending in selected overseas markets.

16. Risk and Return

There are a number of risks involved in the investment of the assets of the Pension Fund. An outline of the risks and how they are mitigated is below:-

Currency risk: This is the risk that the fair value of overseas investments will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on all investments held in a currency other than pounds sterling. The Fund's currency risk exposure as at the period end is summarised in the table below:

Overseas Assets	**31 March 2013 £000s**	**31 March 2014 £000s**
Overseas fixed income unit trusts	3,257	3,509
Overseas corporate bond fund	99,950	97,172
Overseas quoted equities	312,431	325,624
Unit trusts overseas equity	67,388	73,093
Overseas pooled property	-	7,858
Private equity/infrastructure (overseas)	65,997	61,227
Diversified alternatives (overseas)	72,094	70,492
Total	**621,117**	**638,975**

The Fund's currency risk exposures is measured by the value of assets (the concentration risk) in any one market; and are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

The majority of the Fund's overseas assets are held in either US dollars or Euros. Following analysis of historical exchange rate data for these two currencies, the Fund considers the likely volatility associated with exchange rate movements to be 4%.

The table below shows the possible impact on the value of Fund assets of a 4% strengthening or weakening of the pound against the various currencies in which investments are held. This analysis assumes all other variables remain constant:

Overseas Assets	**31 March 2014 £000s**	**+4% £000s**	**-4% £000s**
Overseas fixed income unit trusts	3,509	3,649	3,369
Overseas corporate bond fund	97,172	101,059	93,285
Overseas quoted equities	325,624	338,649	312,599
Unit trusts overseas equity	73,093	76,017	70,169
Overseas pooled property	7,858	8,172	7,544
Private equity/infrastructure (overseas)	61,227	63,676	58,778
Diversified alternatives (overseas)	70,492	73,312	67,672
Total	**638,975**	**664,534**	**613,416**

Interest Rate Risk: is the risk that the fair value or future cash flows of the Fund's investments will vary due to changes in market interest rates. The Fund's direct exposure to interest rate movements as at the year-end are set out in the table below:

Fixed income and cash assets	**31 March 2013 £000s**	**31 March 2014 £000s**
Fixed interest & index linked securities	133,651	132,268
Diversified alternatives - bonds	18,826	19,306
Cash and cash equivalents	23,271	52,820
Total	**175,748**	**204,394**

The Fund recognises that changes in interest rates can affect both the value of these assets and the income from them. Based on analysis of interest rates over the last 10 years, estimated volatility of 85 basis points is considered reasonable. The table below shows the impact on the net assets available to pay benefits of a +/- 0.85% change in interest rates:

Fixed income and cash assets	**31 March 2014 £000s**	**+0.85% £000s**	**-0.85% £000s**
Fixed interest & index linked securities	132,268	133,392	131,144
Diversified alternatives - bonds	19,306	19,470	19,142
Cash and cash equivalents	52,820	53,269	52,371
Total	**204,394**	**206,131**	**202,657**

Manager risk: is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager (s) investment process.

Solvency and mismatching risks: are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Liquidity risk: is measured by the level of cash flow required over a specified period; and managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

Custodial risk: is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Managers from deviating significantly from the intended approach while permitting the flexibility for Managers to enhance returns
- The appointment of more than one Manager with different mandates and approaches provides for the diversification of Manager risk
- The investment management agreements constrain the Manager's actions in areas of particular risk and set out the respective responsibilities of both the Manager and LBN

The Fund is managed 80% on an active and 20% on a passive basis. The assets managed on an active basis are expected to outperform their respective benchmarks over the long term. In achieving the level of return managers are also required to limit underperformance. The passive manager has a target of achieving a return as close as possible to the respective benchmark index return for each market. Overall the Fund is expected to produce a return at least in line with the return assumed by the actuary in the last valuation.

The Fund's custodian, Northern Trust, monitors the performance of each of the Managers and the Fund overall. Reports are considered quarterly and there is an annual review. The annual review also examines the impact of the Fund's benchmark. Performance of the Fund is monitored internally on a monthly basis. There is a statutory obligation for triennial valuation of the Fund with the option for interim valuations as required.

In addition, risks are measured and managed via a risk register which is constantly revised and updated. The risk register is included in the Statement of Investment Principles and can be found at www.newham.gov.uk.

17. Contingent Liabilities and Contractual Commitments

At 31 March 2014, the Fund had outstanding capital commitments totalling £13.938m (2013: £20.374m). These commitments relate to outstanding capital calls due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing.

The Fund also has an unfunded private equity commitment of £12.628m (2013: £4.775m) within its diversified alternatives portfolio.

In addition to this, the Fund has received £0.877m (2013: £0.897m) recallable distributions from its infrastructure fund which are also available for drawdown.

Outstanding commitments are in US dollars and Euros – these have been converted to pounds sterling as at 31 March.

18. Contingent Assets

Admitted bodies - Active Newham have a guarantee in place with Newham (the Council) to guard against the possibility of being unable to meet their pension obligations. This guarantee is will only be drawn upon in the event of an employer default.

New admitted bodies are sometimes required to put insurance bonds in place at the time of their admission – this is considered by the Investment and Accounts Committee when admission is sought.

Policy Statements

STATEMENT OF INVESTMENT PRINCIPLES 2013/14

1. Introduction

1.1 This is the Statement of Investment Principles (SIP) adopted by the London Borough of Newham (LBN) in relation to the Council's Pension Fund and reflects the conclusions drawn from the strategy review following the 2010 valuation. It looks to update the 2012/13 SIP in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

1.2 The LBN Pension Fund ("the Fund") is a Local Government Pension Scheme (LGPS). It is not a trust based scheme. Rather, the investment of the Fund's assets is governed by the "Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009", as amended.

Amongst other things these regulations require LBN to consult with stakeholders and to obtain and consider proper, written advice from suitably qualified persons on investments and the formulation of an investment policy, taking into account the suitability and diversity of the different asset classes available and selected.

In this capacity the Council employs the Investment Practice of Barnett Waddingham and receives external advice from a number of other investment professionals, including an Independent Investment Advisor. These provide additional independent advice on investment strategy, the economic outlook and manager performance. A review of the investment advice received by the Fund will be completed in 2013/14, to ensure it continues to be fit for purpose.

This SIP is consistent with the restrictions and requirements of the regulations.

1.3 The Investment & Accounts Committee (IAC) of LBN oversees the management of the Fund's assets. Although not trustees, the Members of the Investment & Accounts Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Investment & Accounts Committee within the Council's Constitution (8.07 2) are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.
- The Committee shall be a member of the Local Authority Pension Fund Forum.

The Investment & Accounts Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes

- Appointing the investment managers, an independent custodian, the actuary, the investment advisor and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the SIP & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Director of Finance and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This SIP will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Since July 2010, the SIP has been required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. This information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

2. Fund Objectives

2.1 The aims of the Fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and scheduled, resolution and admitted bodies
- manage the funding of the employers' liabilities effectively
- maximise the returns from investments within reasonable risk parameters.
- become fully funded within the deficit recovery period agreed with the Fund's actuary

3. Types and Balance of Investments

3.1 The Fund may utilise the following asset classes which are deemed suitable for the Fund:

Equities (UK and Overseas)
Fixed Interest Bonds (UK and Overseas)
Index Linked
Private Equity
Property
Commodities/ senior loan, currency etc.
Derivatives
Managed Funds
Underwriting
Cash

3.2 The Fund has chosen a specific benchmark in order to determine the appropriate balance between different types of asset. The Fund invests through a range of pooled Funds as well as directly in shares and has a mix of passive and active management. Stock selection is delegated to Investment Managers who may vary their allocation within set bands and must re-balance to the benchmark quarterly. Following the on-going review of the investment strategy the benchmark is as follows:

Asset Class	%	Expected Return
Equities	55.0	8-11%
Bonds	13.0	5-6 %
Property	12.0	9 %
Private Equity	5.0	10 %
Infrastructure	5.0	8 %
Diversified Alternatives Fund	10.0	7 %
Total	**100.0**	

The Fund has made 5% allocations to both private equity and infrastructure. These allocations are not invested immediately but are invested over a 3-4 year period as the fund manager invests in suitable companies. In the interim these assets are invested in UK equities.

3.3 The benchmark adopted reflects the circumstances of the Newham Fund in terms of its liability profile and solvency level. The Fund is relatively mature (i.e. there are relatively high numbers of pensioners compared to contributing numbers) but is expected to remain cash positive over the medium term of at least 10 years, subject to any legislative or other changes that may shorten this time period. This means the Fund is able to take a fairly long-term perspective investing in real assets such as equities and property to increase the value of the Fund rather than Bonds which produce a steady income stream. This position will be regularly reviewed.

3.4 The Fund's investments are structured so as to stay within the restrictions imposed by regulation. These are reflected in the management agreements and instructions to Investment Managers.

3.5 The Committee has delegated responsibility to the Director of Finance to undertake any necessary action required to re-balance the Fund's strategic asset allocation in-line with the investment strategy.

3.6 The Committee has delegated responsibility to the Director of Finance for all decisions relating to the administration of the Fund, including but not limited to crediting contributions, dividends and interest, and realising and making investments to manage the Fund's cash flow based on the Cash Policy Statement.

4. Investment Management Arrangements

4.1 Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. Some cash (making up less than 1% of the Fund) is held in house.

4.2 The current investment management arrangements are as follows:

Manager	Mandate	Fund %
Neptune	Unconstrained Global Equity Active	13.0
Longview	Unconstrained Global Equity Active	13.0
Newton	Unconstrained Global Equity Active	13.0
Legal & General	Passive Equities*	16.0
	Passive Bonds**	4.0
Morgan Stanley	Diversified Alternatives	10.0
CBRE	Property	12.0
Aberdeen Asset Management	Fixed Income Active	9.0
HarbourVest	Private Equity	5.0
Arcus	Infrastructure	5.0

Scale up to 100% in each category:

*** Passive Equities**
- 40% UK Equity Index
- 12% North America Equity Index
- 12% Europe (ex UK) Equity Index
- 5% Japan Equity Index
- 6% Asia Pacific ex Japan Developed Equity Index
- 5% World Emerging Markets Equity Index Fund

**** Passive Bonds**
- 13% Over 15 Year Index-Linked Gilts
- 5% AAA Fixed Interest Over 15 Years
- 2% Overseas Bond Index

4.3 Investments in Property, Private Equity and Infrastructure are illiquid relative to other asset classes.

4.4 Management agreements are maintained with each of the Investment Managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager.

4.5 The Investment Manager's actions and performance are monitored quarterly and reviewed annually or at any other time as deemed appropriate.

4.6 The manager's fee structure is based on a percentage of the market value of the managed assets. The fee charged is set as part of the appointment process, and reviewed as deemed appropriate.

5 Risk and Return

5.1 The Investment & Accounts Committee recognises that there are a number of risks involved in the investment of the assets of the Pension Fund amongst which are the following:

5.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

5.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

5.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

5.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

5.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

5.7 Funding of the LBN Pension Fund is based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within section 7 of the FSS. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the Investment Managers from deviating significantly from the intended approach while permitting the flexibility for Managers to enhance returns
- The appointment of more than one Manager with different mandates and approaches provides for the diversification of Manager risk
- The investment management agreements constrain the Manager's actions in areas of particular risk and set out the respective responsibilities of both the Manager and LBN

5.8 The Fund is managed 80% on an active and 20% on a passive basis. The assets managed on an active basis are expected to outperform their respective benchmarks over the long term. In achieving the level of return managers are also required to limit underperformance. The passive manager has a target of achieving a return as close as possible to the respective benchmark index return for each market. Overall the Fund is expected to produce a return at least in line with the return assumed by the actuary in the last valuation.

5.9 The Fund's custodian, Northern Trust, monitor the performance of each of the Managers and the Fund overall. Reports are considered quarterly and there is an annual review. The annual review also examines the impact of the Fund's benchmark. Performance of the Fund is monitored internally on a monthly basis. There is a statutory obligation for triennial valuation of the Fund with the option for interim valuations as required.

5.10 In addition, risks are measure and managed via a risk register which is constantly revised and updated. The risk register is included as Appendix C.

6 Realisation of Investments

6.1 The majority of the Fund's assets are quoted in the major markets and are readily realisable. Property is relatively illiquid and makes up 12% of the Fund benchmark assets. Private Equity and infrastructure are also illiquid and make up 4% and 2% respectfully. Diversified alternatives are a mixture of liquid and illiquid assets. The allocation to diversified alternatives will be less liquid than the equity and bond portfolios. Whilst the Fund enjoys a positive cash flow there will not be a need to realise investments quickly and this is likely to remain so at least in the medium term.

6.2 The investment managers are required to realise investments as soon as it becomes appropriate to do so under their mandates. In general the Fund's investment managers have discretion with regard to the realisation of investments.

7 Socially Responsible Investment (SRI)

7.1 A full of review of the Fund's approach to SRI was completed in 2012/13. The Fund has now adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The SRI Policy is publically available and will be reviewed as deemed appropriate.

7.2 As a responsible investor the LBN Pension Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all Companies in which it invests. Whilst there has been a great deal of emphasis on the relationship of business, financial and economic factors to investment performance, the impact on returns of less tangible non-financial and reputational factors is more difficult to identify. Nevertheless it is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. By having a good public image, the morale of the workforce will be higher, thus making it easier to attract and retain quality employees. The Fund considers that the pursuit of high corporate social responsibility standards by Companies will lead to higher returns in the long term. A good public image may help to increase sales volumes. An improved financial standing will improve credit ratings, thus allowing a company to attract lower cost funding. By addressing outside factors, the company is able to demonstrate an above average standard of management competence which will improve the long term potential and sustainability of the organisation. At the very least the Fund expects the Companies in which it invests to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

7.3 In furtherance of this stance the Fund will support standards of best practice by Companies in both the disclosure and management of corporate social responsibility issues consistent with the Fund's fiduciary responsibilities. To this end the Fund will pursue a policy of active shareholder engagement with companies using its own efforts, those of its Fund managers and alliances with other investors. The Fund is a member of the Local Authority Pension Fund Forum and National Association of Pension Funds.

7.4 On occasions the Chair and Members of the Council's Investment & Accounts Committee has attended company AGMs to raise questions on matters concerning socially responsible issues, such as labour standards. There is potential for a company to improve its reputation and financial standing from positive engagement by addressing issues that if ignored, may be detrimental to the organisations long term standing.

7.5 The Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification. Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds. Fund managers are required to have policies regarding Environmental, Social and Governance (ESG) issues and to monitor their compliance with those policies.

8 Shareholder Rights

The Fund is committed to making full use of its shareholder rights, and this is also covered it its SRI Policy. The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value. The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI).

9 Additional Voluntary Contributions

The Council provides a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits. Members have a choice of buying additional pension benefits (APBs) or accumulating their AVCs to purchase benefits on a money purchase basis. Investment of money purchase AVCs is undertaken through Clerical Medical Investment Group Ltd and the Equitable Life Assurance Society. The Equitable Life option is closed to new members.

10 Stock Lending

The Fund does not engage in stock lending arrangements for any of its direct holdings.

11 Approval

The Investment and Accounts Committee approved the revision to the SIP at the Investment and Accounts Committee Meeting on 3 July 2013.

12 Compliance with Principles of Investment Practice

The London Borough of Newham Pension Fund complies with the CIPFA Pensions Panel Principles for Investment Decision-Making in the Local Government Pension Scheme in the United Kingdom. These Principles are outlined in Appendix A.

13 Feedback

Any feedback on this Statement of Investment Principles is welcomed. If you have any comments or wish to discuss any issues then please contact:

Deborah Hindson,
Director of Finance
Newham Dockside,
1000 Dockside Road,
London E16 2QU
Email: deborah.hindson@newham.gov.uk

SIP APPENDIX A - COMPLIANCE WITH CIPFA PENSIONS PANEL PRINCIPLES FOR INVESTMENT DECISION MAKING IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINGDOM

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012',

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating 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 organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The council has delegated the management and administration of the pension fund to the Investment and Accounts Committee (the Committee), which meets at least quarterly. The responsibilities of The Committee are described in paragraph 1.4 of the SIP.

The Committee is made up of elected members of the Council who each have voting rights and has representatives from the admitted and scheduled bodies within the

Fund and from trade unions, as observers. The Fund is also in the process of co-opting a pensioner representative to the Committee.

The Committee obtains and considers advice from and is supported by the Director of Finance, Corporate Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund will be completed in 2013/14, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually and progress is monitored on a quarterly basis.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members. Committee Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members, which is currently being reviewed by the Director of Finance to ensure the training needs of members are properly identified and addressed.

Principle 2 - Clear objectives

An overall investment objective(s) should be set 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 advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the SIP. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

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

Full Compliance

The Committee has, in conjunction with its advisor, agreed an Investment Strategy that is directly related to the Fund's liabilities. An actuarial valuation of the fund takes place every three years, with the next triennial valuation taking place in 2013. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The Investment Allocation of the fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 3 of the SIP.

During 2013/14, the Fund is looking to develop an Admitted/Scheduled Body policy, which will outline its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund. ,

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. 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

Full Compliance

The Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Barnett Waddingham, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receive quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

Principle 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.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the SIP and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the SIP and in the Fund's SRI Policy.

A full of review of the SRI polices of current Fund Managers and their compliance with the Financial Reporting Council's Stewardship Code was completed in 2012/13, and the results were reported to the Committee in March 2013.

This Statement of Investment Principles and the SRI Policy are both publically available to all scheme members.

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the Statement of Investment Principles, the Funding Strategy Statement, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

SIP APPENDIX B - COMPLIANCE WITH THE STEWARDSHIP CODE

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the SIP, which outlines the terms of reference of the Committee.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Committee actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance
- Investment Process compliance and changes
- Changes in personnel (joiners and leavers)
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to the Committee.

All the Fund's equity, fixed income and diversified managers have signed up to the FRC Stewardship Code including:
Arcus (Infrastructure)
Aberdeen Asset Management (Fixed Income)
Newton Investment Management (Equities)
Neptune Investment Management (Equities)
Legal and General (Equities and Fixed Income)
Longview Partners (Equities)

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Committee members are also required to make declarations of interest prior to all Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Reports from fund managers on voting and engagement activity are received and will be reported to the Committee on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the Committee at the subsequent Committee meeting.

Fund manager Internal Control reports are monitored, with breaches reported back to the Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and currently one member of the IAC is a member of the LAPFF Executive Committee. The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any non-compliance.

Where possible, the Fund seeks to exercise its voting rights attached to its non- UK equity holdings by delegation through Power of Attorneys.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the SIP and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

SIP APPENDIX C – RISK REGISTER

RISK ASSESSMENT COMPLETED BY	Jane Radford	Corporate Finance Pension Fund	Director of Finance	Deborah Hindson	DATE : June 2013

Risk No.	Details of Risk, Including Consequences	Uncontrolled Assessment of Risk			Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Controlled Assessment of Risk		
		Assume NO controls in place								When ALL controls are implemented		
		Impact	Likelihood	Risk Rating						Impact	Likelihood	Risk Rating
1	**Business Objective;**	**To ensure that the Council Plans its finances effectively to deliver its strategic priorities.**										
	Lack of professional advice or poor advice giving rise to poor decision making leading to loss of investment opportunities and ultimately higher costs for the Fund	3	4	12	Deborah Hindson	Monitoring of advice received from Advisor and Independent Investment Advisor	100%	31/03/2014	Stephen Wild	2	2	2
						Review of investment advice to be completed in 2013/14 to ensure it is fit for purpose	20%	31/03/2014	Stephen Wild			
						Obtain advice from a number of independent advisors	100%	31/03/2014	Stephen Wild			
2	**Business Objective;**	**To ensure that the Council is in sound financial health**										
	Risk failure to collect contributions from employers, loss of interest, investment opportunities and higher costs, giving rise to financial and reputational issues	2	4	8	Deborah Hindson	Monitoring of contributions, ensuring they are received on time	100%	31/03/2014	Stephen Wild	1	2	2
						Monthly checks to ensure cash received and banked	100%	31/03/2014	Stephen Wild			
						Monthly checks on the employer and employee rates	100%	31/03/2014	Stephen Wild			
3	**Business Objective;**	**To ensure that the Council is in sound financial health.**										
	Pensioners living longer increasing liabilities of the pension fund giving rise to higher contributions required.	4	2	8	Deborah Hindson	Developments monitored via Fund's Actuary – next triennial valuation being completed in 2013	0%	31/03/2014	Stephen Wild	2	2	4

4	**Business Objective;**	**To ensure that the Council is in sound financial health.**										
	Declining active membership & impact on cashflow requiring change in investment strategy and increased employer contributions	4	4	12	Deborah Hindson	Promotional campaign to boost membership of scheme among LBN staff	50%	31/03/2014	Stephen Wild	2	2	4
						Auto enrolment - new and sessional staff from March 2013, all staff from October 2017	50%	31/03/2014	Stephen Wild			
5	**Business Objective;**	**To ensure that the Council is in sound financial health**										
	Risk employer goes into default, deficit on termination, change of status, financial risk.	3	4	12	Deborah Hindson	Actuarial assessment completed for all new admission requests to assess level of risk	100%	31/03/2014	Stephen Wild	2	2	4
						Bonds or suitable guarantees put in place to protect the Fund in case of default	100%	31/03/2014	Stephen Wild			
						Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly	100%	31/03/2014	Stephen Wild			
6	**Business Objective;**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management of financial performance**										
	Assets and liabilities impacted by investment performance - assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore requirement for higher contributions	4	4	16	Deborah Hindson	Monitoring of Investment Managers, with meeting held on an exceptions basis	100%	31/03/2014	Stephen Wild	2	2	4
						Strategic asset allocation designed to achieve appropriate balance between capital protection and growth	100%	31/03/2014	Stephen Wild			
						Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2014	Stephen Wild			

7	**Business Objective;**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance**										
	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers	4	4	16	Deborah Hindson	Strategic Asset Allocation regularly reviewed to ensure asset mix remains appropriate	100%	31/03/2014	Stephen Wild	2	2	4
						Monitoring of investment performance against targeted returns.	100%	31/03/2014	Stephen Wild			
						Monitoring of Investment Managers, with meeting held on an exceptions basis where performance is below benchmark	100%	31/03/2014	Stephen Wild			
8	**Business Objective;**	**To ensure the Council has effective methods for paying people and organisations**										
	Poor administration by the Pension Fund, employers and payroll providers in the Fund giving rise to inaccurate data with financial and reputational consequences, actuary unable to set contribution rates	3	3	9	Deborah Hindson	Annual monitoring of membership records, valuation checks	100%	31/03/2014	Stephen Wild	2	2	4
						Triennial Data Cleansing exercise and actuary data report	100%	31/03/2014	Stephen Wild			
9	**Business Objective;**	**Ensure that the organisation has a robust approach to managing its risks & has good internal control.**										
	The Pension Fund is heavily reliant on third party providers for its investment management, administration and custodial services	3	3	9	Deborah Hindson	Adequate contract monitoring to ensure performance standards and financial security of external providers	100%	31/03/2014	Stephen Wild	2	2	4

10	**Business Objective;**	**Ensure that the organisation has a robust approach to managing its risks & has good internal control**										
	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education	3	3	9	Deborah Hindson	Life Certificate check on all pensioners in receipt of Cheques/Giro's all pensioners living abroad and all those over the age of 80	100%	31/03/2014	Mike Raw	2	2	4
						Participate in the National Fraud Initiative	100%	31/03/2014	Mike Raw			
						Reclaim amounts over £100.00 that have been overpaid	100%	31/03/2014	Mike Raw			
11	**Business Objective;**	**To ensure that the council's financial & external reporting complies with requirements & meets the need of users & local people**										
	Poor communication with stakeholders giving rise to disaffection and actions against Council	2	3	6	Deborah Hindson	Annual Report on Pension Fund - summary version sent to all active members	80%	31/03/2014	Stephen Wild	1	1	1
						Annual General Meeting - all employers and other key stakeholders invited to attend	100%	31/03/2014	Stephen Wild			
						Union representation on the Committee. Pensioner representation being considered.	80%	31/03/2014	Stephen Wild			
12	**Business Objective;**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance**										
	Failure to comply with existing or new legislation due to lack of specialist knowledge, inability to apply new legislation correctly, etc.	3	3	9	Deborah Hindson	Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc	100%	31/03/2014	Stephen Wild	1	1	1

13	**Business Objective;**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance**										
	Changes to regulations which could be detrimental to the Pension Fund	3	3	9	Deborah Hindson	Active participation in consultations.	100%	31/03/2014	Stephen Wild	1	1	1
						Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach.	100%	31/03/2014	Stephen Wild	1	1	1
14	**Business Objective;**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective mgtmt of financial performance**										
	Financial and reputational risk of being invested in companies with poor ESG records	3	3	9	Deborah Hindson	Statement of Investment Principles	100%	31/03/2014	Stephen Wild	2	1	2

FUNDING STRATEGY STATEMENT (FSS)

1 Introduction

1.1 This Statement has been prepared by London Borough of Newham (LBN) (the Administering Authority) to set out the funding strategy for the London Borough of Newham Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1.2 The Local Government Pension Scheme Regulations provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

1.3 After consultation with all relevant interested parties involved with the Fund the administering authority will review and finalise the Strategic Asset Allocation and benchmarking exercise and publish their funding strategy.

1.4 In reviewing the FSS, the administering authority must also have regard for:

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

1.5 The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

1.6 Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

1.7 The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation, "the Regulations". The required levels of employee contributions are also specified in the Regulations.

1.8 Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2 Purpose of the FSS in policy terms

2.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

2.2 The purpose of this Funding Strategy Statement is:

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

2.3 The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3 Aims and purpose of the Fund

3.1 The aims of the Fund are to

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise returns from investments within reasonable risk parameters

3.2 The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations as amended.

4 Responsibilities of the key parties

4.1 The Administering Authority

4.1.1 The administering authority shall:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate.

4.2 The Investment & Accounts Committee of the London Borough of Newham

4.2.1 The Investment & Accounts Committee of the London Borough of Newham oversees the management of the fund's assets. Although not trustees, the Members of the Investment & Accounts Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the fund, as well as to the contributors and beneficiaries of the fund. The terms of reference for the Investment & Accounts Committee within the Council's Constitution (8.06 2) are:

- To make all decisions under Regulations made pursuant to Section 7, 12 or 24 of the Superannuation Act not otherwise falling to the Executive Director of Resources to determine as set out in the officers scheme of delegation;
- Approval of the authority's statement of accounts in accordance with the relevant Accounts and Audit Regulations made from time to time;
- The Committee shall be a member of the Local Authority Pension Fund Forum.

4.2.2 The Investment & Accounts Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes;
- Appointing the investment managers, an independent custodian, the actuary and any external consultants considered necessary;
- Reviewing on a regular basis the investment managers' performance against benchmarks, and satisfying themselves as to the managers expertise and the quality of their internal systems and controls;
- Monitoring compliance with the SIP and reviewing its contents;
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights;
- Considering application for admitted body status and determining deficit recovery periods if approval is considered appropriate;
- Determining deficit recovery periods in relation to newly formed scheduled bodies taking into consideration all relevant factors including any potential risk that may be associated with time limited guaranteed funding as in the case of Academy Employers; and
- Considering local matters in so far as they may impact on the risk to the Pension Fund and its constituent employers.

4.3 The Director of Finance

4.3.1 The Director of Finance and the appointed Consultants and Actuaries support the Committee. The day-to-day management of the fund's assets is delegated to investment managers.

4.4 The Individual Employer shall:

4.4.1 The Individual Employer shall:

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

4.5 The Fund actuary

4.5.1 The Fund actuary shall:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5 Solvency Issues and Target Funding Levels

5.1 The funding objective

5.1.1 To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an on-going basis including allowance for projected final pay.

5.2 Determination of the funding target and recovery period

5.2.1 The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

5.2.2 Underlying these assumptions are the following two tenets:
that the Scheme is expected to continue for the foreseeable future; and
favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

5.2.3 As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

5.2.4 The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

5.2.5 A maximum deficit recovery period of 20 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

5.2.6 Employer specific deficit recovery periods have been agreed for Newham 6th Form College and Newham College of Further Education of 10 years in each case.

5.2.7 Allowance has been made in assessing the deficit contributions where the employer's membership of the Fund is closed to new employees. This applies in the case of all the current admission bodies:
Greenwich Leisure Ltd
FM Conway
Carpenters TMO
Arc in the Park (Community Links)
Mitie

5.2.8 On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission Bodies Policy document (currently under development).

5.2.9 The administering authority may also reduce the current deficit recovery period where it considers the risk of non-payment of pension fund contributions has altered. Usually this will follow a valuation assessment by the Fund Actuary.

5.2.10 In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

5.3 Deficit recovery plan

5.3.1 If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

5.3.2 Additional contributions will be expressed as a level percentage of pensionable payroll or a series of one or more cash payments.

5.3.3 In determining the actual recovery period to apply for any particular employer, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

5.4 The normal cost of the scheme (future service contribution rate)

5.4.1 In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

6 Link to investment policy set out in the Statement of Investment Principles

6.1 The results of the 2010 valuation show the liabilities to be 72% covered by the current assets, with the funding deficit of 28% being covered by future deficit contributions due from employers.

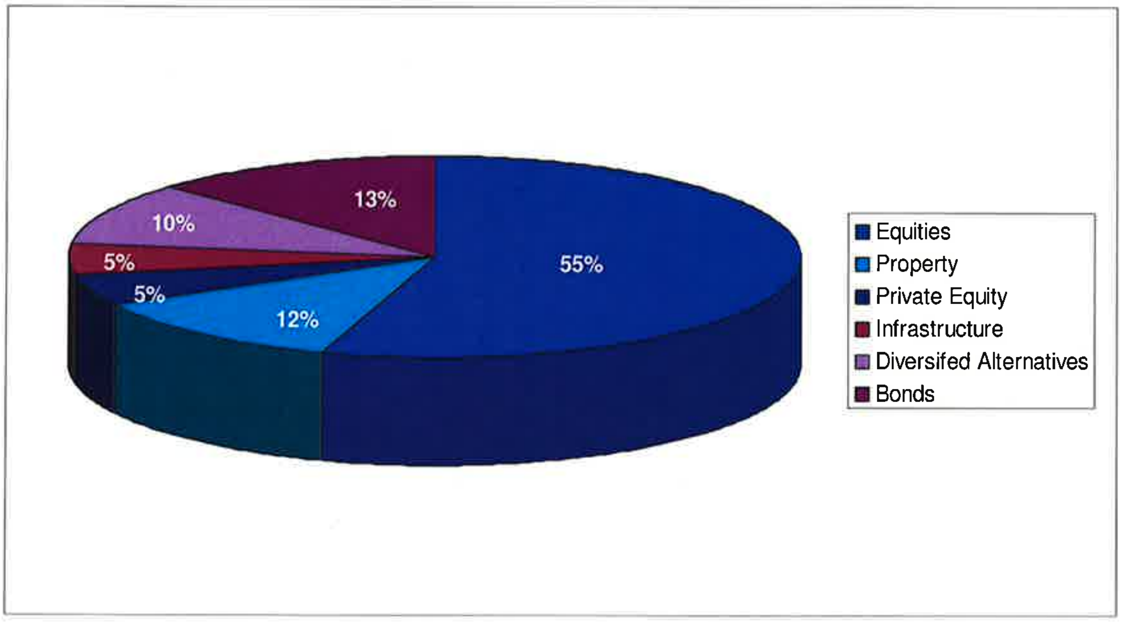
6.2 In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

6.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

6.4 Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's on-going funding level between successive actuarial valuations.

6.5 The Fund's SIP identifies the following asset classes which are deemed suitable for the scheme. The Fund has chosen a specific benchmark in order to determine the appropriate balance between different types of asset. The Fund invests through a range of pooled funds as well as directly in shares and has a mix of passive and active management. Stock selection is delegated to Investment Managers who may vary their allocation within set bands and must re-balance to the benchmark quarterly. The Fund invests through a range of pooled Funds as well as directly in shares and has a mix of passive and active management. The strategic asset mix for the Fund is in Graph 1 below:

6.6 Graph 1 Strategic Asset Mix



6.7 The benchmark adopted reflects the circumstances of the Newham fund in terms of its liability profile and solvency level. Although the fund is relatively mature (i.e. there are relatively high numbers of pensioners compared to contributing numbers) it is cash positive.

6.8 This position is likely to be maintained over the medium term of at least 10 years. As a result the fund is able to take a long-term perspective investing in real assets such as equities and property to increase the value of the fund rather than Bonds which can produce a steady income stream.

6.9 The benchmark per asset class is in Table 1 below:

6.10 Table 1 - Asset Benchmark

Asset Class	Asset Allocation
Equities	8-11%
Bonds	5-6 %
Property	9 %
Private Equity	10 %
Infrastructure	8 %
Diversified Alternatives Fund	7 %

7 Identification of risks and counter-measures

7.1 The funding of defined benefits is by its nature uncertain and funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

7.2 The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2010 valuation assumptions.

7.3 The following key risks to the funding strategy have been identified:

7.4 Financial

7.4.1 The main financial risk are that

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

7.4.2 The Fund and its Fund's investment advisers shall monitor such aspects to ensure that all assumptions are justified.

7.5 Demographic

7.5.1 The main demographic risks are that

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

7.5.2 In the event that significant changes become apparent between valuations, the Fund, following advice from the actuary, shall notify participating employers of the anticipated impact on costs that will emerge at the next valuation.

7.6 Regulatory

7.6.1 The key risk is that

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

7.6.2 The Fund shall keep abreast of potential changes. The actuary will be asked to assess the impact of changes and if significant, employers shall be notified.

7.7 Governance

7.7.1 Key risks are that

- The Administering Authority remains unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

7.7.2 The funds policy is to engage in regular communication with employers, enabling a regular review of financial standing and other issues.

8 Monitoring and Review

8.1 The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with participating employers.

8.2 A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

8.3 The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy; and
- if there have been any significant special contributions paid into the Fund.

FSS Appendix 1 - Actuarial Valuation as at 31 March 2010

The following sets out the method and assumptions used in calculating the funding target and recovery plan.

Method

The method we have adopted for employers open to new staff at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost we calculate the contribution rate which meets the cost of one year of benefit accrual.
For employers that are closed to new staff we have used the Attained Age Method. The key feature of this method is that we assess the average contribution required to fund the benefits earned until retirement.

Financial assumptions

At this valuation we have used a market related funding model. The key features of the model are as follows:

Assumed future levels of retail price inflation are derived by considering the difference between index-linked gilt and fixed-interest gilt yields at the valuation date, as published by the Bank of England. At this valuation we have also included an adjustment known as an inflation premium. This inflation premium is deducted from the market implied inflation assumption to reflect the expectation that market implied inflation tends to overstate actual retail price inflation.

Pay increases are assumed to exceed future retail price inflation based on past experience and expectations of future experience.

Pension increases are assumed to be in line with CPI rather than RPI. It is assumed that CPI will be 0.5% per annum less than RPI, consistent with the historical average.

Investments return (discount rate)

The expected future return from equities is based on dividend yields at the valuation date in addition to an allowance for real capital growth in asset values.
Rather than take "spot" yields and market values of assets at the valuation date we have used smoothed yields and asset values spanning the 6 month period around the valuation date.
The discount rate used to discount future payments to and from the Fund and so determine the value placed on the liabilities reflects the risk adjusted expected return that will be earned by the actual investment strategy adopted by the Fund.

Individual Employers

It is important to consider how the financial assumptions in particular impact on individual participating employers. The general Fund practice, as set out in the FSS is to allocate investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, the same actuarial assumptions have been adopted regardless of the individual employer liability profiles.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation. This is derived by considering the difference in yields from conventional and index linked gilts using the Bank of England Inflation Curve and then adjusting by an inflation premium

Pay Inflation

As benefits are currently linked to pay levels at retirement, an assumption has to be made about future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. At this valuation we have adopted a lower salary increase assumption, at 1.5% per annum above price inflation. In addition, in anticipation of Government policy we have completed calculations assuming a short term "pay freeze" for 2 years for those earning over £21,000 per annum.

Pension increases

Previously, pension increases were assumed to be in line with retail price increases. The 2010 Emergency Budget announced that in future, the pension increase orders will be linked to the CPI rather than RPI. We have therefore assumed that pension increases will be 0.5% less than the price inflation assumption. i.e. 3.0% per annum

Mortality and other statistical assumptions

These are as described in the 2010 valuation report.

Summary of key assumptions for the 2010 actuarial valuation

Financial Assumptions	March 2010		March 2007	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	7.4%	3.9%		
Gilts	4.5%	1.0%		
Bonds & Property	5.6%	2.1%		
Risk Adjusted Discount Rate	6.7%	3.2%	6.0%	2.9%
Pay Increases	4.7%	1.5%	4.9%	1.8%
Price Inflation	3.5%	-	3.1%	
Pension Increases	3.0%	(0.5%)	3.1%	

Since the end of 2013/14 a triennial valuation has taken place as a consequence the Funding Strategy Statement will be updated as part of the 2014/15 annual report reflecting the details and assumptions of the a triennial review. A new Funding Strategy Statement will be developed based the triennial review 2013 and approved by the Investments and Accounts Committee in December 2014.

SOCIALLY RESPONSIBLE INVESTMENT (SRI) POLICY

1. Introduction

The Investment and Accounts Committee is aware of its fiduciary responsibility to obtain the best possible financial return on investments, within acceptable levels of risk. This is the Committee's principle concern when making investment decisions on behalf of the Newham Pension Fund.

However, the Committee is committed to being a responsible investor and supports the view that effective management of environmental, social and governance (ESG) issues is a necessary part of achieving good financial performance and long term growth in the companies in which it invests, and will lead to greater returns in the long term.

It is the Committee's view that companies that fail to effectively manage good governance and social and environmental risks can incur higher operating costs (e.g. through lawsuits, fines, impact on staff recruitment and retention etc) and loss of consumer and investor confidence, negatively impacting on shareholder value. Conversely, good corporate governance and social and environmental practice can help to enhance the reputation of companies, which in turn has a favourable effect on financial performance and long term sustainability.

The Committee's responsibility for reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights is laid out in the Fund's Statement of Investment Principles (SIP). As part of fulfilling this responsibility, the Fund has developed this Socially Responsible Investment (SRI) policy which outlines its approach to the management of ESG issues within its investment portfolio.

2. Shareholder Rights and Voting Activities

The Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. At the very least, companies are expected to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

The Fund is committed to making full use of its shareholders rights. The Fund delegates the exercise of these rights to its fund managers. Fund managers are expected to vote in an appropriate and informed manner and report their voting actions back to the Committee. Where possible, the fund seeks to exercise voting rights attached to its non-UK equity holdings by delegation through Power of Attorneys. The Fund receives a monthly report from its Custodian on the voting activities of fund managers, and this is circulated to all Committee members via the Fund's website.

In addition to voting, the Fund works in partnership with its custodian to return value back to the Fund through class actions where shareholder value has been lost through fraudulent or irresponsible corporate behaviour.

3. Shareholder Engagement

The Fund also delegates ESG engagement with and monitoring of investee companies to fund managers. Fund managers are expected to report back to the Committee on the activities they undertake, and report any breaches by investee companies.

Fund managers are encouraged to have their own policies on the inclusion of ESG issues in their investment decisions and management, and to report back to the Committee on how these policies are implemented.

ESG issues will be included as a standing item at meetings with fund managers.

Fund Manager internal control reports are monitored, with breaches reported back to the Committee.

4. Restrictions on Investments

As stated in the SIP, the Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification.

However, the Fund avoids placing excessive restrictions on its external fund managers, recognising that this could reduce the accountability of those managers, impact financial performance and limit opportunities for improving company behaviour through active shareholder engagement.

Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds.

5. Compliance with Codes and Principles

As part of its SIP, the Fund publishes details of its compliance with both the Myner's principles and the FRC Stewardship Code, both of which include principles on responsible ownership and the monitoring of investee companies. These compliance statements are reviewed annually, and are also included as appendices to this policy.

The Fund is supportive of the UN Principles of Responsible Investment (UNPRI), which seek to provide a framework by which investors can incorporate ESG issues into their decision making and ownership practices. Fund Managers are encouraged to be UNPRI signatories or are required to explain areas of non-compliance.

6. Collaboration

The Fund recognises that its influence on individual companies can be enhanced through collaboration with other institutional shareholders, and will collaborate on ESG and voting issues where appropriate and possible.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and currently one member of the IAC is a member of the LAPFF Executive Committee. LAPFF's aim is to maximise their influence as shareholders while promoting corporate social responsibility and high standards of governance among companies in which they invest. The LAPFF comprises 53 UK public funds which engage as a united front with investee companies on issues such as climate change, child labour and breaches of best practice including the UK Code on Corporate Governance. Executive remuneration is an important governance issue for LAPFF and is focussed on the subject of incorporating non-financial performance metrics into long term reward.

The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any deviance.

The Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC), one of the core objectives of which is to engage in dialogue on environmental issues.

7. Feedback

Any feedback on this SRI Policy is welcomed. If you have any comments or wish to discuss any issues then please contact

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COMMUNICATIONS POLICY

Introduction

The London Borough of Newham is the Administering Authority for the Newham Pension Fund (the Fund). The Council is committed to providing a consistent high quality service to its members and other stakeholders.

This Communications Policy Statement has been prepared with the aim of enhancing the understanding, transparency and visibility of the Fund. This Policy Statement will be reviewed on an annual basis.

Each stakeholder group has different communication requirements and the Fund aims to use the most appropriate methods for its various audiences.

This document sets out the Fund's Communication Policy and the methods used to communicate with its stakeholders.

There are six distinct stakeholder groups with whom the Fund needs to communicate; these are:

- Members of the Pension Fund;
- Investment Committee Members;
- Prospective scheme members;
- Scheme employers;
- Pension Fund Officers; and
- Trade Unions

Members of the Pension Fund

The Internet

Policy Statements plus the Annual Accounts are published on the Council's web-site. A dedicated web-site for the Fund is being set-up, due to be operational in January 2012, that will contain a range of information including Scheme details and will contain a secure member area for Committee Members. There will also be links to other organisations relevant to members of the Pension Fund e.g. The London Pensions Fund Authority (LPFA), who undertake the Schemes administration, and scheme employers.

The current intranet site provides access to the Fund's statutory documentation, the Accounts, Annual Report, Statement of Investment Principles, Governance Statement and the Funding Strategy Statement.

Benefit Statements

Annual Benefit Statements are sent to members of the Fund and deferred beneficiaries by the end of September..

Scheme Literature

The Human Resources Directorate of the Council arranges the production of scheme literature either directly or via the LPFA. The literature is made available to employers and scheme members. Copies of this literature are accessible via the Fund's web-site www.newham.gov.uk/

Pay Advice
The payroll sections from each of the Scheme employers issue monthly pay advice. These can be used to communicate specific messages and for other purposes such as requesting a prompt notification of change of address. The pay advice is also used to communicate details of annual pension increases. Details of Annual Pension paid and the tax deducted are notified by P60 to Pensioners and the Inland Revenue.

Annual General Meeting
A General Meetings is held each year to discuss issues concerning the Fund. The meeting will be open to all Committee Members, Union Representatives and employers. It will seek to provide an update on the legislation and regulation changes within the LGPS.

General Correspondence
The Fund utilises both surface mail and e-mail to receive and send correspondence.

Telephone Help Line
Scheme members can access a telephone help line to deal with any queries relating to their Pension and this is widely publicised in Scheme literature. The telephone number for the LPFA is 020 7369 6118.

Pensions Road-shows
Several road shows are conducted throughout the year by Fund staff and the LPFA.

Pre-Retirement Seminars
Several pre-retirement seminars are conducted annually by Fund staff and the LPFA. Details of future events can be located on the Fund's website.

Investment Committee Members

The Council's Investment and Accounts Committee (IAC) oversees the management of the Fund's assets. Although not trustees, the Members of the IAC owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the Assets of the Fund, as well as to the contributors and beneficiaries of the Fund. Whilst appointments to the Committee are annual, several Members have served for a number of years, helping to build up knowledge and understanding of the pensions market. This, together with the Members wide range of Council and Professional expertise, ensures that decisions are fully scrutinised.

Committee Meetings
IAC meetings take place quarterly. The performance of the Fund's Investments is a standing item. Issues with Fund managers are addresses on an exception basis, with meetings with the Fund managers generally held outside of the IAC.

Members also receive a variety of reports from the Director of Finance on matters requiring decisions. These reports along with agendas and minutes of the Investment Committee meetings are available via the Fund's web-site.

IT Resources
Members have Internet access to electronic resources, which allow for the monitoring of various aspects of the Fund e.g. proxy voting, and corporate and Socially Responsible Investment issues.

Where there is a requirement for a decision outside of the normal committee cycle an email vote is not appropriate and an Emergency Investment and Accounts Meeting will be required.

Training
Committee Members are required to undertake a minimum of three days training per year. The Fund's investment managers, advisors and other experts, such as the Local Authority Pension Fund Forum, provide a range of events which members can attend. The commitment to training is recognised within the fund's annual Business Plan. Opportunities also exist for knowledge building with special events being organised by officers.

Members receive notification of training events via Email. Booking arrangements are managed by Finance Officer. New members can receive an induction to the Fund.

Trade Unions
Representatives of the GMB, Unison, UNITE and NUT unions are invited to attend all meetings. As observers they have no voting rights. The current representatives are also members of the Scheme.

Prospective Scheme Members

Scheme Booklet
All new prospective Scheme members will be provided with a Scheme booklet upon appointment. The booklet is issued by the LPFA.

Website
The LPFA's web-site contains specific information for those who have yet to join the Fund. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

Non Joiner Campaigns
The LPFA send out periodic letters to all non-contributors. In the future the Fund will request formal notification of non-joiners from Scheme employers. This information will be used to market the Scheme to specific groups and if necessary developing dedicated literature and campaigns.

Pension Road-shows
As well as being a valuable aid for pensioners and current scheme members, road shows are used to target specific non-members enabling them to make an informed choice with regards to their pension provision. Road shows are available on request via the LPFA.

Pay Advice
Prospective Scheme members will be identified via payroll, and pay advice containing marketing information will be used in specific campaigns carried out in conjunction with Scheme employers. Pay advice will also be used to inform members employed by the Council and prospective Scheme members of changes to the Scheme.

Trade Unions

Trade Unions are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

The Fund works closely with the Trade Unions to ensure the Scheme is transparent and easily understood. Upon request, branch officers will be provided with training.

Scheme Employers

Alongside the Council the following employer organisations are partners in the Pension Fund:

Scheduled bodies
London Borough of Newham
Newham College of Further Education
Newham Homes (end date 31 March 2011)
Newham Sixth Form College (NewVic)
Stratford School (Stratford Academy from 1 August 2011)
Stratford Regeneration Partner
Thames Gateway London Partnership (start date 1 October 2010)
Brampton Academy (start date 1 April 2011)

Admitted Bodies
Carpenters TMO
Community Links
FM Conway
Greenwich Leisure Ltd
MITIE Facilities Management
RM Education (start date 1 April 2010)

Newsletters
Newsletters are issued periodically by the LPFA. In the event of changes to the Fund's Regulations then specific notices are also issued.

Officers

Team Meetings
The Corporate Finance Manager hosts regular team meetings with the Fund's finance and administration staff. If required, issues can be escalated through the Director of Finance to Chief Officers.

Senior Finance Staff Management Team Meetings
The Corporate Finance Manager is a member of the Senior Finance Staff Management Team and attends the regular meetings convened by the Director of Finance. This enables the Director of Finance to be kept up to date with current issues affecting the Fund.

Fund Management Meetings
Annual meetings are arranged with all Fund Managers within the Fund. Where required advisor representation may be requested.

Intranet
All office-based staff have access to the intranet. This provides timely information on a wide range of matters including documentation and LGPS circulars directly to their place of work.

Induction
New members of staff receive an induction session and each receives an induction/personnel manual.

Internet
Internet access has been made available to office based staff.

Emails
Where contact needs to be made with all scheme members, letters will be used rather than emails.

Data Protection
To protect any personal information held on computer, The London Borough of Newham is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact Ian Gibbs.

The Administering Authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Main Contacts

The contact details of the Pension Fund's main service providers are below:

Custodian
The Fund uses Northern Trust as its custodian to hold and safeguard the Fund's assets. The custodian acts as the Fund's bank, settling transactions and is responsible for income collection.

The Fund uses Northern Trust for segregated portfolios, which allows investments to be made in different types of assets.

Contact details:
50 Bank Street,
Canary Wharf,
London, E14 5NT

Actuary
The Pension Fund uses Barnett Waddingham as its Actuary.

Contact details:
163 West George Street,
Glasgow, G2 2JJ

Advisors
Barnett Waddingham was appointed as the Fund's Investment Advisor in December 2009. They are principally used to advise the Fund on strategic allocation of investment and provide ratings on the fund managers the Fund invests in.

Contact details:
Chalfont Court, Hill Avenue,
Amersham, HP6 5BB

Auditors
PricewaterhouseCoopers are the Fund's external auditors.

Contact details:
7 More London Riverside
London
SE1 2RT

Bank
Lloyds TSB

City Office, PO Box 72
Bailey Drive, Gillingham Business Park
Kent, ME8 0LS

Legal
Trowers and Hamlins LLP
Sceptre Court, 40 Tower Hill
London, EC3N 4DX

Taxation
Investments of the Fund are exempt from Capital Gains Tax but tax on UK Dividends is irrecoverable. All Value Added Tax paid is recoverable. There is a liability for Income Tax at 20% for pensions compounded into a lump sum.

Subscription Bodies
National Association of Pension Funds;
Local Authority Pension Fund Forum;
Institutional Investors Group on Climate Change; and
Fathom.

Officers
The Corporate Finance Team ensures members receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

Head of Financial Control	Roy Nolan	020 3373 4469
Corporate Finance Manager	Stephen Wild	020 3373 3881
Pension Fund Manager	Jane Radford	020 3373 1161

Employee Services monitors and manages the pension's contractors. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Employee Services Ian Weavers 020 3373 8408

Pensions Contractors

The London Pensions Fund Authority (LPFA) provides benefits administration – pension scheme membership records, advice, calculations and estimates.

Advice and benefit calculations LPFA 020 7369 6249

GOVERNANCE STATEMENT

This statement has been prepared in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations).

The statement describes the governance structures and arrangements that the London Borough of Newham has put in place in its capacity as administrating authority for the Newham Pension Fund.

The statement will be subject to review and revised versions will be published following any material changes in the Council's policy that influences this statement.

The London Borough of Newham delegates the function of maintaining the Pension Fund to the Investment and Accounts Committee (the IAC).

The terms of reference for the IAC within the Council's Constitution (8.06) are:

1. Composition & Quorum

1.1 The IAC shall comprise of 8 elected Members.

1.2 The Committee shall be subject to the rules on political balance.

1.3 The quorum of the Committee shall be three.

1.4 Members of the Committee may be required to attend appropriate training from time to time. The Executive Director, Resources shall inform the relevant whips of attendance by Members at such training.

2. Terms of Reference

2.1 To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Executive Director, Resources to determine as set out in the officers' scheme of delegation.

2.2 Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.

2.3 Consideration of the findings of the Council review of the system of internal control.

2.4 Approving the Statement of Internal Control.

2.5 Consideration of the external auditors annual audit letter before it is published.

2.6 The Committee shall be a member of the Local Authority Pension Fund Forum.

3. Delegations

3.1 The Committee shall be entitled to set up sub-committees and delegate any of their functions to such sub-committees or officers of the Council.

4. Procedure

4.1 The business of the Committee shall be carried out in accordance with the Constitution.

4.2 The Committee shall be entitled to determine whether certain training is desirable or compulsory for all Members or certain positions. Where the Committee deems training compulsory, Members shall not be entitled to sit on the Committee until they have attended such training.

A copy of the Council's constitution is available on the Council's web-site at www.newham.gov.uk alternatively by writing to the Chief Executive at Newham Dockside, 1000 Dockside Road, London E16 2QU.

5. IAC Meetings

5.1 The Committee meets on a quarterly basis with support provided by the Executive Director, Resources and independent Advisors. At these meetings Members are provided with a quarterly report on the performance of the Newham Pension Fund (the Fund), along with a Business Plan Update. Presentations are received from Fund Managers (on an exceptions basis only) and Advisors.

5.2 Representatives from the Trade Unions are invited to participate in the meeting; however they are not permitted to vote. Representatives of the other employing authorities are permitted to attend but they are not permitted to participate without prior approval of the Chair. Members of the public are also permitted to attend but are not permitted to participate without prior approval of the Chair.

The IAC has responsibility for:

- determining an overall investment strategy and strategic asset allocation, with regards to diversification and the suitability of asset classes;
- appointing the investment managers, an independent custodian, the actuary and any external consultants considered necessary;
- reviewing on a regular basis (quarterly) the investment managers' performance against benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls;
- reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights;
- agreeing the Communications Policy, Governance Statement and the Annual Business plan;
- monitoring compliance with legislation and best practice;
- determining the admission policy and agreements, including the deficit recovery period of Admitted and Scheduled Bodies;
- setting principles and statements in relation to the Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS), monitoring compliance and reviewing them;
- ensuring that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

5.3 The IAC has delegated the responsibility to the Director of Finance:

- The Committee has delegated responsibility to the Director of Finance for all decisions relating to the administration of the Superannuation Fund, crediting contributions, dividends and interest, realising and making investments to manage the Fund's cash flow up to a limit of £5 million, providing notices to members, arranging for periodical valuations and keeping audited accounts.
- to exercise all powers and duties of the Council as an employer in respect of contracted-out persons under the Pensions Schemes Act 1993;
- for approval of early and ill-health retirements;
- to exercise and perform any powers and duties under this Act which fall to be exercised or performed by the Council by virtue of its being an employer (powers and duties relating to stakeholder pensions) under The Welfare Reform and Pensions Act 1999.

6. Members and Officers Knowledge and Skills

6.1 Member and officer knowledge and skills are recognised as important, and a range of measures are in place to equip members to undertake their role. This is a major factor in the governance arrangements of the Fund in ensuring Committee members and officers have the relevant skills and knowledge. The Fund applies the CIPFA Knowledge and Skills Framework to achieve this objective.

6.2 Six areas of knowledge and skills have been identified as core technical requirements for those associated with LGPS pension funds:

- pensions legislation and governance context;
- pension accounting and auditing standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practices.

6.3 It is not the intention that Committee members should individually become technical experts, but 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.

6.4 Officers advising members and implementing decisions should have a more detailed knowledge appropriate to their duties. Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements'.

6.5 Each year a questionnaire is sent out to Members to identify key areas that training can be arranged to address. From the questionnaire a bespoke training schedule is established and agreed by the Committee.

6.6 The Fund includes in its annual report and accounts details of the knowledge and skills development undertaken by its Committee members. It is being proposed that it will become a regulatory requirement for funds to explain their compliance with the CIPFA framework and in particular cover:

- how the framework has been applied;
- what assessment of training needs has been undertaken; and
- what training has been delivered against the identified training needs.

COMPLIANCE WITH THE GUIDELINES ISSUED BY DCLG

1. Structure

1.1 The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
The Fund is fully compliant with this principle.

The Council, as Administering Authority, delegates its function in maintaining the Fund to the IAC. At the annual meeting, the Council agrees to the appointment of the members to the committee.

The IAC have delegated the day to day administration of the Fund to the Executive Director, Resources.

The Fund's administration is outsourced to the London Pensions Fund Authority (LPFA). The Committee receives regular reports on their scheme administration to ensure that best practice standards are met and targeted; although, this is an area where the committee intends to further develop its compliance with this principle.

The IAC will periodically review the committee's governance arrangements and the effective use of its advisers to ensure sound decision making.

1.2 That representatives of participating Local Government Pension Scheme (LGPS) employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

The Fund is partially compliant with this principle

The Investment and Accounts Committee meetings are open meetings and therefore the other LGPS employers are able to attend and can participate in the discussions with permission of the Chair.

Invitations to attend the annual general meeting were sent to the employers within the Fund.

Invitations to attend the committee meetings are sent to the various unions that represent 'active' members of the fund.

1.3 That, where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

The Council has not established a secondary committee or panel. The monitoring and review activities performed by the officers and the Investment Advisor, combined with meetings of the Investment and Accounts Committee make the establishment of a separate group unnecessary.

1.4 That, where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

The Council has not established a secondary committee or panel.

2. Representation

2.1 That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- employing authorities (including non-scheme employers, e.g. admitted bodies)
- scheme members (including deferred and pensioner scheme members
- independent professional observers
- expert advisers (on an ad-hoc basis).

The Fund is partially compliant with this principle.

The committee meetings are open and therefore the other employers are able to attend, although specific invitations are not sent to these employers. All unions are invited to attend the committee meetings to represent the scheme members (including pensioners and deferred members).

The Fund maintains a risk register that identifies all the main risks and actions taken to mitigate them in accordance with sound risk management principles. The Council also operates a comprehensive statement of internal controls for all its operations, including the fund as well as a service continuity plan.

The Committee seek to obtain advice from Fund's economic advisor, Fathom, as well as a range of other professional advisors.

2.2 That, where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

The Fund is partially compliant with this principle.

All lay members on the committee are sent committee papers with dates of the meetings. These papers and dates are also published on the Council's web-site. Training events has been offered to elected councillors and trade union representatives only. Other employers are informed of forthcoming training events and consideration would be given if a request to attend an event were received.

3. Selection and role of lay members

3.1 That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee

The Fund is fully compliant with this principle.

All committee members are fully aware of their status, role and function. Each new member is provided with an induction pack covering their responsibilities as well as opportunities for training. Where technical pension matters are discussed at committee meetings, proper explanation is given in the report and by the external Investment advisors when introducing their reports.

3.2 That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

The Fund is fully compliant with this principle.

This is captured in the meeting minutes.

4. Voting

4.1 The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

The Fund is fully compliant with this principle.

There are eight councillors who sit on the investment committee, all from the majority party and all of whom have equal voting rights. Union representatives are invited to participate in the discussions but have no voting rights. Committee members have decided that, as legal responsibility is vested with Newham Council as administering authority, voting rights should remain with councillors. However, councillors are empowered to co-opt non-councillors with full voting rights.

5. Training/Facility Time/Expenses

5.1 That in relating 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.

The Fund is fully compliant with this principle.

Training for councillors is organised as and when required. As meetings take place in the evenings, councillors receive allowances in accordance with the Council's allowances' policy. Training and development took place during 2012/13 to ensure that Members of the Committee were fully briefed in the decisions they were taking at the time and a log of training and development is maintained

The Investments and Accounts Committee Member Training and Development 2013/14

Date	Training Session	Attendees
17th May 2013	Pilot Asset Strategy Review	Cllr Alec Kellaway Cllr Ayesha Chowdhury
29th May 2013	Legal and General Investment Management: Passive Equity/ Passive Bond Portfolio Review	Cllr Alec Kellaway Cllr Lester Hudson Cllr Riaz Mirza
12th June 2013	Aberdeen Asset Management Fixed Income Review	Cllr Alec Kellaway
14th June 2013	Finethic Microfinance Fund	Cllr Alec Kellaway
18th July 2013	PIRC Seminar - the LGPS Merger Debate	Cllr Alec Kellaway
2nd September 2013	Global Equity management review	Cllr Alec Kellaway Cllr John Gray Cllr Andrew Baikie
11th October 2013	Fathom Consulting: Training on Macro Economic Model	Cllr Alec Kellaway Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Andrew Baikie
20th November 2013	Newham Pension Event Socially Responsible Investment: Securities Litigation	Cllr Alec Kellaway Cllr Ayesha Chowdhury Cllr Ted Sparrowhawk Cllr John Gray Cllr Andrew Baikie Cllr Lester Hudson
20th November 2013	Property Portfolio Review	Cllr Alec Kellaway Cllr Ayesha Chowdhury Cllr John Gray Cllr Andrew Baikie Cllr Rohima Rahman
29th November 2013	BFinance: Training on Portfolio Risk Management	Cllr Alec Kellaway Cllr Ayesha Chowdhury Cllr Ted Sparrowhawk
15th January 2014	Global Equity Portfolio Review	Cllr Alec Kellaway Cllr Ayesha Chowdhury Cllr John Gray
13th February 2014	Diversified Growth Fund Review	Cllr Alec Kellaway Cllr Andrew Baikie Cllr John Gray Cllr Lester Hudson Cllr Ted Sparrowhawk
14th February 2014	Quarterly Strategy Review	Cllr Alec Kellaway Cllr Andrew Baikie Cllr Lester Hudson
19th March 2014	Strategic Asset Allocation Review	Cllr Alec Kellaway Cllr Ayesha Chowdhury Cllr Lester Hudson Cllr Andrew Baikie

5.2 That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

The Fund is fully compliant with this principle.

The policy applies to all members of the committee.

5.3 That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

The Fund is fully compliant with this principle.

6. Meetings (frequency / quorum)

6.1 That an administering authority's main committee or committees meet at least quarterly.

The Fund is fully compliant with this principle.

The committee meets on a quarterly basis.

6.2 That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

The Fund has not established a secondary committee or panel.

6.3 That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interest of key stakeholders can be represented.

The Fund is partially compliant with this principle.

The committee meetings are open and stakeholders are able to raise issues before a meeting that can be discussed by the committee during the meeting. Stakeholders are permitted to participate in discussions with the permission of the Chair.

7. Access

7.1 That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

The Fund is fully compliant with this principle.

All members on the committee have equal access to committee papers, documents and advice. Committee papers are also accessible on the council web-site.

8. Scope

8.1 That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

The Fund is fully compliant with this principle

The committee considers and makes decisions on general scheme and other administrative issues as well as the management and investment of the funds under its supervision.

9. Publicity

9.1 That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

The Fund is fully compliant with this principle.

This statement will be published on the Council's web-site and will be included in the Pension Fund Annual Report prepared under Regulation 76B (1)(e) from the financial year 2007/08. Copies of this report will be made available on request.