Newham London

Newham Pension Fund Annual Report 2014/15

LAPF Investments 2015 Awards WINNER

PROFESSIONAL PENSIONS PENSION SCHEME OF THE YEAR AWARDS 2015 FINALIST

LGC Investment Awards 2014 WINNER
In association with F&C Investments

Contents

MEMBER'S INTRODUCTION

Chair's comments

I accepted the role as the new Chair of the Investment and Accounts Committee ('IAC') from autumn 2014. In my commitment to and management of the Newham Pension Fund ('the Fund') I will endeavour to continue the legacy of the late chair Cllr Alec Kellaway. The hard work and dedication of the IAC and officers was further recognised at the prestigious LGC Investment Awards winning the 'Fund of the Year' Award 2014 (funds above £750m). At the Professional Pensions Pension Awards, the Fund won the Best Public Sector Scheme Award 2015 and in addition winning the LGPS Performance of the Year at the LAPF Investment Awards 2015.

I am pleased to announce that the Fund had another successful year with Fund investments continuing to perform well – returns for the year exceeded the scheme benchmark and the fund investment assets closed the year valued at £1.065 billion, breaking through the £1 billion mark for the first time. The fund's investments increased by £161m and the Fund's World Markets Local Authority performance ranking improved to 5th position up from 35th in 2013/14.

Despite the challenging economic environment and more conservative actuarial assumptions the funding level increased from 73% at the 2013 valuation to an estimated 86% at Q4 2015 – largely down to investment performance. The new models developed by our economic and risk advisors with the assistance of the officers helped to forecast the impact of economic changes on the Fund's investment portfolio and quantify the Fund's risk exposure. The IAC has agreed to the In-house management of the diversified alternatives portfolio and the property fund. Advisors have been appointed to work with officers in bringing the management of these assets in-house.

There has been 11.3% increase in the number of contributing members during 2014/15 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 hard work of IAC members to enhance their knowledge and skills has once again been recognised – the Fund was a finalist in the LGC Investment Awards 2014 for Knowledge and Skills. The Fund was also finalist for Trustee Development at the Professional Pensions Pension Scheme of the Year Awards 2015. In addition, the Fund was also short listed for Best Approach to Responsible Investment and Investment Strategy of the Year at the LAPF Investment Wards 2015.

The creation of a Local Pensions Board (LPB) is a statutory requirement and its constitution was approved by Council in February 2015. The LPB will support the IAC to help strengthen overall fund governance, increase transparency and compliance with Local Government Pension Scheme ('LGPS') regulation.

The Fund actively supports collaborative working. The Fund is a founder member and active supporter of the London LGPS collective investment vehicle (CIV). We are confident that this will provide a mechanism for significant fee reduction and improved investment growth whilst retaining local democratic control of the LGPS fund.

Councillor Forhad Hussain
Chair of the Investment and Accounts Committee

Highlights of 2014/15

- ### Fund value has surpassed the £1billion mark:
  The Fund has continued to build on its strong performance last year, with a further 17.8% increase in its overall value to close over the £1 billion threshold for the first time which is a landmark. 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 won the LGC Investment Award Fund of the Year Award above £750m and also won the Professional Pensions Best Public Pension Scheme of the Year Award being recognised for meeting its performance objectives and how it communicated with its members and employing authorities. At the LAPF Investment Awards 2015 the Fund won LGPS Performance of the Year

  The Fund's commitment to enhancing the knowledge and skills of our Members was recognised when they were finalist the LGC Investment Award 2014 for Knowledge and Skills. The Fund was also finalist for Trustee Development at the Professional Pensions Pension Scheme of the Year Awards 2015. In addition, the Fund was also short listed for Best Approach to Responsible Investment and Investment Strategy of the Year at the LAPF Investment Wards 2015.

- ### Investment Models and Strategy Panels:
  The Fund continues its efforts to reduce costs, improve returns and increase transparency – to help strengthen the investment decision making process, we have introduced quarterly strategy panels. With our economic and risk advisers, 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.

- ### Communications Campaign:
  The IAC-led recruitment campaign to increase awareness of the auto-enrolment of new and transitional staff has continued to boost take-up levels in 2014/15 with targeted communications and case studies of members who have benefited from joining the scheme. There is also focus on new LGPS 2014 scheme and the key changes that have been introduced.

- ### New Governance Arrangements & Consultations:
  The Public Sector Pensions Act 2013 sets 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. With the establishment of the local pension's boards it is envisaged that it will play a key advisory role in providing support to the IAC leading to greater overall governance, increased transparency and compliance with LGPS and other regulations.

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 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 diversified alternatives management:
  In December 2014, the Committee recruited a diversified alternatives advisor to help bring the management of the Fund's diversified alternatives portfolio in house. This will support the Fund's aim to save a layer of fees to run a compliant, transparent and structured search to build an appropriate portfolio of funds and help the fund to take a more concentrated position to maximise growth whilst helping embed diversification into the overall investment portfolio.

- ### In-house property management:
  In March 2015, the Committee recruited 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 the 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.

LPGS 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

From 1 April 2014, the employee contribution rates have been staggered so that those earning more pay a higher rate and 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. The 50:50 Scheme should provide contribution flexibility for members. For more information about the changes and the impact of the changes on your pension, please see www.yourpension.org.uk/newham or contact the LPFA.

Employee contribution rates for 2015/16 are set out in the table below

Salary Band £	Contribution rate % Main Section	50/50 Section
0 – 13,600	5.50	2.75
13,601 – 21,200	5.80	2.90
21,201 – 34,400	6.50	3.25
34,401 – 43,500	6.80	3.40
43,501 – 60,700	8.50	4.25
60,701 – 86,000	9.90	4.95
86,001 – 101,200	10.50	5.25
101,201 – 151,800	11.40	5.70
150,801 +	12.50	6.25

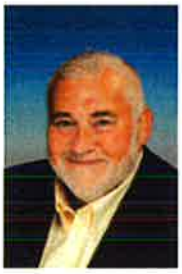
Fund Governance

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 2014/15 were:

Chair - Councillor
Forhad Hussain (3/3)



Vice Chair - Councillor
Ted Sparrowhawk (6/6)

Councillor
Lester Hudson (6/6)

Councillor
Andrew Baikie (6/6)

Councillor
John Gray (6/6)

Councillor
Tahmina Rahman (5/6)

Councillor
Farah Nazeer (2/6)

Councillor
Seyi Akiwowo (3/6)

Co-opted trade union representatives during 2014/15 were Iain Hale (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 2014/15 the Committee met 6 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 and 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	Managing Director of OneSource	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 investment 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 2009 (as amended). During 2014/15, the Fund used the following external managers:

Fund Manager	Mandate	Contact Details
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

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 LLP (PwC)

1 Embankment Place

London WC2N 6RH

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 Statement of Investment Principles – this is regularly reviewed and updated. When the strategic asset allocation is revised the Funding Strategy Statement Fund is updated accordingly. The documents are published and available on the Newham website.

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

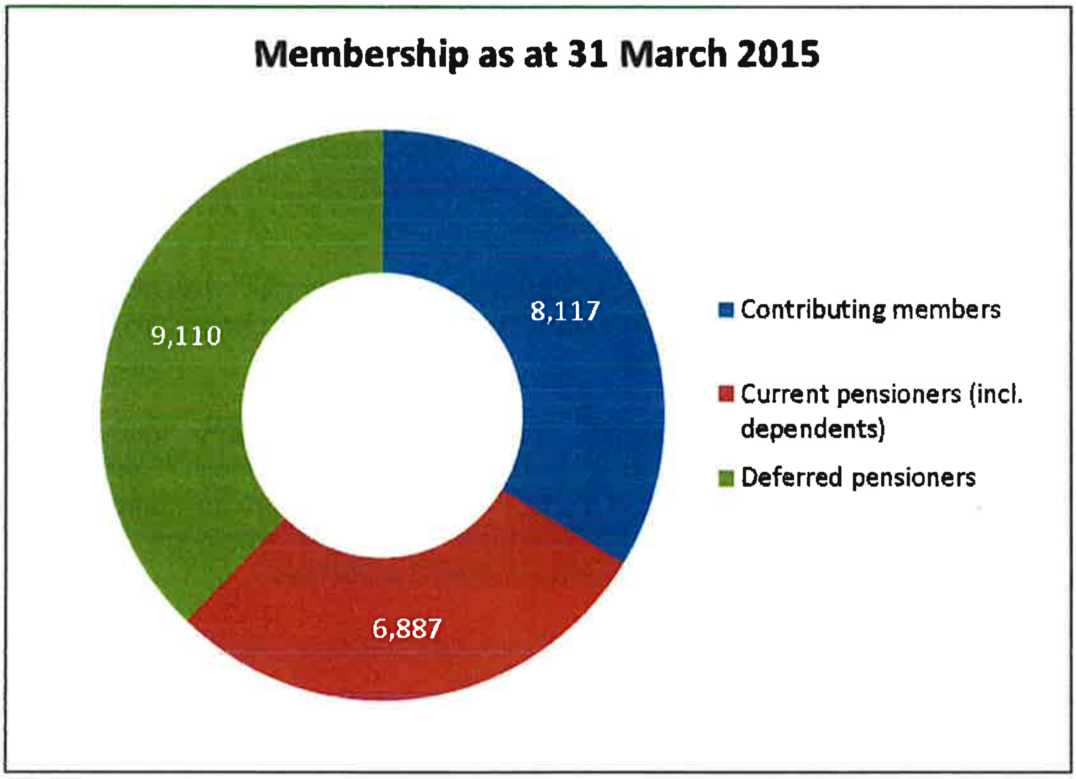
Benefits Administration: Robust internal controls ensure that any third party operation risk such as late payments of contribution is immediately highlighted. Additional areas of risk are in breach of Data Protection or failure to comply with Disclosure of Information requirements. The impact of this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

Fund Membership

The Fund contracts out its benefits administration to the London Pensions Fund Authority (LPFA) in accordance with the council's best value arrangements. The contract is managed and monitored for gathering assurance over the effective and efficient delivery of these operations by London Borough of Newham's ('LBN's') HR Transactional Services Transactional Services.

The LPFA maintain pension scheme membership records and provide advice, benefits calculations and estimates.

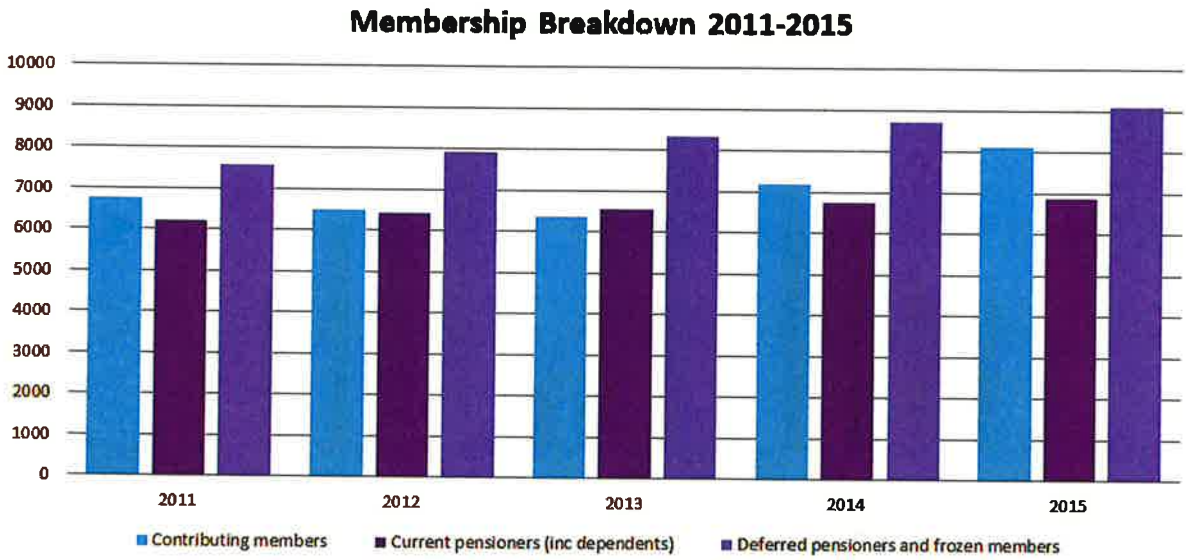
The Fund had a total of 24,114 members as at 31 March 2015, an increase of 1,435 in overall membership since 31 March 2014.



Membership statistics 2011 – 2015

Membership Numbers as at 31 March	2011	2012	2013	2014	2015
Contributing members	6,758	6,496	6,381	7,203	8,117
Current pensioners (incl. dependents)	6,231	6,427	6,574	6,746	6,887
Deferred pensioners	7,585	7,943	8,353	8,730	9,110
Total	**20,574**	**20,866**	**21,308**	**22,679**	**24,114**

This year the membership trend continues increase as it did in the previous year. It has been evident in recent years that pensioner and deferred membership still continues to increase in line with historic rates, active membership has also increased significantly for the second year running at a similar rate. 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 opted for the transitional arrangement which was to defer most auto-enrolment to 2017, but from 2013/14 it started auto-enrolling new and sessional staff which contributed to the continuous increase in active membership.

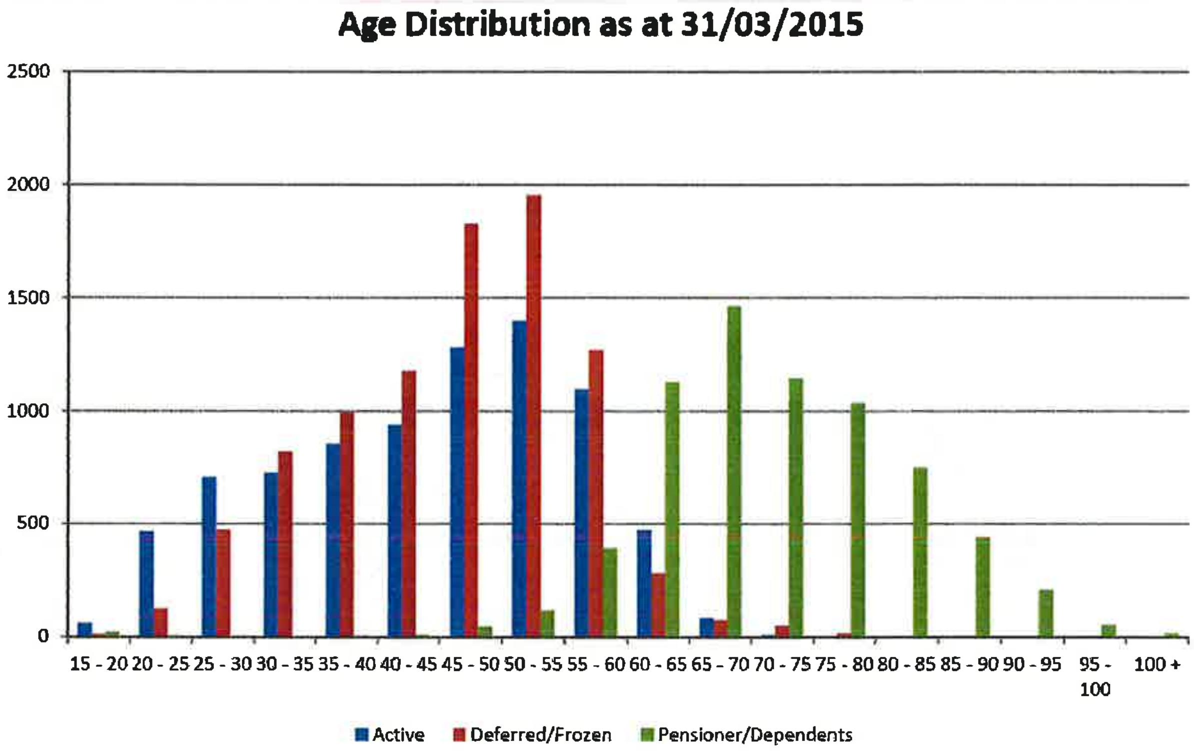


This has been supported by the Fund's communication campaign to boost membership – the Fund recognised the declining active membership and launched a communications campaign with the aim of improving membership levels, especially amongst lower paid and part time staff, where take-up is lowest.

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.

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 2015



As at 31 March 2015

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	60	469	708	728	857	942	1283	1400
Deferred and Frozen Members	0	0	0	13	126	474	821	995	1181	1830	1957
Pensioner Members (incl. dependents)	0	7	10	23	7	5	2	5	11	47	118

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	1100	474	86	10	0	0	0	0	0	0	**8117**
Deferred and Frozen Members	1272	285	78	52	18	4	3	1	0	0	**9110**
Pensioner Members (incl. dependents)	395	1130	1467	1148	1037	750	443	210	54	18	**6887**

As 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 (incl. 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 (incl. dependents)	393	1115	1354	1154	1012	720	454	208	45	15	**6746**

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 Primary
- Chobham Academy
- East London Arts and Music
- East London Science School
- Education Links Free School (Community Links Academy Trust)
- JFK and Sheringham Multi Academy
- Langdon Academy
- London Academy of Excellence
- Newco
- Newham College of Further Education
- NewVic
- Oasis Academy
- School 21
- Stratford Academy
- Stratford Regeneration Partnership Ltd
- Thames Gateway London Partnership

Admitted bodies:

- Active Newham
- Carpenters TMO
- Churchill
- Community Links
- Crime Reduction Initiative (CRI)
- FM Conway
- MITIE
- Newham Partnership Working
- RM Education

Analysis of employers in the fund

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled body	15	1	16
Admitted body	9	1	10
Total	**25**	**2**	**27**

The rates of contribution paid by employers are determined by the Fund's actuary, in line with LGPS regulations. The rates paid in 2014/15 were set by the 2013 valuation and set the employer contribution rates for 2014/15 – 2016/17.

Total Employer Contributions 2010 - 2015

By year	2010	2011	2012	2013	2014	2015
Employer contributions (£m)	**42.1**	**37.1**	**36.2**	**36.8**	**39.0**	**44.8**

Total employer contributions increased by 15% from 2014 to 2015, largely due to the increase in active membership and the auto enrolment of all new staff. Additional factors are the new LGPS regulations came into effect on 1 April 2014 which allow more elements to become pensionable pay.

A breakdown of contributions by employer is included in the notes to the accounts. On the whole contributions were received from employers in a timely manner although there were 9 late contributions. Interest was charged totalling £78.20 on the late contributions in accordance with the new Admission Policy which came in to affect this year.

A list of contributing employers and the amount of contributions received from each during the year (split by employers and employees) is included on page 60.

Financial Performance

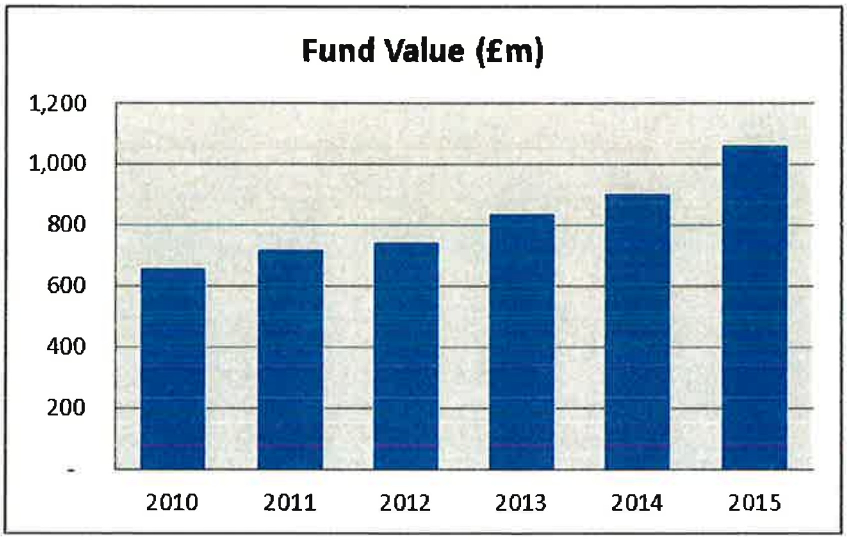
In line with the triennial valuation cycle, the Fund will be looking to produce a three-year forecast of income and expenditure into and out of the fund (including administrative costs) which will be in addition to an annual budget forecast from 2015/16. This has not been disclosed previously as this information in not available and the Fund does not have a budget arrangement. Budget forecasts would need to be approved by the Investment and Accounts Committee.

National Fraud Initiative (NFI) matches were passed to the pensions administration team on 13th August 2015 and are being investigated. It is an exercise in addition to daily administration requirements and will be completed by 30th September 2015.

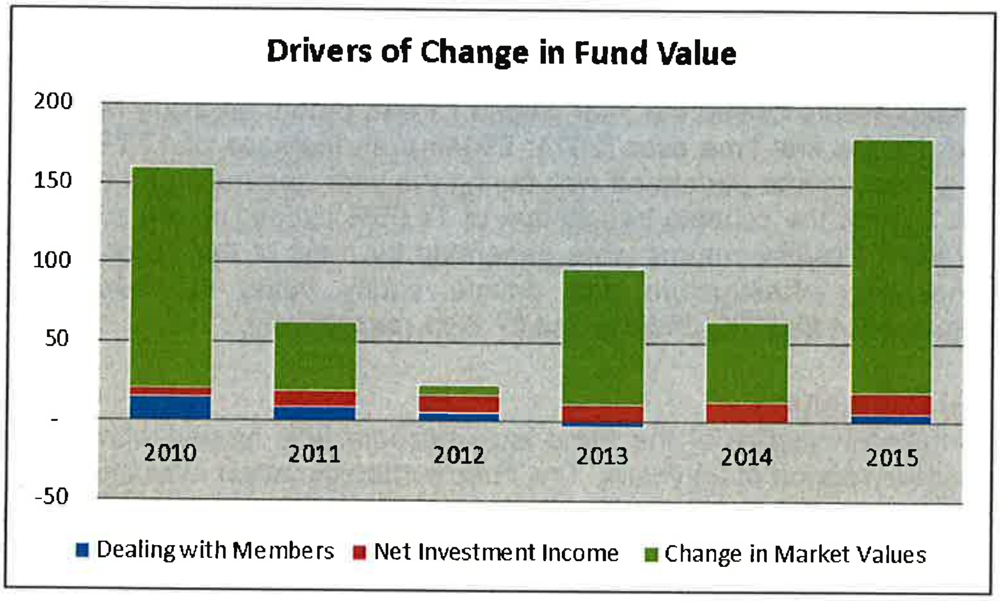
Change in Market Value of the Fund

Overall, the Fund's investment asset value has increased by £161m to £1.065 billion during the year. The Fund returned to positive cash inflow from net dealings with members.

The increase in the value of the Fund's investment assets continued to surge during 2014/15 but at a faster rate than in 2013/14, rising by 17.8% (2014: 7.65%) to £1.065 billion during the year. The Fund received significant positive cash inflow from dealing with members of £6m; however the main contribution to the significant increase in invested assets value was the change in market value of fund investments of £161m.

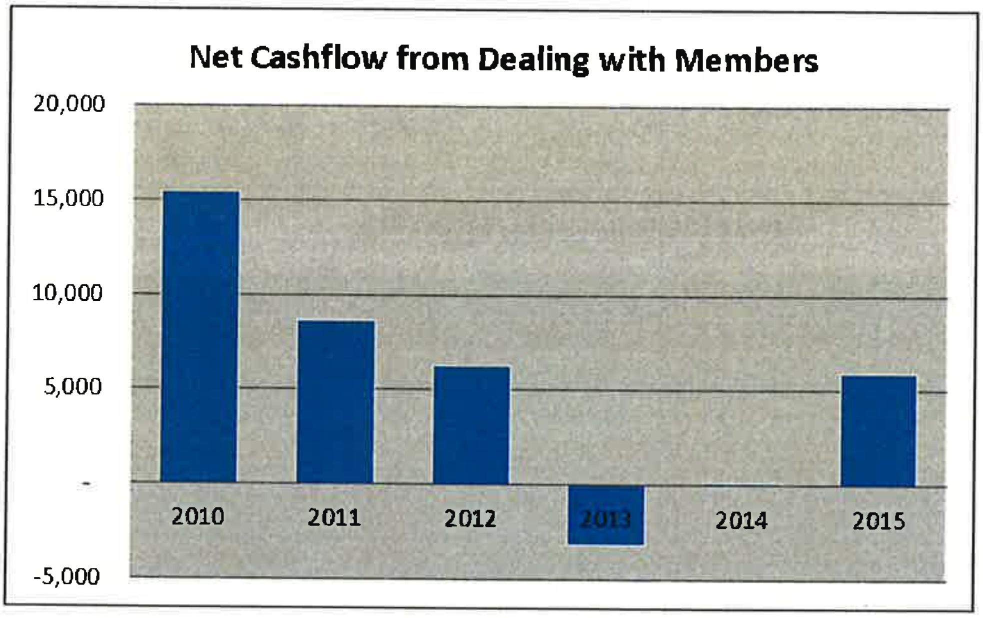


The Fund received net investment income of £13m, an increase of 3% from the previous year. The chart below shows how the three main components have contributed to the Fund's value since 2009/10 – with only one exception in 2011/12, the biggest driver of Fund value throughout this period has been the change in the market value of investments. (See overleaf)



Cash flow from dealing with members

As shown in the chart below, the Fund returned to a position of positive cash inflows from dealings with members in 2014/15. The fund account shows an inflow of over £5m which is reflected in the graph below net inflows. The positive cash flow was largely due to the increase in active membership the main factors being the new LGPS regulations which came into effect on 1 April 2014 which increased employer contributions due to higher rates and auto enrolment.



The Fund currently reinvests its investment income, covering pension and lump sum payments from employer and employee contributions. However, if the Fund was to experience 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

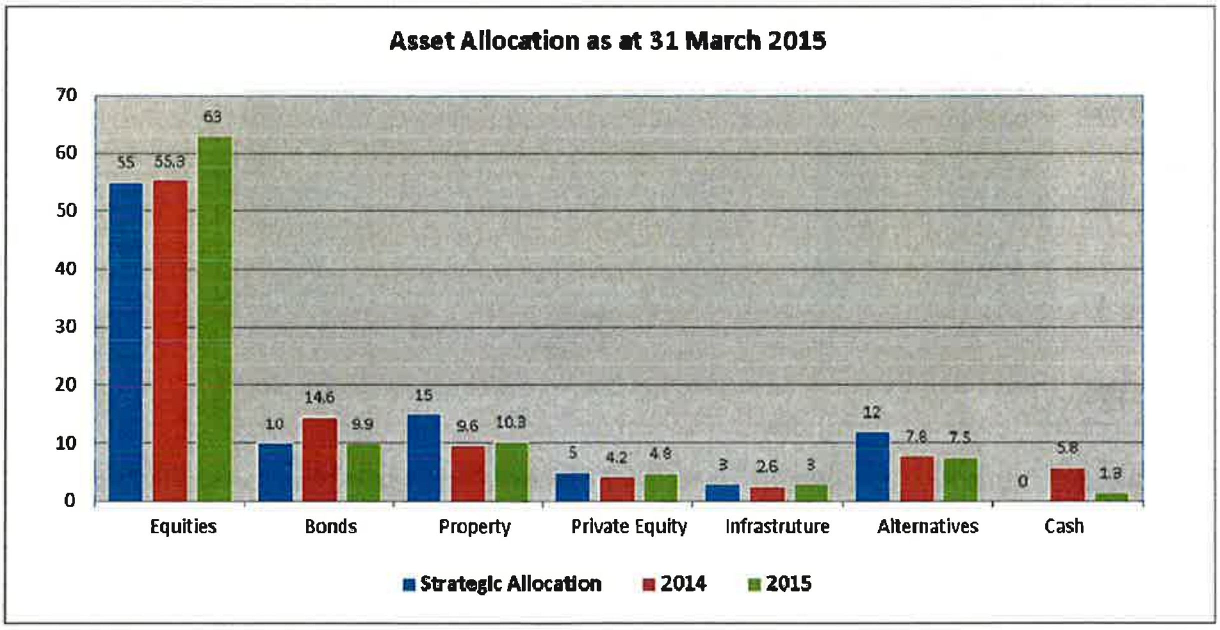
The Fund's invested assets closed the year valued £1.065 billion, breaking through the £1billon mark for the first time ever (2014: £904m), an increase of 17.77% on 2014. The Fund's investments performed well during the year generating an overall return of 17.61% against the scheme benchmark of 14.65% exceeding the scheme benchmark by 2.96%. Positive returns were generated by most of the major asset classes, with equities, infrastructure and private equity being the strongest performers with returns of 28.97%, 25.53% and 17.62% 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 sufficient resources are available to meet liabilities as they fall due and employer contributions are kept as stable as possible.

Since the end of 2014/15, the Fund has undertaken a review of its strategic asset allocation – the new strategic asset allocation agreed will be reflected in the 2015/16 Statement of Investment Principles (SIP) and a revised Funding Strategy Statement (FSS). Compliance with the SIP is monitored regularly and reported quarterly to the Investment and Accounts Committee. Management's view is that the variances to the Strategic Asset Allocation will come back in line following implementation of the investment strategy. They are not significant and pose no additional risk to the pension fund over and above what the SIP allows.

The graph below shows the strategic asset allocation for 2014/15 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.

The Fund's property manager and diversified alternatives growth fund have been put on a hold and maintain basis as the IAC agreed to bringing the management of the these two portfolios in house and has awarded contracts to specialist advisers to lead on the planning, implementation and monitoring of these two funds.

Analysis of fund assets at the reporting date

	UK £m	Non-UK £m	Total £m
Equities	168	504	672
Bonds	0	103	103
Alternatives	87	153	240
Cash and cash equivalents	28	22	50
Total	**283**	**782**	**1,065**

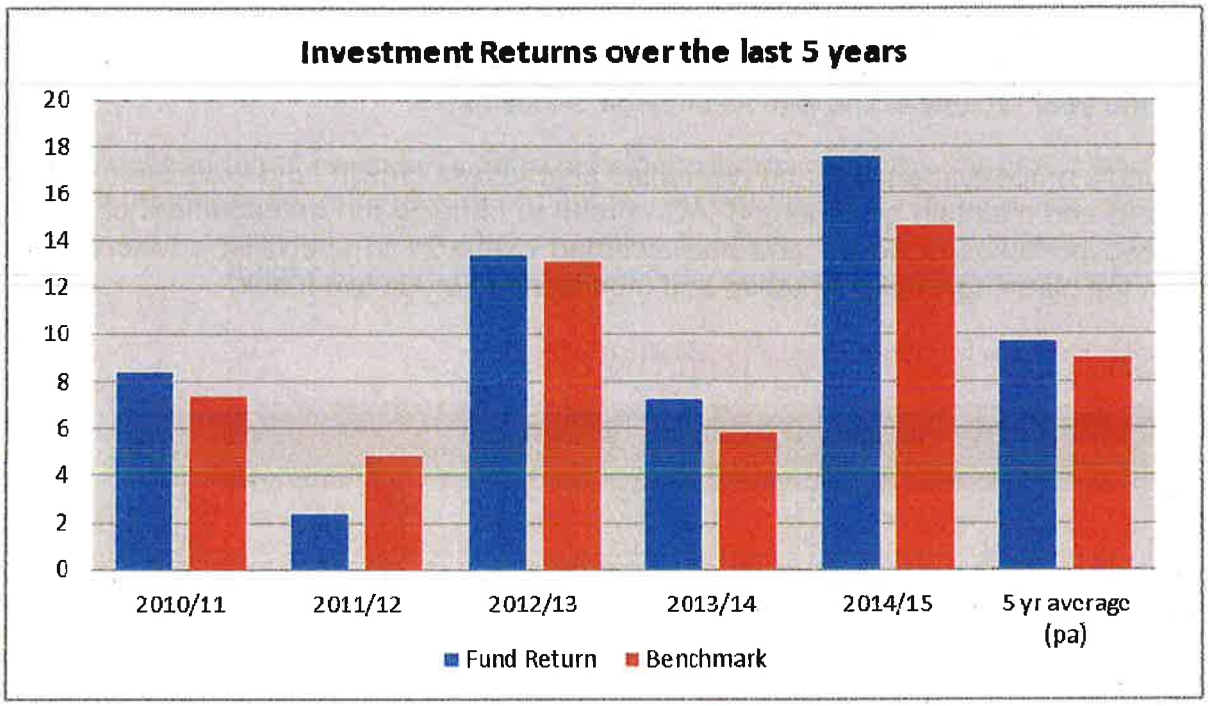
Analysis of investment income accrued during the reporting period

	UK £m	Non-UK £m	Total £m
Equities	1.6	7.1	8.7
Bonds	0	0	0
Alternatives	4.2	0	4.2
Cash and cash equivalents	0.1	0	0.1
Total	**5.9**	**8.1**	**13.0**

Investment Performance

Overall, the Fund's investments generated a return of 17.61% against a benchmark of 14.65%. The Fund has been ahead of benchmark for the last 2 years and is ahead over the 3 year period, with annualised returns of 12.67% against a benchmark of 11.05%. Information on investment performance is provided by the Fund's custodian, Northern Trust.

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



The actuarial valuation estimated returns of 6% per annum (in market value terms) over the three year period from the Fund's 2013 valuation. Investment returns have been better than assumed at the 2013 triennial valuation exceeding the assumption used in the 2013 valuation and leaving the Fund in a strong position for the 2016 valuation. More information on the Fund's triennial valuation can be found in the actuarial statement on page 25.

Positive returns for the year were generated by all of the major asset classes other than fixed income and the diversified alternatives. The strongest returns were generated by infrastructure, private equity and equities.

Fixed Income

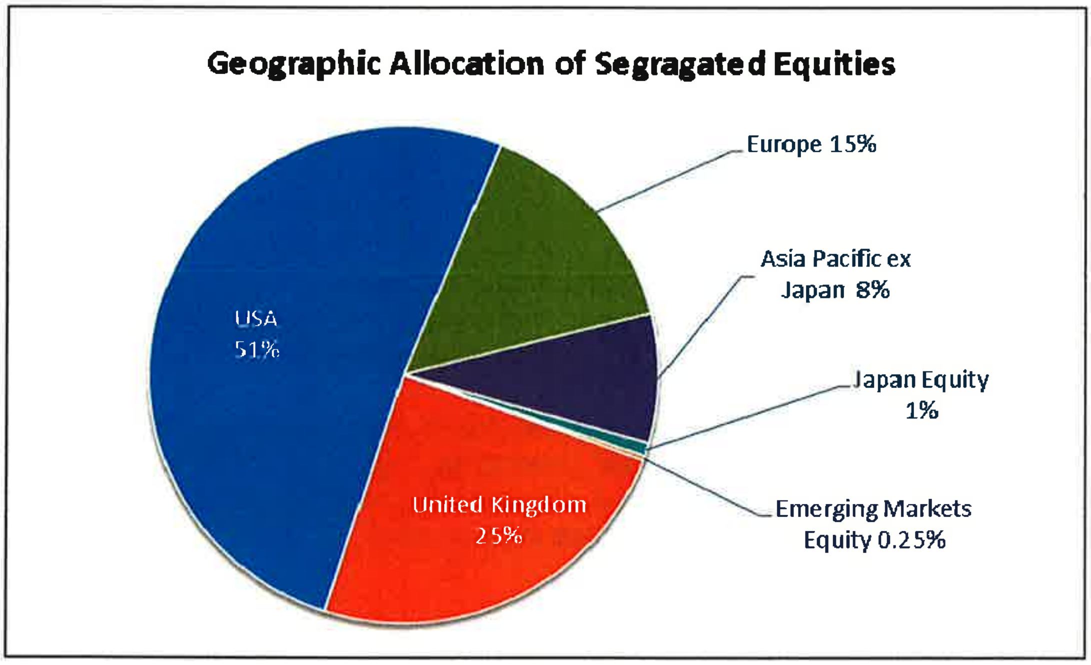
The Fund's fixed income allocation is divided across an actively managed global bond fund (£105.5m. The majority of the Fund's fixed income holdings produced negative returns for the year whilst others hovered over the benchmark. The fund has moved into a strategic world growth bond this year which has been a major contributor to the poor performance thus far.

Equities

The Fund has a significant strategic allocation to equities (63%) which is intended to drive the growth of the portfolio. During 2014/15 the Fund's equity allocation was divided across two active managers and one passive fund manager and combined they generated returns of 28.97% for the year. The Fund's equities contributed 63% of the total growth in investment value.

All of the Fund's equities generated positive returns for the year with all of the three managers outperforming their benchmarks – the outstanding performer with 24.99% of the Fund's holdings has generated returns of 28.97% against a benchmark of 19.07%. Over the three-year period it is has been produced 8.50% p.a. ahead of its benchmark.

During 2014/15, the Fund's segregated equities had a large overweight allocation to US equities, with other significant allocations in the United Kingdom and Europe.



The Fund's ten largest equity holdings by value at 31 March 2015 were as follows:

Company	Country	Value (£m)
United Health Group Inc.	United States	13.1
HCA Holdings Inc. Com	United States	12.3
Accenture PLC	United States	12.2
Fidelity Natl Information Svcs Inc. Com	United States	11.9
Pfizer Inc. Com	United States	11.5
Yum Brands Inc. Com	United States	11.0
Bank New York Mellon Corp Com Stk	United States	10.9
Oracle Corp Com	United States	10.8
Time Warner Inc.	United States	10.7
Delphi Automotive PLC	United Kingdom	10.5

The Fund's passive unit trust equities are allocated across four regional funds – UK (34.1%), US (39.1%), Europe (10.3%), and Asia Pacific (16.5%). The passive holdings generated returns of 16.62% for the year, broadly in line with the benchmark and with negative returns in Asia Pacific and more than offset by positive returns in the UK, US and Europe.

Property

The Fund's property portfolio generated positive returns of 16.86% for the year, but lagged behind the benchmark of 17.50%. The portfolio is also behind the benchmark over the three and five year periods.

The Fund's property manager was put on a hold and maintain basis during the year as the IAC has agreed to bring the management of the Fund's property portfolio in house.

Private Equity & Infrastructure

The private equity portfolio generated outstanding returns of 17.62% for the year against a benchmark of 4.94% over the year and remains ahead over the three year period with returns of 10.81% p.a. against a benchmark of 6.29%.

The Fund's infrastructure holding accounted for 3% of the investment portfolio and was the strongest performer for the year generating returns of 25.53% against a benchmark of 4.94%. The holding remains ahead of the benchmark over the longer term and is recovering 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 poor returns of 1.89% for the year against a benchmark of 4.77%.

The Fund's diversified alternatives manager was put on a hold and maintain basis during the year as the IAC has agreed to bring the management of the Fund's diversified portfolio in house.

Actuarial Statement 2014/15

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 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 regular 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.

Scheme Administration Report

Summary from the LPFA

On time processing in all categories of work has again exceeded 97% with an overall percentage of 99.96% (99.94%). LPFA continue to process cases ahead of agreed contractual timescale with in excess of 52.77% (68%) of cases are being completed in advance.

More recently, we have not completed any formal benchmarking exercises. However as an informal peer comparison with two of our other clients, please note the following:

LB Newham - £12.68 per member
Client A - £12.52 per member
Client B - £11.47 per member

As the new partnership moves forward we will be completing formal benchmarking exercises.

2015 has seen the continuous implementation for the LGPS 2014 scheme and the introduction of the Freedom and choice arrangements. LPFA have been working with Newham to ensure a smooth transition and support communications to employers and members.

At the time of writing this report 5,840 Annual Benefit Statements (ABS) have been issued to the deferred beneficiaries and 5,429 Annual Benefit Statements (ABS) for active members.

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

John Crowhurst
Head of Operations

LGPS Regulatory Update

Freedom and Choice

Amendment to existing regulations require a member to obtain (at their own cost), independent financial advice before a transfer can be paid to a provider which would allow immediate payment of the pension pot if aged over 55 (subject to tax charges). Relaxed rules apply if the transfer value is less than £30,000.

Implications for AVC's: The introduction of the freedom and choice arrangements has implications for members with or thinking of taking out AVC's. Members with existing AVC contracts may subject to amendment wording to regulations, be able to stop their existing contract and then start a new contract to enable them to pay in higher proportion of their salary.

New contracts are expected to be able to pay all their salary (beyond their pension contributions) into an AVC fund, but will be limited to only be able to take 35% of the fund value as a tax free lump sum.

Amendment regulations
Following the introduction of the LGPS 2014 scheme, a number of minor amendments have been made to ensure the actual regulations work as intended. PS 2014, amendment regulations, a number of minor amendments have been made to ensure that the actual regulations do work as intended.

Annual amendments
Pension contribution bands increased in line with inflation with effect from 1 April 2015, and the maximum Additional Pension Contract (APC) increased from £6,500 to £6,675.

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

Auto Enrolment
The staging date of the London Borough of Newham was on the 1st March 2013. Since then, on a monthly basis auto enrolled LGPS members have been informed through the 'yourfund' website. From 1st April 2014 to 31st March 2015 a total of 1728 new LGPS members have been submitted through the 'yourfund' portal. Additional scheduled and admitted bodies have reached their staging date and they have been informing LPFA of their auto enrolled LGPS members through the online forms.

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 http://www.yourpension.org.uk

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

Workflow summary

The table below shows a summary of the total case received and completed for the year 1 April 2014 to 31 March 2015. Further graphical representation of this information is shown on the following pages.

Description	Received	Completed	On Time	On Time %
Joiners	506	555	555	100
Transfers In/Out	575	541	541	100
Retirements/Deaths	775	817	817	100

Deferred/Refunds	1,030	1,008	1,008	100
Estimates	1,000	1,019	1,019	100
Other - contractual	5,202	5,569	5,565	99.93
Totals	**9,088**	**9,509**	**9,505**	**99.96**

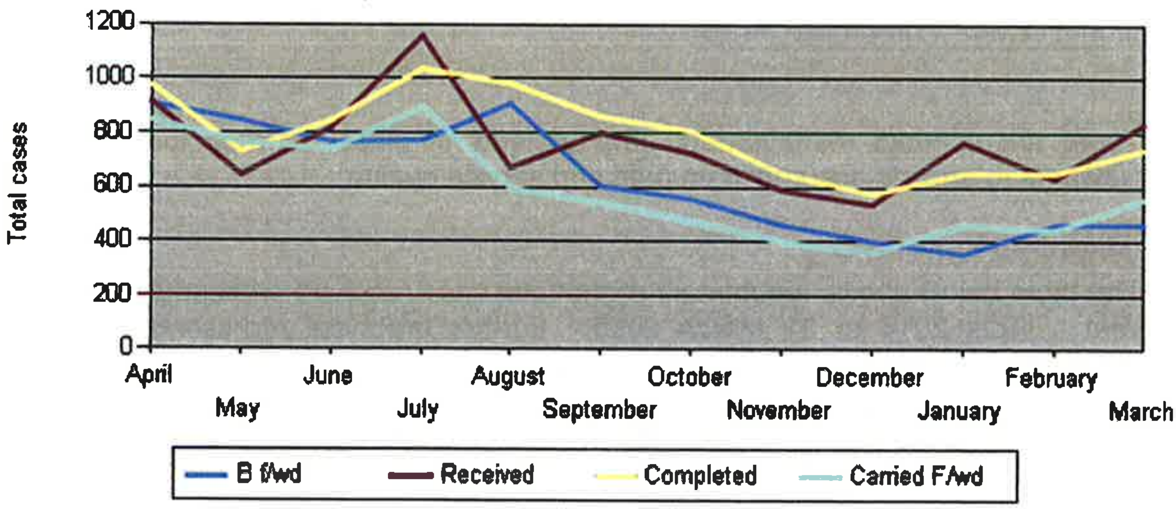
Cases completed

Of the 9,505 cases completed on time 5016, were completed early as detailed below

Description	1 Day Early	2 Days Early	3 Days Early	4+ Days Early
Joiners	135	53	80	37
Transfers In/Out	82	14	2	190
Retirement/Deaths	126	28	15	72
Deferred/Refunds	121	6	2	359
Estimates	122	32	37	174
Other - contractual	1,125	216	49	1,939
Totals	**1,711**	**349**	**185**	**2,771**

Workload History

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



Dispute resolution procedure

The fund received notification of 8 disputes during the period during the period 1st April 2014 to 31st March 2015. Of the 8 cases 5 were in relation to potential ill health retirement cases, 2 were in respect of an application for early payment of benefits on compassionate grounds and 1 was on Injury Allowance. Only 1 appeal was successful, 5 were rejected and there are 2 cases still pending.

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 6118 or by writing to London Pensions Fund Authority, 2nd Floor, 169 Union Street, London, SE1 0LL.

Statement of Responsibilities

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 2015.

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 2015.

Date:

Signature:

D Hindson CPFA
Chief Finance Officer

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 London Borough of Newham's pension fund financial statements (the "financial statements"):

- 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 2015; 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 2014/15.

What we have examined

The financial statements comprise:

- the Net Asset Statement as at 31 March 2015;
- the Pension 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 the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Chief Finance Officer

As explained more fully in the Responsibilities for the Statement of Accounts, set out on page 11 of the audited Statement of Accounts, the Chief Finance Officer 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 2014/15.

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 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
30 September 2015

(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.

2014/15 PENSION FUND ACCOUNTS

2013/14 Restated £000		Notes	2014/15 £000
	Dealings with members, employers and others directly involved in the fund:		
49,260	**Contributions**	**7**	**56,086**
3,701	**Transfers in from other pension funds**	**8**	**2,761**
(47,724)	**Benefits**	**9**	**(49,959)**
(4,290)	**Payments to and on account of leavers**	**10**	**(2,911)**
(7,410)	**Management expenses**	**11**	**(9,218)**
	Returns on investments		
12,648	Investment income	12	13,049
412	Taxes on income	13	(239)
57,223	Profit and losses on disposal of investments and changes in the market value of investments	15a	153,078
70,283	Net return on investments		**165,888**
63,820	**Net increase/(decrease) in the net assets available for benefits during the year**		**162,647**
840,424	**Opening net assets of the fund**		**904,244**
904,244	**Closing net assets of the fund**		**1,066,891**

Net Asset Statement

2013/14 £000		Notes	2014/15 £000
851,659	Investment assets	15	1,018,617
52,819	Cash deposits	15	49,856
0	Investment liabilities	15	(3,301)
904,478	**Total invested assets**		**1,065,172**
1,536	Current assets	20	3,505
(1,770)	Current liabilities	21	(1,786)
(234)	**Net current assets**		**1,719**
904,244	**Net assets of the fund available to fund benefits at 31 March**		**1,066,891**

Note: Restatement of management expenses (Note 11) all other areas remain unchanged.

Note 1: Description of Fund

The London Borough of Newham Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Newham. The Local Authority is the reporting entity for this pension fund.

The following description of the fund is a summary only, for more detail reference should be made to the London Borough of Newham Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) **General**

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by the London Borough of Newham to provide pensions and other benefits for pensionable employees of the London Borough of Newham and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Investment and Accounts Committee, which is a committee of the London Borough of Newham.

b) **Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Newham Pension Fund include:

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

There are 25 employer organisations within the London Borough of Newham Pension Fund including the Local Authority itself, as detailed below.

Membership	**31 March 2014**	**31 March 2015**
Number of employers with active members	19	25
Number of employees in scheme		
London Borough of Newham	6,614	7,454
Other employers	589	663
Total	**7,203**	**8,117**
Number of pensioners		
London Borough of Newham	6,512	6,628
Other employers	234	259
Total	**6,746**	**6,887**
Deferred pensioners		
London Borough of Newham	8,144	8,425
Other employers	586	685
Total	**8,730**	**9,110**

c) **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 12% to 25.6% of pensionable pay.

d) **Benefits**

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

	Service pre 1 April 2008	**Service post 31 March 2008**
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x annual pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the London Borough of Newham Pension Fund scheme handbook available from http://www.yourpension.org.uk/handr/Newham-Publications.aspx.

Note 2: Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued in an International Accounting Standard (IAS) 19 basis is disclosed in Note 19 of these accounts.

Note 3: Summary of Significant Accounting Policies

Fund account – revenue recognition

a) Contribution income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

c) Investment income

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

ii) Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset

iv) Movement in the net market value of investments and changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

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

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. These are detailed as:

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overhead costs are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

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

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Aberdeen Asset Management – performance fee element ended August 2014.
- Newton

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15, £1,693,984 of fees is based on such estimates (2013/14: £769,035).

The costs of the council's in-house fund management team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.

Net assets statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

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

m) Additional voluntary contributions

The London Borough of Newham Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

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

n) Prior period adjustments

One adjustment has been made to the reported 2013/14 figures. This is to accommodate the new CIPFA guidance, Local Government Pension Scheme Management Costs which requires fund manager fees to be separated from the net asset value of investments and a change in the reporting categories including a new category, Oversight and Governance.

Note 4: Critical Judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association.

The fund's main private equity and infrastructure holding total £65m (2013/14 £61m). There is a risk that these investments may be under or overstated in the accounts.

Pooled property investments

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 £98m (2013/14 £87m). There is a risk that these investments may be under or overstated in the accounts.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Note 6: Events after the Reporting Date

There have been no events since 31 March 2015, and up to the date when these accounts were certified that require any adjustment to these accounts.

Note 7: Contributions Receivable

2013/14 £000	By Category	2014/15 £000
39,006	Employers	44,810
10,254	Employees	11,276
49,260	**Total**	**56,086**

2013/14 £000	By Authority	2014/15 £000
45,692	Administering Authority	51,597
796	Admitted Body	1,109
2,772	Scheduled Body	3,380
49,260	**Total**	**56,086**

2013/14 £000	By Type	2014/15 £000
10,254	Members normal contributions	11,276
20,663	Employers normal contributions	23,243
14,693	Employers deficit recovery contributions	18,103
3,650	Employers augmentation contributions	3,464
49,260	**Total**	**56,086**

Note 8: Transfers in from other Pension Funds

2013/14 £000		2014/15 £000
3,701	Individual transfers	2,761
3,701	**Total**	**2,761**

Note 9: Benefits Payable

By category

2013/14 £000		2014/15 £000
(35,981)	Pensions	(38,437)
(10,504)	Commutation and lump sum retirement benefits	(10,953)
(1,239)	Lump sum death benefits	(569)
(47,724)	**Total**	**(49,959)**

By authority

2013/14 £000		2014/15 £000
(45,911)	Administering Authority	(48,213)
(1,638)	Scheduled bodies	(1,453)
(175)	Admitted bodies	(293)
(47,724)	**Total**	**(49,959)**

Note 10: Payments to and on account of leavers

2013/14 £000		2014/15 £000
(8)	Refunds to members leaving service	(378)
(4,282)	Individual transfers	(2,533)
(4,290)	**Total**	**(2,911)**

Note 11: Management Expenses

2013/14 original £000	2013/14 restated £000		2014/15 £000
(830)	(437)	Administrative costs	(377)
(3,003)	(6,577)	Investment management expenses (Note 14)	(8,398)
	(396)	Oversight and governance costs	(443)
(3,833)	**(7,410)**	**Total**	**(9,218)**

This analysis of the costs of managing the London Borough of Newham Pension Fund during the period has been prepared in accordance with new CIPFA guidance – Local Government Pensions Scheme Management Costs, a restatement of 2013/14 has been prepared for comparison.

A major change is that fees previously deducted from change in market value are now disclosed separately – this has increased investment management expenses by £2,565k in 2014/15 (restatement value £3,441k 2013/14).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (see Note 15a).

Note 12: Investment Income

2013/14 £000		2014/15 £000
9,710	Equity dividends	8,764
3,253	Pooled property investments	4,159
(315)	Interest on cash deposits	126
12,648	**Total**	**13,049**

Note 13: Taxes on Income

2013/14 £000		2014/15 £000
1,068	Tax recovered	337
(656)	Withholding tax	(576)
412	**Total**	**(239)**

Note 14: Investment Expenses

2103/14 Original £000	2013/14 Restated £000		2014/15 £000
0	130	Custody Fees	139
3,003	6,447	Management fees	8,259
3,003	**6,577**	**Total**	**8,398**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments. The investment management expenses above include £1,597k (restated 2013/14: £515k) in respect of performance-related fees paid/payable to the Fund's investment managers.

A performance fee of £732k related to expenses incurred in 2013/14 was not accrued for last year, of that £244k was paid and £488k accrued in 2014/15.

Note 15: Investments

Market value as at 31 March 2014 £000		Market value as at 31 March 2015 £000
	Investment Assets	
356,522	Equities	339,694
275,801	Pooled investments	435,143
87,248	Pooled property investments	98,497
61,226	Overseas private equity/Infrastructure	65,567
70,492	Overseas diversified alternatives	75,548
	Derivative contracts:	
0	Futures	0
0	Forward currency contracts	412
52,819	Cash deposits	49,856
370	Investment Income due	2,939
0	Amounts receivable for sales	817
904,478	**Total Investment Assets**	**1,068,473**
	Investment Liabilities	
	Derivative contracts:	
0	Futures	0
0	Forward currency contracts	(1,374)
0	Amounts payable for purchases	(1,927)
0	**Total Investment Liabilities**	**(3,301)**
904,478	**Net Investment Assets**	**1,065,172**

Note 15a: Reconciliation of Movements in Investments and Derivatives

	Market value as at 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year £000	Market value as at 31 March 2015
	£000	**£000**	**£000**		**£000**
Fixed Interest securities	0	39,323	(38,937)	(386)	0
Equities	356,522	194,714	(278,652)	67,110	339,694
Pooled Investments	275,801	163,586	(55,933)	51,689	435,143
Pooled property Investments	87,248	2,723	(3,876)	12,402	98,497
Overseas private equity/infrastructure	61,226	4,027	(14,980)	15,294	65,567
Overseas diversified alternatives	70,492	37,550	(35,445)	2,951	75,548
	851,289	441,923	(427,823)	149,060	**1,014,449**
Derivative contracts:					
Futures	0	(30)	27	3	0
Forward currency contracts	0	11,271	(9,342)	(2,891)	(962)
	851,289	**453,164**	**(437,138)**	**146,172**	**1,013,487**
Other Investment balances:					
Cash deposits	52,819			6,906	49,856
Amount receivable for sales of investments	0				817
Investment income due	370				2,939
Amounts payable for purchases of Investments	0				(1,927)
	904,478	**Total**		**153,078**	**1,065,172**

Restated	Market value as at 31 March 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market value as at 31 March 2014 £000
Equities	342,608	113,714	(130,163)	30,363	356,522
Pooled Investments	269,479	6,918	(6,918)	6,322	275,801
Pooled property Investments	74,485	20,810	(14,263)	6,216	87,248
Overseas private equity/infrastructure	65,997	5,475	(21,397)	11,151	61,226
Overseas diversified alternatives	72,094	26,759	(32,344)	3,983	70,492
	824,663	173,676	(205,085)	58,035	**851,289**
Other investment balances:					
Cash deposits	23,271			(812)	52,819
Investment income due	433				370
	848,367	**Total**		**57,223**	**904,478**

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. 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. Direct transaction costs incurred during the year total £987,000 (2013/14: £835,000). In addition to these costs, indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 15b: Analysis of Investments

Market Value as at 31 March 2014 £000	Analysis of Investments	Market Value as at 31 March 2015 £000
	Equities	
30,898	UK quoted	54,649
325,624	Overseas quoted	285,045
356,522		**339,694**
	Pooled funds - additional analysis	
31,587	UK fixed interest unit trusts	0
100,681	Overseas fixed interest unit trusts	103,347
70,439	UK equity unit trusts	113,100
73,094	Overseas equity unit trusts	218,696
275,801		**435,143**
87,248	Pooled property investments	98,497
61,226	Overseas private equity/infrastructure	65,567
70,492	Overseas diversified alternatives	75,548
0	Forward currency contracts	(962)
	Cash	
16,877	UK Cash and Bank Deposits	27,885
35,942	Overseas Cash and Bank Deposits	21,971
52,819		**49,856**
370	Investment income due	2,939
0	Amounts receivable for sales	817
0	Amounts payable for purchase	(1,927)
904,478	**Total investment assets**	**1,065,172**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

Open forward currency contracts

Settlements	Currency bought	Local value £000	Currency sold	Local value £000	Asset value £000	Liability value £000
One to six months	GBP	1,043	AUD	(2,015)	11	0
One to six months	GBP	213	NZD	(425)	0	(0)
One to six months	GBP	566	HKD	(6,461)	4	0
One to six months	GBP	3,916	USD	(5,765)	30	0
One to six months	GBP	3,731	EUR	(5,137)	8	0
One to six months	GBP	238	CNY	(2,184)	1	0
One to six months	GBP	821	JPY	(146,163)	0	(2)
One to six months	GBP	525	MYR	(2,921)	0	(2)
Up to one month	USD	4,539	EUR	(3,811)	300	0
Up to one month	GBP	9,665	EUR	(13,279)	56	(1)
Up to one month	GBP	38,488	USD	(59,164)	0	(1,369)
Up to one month	USD	517	GBP	(346)	2	0
Open forward currency contracts at 31 March 2015					**412**	**(1,374)**
Net forward currency contracts at 31 March 2015						**(962)**

Investments analysed by fund manager

Market value as at 31 March 2014 £000	%	Fund manager	%	Market value as at 31 March 2015 £000
313	0	Northern Trust (residual account)	0.1	1,373
178,629	19.8	Legal and General	31.1	331,795
97,179	10.7	Aberdeen Asset Management	10.0	105,518
94,042	10.4	CBRE	10.3	109,601
43,653	4.8	Harbourvest	4.8	51,355
0	0.0	Baring	0.0	12
25,488	2.8	Arcus	3.0	31,995
108,918	12.0	Neptune	0.0	0
157,841	17.5	Longview	25.0	266,542
120,144	13.3	Newton	8.2	87,250
78,271	8.7	Morgan Stanley	7.5	79,731
904,478		**Total**		**1,065,172**

All the above companies are registered in the United Kingdom.

Individual investments exceeding 5% of net assets

Fund manager	Asset name	Market Value at 31 March 2015 £000	Percent of fund %
Legal & General	North America equity index	129,776	12.2
Legal & General	UK equity Index	113,099	10.6
Aberdeen	Opportunistic Bond	103,347	9.7
Legal and General	Asia Pacific equity index	54,773	5.1

Individual asset exceeding 5% of asset category value

Fund manager	Asset category	Asset name	Market Value at 31 March 2015 £000	Percent of fund %
Morgan Stanley	Diversified alternatives	INS Hedge Fund	16,051	21.2
Morgan Stanley	Diversified alternatives	Liquid Alpha Fund	7,069	9.4
Morgan Stanley	Diversified alternatives	MS High Yield Bond	4,747	6.3
Morgan Stanley	Diversified alternatives	Zodiac Fund – Senior Loan	4,037	5.3

Note 15c: Property Holdings

The fund's investment in property portfolio comprises investments in pooled property funds and no directly owned properties.

Note 16: Financial Statements

Note 16a: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading.

Market value as at 31 March 2014				Market value as at 31 March 2015		
Designated as fair value through profit and loss £000	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**		**Designated as fair value through profit and loss £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**
			Financial assets			
356,522			Equities	339,694		
275,801			Pooled investments	435,143		
87,248			Pooled property Investments	98,497		
61,226			Private equity/infrastructure	65,567		
70,492			Overseas property	75,548		
			Overseas derivative contracts	412		
	52,819		Cash		49,856	
	370		Other investment balances		3,756	
	1,536		Current Assets		3,505	
851,289	**54,725**	**0**	**Total Financial Assets**	**1,014,861**	**57,117**	**0**
			Financial liabilities			
			Derivative contracts	(1,374)		
			Other Investment balances			(1,927)
		(1,770)	Current liabilities			(1,786)
0	**0**	**(1,770)**	**Total Financial Liabilities**	**(1,374)**	**0**	**(3,713)**
851,289	**54,725**	**(1,770)**	**Total**	**1,013,487**	**57,117**	**(3,713)**

Note 16b: Net Gains and Losses on Financial Instruments

Restated 31 March 2014 £000		31 March 2015 £000
56,411	Fair value through profit and loss	146,172
812	Loans and receivables	6,906
57,223	**Total**	**153,078**

Note 16c 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 at 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 are used to determine fair value and where these 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 that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the London Borough of Newham Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2015	Quoted market price Level 1	Using observable inputs Level 2	With significant observable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	364,742	466,904	186,971	1,018,617
Loans and receivables	49,856	0	0	49,856
Total financial assets	**414,598**	**466,904**	**186,971**	**1,068,473**
Financial liabilities				
Loans and receivables	(3,301)	0	0	(3,301)
Total financial liabilities	**(3,301)**	**0**	**0**	**(3,301)**
Net financial assets	**411,297**	**466,904**	**186,971**	**1,065,172**

Values at 31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant observable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	632,323	0	218,966	851,289
Loans and receivables	53,189	0	0	53,189
Net financial assets	**685,512**	**0**	**0**	**904,478**

Note 17: Nature and Extent of Risks arising from Financial Instruments

1 Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

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

a) **Market risk**

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

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

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

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset type	**Potential Market Movements (+/-)** %
UK bonds	7.23
Overseas bonds	7.23
UK equities	9.95
Overseas equities	9.18
Pooled property investments	4.40
Diversified alternatives	4.49

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Market value as at 31 March 2015	Percentage change	Value on increase	Value on decrease
		%		
Cash and cash equivalents	49,856	0.01	49,861	49,852
Investment portfolio assets:				
UK equities	54,649	9.95	60,088	49,212
Overseas equities	285,045	9.18	311,212	258,878
Overseas fixed Income unit trusts	103,347	7.23	110,819	95,875
UK equity unit trusts	113,100	9.95	124,353	101,846
Overseas equity unit trusts	218,695	9.18	238,771	198,619
Pooled property investments	98,497	4.40	102,831	94,163
Overseas private equity/infrastructure funds	65,567	0.00	65,567	65,567
Overseas diversified alternatives	75,548	4.49	78,940	72,156
Net derivative assets	(962)	0.00	(962)	(962)
Investment income due	2,939	0.00	2,939	2,939
Amounts receivable for sales	817	0.00	817	817
Amounts payable for purchases	(1,926)	0.00	(1,926)	(1,927)
Total investment assets	**1,065,172**		**1,143,310**	**987,035**

Asset type	Market value as at 31 March 2014	Percentage change	Value on increase	Value on decrease
		%		
Cash and cash equivalents	52,819	0.01	52,824	52,814
Investment portfolio assets:				
UK equities	30,898	9.95	33,972	27,823
Overseas equities	325,624	9.18	355,517	295,732
UK fixed income unit trusts	31,587	0.00	31,587	31,587
Overseas fixed income unit trusts	100,681	0.00	100,682	100,682
UK equity unit trusts	70,439	9.95	77,448	63,431
Overseas equity unit trusts	73,094	9.18	79,803	66,383
Pooled property investments	87,248	4.40	91,086	83,409
Overseas private equity/infrastructure funds	61,226	0.00	61,227	61,227
Overseas diversified alternatives	70,492	4.49	73,655	67,325
Investment income due	370	0.00	370	370
Total investment assets	**904,478**		**958,171**	**850,783**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2014	As at 31 March 2015
	£000	£000
Cash and cash equivalents	52,819	49,856
Fixed interest unit trusts	103,347	100,681
Total	**156,166**	**150,537**

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Fixed Interest Securities - Asset type	Market Value as at 31 March 2015	Change in year net assets available to pay benefits	
	£000	+100BPS	-100BPS
Cash and cash equivalents	49,856	499	(499)
Total	**49,856**	**499**	**(499)**

Fixed Interest Securities - Asset type	Market Value as at 31 March 2014	Change in year net assets available to pay benefits	
	£000	+100BPS	-100BPS
Cash and cash equivalents	52,819	528	(528)
Total	**52,819**	**528**	**(528)**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

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

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

The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period end.

Currency exposure - asset type	Market value as at 31 March 2014	Market value as at 31 March 2015
Overseas quoted securities	325,624	285,045
Overseas fixed income unit trusts	100,682	103,347
Overseas unit trusts	73,093	218,695
Overseas pooled property	7,858	11,916
Overseas private equity/infrastructure	61,226	65,567
Diversified alternatives	70,492	75,548
Total overseas assets	**638,975**	**760,118**

Currency risk – sensitivity analysis

The only significant overseas currencies are USD and EUR which account for 33.9% of the fund. The remainder of foreign holdings only account for 1.8%. USD and EUR have had a long period of low volatility.

The remainder of the fund is Sterling 64.3% and therefore has no currency exposure.

Currency	MV of Currency	Percentage of Fund
AUD	(1,012)	-0.1
CAD	1,982	0.2
CHF	5,384	0.5
CNY	(238)	0.0
DKK	3,975	0.3
EUR	79,525	7.5
GBP	684,392	64.2
HKD	1,723	0.2
INR	412	0.0
JPY	5,016	0.5
MXN	0	0.0
MYR	(527)	0.0
NOK	914	0.1
NZD	(213)	0.0
PHP	362	0.0
SEK	903	0.1
TWD	1	0.0
USD	281,924	26.4
4ZAR	648	0.1
Total	1,065,171	100.0

b) **Credit risk**

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

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

The council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2015 was £49.9m (31 March 2014: £52.8m). This was held with the following institutions.

There are no collateral arrangements on behalf of the fund.

Summary	**Rating**	**Asset value as at 31 March 2014**	**Asset value as at 31 March 2015**
Money market funds			
NTGI Global Cash Fund	AAA	36,920	26,773
Bank deposit accounts			
*Variation Margin		98	0
*Cash (externally held)		1,869	1,825
Bank current accounts			
*NT custody cash accounts		13,932	21,258
Total		**52,819**	**49,856**

*Cash and variance margin accounts do not receive credit ratings, figures are provided to reconcile the investment cash.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates and the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The council has immediate access to its pension fund cash holdings.

The fund also has access to an overdraft facility for short-term cash needs (up to seven days). This facility is only used to meet timing differences on pension payments. As at 31 March 2015 the balance on this facility stood at £0 (31 March 2014: £824,625). As these borrowings are of a limited short-term nature, the fund's exposure to credit risk is considered negligible.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2015 are due within one year.

c) **Refinancing risk**

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

Note 18: Funding Arrangements

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

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. 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

At the 2013 actuarial valuation, the fund was assessed as 73% funded (72% at the March 2010 valuation). This corresponded to a deficit of £298m (2010 valuation: £249m) at that time.

Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer.

The contribution rates for each employer are as follows.

Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2013/14 £000s	Employee Contribution 2014/15 £000s	Employer Contribution 2013/14 £000s	Employer Contribution 2014/15 £000s
Active Newham	Admitted	16.4	50	37	104	91
Brampton Manor Primary	Scheduled	23.5	40	52	197	174
Carpenters TMO	Admitted	15.0	13	13	28	27
Chobham Academy	Scheduled	12.0	21	52	40	99
Churchill	Admitted	24.6	-	18	-	66
Community Links	Admitted	13.7	10	4	21	10
Crime Reduction Initiative (CRI)	Admitted	12.0	-	6	-	9
East London Arts and Music	Scheduled	12.0	-	2	-	4
East London Science School	Scheduled	12.0	-	2	-	3
FM Conway	Admitted	15.3	2	1	4	2
JFK and Sheringham Multi Academy	Scheduled	19.8	-	32	-	125
Langdon Academy	Scheduled	23.5	25	92	87	349
London Academy of Excellence	Scheduled	12.0	7	11	15	21
London Borough of Newham	Administering Authority	13.4	9,321	10,088	36,371	41,509
Mitie	Admitted	17.0	6	7	17	20
Newco	Scheduled	25.6	64	41	207	181
Newham College of Further Education	Scheduled	16.7	383	402	1,028	962
NewVic	Scheduled	12.1	120	163	220	290
NPW	Admitted	26.9	121	171	400	606
Oasis Academy	Scheduled	12.0	-	3	-	5
RM Education	Admitted	20.9	7	5	13	16
School 21	Scheduled	12.0	15	21	28	42
Stratford Academy	Scheduled	25.6	36	43	196	169
Stratford Regeneration Partnership Ltd	Scheduled	25.6	11	10	25	30
Thames Gateway London Partnership	Scheduled	22.7	2	-	5	0
Total			**10,254**	**11,276**	**39,006**	**44,810**

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

Financial assumptions in the 2013 Actuarial Valuation

Investment Return (Discount rate)	6.0%	Based on 19-year bond returns extrapolated to reflect the duration of the fund's liabilities
Inflation	3.5%	Assumed to be RPI
Salary increases	4.5%	1.0% pa over RPI
Pension increases	2.7%	In line with CPI - assumed be 0.8% less than RPI

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

Mortality assumption at age 65	Male	Female
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed current age 45)	24.2 years	26.8 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2013 is based on SIPA actuarial tables. The allowances for future life expectancy are as follows.

Prospective pensioners	Current pensioners
Year of birth, medium cohort and 1.5% per annum minimum improvement from 2012	Year of birth, medium cohort and 1.5% per annum minimum improvement from 2012

Commutation assumptions

It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension

Note 19: Actuarial Present Value of Promised Retirement Benefits

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 the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS 19 basis, the actuarial present value of promised retirement benefits at 31 March 2015 was £1,843.6M (31 March 2014: £1,525.9M). The net assets available to pay benefits as at 31 March 2015 was £1,066.9M (31 March 2014: £904.2M). The implied fund deficit as at 31 March 2015 was therefore £776.7M (31 March 2014: £621.7M).

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Note 20: Current Assets

2013/14 £000		2014/15 £000
63	Contributions due – employees	80
165	Contributions due – employers	200
-	Sundry debtors	96
1,308	Cash and cash equivalents	3,129
1,536	**Total Current Assets**	**3,505**

The contributions due all related to March 2015 which became due on 22 April 2015.

Analysis of debtors

2013/14 £000		2014/15 £000
0	Local authorities	96
220	Public corporations and trading funds	280
8	Other entities and individuals	0
228	**Total Debtors**	**376**

Note 21: Current Liabilities

2013/14 £000		2014/15 £000
1,770	Sundry creditors	1,786
1,770	**Total Current Liabilities**	**1,786**

Analysis of creditors

2013/14 £000		2014/15 £000
825	Local authorities	0
945	Public corporations and trading funds	1,786
1,770	**Total Creditors**	**1,786**

Note 22: Additional Voluntary Contributions

2013/14 £000		2014/15 £000
51	Clerical Medical	41
51	**Total**	**41**

AVC contributions of £40,646 were paid directly to Clerical Medical during the year (£50,626 2013/14).

The total value of the scheme at 31 March 2015 was £754,396.

The previous AVC provider was Equitable Life, the value of the scheme at 5 April 2015 was £271,341 there have been no further contributions in 2014/15.

Note 23: Related Parties

The Newham Pension Fund is administered by the London Borough of Newham Council. Consequently there is a strong relationship between the council and the pension fund.

The following key management personnel are members of the pension fund; Director of Finance, Director of Exchequer and Transactional Service, Head of Financial Control, Corporate Finance Manager and Pension Fund Manager.

During the reporting period, the council incurred costs of £0.377M (2013/14: £0.437M) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses.

Governance

The Transitional Provisions, Savings and Amendment Regulations 2014 removes access to the LGPS from 1 April 2014 for councillors and elected mayors in England and for the Mayor of London and members of the London Assembly.

Councillors, elected mayors, the Mayor of London and members of the London Assembly who were members of the LGPS on 31 March 2014 will retain access to the LGPS up to the end of their current term of office only (or to age 75 if earlier). They will retain the benefits accrued until the end of their term of office, which for Newham councillors was 22 May 2014.

Since 22 May 2014 there are four deferred members of the LGPS of the Investments and Accounts Committee; Councillor Forhad Hussain, Councillor Andrew Baikie, Councillor John Gray and Councillor Lester Hudson. No additional remuneration beyond their salary is paid members of the Investment and Account Committee.

Each member of the Investment and Accounts Committee is required to declare their interests at each meeting.

Note 24: Contingent Liabilities and Contractual Commitments

At 31 March 2015, the Fund had outstanding commitments totalling £9.659M (2014: £13.938M). 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 £6.953M (2014: £12.628M) within its diversified alternatives portfolio.

In addition to this, the Fund has received £0.755M (2014: £0.877m) 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 2015.

Note 25: 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 may be required to put an insurance bond in place if stipulated in the actuary's report – the admission is considered by the Investment and Accounts Committee, as in the case of Crime Reduction Initiative.

Statement of Investment Principles 2014/15

1. Introduction

1.1 This is the Statement of Investment Principles (SIP) adopted by the London Borough of Newham (LBN) Pension Fund ("the Fund") and reflects the conclusions drawn from the strategy review following the 2013 valuation. It looks to update the 2013/14 SIP in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

1.2 The Fund's assets are governed by these Regulations.

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, portfolio risk and manager performance. A review of the investment advice received by the Fund will be completed in 2015/16, 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 IAC owe a fiduciary duty similar to that of trustees to 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 IAC 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 IAC 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(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk 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, although the property and diversified portfolio may be managed in-house with adviser support.

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)
- Exchange Traded Futures
- Index Linked
- Private Equity
- Property
- Infrastructure
- Alternatives: commodities/ senior loan, catastrophe risk 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	%	Range %	Expected Return
Equities	55.0	50 - 65	7 - 8%
Bonds	10.0	8 - 12	3 - 4%
Property	15.0	12 - 17	6 - 8%
Private Equity	5.0	5 - 6	8%
Infrastructure	3.0	3	6%
Diversified Alternatives Fund	12.0	8 - 12	5 - 6%
Total	**100.0**		

The Fund has made a 12% allocation to diversified and 15% allocation to property. These allocations are not invested immediately but will be invested over a 3 year period as suitable funds are identified. In the interim these assets are invested in global equities but officers will look at equity risk overlay options pending investment in diversified and property funds.

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. Partial introduction of Auto Enrolment (AE) and a membership recruitment campaign in 2013/14 has helped reverse the declining trend in active membership and this will be helped further by full implementation of AE incl. 2017/18. 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.

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 %
Longview	Unconstrained Global Equity Active	25.0
Newton	Unconstrained Global Equity Active	8.0
Legal & General	Passive Equities*	29.0
	Passive Bonds	0.0
Morgan Stanley	Diversified Alternatives	8.0
CBRE	Property	11.0
Aberdeen Asset Management	Fixed Income Active	11.0
HarbourVest	Private Equity	5.0
Arcus	Infrastructure	3.0

At 31/03/15

Scale up to 100% in each category:

* Passive Equities manager Legal & General have been instructed to maintain their investment in pooled funds within the ranges indicated in the table below

Region	%	Range %
UK Equity Index	35.0	33.5 – 37.5
North America Equity Index	38.0	35.5 – 40.5
Europe (ex UK) Equity Index	10.0	7.5 – 12.5
Asia Pacific ex Japan Developed Equity Index	17.0	14.5 – 19.5
Japan Equity Index	0.0	0 – 5
World Emerging Markets Equity Index Fund	0.0	0 – 5
Total	**100.0**	

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 Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.: The IAC 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 60% on an active and 40% 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 measured 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 11% of the Fund benchmark assets. Private Equity and infrastructure are also illiquid and make up 5% and 3% 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 review of the Fund's approach to SRI was completed in 2012/13. The Fund 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 IAC 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 in 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 IAC approved the revision to the SIP at its meeting on 15 December 2014. This is later than normal as the investment strategy review took longer than planned.

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 CPFA,
Chief Finance Officer
Newham Dockside,
1000 Dockside Road,
London E16 2QU
Email: deborah.hindson@newham.gov.uk

Statement of Investment Principles: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in 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 IAC, which meets at least quarterly. The responsibilities of the IAC are described in paragraph 1.4 of the SIP.

The IAC 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 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 2014/15, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The IAC 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 IAC annually and progress is monitored on a quarterly basis.

Several of the IAC members have extensive experience of dealing with Investment matters and training is made available to new IAC members. IAC 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. The IAC has adopted the CIPFA Knowledge and Skills Framework.

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 IAC has, in conjunction with its advisers, agreed an Investment Strategy that is 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 2016. 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 2014/15, the Fund will establish 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 IAC 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. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

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 IAC monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the IAC 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 IAC in March 2013.

This SIP 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 SIP, the FSS, 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.

Statement of Investment Principles: 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 IAC.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The IAC 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 IAC members via the Council's intranet site.

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)
- Legal and General (Equities and Fixed Income)
- Longview Partners (Equities)
- Morgan Stanley (Diversified Alternatives)

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

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

IAC members are also required to make declarations of interest prior to all IAC 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 IAC members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the IAC at the subsequent IAC meeting.

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

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 and the Chair 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

Statement of Investment Principles: Appendix C – Risk Register as at 20 November 2014

Risk assessment completed by	Stephen Wild	Corporate Finance Pension Fund	Deborah Hindson	Chief Finance Officer	November 2014

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%	31/03/2015	Stephen Wild	2	2	2
						Review of investment advice undertaken 2014/15 to ensure it is fit for purpose. Review of main adviser to be undertaken following appointment of new Chair	80%	31/03/2015	Stephen Wild			
						Obtain advice from a number of independent advisors	100%	31/03/2015	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%	31/03/2015	Stephen Wild	1	2	2
						Monthly checks to ensure cash received and banked	100%	31/03/2015	Stephen Wild			
						Monthly checks on the employer and employee rates	100%	31/03/2015	Stephen Wild			

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		
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 2016	0%	31/03/2015	Stephen Wild	2	2	4
4	Business Objective	To ensure that the Council is in sound financial health.										
	Declining active membership & impact on cash flow requiring change in investment strategy and increased employer contributions	4	4	12	Deborah Hindson	Promotional campaign to boost membership of scheme among LBN staff	80%	31/03/2015	Stephen Wild	2	2	4
						Auto enrolment - new and sessional staff from March 2013, all staff from October 2017	50%	31/03/2015	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%	31/03/2015	Stephen Wild	2	2	4
						Bonds or suitable guarantees put in place to protect the Fund in case of default	100%	31/03/2015	Stephen Wild			
						Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly	100%	31/03/2015	Stephen Wild			

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		
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. Quarterly strategy meeting	100%	31/03/2015	Stephen Wild	2	2	4
						Strategic asset allocation designed to achieve appropriate balance between capital protection and growth	100%	31/03/2015	Stephen Wild			
						Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2015	Stephen Wild			
7	**Business Objective**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management 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 reviewed at quarterly strategy meeting to ensure asset mix remains appropriate	100%	31/03/2015	Stephen Wild	2	2	4
						Monitoring of investment performance against targeted returns.	100%	31/03/2015	Stephen Wild			
						Monitoring of Investment Managers, with meeting held on an exceptions basis where performance is below benchmark	100%	31/03/2015	Stephen Wild			

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		
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%	31/03/2015	Stephen Wild	2	2	4
						Triennial Data Cleansing exercise and actuary data report	100%	31/03/2015	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%	31/03/2015	Stephen Wild	2	2	4
						Monitoring of audited accounts to ensure consistent asset valuation.	100%	31/03/2015	Stephen Wild			
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%	31/03/2015	Rashid Patel	2	2	4
						Participate in the National Fraud Initiative	100%	31/03/2015	Rashid Patel			
						Reclaim amounts over £100.00 that have been overpaid	100%	31/03/2014	Rashid Patel			

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		
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%	31/03/2015	Stephen Wild	1	1	1
						Annual General Meeting - all employers and other key stakeholders invited to attend	100%	31/03/2015	Stephen Wild			
						Union representation on the Committee. Pensioner representation being considered.	80%	31/03/2015	Stephen Wild			
12	Business Objective	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management 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%	31/03/2015	Stephen Wild Rashid Patel	1	1	1
13	Business Objective	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management of financial performance										
	Changes to regulations which could be detrimental to the Pension Fund	3	3	9	Deborah Hindson	Active participation in consultations.	100%	31/03/2015	Stephen Wild	1	1	1
						Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach.	100%	31/03/2015	Stephen Wild	1	1	1

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		
14	Business Objective	Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management 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%	31/03/2015	Stephen Wild	2	1	2
						SRI Policy	100%	31/03/2015	Stephen Wild			

Funding Strategy Statement 2014/15

1 Introduction

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 58 of the Local Government Pension Scheme Regulations 2013 ('the Regulations') and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

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:

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.

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.

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.

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.

The Fund is a defined benefit final salary scheme. Employee contributions and benefits payable to scheme members are specified in the Regulations.

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

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.

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.

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

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

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 Regulations 2013 (as amended), LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended) and Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 (as amended).

4 Responsibilities of the key parties

4.1 The Administering Authority

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

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 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.

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

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

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

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

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

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

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.

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.

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

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).

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. The other employers in the Fund where a 10 year recovery period also currently applies are:

- RM Education
- Active Newham
- Carpenters TMO

- Community Links
- Mitie
- Stratford Regeneration Partner
- Newco

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).

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.

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

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.

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

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)

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 to the FSS .

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

The results of the 2013 valuation show the liabilities to be 73% covered by the current assets, with the funding deficit of 27% being covered by future deficit contributions due from employers.

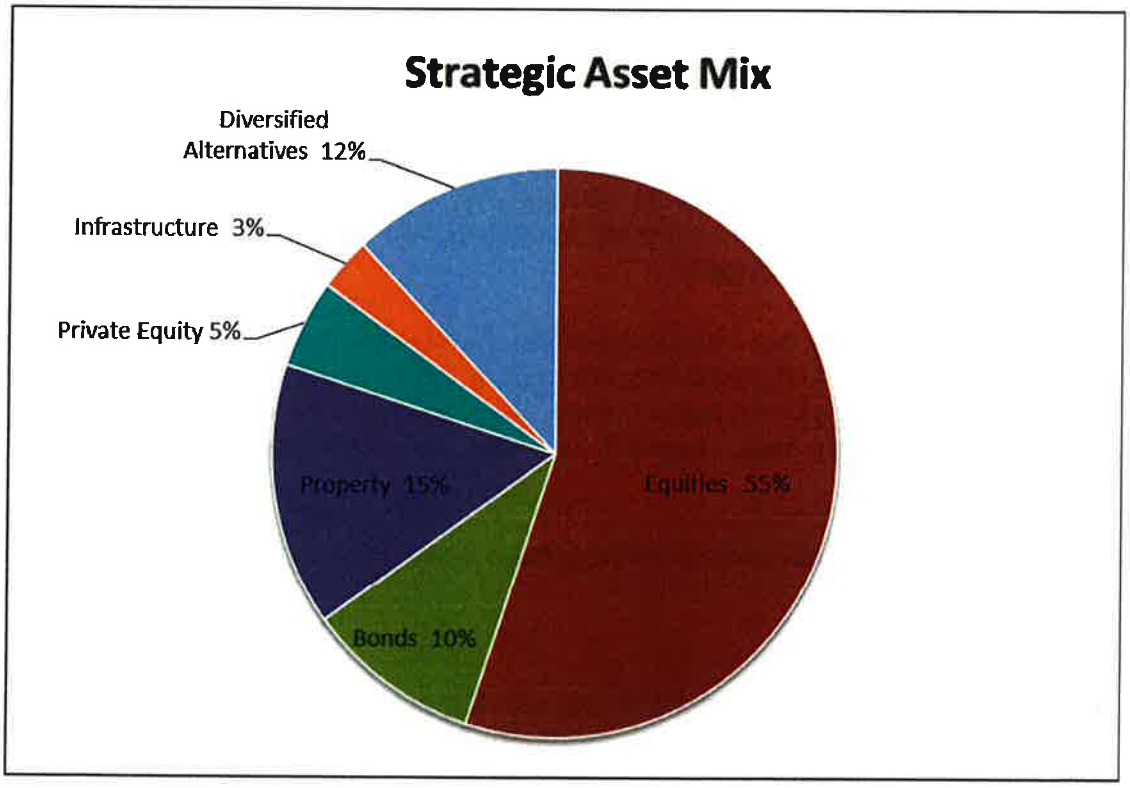
In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

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.

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.

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 strategic asset mix for the Fund is in Graph 1 below:

Graph 1 Strategic Asset Mix



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.

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.

The benchmark per asset class is in Table 1 below:

Table 1 – Asset Benchmark

Asset Class	Expected Return
Equities	7.0 – 8.0% per annum
Bonds	3.0 – 4.0% per annum
Property	6.0 – 8.0% per annum
Private Equity	8.0% per annum
Infrastructure	6.0% per annum
Diversified Alternatives	5.0 – 6.0% per annum

7 Identification of risks and counter-measures

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.

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 2013 valuation assumptions.

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

7.4 Financial

The main financial risks are:

- 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
- The effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies.

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

7.5 Demographic

The main demographic risks are that:

- Longevity horizon continues to expand
- There is a deteriorating pattern of early retirements.

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

The key risks are:

- 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.

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

Key risks are that:

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

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

8 Monitoring and Review

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

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.

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 2013

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.

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 0.8% 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.

Pay Inflation

As benefits accrued prior to 1 April 2014 are 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 1.0% per annum above price inflation. However, we have allowed for a short-term overlay for salaries to rise in line with CPI over the period to 31 March 2015.

Pension increases

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% pa below RPI.

Mortality and other statistical assumptions

These are as described in the 2013 valuation report.

Summary of key assumptions for the 2013 actuarial valuation

Financial Assumptions	2013	2010
Discount Rate	6.0% per annum	6.7% per annum
Retail Price Inflation (RPI)	3.5% per annum (20 year point BOE Inflation Curve)	3.5% per annum
Consumer Price Inflation (CPI)	2.7% per annum (RPI less 0.8%)	3.0% per annum
Pension and Deferred Pension Increases	2.7% per annum (RPI less 0.8%)	3.0% per annum
Short Term Pay Increases	In line with CPI assumption for the 2 years to 31 March 2015	Pay freeze for those earning over £21k for 2 years to 31 March 2012
Long Term Pay Increases	4.5% per annum (RPI plus 1% per annum)	4.7% per annum

Socially Responsible Investment Policy 2014/15

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 Policy (SRI) 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 65 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

Deborah Hindson CPFA
Chief Finance Officer
Newham Dockside,
1000 Dockside Road,
London
E16 2QU

Email deborah.hindson@newham.gov.uk

Communications Policy 2014/15

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:
1. Members of the Pension Fund
2. Investment Committee Members
3. Prospective scheme members
4. Trade Unions
5. Scheme employers
6. Pension Fund Officers

1. 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 has been set-up which contains 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.

2. 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 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.

3. 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.

4. 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.

5. Scheme Employers

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

6. Scheduled Bodies:

- Brampton Manor Primary
- Chobham Academy
- East London Arts and Music
- East London Science School
- Education Links Free School (Community Links Academy Trust)
- JFK and Sheringham Multi Academy
- Langdon Academy
- London Academy of Excellence
- Newco
- Newham College of Further Education
- NewVic
- Oasis Academy
- School 21
- Stratford Academy
- Stratford Regeneration Partnership Ltd

Admitted bodies:

- Active Newham
- Carpenters TMO
- Churchill
- Community Links
- Crime Reduction Initiative (CRI)
- FM Conway
- MITIE
- Newham Partnership Working
- RM Education

Pension Fund 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.

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

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:
PricewaterhouseCoopers LLP (PwC)
1 Embankment Place
London WC2N

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	Rakesh Rajan	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.

▪ 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 2014/15

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.

4.3 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 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 2014/15 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 2014/15

Date	Training Session	Attendees
1st July 2014	Quarterly Strategy review	Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Andrew Baikie Cllr John Gray
10-11th September 2014	LGC Investment Summit	Cllr Forhad Hussain
6th November 2014	An introduction for Investments for Trustees – UBS (First steps)	Cllr Forhad Hussain

Date	Training Session	Attendees
19th November 2014	An introduction for Investments for Trustees – UBS (Second steps)	Cllr Forhad Hussain
28th November 2014	Quarterly Strategy review	Cllr Forhad Hussain Cllr Andrew Baikie Cllr Ted Sparrowhawk
3-5th December 2014	LAPFF conference	Cllr Forhad Hussain Cllr Seyi Akiwowo
16th January 2015	Fundo Asset Manager options	Cllr Forhad Hussain Cllr Ted Sparrowhawk
26th January 2015	CIPFA training	Cllr Lester Hudson Cllr Ted Sparrowhawk Cllr Forhad Hussain
4th February 2015	Training for Trustees - UBS	Cllr Forhad Hussain Cllr Lester Hudson Cllr Tahmina Rahman
6th February 2015	Fathom's Global Economic outlook forum	Cllr Forhad Hussain
12th February 2015	Diversified Alternatives training	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Andrew Baikie
18th February 2015	Elected Member Educational event	Cllr Forhad Hussain
27th February 2015	Schroder's Trustee Training	Cllr Forhad Hussain
9th March 2015	Quarterly Strategy review	Cllr Forhad Hussain Cllr Andrew Baikie Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Tahmina Rahman
11-13th March 2015	NAPF conference	Cllr Forhad Hussain
24th March 2015	F&C Investment Brainstorming session	Cllr Forhad Hussain

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 has 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 55 (4) of the Local Government Pension Scheme Regulations 2014.

Glossary

Accounting period - The period of time covered by the Council's accounts. The Council's financial year is from the period 1st April to the following 31st March.

Accounting policies – The specific principles, bases, conventions, rules, and practices applied by the Council in preparing and presenting the financial statements.

Accounting standards - A set of rules explaining how accounts are to be kept (See 'International Financial Reporting Standards').

Accrual - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid.

Active member - Current employee who is contributing to a pension scheme.

Actuary - An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

Additional Voluntary Contributions (AVC) - An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider

Admitted Body - An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Admission Agreement - an agreement made between the administering authority, a Scheme employer and a contracted company to allow the contractor to become part of the LGPS.

Asset allocation - The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

Balance Sheet - A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

Benchmark - A measure against which the investment policy or performance of an investment manager can be compared.

Billing Authority – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

Budget - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

Career Average Revalued Earnings (CARE) - from 1 April 2014 the LGPS became a Career Average Revalued Earnings Scheme. The pension built up from 1 April 2014 is based on a CARE scheme basis and the pension built up prior to 1 April 2014 is linked to Final Salary.

Cash equivalents – Highly liquid, safe investments that can easily be converted into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA) – A professional accountancy body, specialising in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

Contingent Liability - Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate.

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

Creditors - Amount of money owed by the Council for goods and services received. Also referred to as Payables.

Death Grant - an amount paid to a current or former member's estate or nominated beneficiaries in the event of death in service, death after retirement or death of a deferred beneficiary

Debtors - Amount of money owed to the Council by individuals, and organisations. Also referred to as Receivables.

Deferred Benefits (may be called preserved benefits) - benefits retained in the pension fund when a member leaves without an entitlement to the immediate payment of those benefits. If a transfer of benefits does not take place before hand, deferred benefits are usually paid from the member's normal retirement date.

Defined Benefit Scheme - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Deferred Income – Receipt in Advance – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

Deferred Liabilities – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

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

Discretion - this is the power given by LGPS regulations to enable Scheme employers or administering authorities to choose how they will apply the Scheme rules in respect of certain provisions.

Employer rates - The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

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

Fair Value - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

Fixed interest securities – Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

General Fund (GF) - The Council's main revenue account from which is met the cost of providing most of the Council's services.

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

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.
Intangible Assets - Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council, i.e. purchased software licences.

Interest Rate Risk - The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

Internal Disputes Resolution Procedure (IDRP) a complaints procedure governed by regulation providing any current or former scheme member with the opportunity to settle any dispute or complaint they may have in respect of any decision made regarding their entitlements under scheme rules.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Investment Properties – Those properties that are held solely to earn rentals and/ or for capital appreciation, rather than for the delivery of services.

Levy - Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets - Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Minimum Revenue Provision (MRP) - The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

National Non-Domestic Rates (NNDR) Pool - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

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

Provisions - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

Public Works Loans Board (PWLB) - Central Government agency which funds much of local government borrowing.

Rates and Adjustment Certificate - a certificate issued by the Actuary following a valuation of the Fund which sets out the employer contribution rates payable by each of the associated scheme bodies.
Return - The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Reserves - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

Retail Price Index (RPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

Scheduled body - An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Soft Loan - Loans given at less than market/commercial rates to community or not-for-profit organisations.

Triennial Valuation - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

Unrealised gains/ losses - The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Value For Money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Acronyms

AAC Annual Allowance Charge
ACT Advance Corporation Tax
AGS Annual Governance Statement
AVC Additional Voluntary Contribution
BCE Benefit Crystallisation Event
CARE Career Average Revalued Earnings
CEP Contributions Equivalent Premium
CETV Cash Equivalent Transfer Value
CLG Communities and Local Government
CPI Consumer Prices Index
DWP Department of Work & Pensions
FSS Funding Strategy Statement
GAD Government Actuary's Department
GMP Guaranteed Minimum Pension
HMRC Her Majesty's Revenue & Customs
IAC Investment and Accounts Committee
IAS International Accounting Standard
IDRP Internal Disputes Resolution Procedure
IFA Inter-fund Adjustment
IFRS International Financial Reporting Standards
ILA Individual Lifetime Allowance
LBN London Borough of Newham
LGE Local Government Employers
LGPC Local Government Pensions Committee
LGPS Local Government Pension Scheme
NAPF National Association of Pension Funds
(N)NDR (National) Non-Domestic Rates
NPV Net Present Value
NRA Normal Retirement Age
NRD Normal Retirement Date
SIP Statement of Investment Principles
SLA Standard Lifetime Allowance
SPA State Pension Age
RPI Retail Price Index
SeRCOP Service Reporting Code of Practice
VAT Value Added Tax