Newham London

Newham Pension Fund Annual Report 2016/17

LAPF Investments 2015 Awards WINNER

Professional Pensions Pension Scheme of the Year Awards 2015 Winner Public Sector Scheme of the Year

LGC Investment Awards 2016 WINNER

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MEMBER'S INTRODUCTION

Chair's comments

I am delighted to report that the Newham Pension Fund ("the Fund") received further industry recognition by winning the prestigious Local Government Chronicle: Fund of the Year Award 2016 for the second time in three years which is testament to the professionalism and dedication of the Investment and Accounts Committee ("the Committee"), the Director of Financial Sustainability and supporting officers in OneSource. The Fund was also a finalist for the Professional Pensions Scheme Awards 2016 and also for the LAPF Investment Awards 2016. More recently, it has been announced that the Fund is a finalist in two categories for the Professional Pensions Scheme Awards 2017: Fund of the Year and Trustee Development Award.

Fund investment assets surged 21% over 2016/17, ending the year at £1.34bn (up £235m from the previous year). The growth in assets has been the main driver behind the funding level increasing over the last valuation period from 73% in 2013 to 85% at 31 March 2016 – the fastest growth rate in London and is estimated to be 93% at 31 March 2017. This has brought down the average employer contribution rate from 24.9% at 2013 valuation to 21.2% at 2016 valuation enabling employers to switch resources to where they are most needed in 2017/18 onwards. The Newham LGPS is within sight of becoming fully funded, ahead of the 20 year recovery plan set out in the last valuation.

The Committee's priority is now holding onto those gains, given that the values of equities and bonds are at historically high levels and the outlook is increasingly uncertain. The strategic direction is now firmly set toward alternative assets: property, infrastructure and fixed income assets that are less exposed to the headwinds affecting volatile equity markets while employing proven techniques to manage volatility on the remaining equity allocation. Moreover, the strategy aims to deliver the actuary's implied growth rate and further income to meet emerging liquidity challenges over the medium term. The Fund will also make tactical and risk management changes in response to major political and economic events and as major investment opportunities arise. That said the Committee have struck a more cautious tone as the Fund moves ever closer to becoming fully funded and that is almost certain to mean Fund asset values will grow incrementally going forward.

To that end, the Fund has made excellent progress implementing the revised investment strategy, bringing in 'best of breed' fund managers to operate new fixed income mandates, reinvest in new private equity schemes and expand global property and introduce liquid alternatives. Plans for the introduction of structured equity to manage equity volatility, investment in 'real assets' that have asset backed qualities, and development of a local infrastructure scheme that taps into the active local economy are at an advanced stage. The various building blocks necessary to create a diverse and sustainable LGPS fund capable of meeting the challenges going forward while providing excellent benefits for members have or will shortly be in place.

Austerity and the Newham Council's transformation has inevitably resulted in a dip in the active membership in 2016/17 following excellent growth in previous years, further auto enrolment in 2017 will provide a boost and whilst every effort will be made to encourage staff to join the LGPS and protect low paid staff from poverty in old age the long term underlying trend is likely to be downward thereby accelerating the Fund toward maturity. The revised investment strategy recognises this trend and the increased income that will ensue will maintain the liquidity of the Fund and keep the deficit recovery plan on track.

The Committee remains committed to asset pooling with other LGPS Funds as required by the coalition Government. The London CIV remains the favoured asset pool but the Committee will continue reviewing other asset pools as if they were fund managers until it's satisfied that their governance and investment offerings meet the needs of the Fund and its investment strategy. The committee is justifiably proud of its investment and social responsibility record and will not hand over sovereignty of its assets to an asset pool until it's convinced that legacy will be upheld. The committee is serious about socially responsible and sustainable investment and this is enshrined in its Investment Strategy Statement that was agreed in March 2017.

The Committee welcomes the creation of the Newham Local Pensions Board in 2016 tasked with scrutinising the Fund's activities and the important support they will provide.

Councillor Forhad Hussain
Chair of the Investment and Accounts Committee

Highlights of 2016/17

- ## Fund value has the reached highest recorded for Newham:

  The Fund continues to go from strength to strength, and despite the challenging economic environment, it has increased its overall value to £1.34 billion, the highest ever recorded, and a funding level now at 93%. Investment returns once again exceeded the overall benchmark, with equities performing particularly well. A full performance report is on page 21.

- ## LGPS sector recognition

  Winning the Fund of the Year award 2016 at the LGC Investment Awards. Recognition that the Fund met its challenging performance objectives and the way in which it communicated with its members and employing authorities.

  The Committee's commitment to enhancing the knowledge and skills of our Members was recognised by becoming a finalist for Trustee Development Awards at the Professional Pensions Pension Scheme of the Year Awards 2016. In addition, the Fund was also short listed for Best Approach to Responsible Investment and Investment Strategy of the Year at the LAPF Investment Awards 2016.

- ## New Triennial Valuation 2016

  The new triennial valuation has increased to 85% in 2016 up from 73% in 2013. The growth in the Fund's assets has provided substantial savings on deficit financing for 2017/18 onwards which has enabled its largest employer to redirect funding toward Mayoral priorities. The final assumptions were agreed by the Committee and the Fund's Investment Strategy Statement has been reviewed to ensure that it is consistent with this approach.

- ## European Referendum and US Elections

  The Committee discussed steps in consultation with the Fund's macro-economic adviser and risk managed the assets of the Fund against a possible Brexit outcome on the European Referendum when most if not all other LGPS believed a 'remain' outcome would prevail. This underlined the importance of good economic advice when managing the Fund. A similar risk management approach was adopted for the US elections.

- ## Strategy Panels and Investment Models:

  The Fund continues its efforts to reduce costs, improve returns and increase transparency. The investment decision making has been enhanced by the macro-economic forecasts and development of investment models on the Fund's investment portfolio. The quarterly strategy panels have helped strengthen the investment decision making process and enabled the Fund to be more tactical and resilient.

Plans for the future

- ## Strategic Asset Allocation Review:

  In 2015, the Fund undertook a review of its strategic asset allocation and agreed a number of changes where implementation is currently at an advanced stage. These included, crystallising some of the gains achieved by our high performing global equity manager, diversifying into new assets classes which will generate an income stream and reduce reliance on our equity portfolio with the help of our economic advisor. The review has helped provide significant income increases and the strategic asset allocation will be continually reviewed in the year ahead.

- ## Private Debt and High Yield Credit

  The Fund has recently completed searches for Private Debt and High Yield Credit and selected investment managers to operate these new asset classes. The Fund believes that both asset classes will offer investors appealing long term diversification from other asset classes and attractive risk adjusted returns. This new asset classes in Newham’s portfolio will provide additional income streams to manage its liabilities and provide continued positive cash flows.

- ## Diversified Alternatives Managed Platform:

  The Fund is also working with a leading managed platform provider to facilitate a LGPS diversified alternatives managed platform. The Fund has collaborated on this platform with Cornwall and Clwyd pension funds. This will support the Fund’s aim to diversify into assets which will reduce reliance on volatile equities which are at historically high values.

- ## Pooling of Assets & Collaborative Working:

  The Fund has responded to government proposals on pooling of LGPS investments and remains committed to this principle where it is in the interests of the Fund and is aligned with its investments strategy. The Fund is a founder and contributing member of the London Collective Investment Vehicle (CIV).

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 Local Pensions Partnership (LPP).

Employee contribution rates for 2016/17 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 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 Committee, which is the formal decision making body for the Fund.

Investment and Accounts Committee

The Committee consists of eight councillor members and co-opted trade union representatives. The councillor members during 2016/17 were:

Chair - Councillor
Forhad Hussain (7/9)

Vice Chair - Councillor
Ted Sparrowhawk
(7/9)

Councillor
Lester Hudson (5/9)

Councillor
Andrew Baikie (5/9)

Councillor
John Gray (5/9)

Councillor
Tahmina Rahman
(5/9)

Councillor
Tonii Wilson* (4/9)

Councillor
Zuber Gulamussen* (3/9)

Co-opted trade union representatives during 2016/17 were Tim Linehan (GMB), Iain Hale (Newham Teachers' Panel) and Gloria Hanson (Unison).

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 2016/17 the Committee met 9 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 19 May 2016. Further information on the Fund's governance arrangements can be found in the Governance Statement at the end of this report.

*Following a membership change at the Council's last AGM, Councillor Zuber Gulamussen and Councillor Tonii Wilson were elected to the Committee, taking over from Councillor Seyi Akiwowo and Farah Nazeer.

Fund Management and Advisors

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

The Officers responsible for the Fund

Pensions and Treasury team in the OneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

Deborah Hindson	Director of Financial Sustainability (LBN)	020 3373 0932
Stephen Wild	Head of Pensions and Treasury (OneSource)	020 3373 3881
Rakesh Rajan	Pension Fund Manager (OneSource)	020 3373 6595

The OneSource Exchequer and Transactional Service monitor and manage 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 (OneSource)	020 3373 8408

The Scheme Administrators

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

LPP
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. PIRC is used to monitor the Fund against the LGPS universe.

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 2016/17, the Fund used the following external managers:

Fund Manager	Mandate	Contact Details
Longview	Unconstrained Global Equity Active	Thames Court, 1 Queenhithe, London, EC4V 3RL
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 unit trust	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

Barnett Waddingham
163 West George Street
Glasgow G2 2JJ

The Fund's Investment Advisors

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 Auditor

Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

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's 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 Pensions and Lifetime Savings Association (PLSA), 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:

- Investment Strategy Statement (ISS) –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 Investment Strategy Statement – 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.

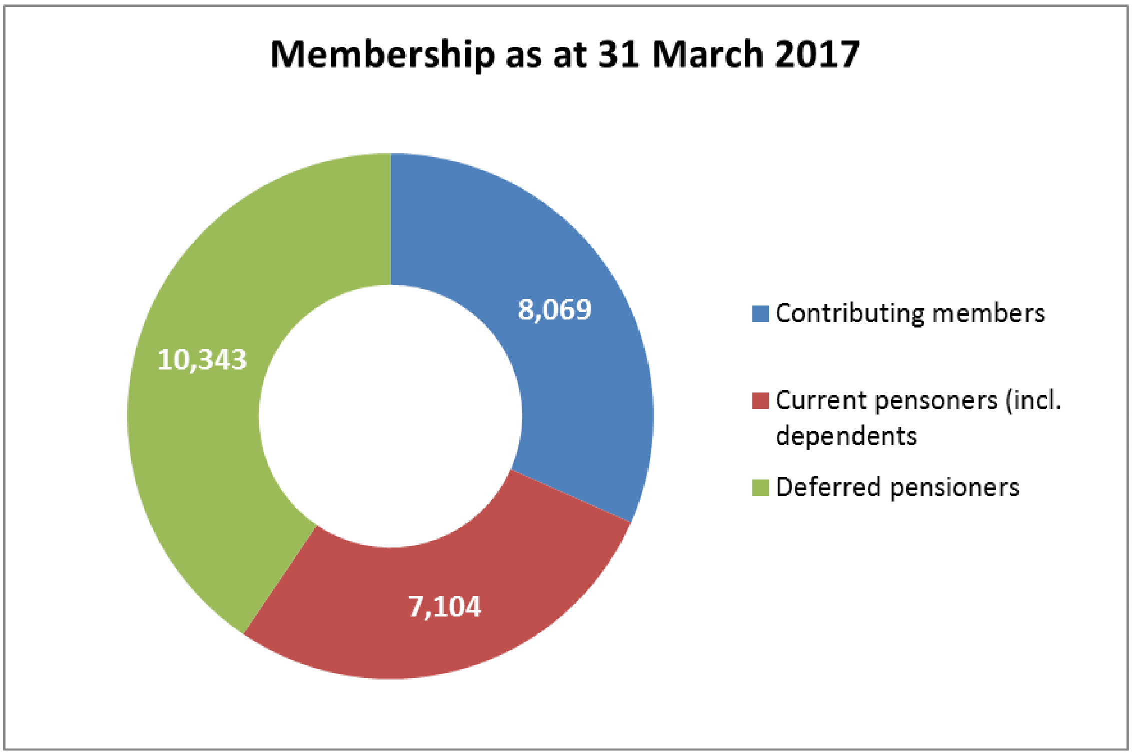
In addition, the Fund commissioned Bfinance on a pilot basis to develop a risk analytics model of the Fund's investments and provide quarterly reports to the committee on the Fund's risk exposure and key risk drivers. That pilot period has expired and not been renewed.

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

The Fund had a total of 25,516 members as at 31 March 2017, an increase of 26 in overall membership since 31 March 2016, however the membership numbers could potentially change after the submission of the end of year queries for 2016-2017 as it may pick up any new joiners that have not previously been notified to the LPP.



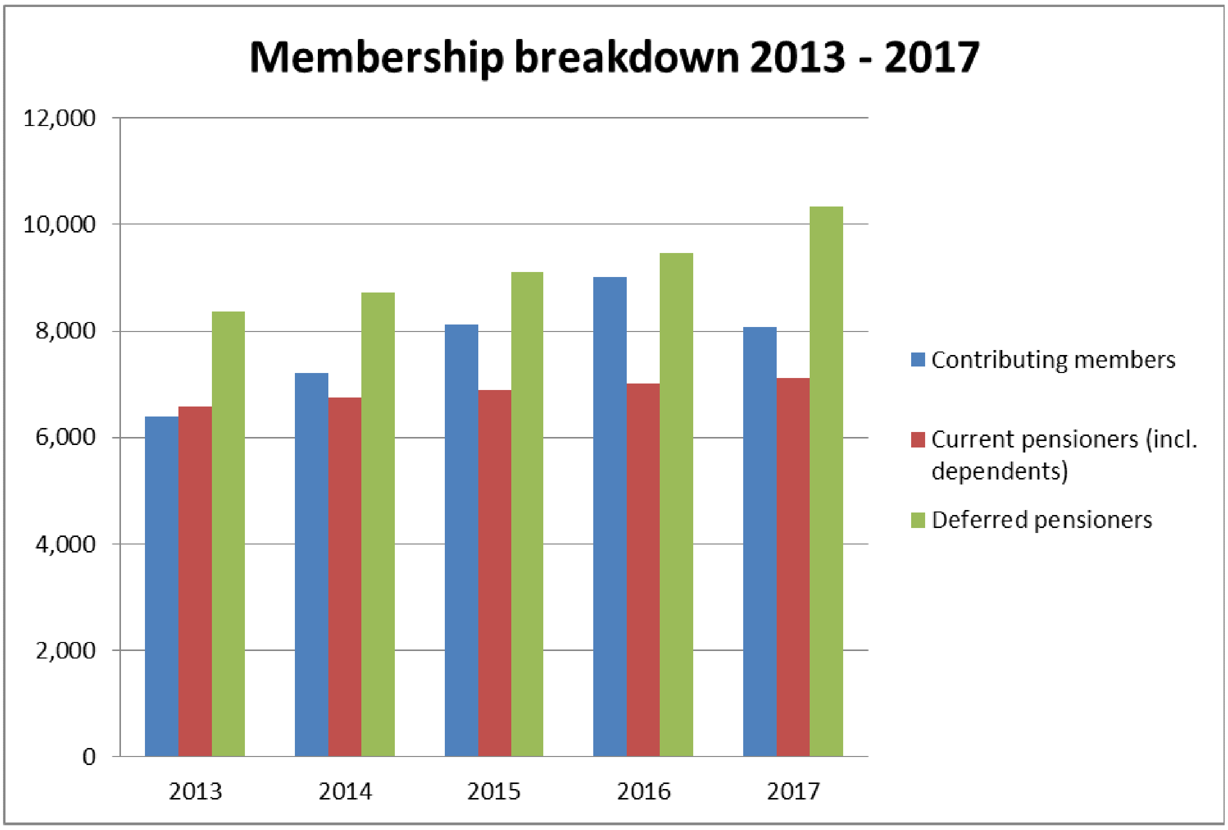
Membership statistics 2013 – 2017

Membership Numbers as at 31 March	2013	2014	2015	2016	2017
Contributing members	6,381	7,203	8,117	9,021	8,069
Current pensioners (incl. dependents)	6,574	6,746	6,887	7,011	7,104
Deferred pensioners	8,353	8,730	9,110	9,458	10,343
Total	**21,308**	**22,679**	**24,114**	**25,490**	**25,516**

This year the membership trend continues to increase but by a small margin. It has been evident in recent years that pensioner and deferred membership still continues to increase in line with historic rates; active membership has seen a decline for the first time in few years which may be a result of the recent redundancy exercise carried out by the council. Active membership could potentially change after the submission of the end of year queries for 2016-2017 as it may pick up any new joiners that have not previously been notified to LPP.

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 until this year.

The next key date for auto enrolment will be 1st October 2016 when all members who opted out prior to the original staging date will be auto-enrolled. We are likely to again see active membership spike as more people join and remain in the Fund.

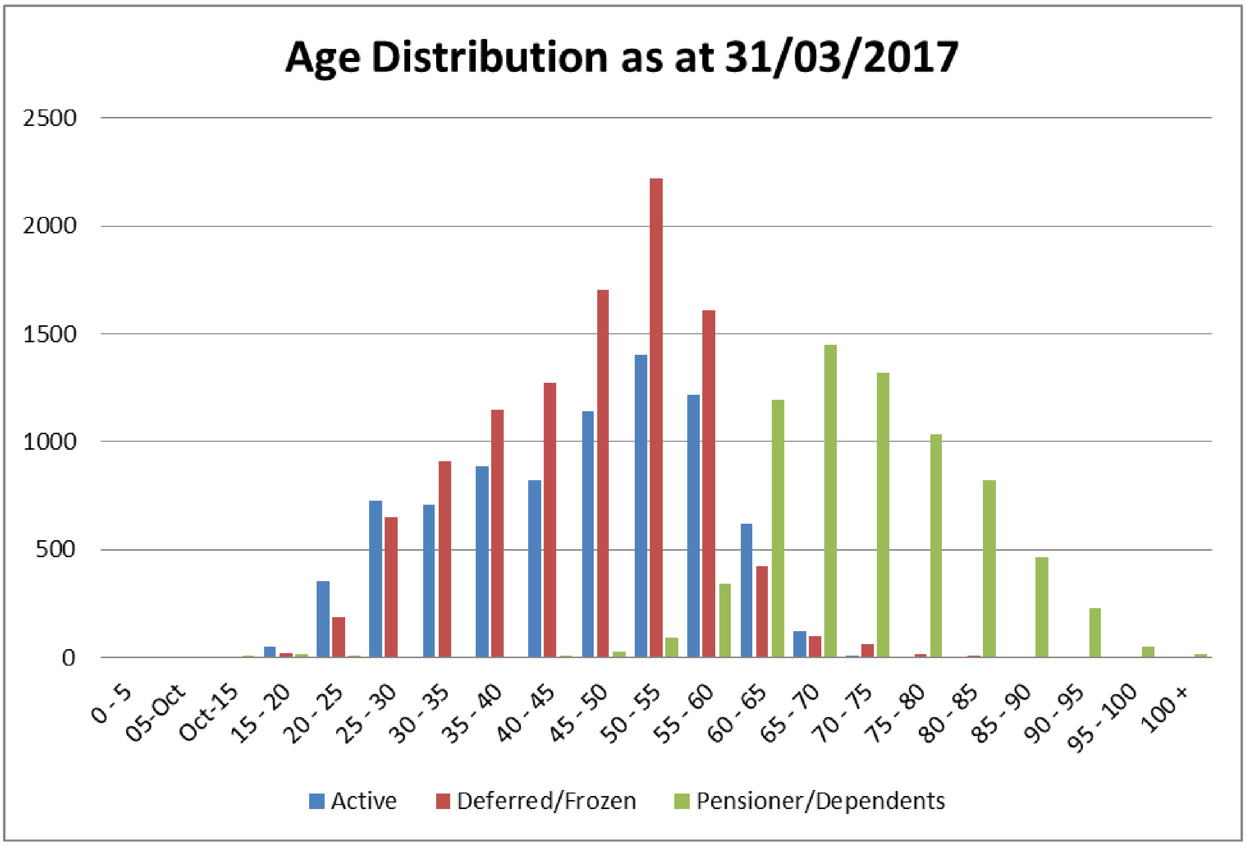


The Fund's communication campaign has been a boost to membership in recent years. The Committee recognised a decline in active membership and launched a communications campaign with the aim of improving membership levels, especially amongst lower paid and part time staff, where take-up is lowest. However this year contributing members have declined which may be due to the ending of contracting out which saw members being opted back into the State Pension Scheme. The result of this was that reduced National Insurance rates were withdrawn for scheme members and may have made the scheme less attractive to potential new joiners. Scheme members do still benefit from tax relief on their contributions.

Whilst the active membership has seen a decline, 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 re-invests its investment income, covering pension payments from employer and employee contributions and has maintained positive cash flow. However, if the increases in pensioner and deferred members continue to outpace active membership, the Fund will need to rely on investment income to fund benefit payments. This would have an impact on the Fund's investment strategy and deficit recovery.

Membership Age Profile at 31 March 2017



As at 31 March 2017

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	53	351	727	707	889	824	1140	1402
Deferred and Frozen Members	0	0	0	22	189	652	908	1148	1272	1705	2219
Pensioner Members (incl. dependents)	0	3	11	18	11	2	1	5	8	27	94

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	1221	618	125	12	0	0	0	0	0	0	**8069**
Deferred and Frozen Members	1612	425	97	63	17	10	3	1	0	0	**10343**
Pensioner Members (incl. dependents)	342	1195	1451	1317	1033	820	468	229	51	18	**7104**

As at 31 March 2016

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	86	543	893	856	985	980	1334	1466
Deferred and Frozen Members	0	0	0	13	149	501	850	1063	1178	1730	2048
Pensioner Members (incl. dependents)	0	5	11	17	11	5	0	7	7	45	102

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	1223	547	100	8	0	0	0	0	0	0	**9021**
Deferred and Frozen Members	1418	341	89	49	17	8	3	1	0	0	**9458**
Pensioner Members (incl. dependents)	380	1202	1507	1189	1013	791	457	192	53	17	**7011**

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:

- Boleyn Trust
- Brampton Manor Academy
- Chobham Academy
- East London Arts and Music
- East London Science School
- Education Links Free School (Community Links Academy Trust)
- EKO Trust
- Forest Gate
- Langdon Academy
- Learning in Harmony MAT
- London Academy of Excellence
- London Design & Engineering
- Leading Learning Trust
- Newco
- Newham College of Further Education
- NewVic
- Oasis Academy
- Our Lady of Grace MAT
- School 21
- Stratford Academy

Admitted bodies:

- Active Newham
- Better Together
- Birkin Services
- Carpenters TMO
- Churchill
- Community Links
- Change Grow Live
- FM Conway
- London Network for Pest Control
- MITIE
- Newham Partnership Working
- Pabulum
- Public Realm
- Olive Dining
- RM Education
- Stratford Renaissance Partnership Ltd
- St. Angela's
- Wilson Jones

Analysis of employers in the Fund

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled body	20	0	20
Admitted body	13	6	19
Total	**34**	**6**	**40**

The rates of contribution paid by employers are determined by the Fund's actuary, in line with LGPS regulations. The rates paid in 2015/16 were set by the 2013 valuation and set the employer contribution rates for 2014/15 – 2016/17.

Total Employer Contributions 2013-2017

By year	2013	2014	2015	2016	2017
Employer contributions (£m)	36.8	39.0	44.8	45.4	45.2

The total of employer contributions decreased by 0.4% from 2016 to 2017. A breakdown of contributions by employer is included in the notes of the accounts. Most contributions were received by employers in a timely manners and interest was charged on a few late payments. The total amount of interest charged was £106,679 in line with the Admission Policy.

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 63.

Budget 2016/17

The Pension Fund Annual Budget for 2016/17 and a budget forecast for 2017/18 in accordance with Regulation 34(3) of the Local Government Pension Scheme.

Pension Fund Budget	Actual 2016/17 £000	Budget 2017/18 £000	Budget 2018/19 £000	Budget 2019/20 £000
Contributions Receivable				
Members	(11,900)	(12,140)	(12,140)	(12,140)
Employers	(45,150)	(44,860)	(44,570)	(44,280)
Transfers In	(3,350)	(3,412)	(3,474)	(3,536)
Benefits Payable				
Pensions	40,260	41,833	43,406	44,979
Retirement Benefit Lump Sums	7,450	7,950	8,450	8,950
Death Benefits	1,470	1,470	1,470	1,470
Transfer Out	7,340	7,340	7,340	7,340
Administration *	390	490	590	690
Oversight and Governance **	490	495	500	505
Dealing with Members	**(3,000)**	**(834)**	**1,572**	**3,978**
Return on Investments				
Investment Income	(16,600)	(22,641)	(23,144)	(23,648)
Investment Expenses ***	3,700	5,873	5,873	5,873
Taxes on Income	(180)	(320)	(320)	(320)
Total Budget (surplus)	**(16,080)**	**(17,922)**	**(16,019)**	**(14,117)**
* Incl. Local Pension Board	55	55	55	55

** Increase in income due to increased investment in new asset classes

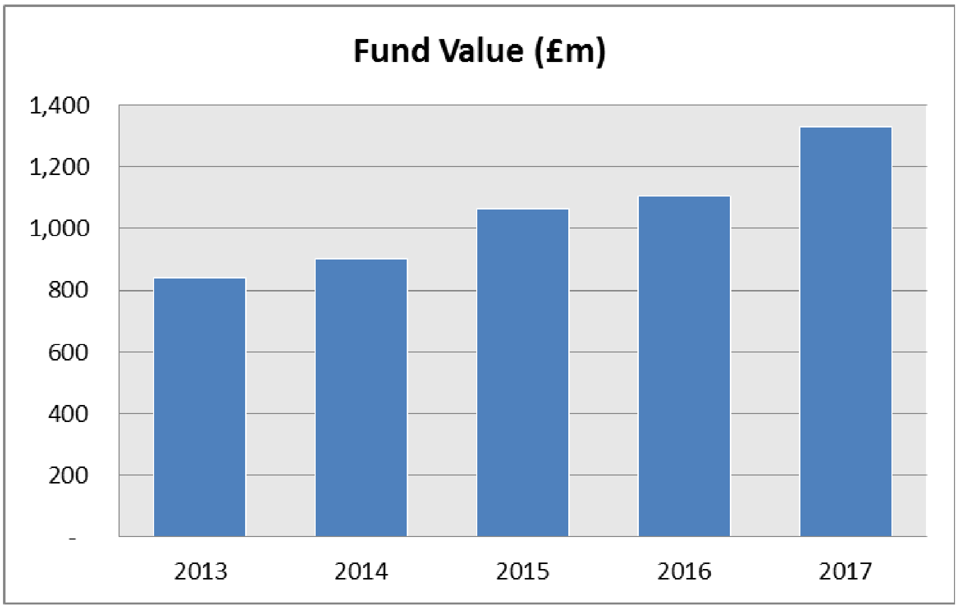
*** Increase in expenses relates to new fees expected to be incurred from the new investments.

Financial Performance

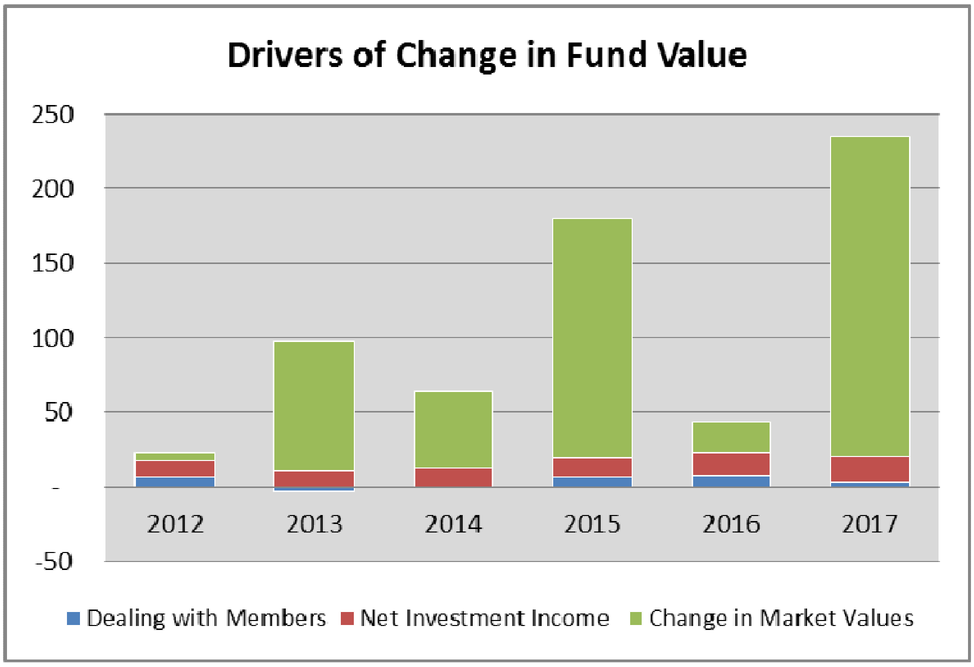
Change in Market Value of the Fund

Overall, the Fund's investment asset value has increased by £214m to £1.335 billion during the year. The Fund maintained positive cash inflow from net dealings with members.

The increase in the value of the Fund's investment assets continued to grow during 2016/17 increasing by 20.8% (2016: 4%) to £1.335 billion during the year. Moreover, the main driver of performance was the rise in the market value of the Fund investments by £214m.

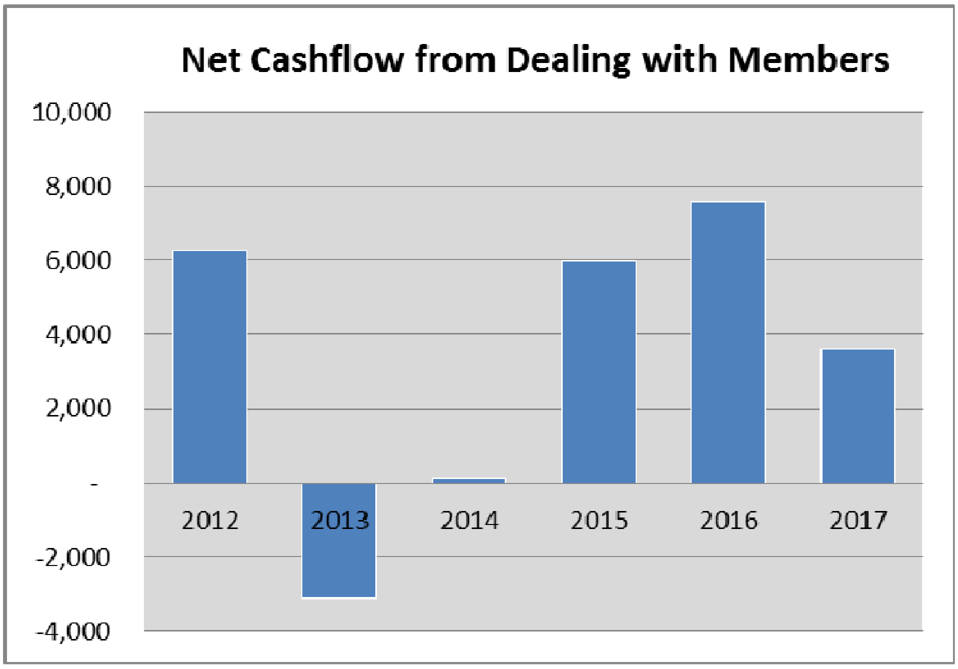


The Fund received net investment income of £17m. As shown in the chart below the three main components have contributed to the Fund's value since 2012/13. The key driver has been the change in market value of investments.



Cash flow from dealing with members

The chart below represents the Fund and continued to remain in a positive cash flow position from dealing with members in 2016/17.



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.

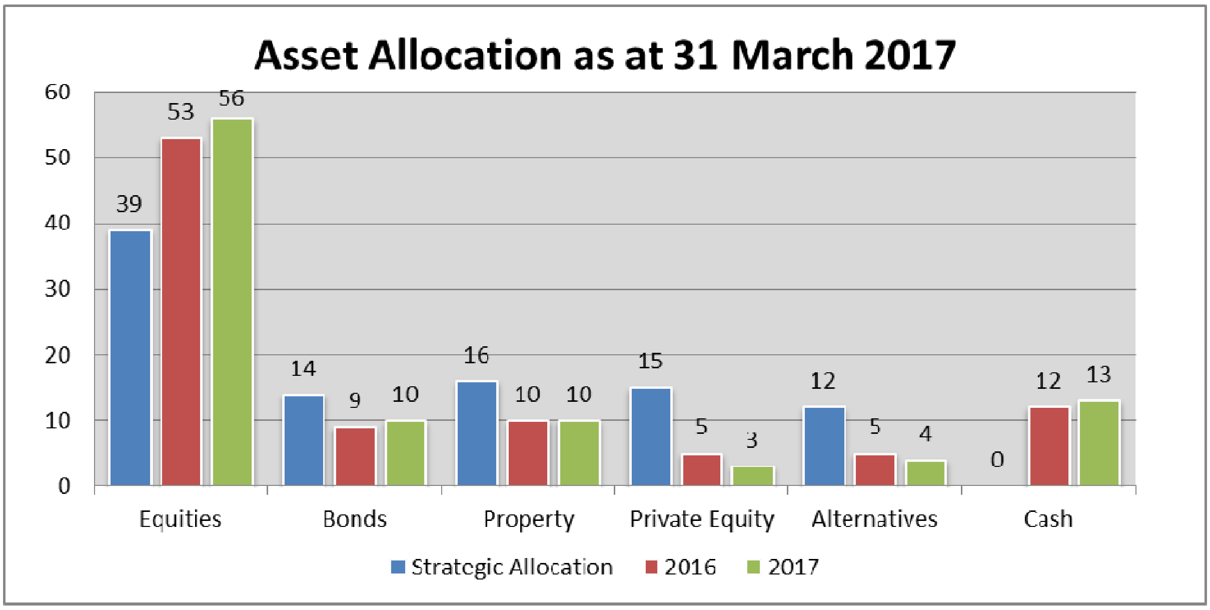
Investment Performance

The Fund's invested assets closed the year valued at £1.335 billion, the highest ever, continuing to improve from the previous year (2016: £1.105 billion) an increase of 20.8%. Overall, the Fund performed well 4.2% against the scheme benchmark of 3.9% achieving 0.3% more. High returns were achieved from the major asset classes from Equities – active and passive, providing returns of 29.63% and 27.66%. Private Equity also generated high returns of 17.03%.

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.

The graph below shows the strategic asset allocation for 2016/17 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 cash allocations were high as the In-house portfolio has been put on hold and the liquid cash being invested into money market funds, local authorities and achieving better interest rates and returns.

The new Strategic Asset Allocation was agreed and reflected in 2016/17 Investment Strategy Statement (ISS) and a revised Funding Strategy Statement (FSS). Compliance with the ISS is monitored regularly and reported quarterly to the 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 ISS allows.

Analysis of fund assets at the reporting date

	UK £m	Non-UK £m	Total £m
Equities	189	668	857
Bond pooled investment vehicle	0	110	110
Alternatives	98	96	194
Cash and cash equivalents	89	78	167
Total	**376**	**952**	**1,328**

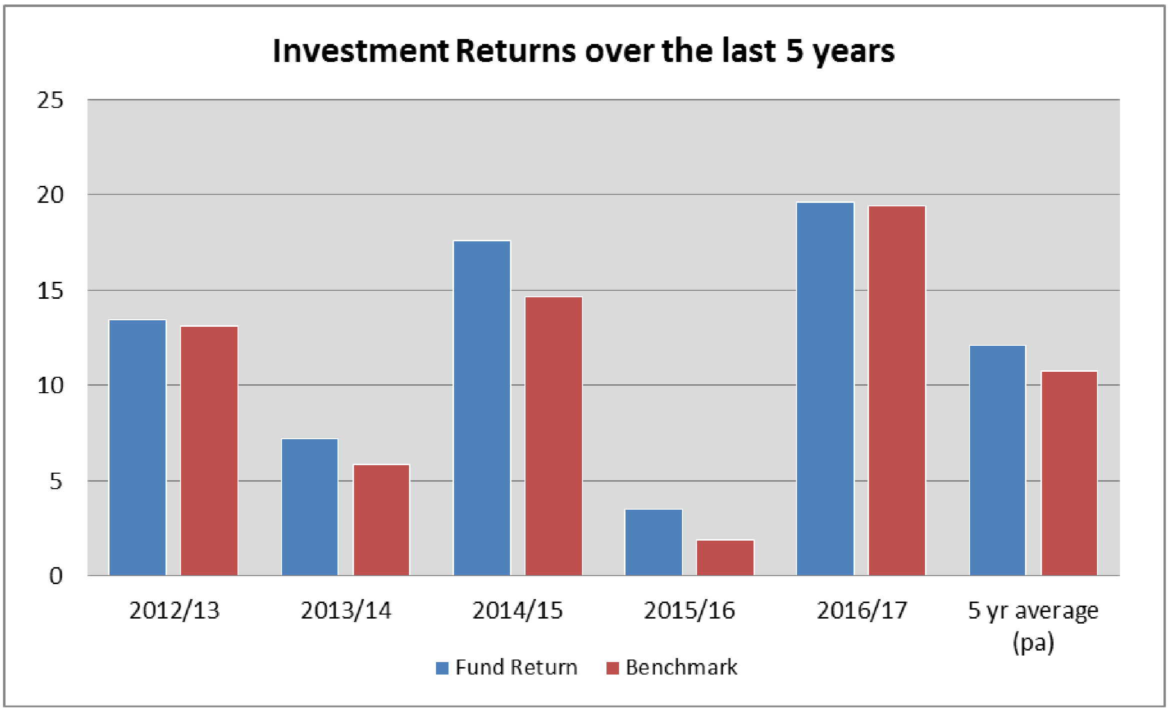
Analysis of investment income accrued during the reporting period

	UK £m	Non-UK £m	Total £m
Equities	1.9	6.7	8.6
Bond pooled investment vehicle	0	4.0	4.0
Alternatives	0.2	2.7	2.9
Cash and cash equivalents	0.3	0.8	1.1
Total	**2.4**	**14.2**	**16.6**

Investment Performance

Overall, the Fund's investments generated a return of 4.2% against a benchmark of 3.9%. The Fund has been ahead of benchmark for the last 3 years and is ahead over the 3 year period, with annualised returns of 13.36% against a benchmark of 11.75%. 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 5.4% per annum (in market value terms) over the three year period from the Fund's 2016 valuation. Investment returns have been better than assumed at the 2016 triennial valuation exceeding the assumption used in the 2016 valuation and leaving the Fund in a strong position for the 2019 valuation. More information on the Fund's triennial valuation can be found in the actuarial statement on page 32.

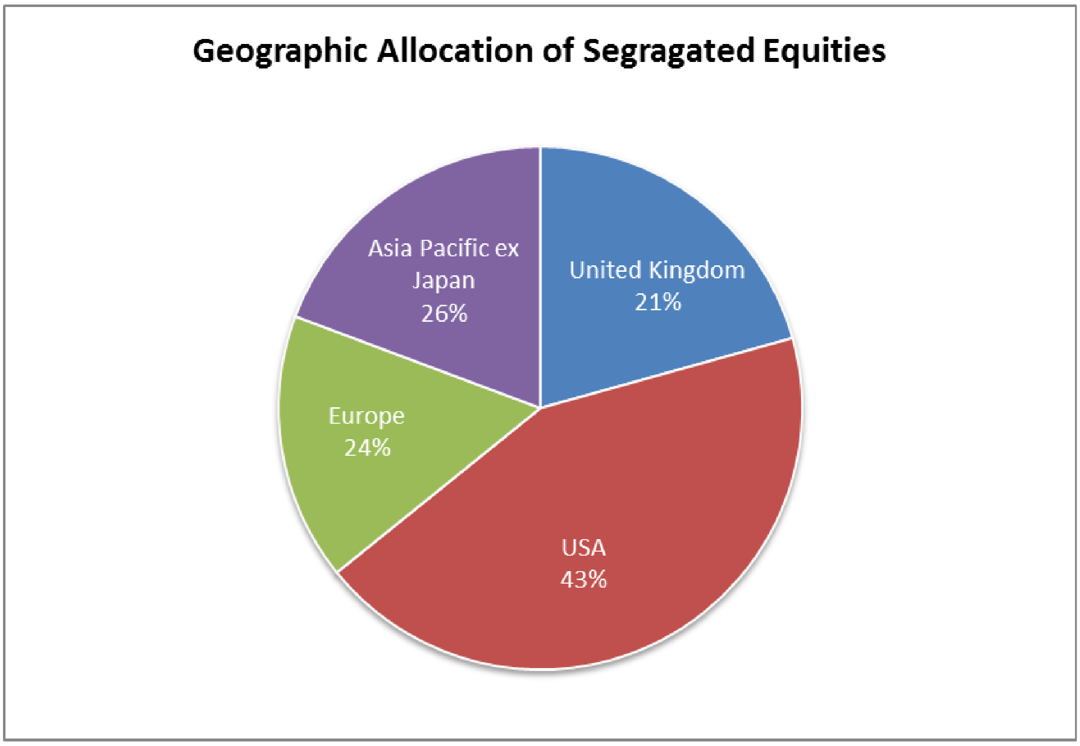
Positive returns for the year were generated on majority of the asset classes other than equities, bonds and property. The strongest returns were mainly from equity and private equity.

Fixed Income

The Fund's fixed income allocation is divided across an actively managed global fund (£105.4m). The fixed income mandate produced positive returns with the portfolio being -3.75% vs its benchmark of 5%.

Equities

The Fund has a significant strategic allocation to equities (63%) which was intended to drive the growth of the portfolio. Both of the Fund's equities performed well through the year, although they struggled to meet their benchmarks. However, over the three and five-year period, the active mandate has consistently exceeded the benchmark.



During 2016/17, the Fund's segregated equities have a large overweight in US equities, with similar other significant allocations in the United Kingdom, Asia Pacific and Europe.

The Fund's passive unit trust equities are allocated across four regional funds – UK (21%), Asia Pacific (26%), US (43%) and Europe (24%). The passive holdings generated returns of 27.66% for the year broadly in line with the benchmark.

Property

The Fund's property pooled investment portfolio resulted in negative returns of 3.54% vs its benchmark of 4.47%. The portfolio is also behind the benchmark over the three and five year periods.

The Fund's property manager was put on care and maintenance basis and was put back on an active basis in March 2017.

Private Equity & Infrastructure

The private equity portfolio generated outstanding returns of 17.03% against a benchmark of 7.16% over the year and remains ahead over the three year period with returns of 17.45% p.a. vs benchmark of 5.88%.

The Fund's infrastructure holding accounted for 5% of the investment portfolio, was sold in August 2016, the proceeds of which will be used for reinvestment in local infrastructure projects.

Diversified Alternatives

The diversified alternatives portfolio is made up of a range of asset types, including hedge funds, high yield bonds, private equity, private real estate, catastrophe risk, senior loans, frontier equity and emerging market debt. The portfolio generated returns of 8.83% vs its benchmark of 4.65%.

The Fund has appointed a leading diversified managed account platform provider who has experience with LGPS. This will form part of the diversification strategy where the Fund will seek to divest from the equities portfolios.

Investment Review 2016/17 – Barnett Waddingham

Barnett Waddingham advises the Committee on the Fund's strategic asset allocation and assist in the monitoring of the investment managers. The purpose of this report is to review the economic environment over the 12 months to 31 March 2017, as well as to analyse how the Fund's investment managers performed over the period. The focus below has been on investments that have been held over the entire year under review. Performance numbers have been sourced from Northern Trust. Over the coming months the investment strategy is being transitioned to the strategy arising from the investment strategy review.

Economic Environment

Unexpected populist votes dominated the economic backdrop over the 12 months to 31 March 2017. The UK's historic referendum at the end of June 2016 regarding the membership of the European Union (EU) resulted in a majority vote to 'Leave', to the surprise of many economic commentators and investors. Then, in November 2016, Donald Trump surprised markets by winning the US presidential election.

Despite neither vote being expected by markets, the market reactions to both results were much more subdued than many forecasts had suggested. In the case of the UK's 'Leave' vote, most of the impact was absorbed by depreciating sterling, which fell from US$1.48 to US$1.25 over the nine months following the referendum. Global yields also fell in the wake of the vote as investors rushed both to safety and to profit from an expected expansion of monetary policy. On 29 March 2017, Theresa May triggered Article 50, beginning the process of UK leaving the EU. The announcement had been heavily advertised over the preceding months and so, again, markets barely moved.

Similarly, the immediate market reaction following the US election was muted, with equity markets quickly recovering from an initial sell-off. Subsequently, Trump's promises of fiscal stimulus and an extensive infrastructure programme appeared to generate optimism in the markets, as the Dow Jones Industrial Average closed 2016 near 20,000 and the US dollar strengthened further. However, the importance of Trump's role in these market movements can be overstated as upward trends in US equities and economic data had begun before the election. The Inauguration of Trump as US President took place on 20 January and the new president celebrated the occasion with a number of executive orders. However, on 25 March his failure to pass his first legislation, replacing "Obamacare", led to market "wobble" as markets began to worry that Republican tax plans would also suffer delays and setbacks on their journey through congress.

Political uncertainty continued in Europe at the year-end as Italian Prime Minister Matteo Renzi resigned as Prime Minister following his defeat in the referendum on constitutional reform on 4 December. Dutch elections passed without too much incident as Mark Rutte defeated the far-right leader Geert Wilders. The attention now turns to the upcoming French and German elections.

Against these political backdrops, the 12 months to 31 March 2017 saw divergence of central bank policies between regions:

- In March 2016, the European Central Bank (ECB) cut its main lending rate to 0.0% and cut deposit rates to -0.4% extending its quantitative easing (QE) programme. At the same time, the ECB increased the rate of easing from €60bn to €80bn per month and expanded the programme to include high-quality corporate bonds from June 2016. In their December 2016 meeting, the ECB extended the QE programme until December 2017 but cut bond purchases from €80bn back to €60bn per month, leaving the total amount unchanged.

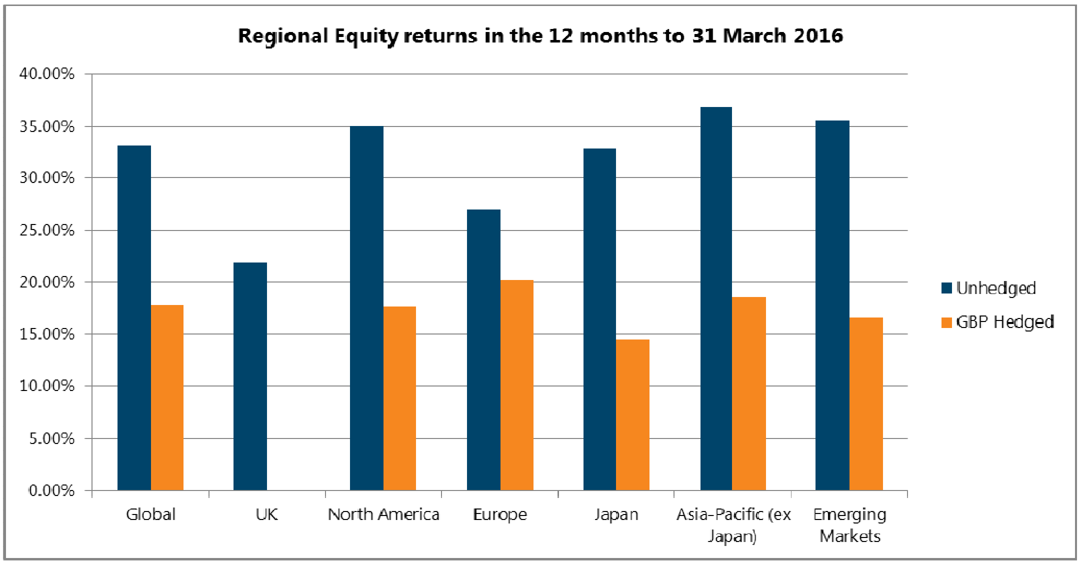
• In reaction to the increased uncertainty around the nature of the UK's divorce from the EU, the Bank of England (BoE) made a number of announcements in the third quarter of 2016. In order to maintain liquidity in the banking sector, liquidity auctions were announced to take place weekly rather than reverting to monthly auctions as was the norm pre-referendum. Mark Carney also announced that the capital buffer requirements of UK banks would be reduced, releasing £150bn of potential lending from banks. At its August 2016 meeting, the BoE cut the base rate of interest to 0.25%, and launched a further round of quantitative easing, planning £60bn of gilt purchases and an additional £10bn of UK corporate bonds purchases.

• Concerns about China, the EU referendum in the UK and slow global growth led the Federal Reserve (Fed) to keep US interest rates at 0.5% until late 2016. In December 2016, as domestic economic indicators remained strong, the Fed increased the interest rates by 0.25%. Due to the modest size of the rate hike and the Fed's communication with the market, the majority of the impact had been priced into markets ahead of the announcement and the immediate reaction was muted. In March 2017, Fed continued to tighten monetary policy by raising interest rates to 1.00% and restated its prediction that two further rate rises will follow over the course of the course of 2017.

Equities

Overall, global equities performed strongly over the year to 31 March 2017 generating 17.9% in local currency terms. Returns were strong across all geographical regions but with a differential of 7.5% between the best (UK) and worst (Japan) performing regions.
UK equities returned 22.0% over the year to 31 March 2017, assisted primarily by a rebound in commodity markets, dovish monetary policy from the Bank of England and a decline in the value of sterling following the result of the EU referendum.

Indeed the significant weakening of sterling over 2016 led to substantial differences in returns between currency unhedged and currency hedged UK investors in overseas markets, with unhedged investors benefitting.



Legal & General Passive Equity

At the end of the year under review the assets invested with Legal & General were split across four regional index tracking funds. These aim to closely track the performance of the underlying global indices. All of these funds continue to successfully track their respective indices, with strong returns in the 12 months to 31 March 2017.

Legal & General Fund	Benchmark Allocation %	1 Year %	5 Years % pa
UK Equity Index *FTSE All Share GBP*	21	22.4 *22.0*	9.9 *9.7*
North America Equity Index *FT: AWI North America*	44	29.3 *29.2*	17.5 *17.1*
Europe (ex UK) Equity Index *FT: Developed Europe ex UK*	17	28.0 *28.3*	12.9 *13.0*
Asia-Pacific (ex Japan) Developed Equity Index *FT: Developed Asia Pac x Jp*	19	37.4 *37.4*	10.1 *10.0*
Total Mandate	**100**	**29.5**	**13.2**

Longview Active Equity

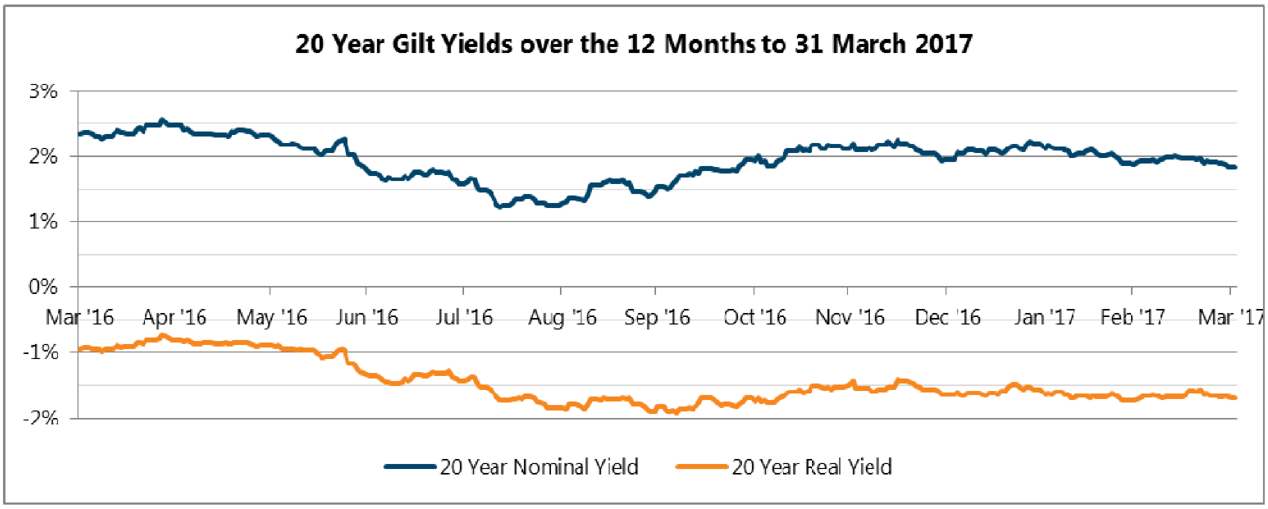
This was the Fund's largest investment at the end of March 2017 - it is actively managed and seeks to generate returns in excess of its benchmark (MSCI World). Longview delivered a return of 29.6% over the year to 31 March 2017 but this was an underperformance of 2.3% p.a. against the benchmark. However, the fund remains 3.2% p.a. ahead of its benchmark since inception. Over half the fund was invested in North American Equities, with outperformance over the long term predominantly driven by stock selection.

Bonds

Bond markets also produced positive absolute returns over the year to 31 March 2017, with UK index-linked bonds performing particularly strongly as gilt yields fell and inflation expectations rose.

Fixed interest government securities (all stocks) returned 6.6% over the year to 31 March 2017. Credit spreads tightened with corporate bonds (all stocks) returning 10.7%. Returns on the lower-rated, high yield bond class were stronger still.

Long-dated bonds generally outperformed shorter-dated counterparts as long-dated gilt yields fell further.



Aberdeen Bonds

Broadly 14% of the Fund's assets were invested in a global actively-managed bond portfolio with Aberdeen Asset Management at 31 March 2017. Its objective is to outperform a global bond index by 2% to 3% p.a. gross of fees, over rolling 5 year periods. The fund underperformed this index by 1.3% in the 12 months to the end of March as well as underperforming over the longer term. The holding in this fund is expected to reduce as the Fund moves to its new investment allocation over the coming year.

Alternatives

- UK property funds struggled following the referendum with uncertainty weighing on property valuations. The third quarter of 2016 saw the first negative quarter for the IPD sectors since June 2009. Overall, the index was up 3.9% over the 12 months to 31 2017; significantly lower than the 11.7% growth seen previous 12 months.
- On the whole hedge funds struggled with the HFRX Global Hedge Fund GBP Index returning -8%, however, the hedge fund universe is diverse and therefore there will be substantial disparity between returns of different funds.
- Over the period Brent Crude Oil prices recovered somewhat, though price continues to be volatile

CBRE Property

- The fund's assets are invested in UK and global property funds, and are fully currency hedged. It seeks to outperform the AREF/IPD UK QPFI All Balanced Property Fund Index by 0.75% p.a. over rolling three year periods. In light of the position of the mandate, the fund returned 3.5% over 12 months and 8.9% p.a. over three years, against benchmark returns of 4.5% and 11.0% p.a. respectively. Part of this shortfall can be attributed to the level of the cash holding.
- The Committee reviewed the way in which the property portfolio is structured and has moved the mandate back to being actively managed with effect from 31 March 2017.

Morgan Stanley Alternatives

- The Fund also invests assets with Morgan Stanley across a wide range of alternative asset classes, including private markets, real estate, hedge funds and senior loans, diversifying the Fund's investment strategy, providing alternate sources of return.
- The Morgan Stanley Alternatives portfolio produced a return of 8.8% over the 12 months to 31 March 2017, exceeding its benchmark return of 4.2%. The two largest positions at the year-end were in equities and hedge funds. Returns over a five year period were 4.1% p.a. against the benchmark of 4.8% pa.
- The investment strategy review concluded that the Morgan Stanley approach did not provide the level of transparency sought by the Committee. Furthermore, in an effort to align the alternatives holdings with a framework that was more closely aligned with the Governments pooling proposals alternative ways of structuring this holding have been agreed. As a result Morgan Stanley are managing the portfolio on a care and maintenance basis to avoid incurring additional costs associated with trading positions which may not be required in future.

Arcus Infrastructure

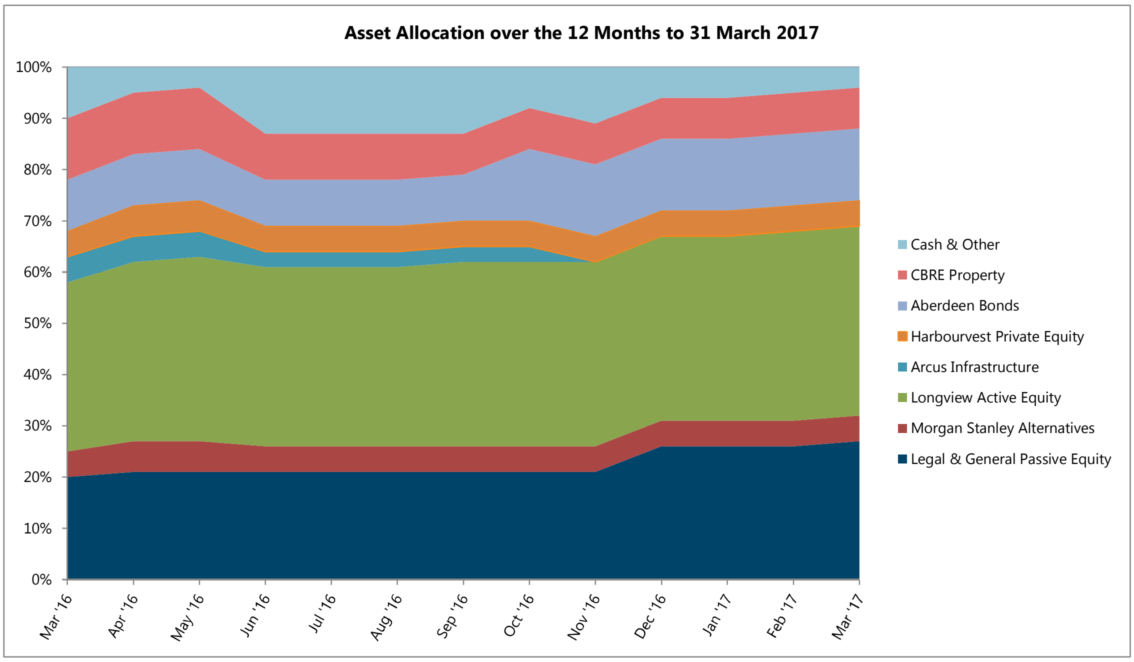
- The Arcus Infrastructure holding served to diversify the Fund's investment strategy as well as to capture an illiquidity premium. Following an offer to purchase the Fund's units these were disposed of during the year.

Harbourvest Private Equity

Harbourvest seek to generate returns on the Fund's assets by investing in private equity funds that invest in unlisted companies. Performance has been strong both in absolute terms and relative to its benchmark, returning 17.0% over 12 months and 10.1% p.a. since inception, against benchmark returns of 7.2% and 7.1% p.a. respectively.

Asset allocation

The change in allocation over the period is shown in the chart below:



Actuarial Statement 2016/17

Introduction

The last full triennial valuation of the London Borough of Newham Pension Fund was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

2016 valuation results

The 2016 valuation certified a primary rate of 14.5% of pensionable pay. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In addition, further “secondary” contributions were required in order to pay off the Fund’s deficit by no later than 31 March 2036. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2016, over the three years to 31 March 2020 was estimated to be as follows:

Secondary contributions	2017/18	2018/19	2019/20
Average as a % of payroll	5.6%	5.5%	5.3%
Total monetary amounts	£10.2m	£10.2m	£10.2m

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period, details of which can be found in the formal report on the actuarial valuation dated March 2017.

Contribution rates

The contribution 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 2016 for valuation purposes was £1,098m which represented 85% 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 2016 are summarised below:

Assumption	31 March 2016
Discount rate	5.4% p.a.
Pension increases	2.4% p.a.
Salary increases	2.4% p.a. until 31 March 2020 and 3.9% p.a. thereafter
Mortality	Members - S2PA tables with a multiplier of 100% for males and 95% for females and projected improvements in line with the 2015 CMI model allowing for a long term rate of improvement of 1.5% p.a. Dependants - 120% of the S2DFA tables for females and 145% of the S2PMA tables for males and projected improvements in line with the 2015 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 2016 valuation

Since March 2016, investment returns have been better than assumed at the 2016 triennial valuation. The liabilities will have increased however 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 2016.

The next actuarial valuation is due as at 31 March 2019 and the resulting contribution rates required by the employers will take effect from 1 April 2020. We will continue to monitor the financial position of the Fund on a regular basis.

GRAEME MUIR 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 LPP

On time processing in all categories of work has again exceeded 97% with an overall percentage of 99.86%. LPP also continue to process cases ahead of agreed contractual timescale with in excess of 32% of cases are being completed in advance of contractual timescales.

At the time of writing this report Annual Benefit Statements (ABS) have not been issued to members for this year. Deferred members ABS are due to go out by the 31st May 2017 and Active members ABS are due to go out by the 31st August 2017. LPP are on target to meet both deadlines.

Customer satisfaction levels continue to be excellent. Only 1 complaint was received during the year.

James Wilday
Acting Head of Client Delivery

LGPS Regulatory Update

1 GAD Factors-Late retirement factors
Following the Spring 2016 Budget a new release of Government Actuary Department factors were released, the biggest change related to actuarial increases paid to members working beyond state pension age, which took effect to members still employed working past state pension age on 4th January 2017. All individuals affected by this change were informed prior to this change taking effect.

2 Brewster Ruling
A recent court ruling for a widow of a Local Government employee in the Northern Ireland Local Government Pension Scheme was made on the treatment of nomination forms for payments of dependant partner pensions has found in the members favour. We therefore anticipate that a minor change to the LGPS regulations will follow to cover cases where a member left before April 2014 to allow the Authority to have discretion to authorise a payment where a clear dependant partner exists - this is covered by the current regulations.

3 Tapered Annual Allowances
With effect from 6 April 2016 the Treasury introduced tapered annual allowance whereby members with taxable earnings in excess of £150,000 lose £1 of Annual Allowance for every £2 earned in excess of £150,000. All individuals affected by this based on their earnings within the LGPS have been advised of this change and will be provided with individual statements in September. However, the statements will only be based on earnings within the LGPS fund and would not be able to include any further taxable earnings the members may have. The statements will advise the members of this and will be advised to seek independent financial advice on any further earnings they may have.

4 Freedom and Choice
Following the Governments introduction of Freedom and Choice, the Government confirmed that they intended to produce amended LGPS regulations to build this into the options available to members on the use of AVC's. These amendment regulations are still outstanding, but still expected.

5 Exit payments
The Government have announced that they intend to introduce both a cap on all exit payments and a recovery of exit payments where a member who leaves a public sector post on a salary in excess of £80,000 is re-employed within 1 year.

The amendment regulations needed to implement these changes have not yet been produced but again are still expected, a key question will be how pension strain cost count towards the exit payment.

6 Academy's
The Government announced a review of the best home for the growing number of academies.as many Authorities are finding that the growing number of employers to deal with is an increasing challenge. No findings or recommendation have been released.

7 FE College review
A further and Higher education review has been carried out recently with some college's merging, closing or changing names and pension liabilities transferring. It is crucial for the Pension costs to be considered early in the discussions of potential changes.

8 Pension Dashboard
The Government has announced the intention to produce a single website to access details of all pension benefits available for an individual. The plan is for Defined Contributions schemes to go live in 2019 with the Public Sector and other Defined Benefit schemes following later.

9 Auto enrolment/re-enrolment
Automatic Enrolment has now been running since October 2012, with many Local Government employers now reaching their 3 year anniversary. At this point any member who has opted out of the pension scheme and is aged between 22 and State Pension age is required to be brought back into the pension scheme (they can still choose to opt out but need to make that decision once they have the details of the pension scheme from the pension provider).

Some employers who have been set up since April 2012 (Academies) are still reaching their initial staging date.

In addition any employer, who took advantage of the transitional arrangements to delay, bringing in members who had previously opted out, will need to enrol such members on 1 October 2017. The LPP are working with employers to assist them at any stage they have reached.

10 Judges and Firefighters decision
With the introduction for the new public sector pension schemes (moving from Final salary to Career Average) in 2014 for the LGPS and 2015 for all the other public sector schemes, 2 appeals were lodged against the 10 year protection by the

Judiciary and the Firefighters scheme. Both these cases were heard early in 2017 with the Judiciary winning their case and the firefighters losing their case. However the Government have announced they intend to appeal the judiciary decision and the Fire Brigade Union equally intending to appeal their case. It is not clear whether either decision could lead to any amendment to the LGPS for members who would reach 65 before 31 March 2022.

11 QROPS

The Government have announced restrictions and a 25% tax charge on transferring pension benefits abroad with effect from the March 2017 budget. We have amended our processes to identify any such requests and a new disclaimer form has been prepared for such cases.

Workflow summary

The table below shows a summary of the total cases received and completed for the year 1 April 2016 to 31 March 2017. Further graphical representation of this information is shown on the following pages.

Description	Received	Completed	On Time	On Time %
Joiners	570	570	570	100
Transfers In/Out	725	764	764	100
Retirements/Deaths	828	765	765	100
Deferred/Refunds	1993	1974	1974	100
Estimates	1206	1206	1206	100
Other - contractual	4854	4834	4820	99.71
Totals	**10176**	**10113**	**10099**	**99.86**

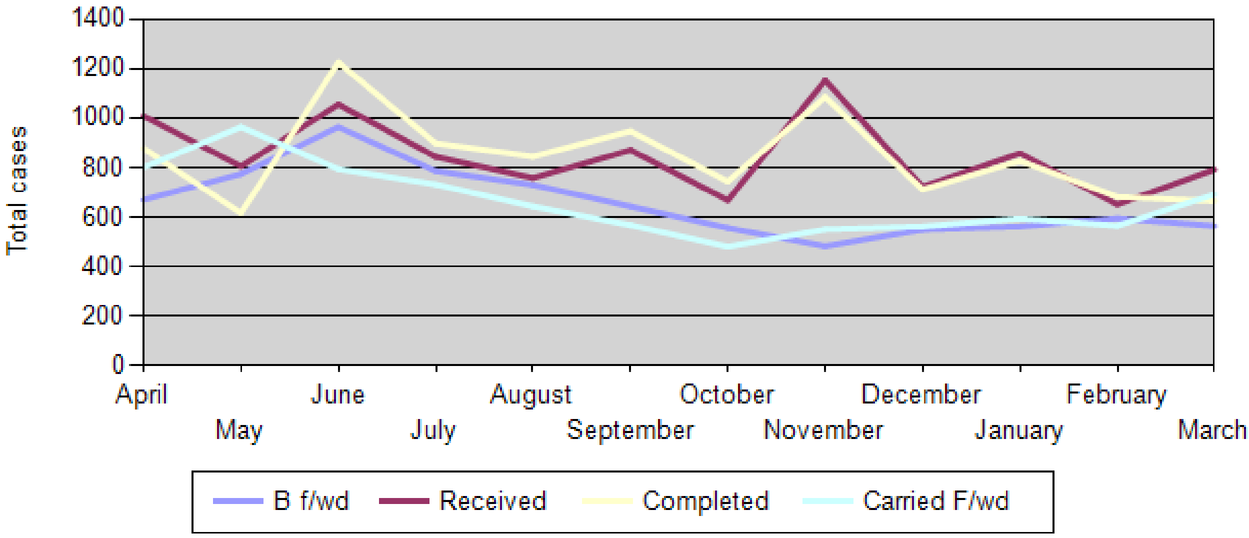
Cases completed

Of the 10,099 cases completed on time 3,289 were completed early as detailed below

Description	1 Day Early	2 Days Early	3 Days Early	4+ Days Early
Joiners	12	251	39	60
Transfers In/Out	37	2	0	176
Retirement/Deaths	60	12	9	65
Deferred/Refunds	77	25	15	397
Estimates	108	8	12	206
Other - contractual	564	45	25	1084
Totals	**858**	**343**	**100**	**1988**

Workload History

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



Dispute resolution procedure

There were 9 Dispute resolutions received during the period 1st April 2016 to 31st March 2017. 6 of the 9 cases were in relation to potential ill health retirement cases, 1 was in respect of an application for early payment of benefits on compassionate grounds and 2 were on actual transfer out of pension benefits to a personal pension scheme. Only 1 appeal was successful, 5 were rejected and there are 3 cases still pending.

Where a member is unsure of their benefit entitlement or has problems with their benefits, the Local Pensions Partnership (LPP) 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 LPP by either phone on 020 7369 6118 or by writing to Local Pensions Partnership, 2nd Floor, and 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 Financial Sustainability.
- 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 Financial Sustainability

The Director of Financial Sustainability 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 2017.

In preparing the Pension Fund Accounts, the Director of Financial Sustainability 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 Financial Sustainability 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 2016, I certify that the Accounts set out on pages 40 to 66 of the Annual Pension Report present a true and fair view of the financial position of the Fund at 31st March 2017 and its income and expenditure for the year ended 31st March 2017.

Date: **Signature:**

D Hindson CPFA
Director of Financial Sustainability

2016/17 PENSION FUND ACCOUNTS

2015/16 £000		Notes	2016/17 £000
	Dealings with members, employers' and others directly involved in the Fund:		
57,099	Contributions	7	57,055
3,288	Transfers in from other pension funds	8	3,346
60,387			**60,401**
(49,254)	Benefits	9	(49,176)
(3,588)	Payments to and on account of leavers	10	(7,633)
(52,842)			**(56,809)**
7,545	**Net additions from dealing with members**		**3,592**
(5,205)	Management expenses	11	(4,413)
	Returns on investments		
15,537	Investment income	12	16,597
(111)	Taxes on income (irrecoverable withholding tax)	13	(238)
20,834	Profit and losses on disposal of investments and changes in the market value of investments	14a	214,094
36,260	Net return on investments		**230,453**
38,600	**Net increase in the net assets available for benefits during the year**		**229,632**
1,066,891	**Opening net assets of the fund**		**1,105,491**
1,105,491	**Closing net assets of the fund**		**1,335,123**

Net Asset Statement

2015/16 £000		Notes	2016/17 £000
878,284	Investment assets	14a	1,163,630
216,697	Cash deposits	14a	164,043
(57)	Investment liabilities	14	-
1,094,924	**Total invested assets**		**1,327,673**
11,351	Current assets	21	8,647
(784)	Current liabilities	22	(1,197)
10,567	**Net current assets**		**7,450**
1,105,491	**Net assets of the fund available to fund benefits at 31 March**		**1,335,123**

NOTES TO THE PENSION FUND

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 Fund's Annual Report 2016/17 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 2016.

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 borough. Teachers, police officers and firefighters are not members as they are included within other national pension schemes.

The Fund is overseen by the Investment and Accounts Committee (the Committee), a committee of the London Borough of Newham and supported by the Local Pension Board.

b) **Governance**

The Authority has delegated management of the Fund to the Committee who decide on the investment policy most suitable to meet the liabilities of the Fund and have ultimate responsibility of the investment policy. The Committee is made up of four Members, each of whom has equal voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Director of Financial Sustainability and seeks advice, where necessary, from the Fund's appointed investment advisors, fund managers and the actuary.

In line with the provision of the Public Service Pension Act 2013 the Authority has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Committee. Two members of the Local Pension Board are active members of the LGPS pension scheme.

c) **Membership**

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

During 2016/17 11 new employers' joined the Fund.

Organisations participating in the 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 40 employer organisations (see Note 19) within the Fund including the Local Authority itself, as detailed below.

Membership	31 March 2016	31 March 2017
Number of employers' with active members	29	40
Number of employees' in scheme		
London Borough of Newham	8,101	6,878
Other employers	920	1,149
Total	**9,021**	**8,027**
Number of pensioners		
London Borough of Newham	6,727	6,826
Other employers'	284	302
Total	**7,011**	**7,128**
Deferred pensioners		
London Borough of Newham	8,670	9,429
Other employers'	788	932
Total	**9,458**	**10,361**

d) **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 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last full valuation of the Fund was at 31 March 2016. Currently, employer contribution rates range from 12% to 26.9% of full pensionable pay. The 2016 valuation has been completed but does not impact the 2016/17 Accounts.

e) **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 Fund's scheme handbook available from http://www.yourpension.org.uk/handr/Newham-Publications.aspx.

f) **Investment Principles**

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Fund. The Committee approved the new Investment Strategy Statement in March 2017 and this is available on the Fund's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

http://www.yourpension.org.uk/handr/Newham-Publications/Newham-Fund-Members.aspx

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

Note 2: Basis of Preparation

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

The accounts 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, nor do they take account of the actuarial present value of promised retirement benefits.

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's 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 2013 (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 to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (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.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

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 (NAS) as an investment asset. 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 NAS as an investment asset.

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 NAS 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. As the Authority is the administering Authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. 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 Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. These are detailed as:

Administrative expenses

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

Oversight and governance costs

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

The costs of obtaining investment advice from external advisors are included in oversight and governance costs.

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.

Where an investment manager’s fee note has not been received by the NAS 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 2016/17 £1,206,932 of fees is based on such estimates (2015/16: £784,170).

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

Net assets statement

g) Financial assets

Financial assets are included in the NAS on a best available pricing basis as at the reporting date. A financial asset is recognised in the NAS 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 NAS have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

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 NAS 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 Fund's 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 NAS (Note 20).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the 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(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2009 permit the Authority to charge administrations costs to the Fund. A proportion of the relevant Authority costs have been charged to the Fund on the basis of actual time spent on Pension Fund business.

Note 4: Critical Judgements in applying accounting policies

Pension fund liability

The Fund's 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 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

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.

The items in the NAS at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £40m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £5.5m, and • a one year increase in assumed life expectancy would increase the liability by approximately £80m.
Private equity/Infrastructure	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2012*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £37.3m. There is a risk that this investment may be under or overstated in the accounts.

Diversified Alternative Fund	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total diversified alternative fund value in the financial statements is £58.5m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £3m.

Note 6: Events after the Reporting Date

There have been no events occurring after the reporting date that would have a material impact upon the Fund Accounts.

Note 7: Contributions Receivable

2015/16 £000	By Category	2016/17 £000
11,660	Employees' contributions	11,901
11,660	**Employees' contributions**	**11,901**
24,145	Normal contributions	24,730
18,882	Deficit recovery contributions	18,959
2,412	Augmentation contributions	1,465
45,439	**Total Employers' contributions**	**45,154**
57,099	**Total**	**57,055**

2015/16 £000	By Authority	2016/17 £000
51,702	Administering Authority	50,700
1,502	Admitted Body	4,492
3,895	Scheduled Body	1,863
57,099	**Total**	**57,055**

Note 8: Transfers in from other Pension Funds

2015/16 £000		2016/17 £000
3,288	Individual transfers	3,346
3,288	**Total**	**3,346**

Note 9: Benefits Payable

By category

2015/16 £000		2016/17 £000
38,683	Pensions	40,256
8,750	Commutation and lump sum retirement benefits	7,447
1,821	Lump sum death benefits	1,473
49,254	**Total**	**49,176**

By authority

2015/16 £000		2016/17 £000
47,210	Administering Authority	46,771
1,593	Scheduled bodies	1,940
451	Admitted bodies	465
49,254	**Total**	**49,176**

Note 10: Payments to and on account of leavers

2015/16 £000		2016/17 £000
(332)	Refunds to members leaving service	(293)
(3,256)	Individual transfers	(7,340)
(3,588)	**Total**	**(7,633)**

Note 11: Management Expenses

2015/16 £000		2016/17 £000
(702)	Administrative costs	(392)
(3,959)	Investment management expenses	(3,584)
(544)	Oversight and governance costs	(437)
(5,205)	**Total**	**(4,413)**

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 14a).

Note 11a: Investment Management Expenses

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

2015/16 £000		2016/17 £000
(3,730)	Management Expenses	(3,284)
(117)	Performance fees	(181)
(112)	Custody fees	(119)
(3,959)	**Total**	**(3,584)**

Note 12: Investment Income

2015/16 £000		2016/17 £000
6,506	Equity dividends	8,571
3,444	Pooled property investments	3,022
3,064	Overseas fixed interest unit trust	4,032
1,652	Interest on cash deposits	1,017
871	Diversified	(45)
15,537	**Total**	**16,597**

Note 13: Taxes on Income

2015/16 £000		2016/17 £000
(111)	Withholding tax	(238)
(111)	**Total**	**(238)**

Note 14a: Reconciliation of Movements in Investments and Derivatives

	Market value as at 31 March 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2017
	£000	£000	£000	£000	£000
Equities	349,447	81,850	(79,747)	100,428	451,978
Fixed Interest Securities	-	66,436	(61,055)	(5,381)	-
Index Linked Securities	-	61,376	-	911	62,287
Pooled Investments	321,393	543,294	(479,449)	67,891	453,129
Pooled property Investments	86,926	8,911	(3,409)	2,685	95,113
Overseas private equity/infrastructure	70,512	4,874	(43,139)	5,036	37,283
Overseas diversified alternatives	47,181	22,947	(22,467)	10,828	58,489
London collective investment vehicle	150	-	-	-	150
	875,609	789,688	(689,266)	182,398	**1,158,429**
Derivative contracts:					
Forward currency contracts	423	14,334	(6,063)	(6,735)	1,959
	876,032	**804,022**	**(695,329)**	**175,663**	**1,160,388**
Other Investment balances:					
Cash deposits	216,697			39,624	164,043
Investment income due	2,195				2,202
Amount receivable for sales of investments	-			(2)	1,034
Spot FX Contracts	-			(1,191)	6
	1,094,924	**804,022**	**(695,329)**	**214,094**	**1,327,673**

	Market value as at 31 March 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2016
	£000	**£000**	**£000**	**£000**	**£000**
Equities	339,694	146,668	(142,033)	5,118	349,447
Pooled Investments	435,143	3,777	(104,567)	(12,960)	321,393
Pooled property Investments	98,497	781	(17,207)	4,855	86,926
Overseas private equity/infrastructure	65,567	3,933	(25,620)	26,632	70,512
Overseas diversified alternatives	75,548	19,789	(47,432)	(724)	47,181
London collective investment vehicle	-	150	-	-	150
	1,014,449	175,098	(336,859)	22,921	**875,609**
Derivative contracts:					
Forward currency contracts	(962)	10,517	(7,351)	(1,781)	423
	1,013,487	**185,615**	**(344,210)**	**21,140**	**876,032**
Other Investment balances:					
Cash deposits `	49,856				216,697
Amount receivable for sales of investments	817				2,195
Investment income due	2,939			(306)	-
Amounts payable for purchases of Investments	(1,927)				-
	1,065,172			**20,834**	**1,094,924**

Note 14b: Analysis of Investments

Market Value as at 31 March 2016 £000	Analysis of Investments	Market Value as at 31 March 2017 £000
	Equities	
50,397	UK quoted	70,369
299,050	Overseas quoted	381,608
349,447		**451,977**
	Pooled funds - additional analysis	
103,416	Overseas fixed interest unit trusts	109,540
-	Index linked securities	62,287
73,681	UK equity unit trusts	119,021
144,296	Overseas equity unit trusts	224,568
321,393		**515,416**
86,926	Pooled property investments	95,113
70,512	Overseas private equity/infrastructure	37,283
47,181	Overseas diversified alternatives	58,489
150	London collective investment vehicle	150
423	Forward currency contracts	1,959
-	Spot FX Contracts	6
205,192		**193,000**
	Cash	
169,195	UK Cash and Bank Deposits	89,265
47,502	Overseas Cash and Bank Deposits	74,779
216,697		**164,044**
2,195	Investment income due	2,202
-	Amount receivable for sales	1,034
2,195		**3,236**
1,094,924	**Total investment assets**	**1,327,673**

Investments analysed by fund manager

Market value as at 31 March 2016 £000	%	Fund manager	%	Market value as at 31 March 2017 £000
105,439	9.6	Aberdeen Asset Management	13.2	175,399
52,003	4.7	Arcus*	-	-
11	-	Baring	-	16
117,034	10.7	CBRE	7.5	99,927
60,443	5.5	Harbourvest	5.0	66,229
72,023	6.6	In house temporary cash deposits	2.9	39,000
217,963	19.9	Legal and General	25.9	343,589
150	-	London CIV	-	150
365,430	33.5	Longview	35.7	473,906
58,013	5.3	Morgan Stanley	4.7	62,989
46,415	4.2	Northern Trust cash deposits	5.1	66,468
1,094,924	**100**	**Total**	**100**	**1,327,673**

All of the above entities are registered in the United Kingdom.

*The Arcus fund was sold on 3-Aug-16 for a value of £33m.

Individual investments exceeding 5% of net assets

Fund manager	Asset name	MV at 31 March 2017 £000	Percentage of fund %
Legal and General	North America equity index	121,372	9.14
Aberdeen	World Opportunistic Bond	109,540	8.25

Note 14c: Property Holdings

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

Note 14d: Stock Lending

The Fund does not engage in stock lending arrangements for any of its direct holdings as set out on the Fund's investment strategy.

Note 15: 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	Currency sold	Local value	Asset value	Liability value
		000		**000**	**£000**	**£000**
One to six months	GBP	117,121	USD	(144,228)	1,824	-
One to six months	GBP	7,452	EUR	(8,577)	107	-
One to six months	GBP	559	HKD	(5,410)	3	-
One to six months	GBP	240	NZD	(426)	3	-
One to six months	GBP	419	SGD	(731)	2	-
One to six months	GBP	479	JPY	(65,956)	5	-
One to six months	GBP	1,742	AUD	(2,841)	15	-
Open forward currency contracts at 31 March 2017					**1,959**	**-**
Net forward currency contracts at 31 March 2017						**1,959**
Prior year comparative						
Open forward currency contracts at 31 March 2016					**480**	**(57)**
Net forward currency contracts at 31 March 2016						**423**

Note 16: Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Overseas bond options	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled investments- overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments- hedge funds	Level 3	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Description of asset	Assessed valuation range (+/-)	Value as 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments-hedge funds	5%	11,748	12,336	11,161
Pooled investments-Property funds	10%	87,531	96,284	78,778
Private equity	10%	43,007	47,308	38,706
Total		**142,286**	**155,928**	**128,645**

Note 16a: Fair Value Hierarchy

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

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

Level 3 – Assets and liabilities 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.

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

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	640,192	545,195	142,286	1,327,673
Loans and receivables	8,647	-	-	8,647
Financial liabilities at fair value through profit and loss	(1,197)	-	-	(1,197)
Net financial assets	**647,642**	**545,195**	**142,286**	**1,335,123**

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit and loss	558,919	367,187	168,818	1,094,924
Loans and receivables	11,315	-	-	11,315
Financial liabilities at fair value through profit and loss	(784)	-	-	(784)
Net financial assets	**569,450**	367,187	168,818	**1,105,455**

Note 16b: Fair Value Hierarchy

	Market Value as at 31/03/2016 £000	Transfers in/out of level 3 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2017 £000
Diversified Alternatives	19,413	(70)	1,784	(5,922)	898	1,369	17,472
UK Property Funds	66,614	-	8,738	(3,409)	1,556	(1,770)	71,729
Overseas Property Funds	12,661	-	173	-	2,967	-	15,801
Overseas Venture Capital	35,342	-	4,874	(9,780)	543	6,288	37,267
UK Venture Capital	35,170	-	-	(33,359)	(16,934)	15,138	15
Total	**169,200**	**(70)**	**15,569**	**(52,470)**	**(10,970)**	**21,025**	**142,284**

(a) transferred from level 3 to level 2 due to an improvement in observable market data arising from an increase in market activity for the instruments

(b) transferred from level 2 to level 3 due to a reduction in observable market data arising from a lack of market activity

(c) transferred from level 2 to level 3 due to reappraisal of property valuation techniques

(d) Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the Fund of account.

Note 17: 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 by category and NAS heading.

Market value as at 31 March 2016				Market value as at 31 March 2017		
Fair value through profit and loss £000	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**		**Fair value through profit and loss £000**	**Loans and receivables £000**	**Financial liabilities at amortised cost £000**
			Financial assets			
-	-	-	Index linked securities	62,287	-	-
349,447	-	-	Equities	451,978	-	-
321,393	-	-	Pooled investments	453,129	-	-
86,926	-	-	Pooled property Investments	95,113	-	-
70,512	-	-	Private equity/infrastructure	37,283	-	-
47,181	-	-	Diversified	58,489	-	-
150	-	-	London Collective Investment Vehicle	150	-	-
480	-	-	Overseas derivative contracts	1,959	-	-
-	-	-	Spot currency contracts	6	-	-
216,697	11,045	-	Cash	164,043	7,531	-
2,195	-	-	Other investment balances	2,202	-	-
-	-	-	Amounts receivable for sales	1,034	-	-
-	306	-	Current Assets	-	1,116	-
1,094,891	**11,351**	**-**	**Total Financial Assets**	**1,327,673**	**8,647**	**-**
			Financial liabilities			
(57)	-	-	Derivative contracts	-	-	-
-	-	(784)	Current liabilities	-	-	(1,197)
(57)	**-**	**(784)**	**Total Financial liabilities**	**-**	**-**	**(1,197)**
1,094,924	**11,351**	**(784)**	**Total**	**1,327,673**	**8,647**	**(1,197)**

Note 17a: Net Gains and Losses on Financial Instruments

31 March 2016 £000		31 March 2017 £000
21,140	Fair value through profit and loss	175,663
(306)	Loans and receivables	38,431
20,834	**Total**	**214,094**

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 18: Nature and Extent of Risks arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise 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 Authority manages these investment risks as part of its overall Fund risk management programme.

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

Market risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price risk

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 represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Asset type	Market value as at 31 March 2017	Value on 10% price increase	Value on 10% price decrease
Cash and cash equivalents	164,043	180,447	147,639
Investment portfolio assets:			
UK equities	70,369	77,406	63,332
Overseas equities	381,608	419,769	343,448
Overseas fixed income unit trusts	109,540	120,494	98,586
Index linked securities	62,287	68,516	56,058
UK equity unit trust	119,021	130,923	107,119
Overseas equity unit trusts	224,568	247,024	202,111
Pooled property investments	95,113	104,624	85,602
London CIV	150	165	135
Overseas private equity	37,283	41,012	33,555
Overseas diversified alternatives	58,489	64,338	52,640
Net derivative assets	1,959	2,155	1,763
Spot currency contracts	7	8	6
Investment income due	2,202	2,422	1,982
Amounts receivable for sales	1,034	1,137	930
Total investment assets	**1,327,673**	**1,460,440**	**1,194,907**

Asset type	Market value as at 31 March 2016	Value on 10% price increase	Value on 10% price decrease
Cash and cash equivalents	216,697	238,367	195,027
Investment portfolio assets:			
UK equities	50,397	55,437	45,357
Overseas equities	299,050	328,955	269,145
Overseas fixed income unit trusts	103,416	113,758	93,074
UK equity unit trust	73,681	81,049	66,313
Overseas equity unit trusts	144,296	158,726	129,866
Pooled property investments	86,926	95,619	78,233
London CIV	150	165	135
Overseas private equity/infrastructure	70,512	77,563	63,461
Overseas diversified alternatives	47,181	51,899	42,463
Net derivative assets	423	465	381
Investment income due	2,195	2,415	1,976
Total investment assets	**1,094,924**	**1,204,416**	**985,432**

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 Authority 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.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Asset type	Market value as at 31 March 2017	Value on 1% price increase	Value on 1% price decrease
Cash and Cash equivalents	164,043	165,683	162,403
Fixed interest unit trusts	109,540	110,635	108,445
Index linked securities	62,287	62,910	61,664
Total	**335,870**	**339,228**	**332,512**

Asset type	Market value as at 31 March 2016	Value on 1% price increase	Value on 1% price decrease
Cash and Cash equivalents	216,697	218,864	214,530
Fixed interest unit trusts	103,416	104,450	102,382
Total	**320,113**	**323,314**	**316,912**

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 Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 15). The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Asset type	Market value as at 31 March 2017	Value on 10% price increase	Value on 10% price decrease
Overseas quoted securities	381,608	419,769	343,448
Overseas fixed income unit trusts	109,540	120,494	98,586
Index linked securities	62,287	68,516	56,058
Overseas unit trusts	224,568	247,024	202,111
Overseas pooled property	-	-	-
Overseas private equity	119,021	130,923	107,119
Diversified alternatives	58,489	64,338	52,640
Total	**955,513**	**1,051,064**	**859,963**

Asset type	Market value as at 31 March 2016	Value on 10% price increase	Value on 10% price decrease
Overseas quoted securities	299,050	328,955	269,145
Overseas fixed income unit trusts	103,416	113,758	93,074
Overseas unit trusts	144,296	158,726	129,866
Overseas pooled property	12,661	13,927	11,395
Overseas private equity/infrastructure	70,512	77,563	63,461
Diversified alternatives	47,181	51,899	42,463
Total	**677,116**	**744,828**	**609,404**

a) **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. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

Summary	Rating	Asset value as at 31 March 2016	Asset value as at 31 March 2017
Money market funds			
Northern Trust Global Investments (NTGI) Cash Fund	AAA	89,516	112,120
Federated Prime Rate	AAA	10,114	614
Standard Life	AAA	-	3,740
Bank deposit accounts			
*Variation Margin		-	-
*Cash (externally held)		8,752	4,062
Bank current accounts			
*Northern Trust (NT) custody cash accounts		46,429	3,722
Total		**154,811**	**124,258**

*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 Authority therefore takes steps to ensure that the 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 Authority has immediate access to its Pension Fund cash holdings.

The Fund also has access to a £500k 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 2017 the balance on this facility stood at £0 (31 March 2016: £0). 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 2017 are due within one year.

b) **Refinancing risk**

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

Note 19: 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 2016. The next valuation will take place as at 31 March 2019 although contribution rates in 16/17 are based on 2013 valuation.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. 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 authority 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 2016 actuarial valuation, the Fund was assessed as 85% funded (73% at the March 2013 valuation). This corresponded to a deficit of £201m (2013 valuation: £298m) 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 2015/16 £000s	Employee Contribution 2016/17 £000s	Employer Contribution 2015/16 £000s	Employer Contribution 2016/17 £000s
Active Newham	Admitted	16.4	22	18	56	46
Better Together	Admitted	12.0	-	6	-	10
Birkin Services	Admitted	17.7	-	2	-	10
Boleyn Trust	Scheduled	17.7	-	13	-	41
Brampton Manor Primary School	Scheduled	23.5	55	65	184	220
Carpenters TMO	Admitted	15.0	6	-	75	28
Chobham Academy	Scheduled	12.0	53	63	102	120
Churchill	Admitted	24.6	3	2	12	11
Community Links	Admitted	13.7	1	-	2	-
Community Schools Trust	Scheduled	15.0	-	15	0	48
Change Grow Live (formally named as CRI)	Admitted	12.0	5	4	10	9
Education Links Free School	Scheduled	12.0	3	4	5	8
East London Arts and Music School	Scheduled	12.0	6	5	11	10
East London Science School	Scheduled	12.0	5	14	8	22
EKO Trust	Scheduled	15.1	-	32	-	98
FM Conway	Admitted	15.3	-	-	204	-
Learning in Harmony MAT	Scheduled	19.8	89	160	278	524
Langdon Academy	Scheduled	23.5	105	104	392	387
London Academy of Excellence	Scheduled	12.0	17	17	33	34
London Borough of Newham	Administering Authority	13.4	10,339	10,352	41,364	40,496
London Design and Engineering	Scheduled	12.0	2	6	3	11
London Network for Pest Solution	Admitted	12.0	-	2	-	5
Leading Learning Trust	Scheduled	12.0	-	65	-	201
Lunchtime Company	Admitted	15.8	-	-	-	50
Mitie	Admitted	17.0	7	6	17	15
Newco	Scheduled	25.6	37	-	145	-
Newham College of Further Education	Scheduled	16.7	372	326	942	812
NewVic	Scheduled	12.1	168	153	308	284
Newham Partnership Working	Admitted	26.9	194	198	717	742
Oasis Academy	Scheduled	12.0	7	6	15	12
Olive Dining	Admitted	22.6	7	9	30	39
Our Lady of Grace MAT	Scheduled	24.6	52	53	195	220

Pabulum	Admitted	22.9	-	4	-	14
Public Realm	Admitted	12.0	-	34	-	92
RM Education	Admitted	20.9	5	5	18	16
School 21	Scheduled	12.0	42	57	82	106
Stratford Academy	Scheduled	25.6	41	37	164	150
Stratford Regeneration Partnership Ltd	Scheduled	25.6	9	-	30	-
Strictly Education	Admitted	25.3	-	61	-	248
Wilson Jones	Admitted	25.3	8	3	37	15
Total 40 employers			**11,660**	**11,901**	**45,439**	**45,154**

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 2016 Actuarial Valuation

Investment Return (Discount rate)	5.4%	Based on 20-year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	3.0%	Assumed to be CPI
Salary increases	3.9%	1.5% pa over CPI
Pension increases	2.4%	In line with CPI - assumed be 0.9% 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	22.4 years	24.9 years
Future pensioners (assumed current age 45)	24.6 years	27.2 years

Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 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 2015	Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015

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 20: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the 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 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

2015/16		2016/17
£m		£m
(1,783.4)	Present value of promised retirement benefits	(2,274.7)
1,105.3	Fair value of scheme assets (bid value)	1,333.7
678.1	**Net Liability**	**941.0**

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used	**2015/16**	**2016/17**
	%	**%**
Inflations/pension increase rate assumption	2.4	2.7
Salary increase rate	4.2	4.2
Discount rate	3.7	2.8

Note 21: Current Assets

2015/16		2016/17
£000		£000
83	Contributions due – employees	153
223	Contributions due – employers	433
-	Sundry debtors	530
11,045	Cash and cash equivalents	7,531
11,351	**Total Current Assets**	**8,647**

The contributions due all related to March 2017 (which became payable on 21 April 2017).

Analysis of debtors

2015/16 £000		2016/17 £000
-	Local authorities	-
306	Public corporations and trading funds	1,116
306	**Total Debtors**	**1,116**

Note 22: Current Liabilities

2015/16 £000		2016/17 £000
(784)	Sundry creditors	(1,197)
(784)	**Total Current Liabilities**	**(1,197)**

Analysis of creditors

2015/16 £000		2016/17 £000
(784)	Public corporations and trading funds	(1,197)
(784)	**Total Creditors**	**(1,197)**

Note 23: Additional Voluntary Contributions

Market Value at 31 March 2016 £000		Market Value at 31 March 2017 £000
743	Clerical Medical	754
241	Equitable Life	228
984	**Total**	**982**

AVC contributions of £62,672 were paid directly to Clerical Medical during the year (£48,773 2015/16).

There have been no further contributions to Equitable Life in 2016/17 or 2015/16.

Note 24: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2015/16 £000		2016/17 £000
339	Payments on behalf of London Borough of Newham	324
339	**Total**	**324**

Note 25: Related Parties

The Fund is administered by the London Borough of Newham. Consequently there is a strong relationship between the Authority and the Fund.

The following key management personnel are members of the Fund; Director of Financial Sustainability, Director of Exchequer and Transactional Services and Head of Pensions & Treasury for OneSource.

During the reporting period, the Authority incurred costs of £724k (2015/16: £672k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 11).

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.

There are four deferred members of the LGPS of the Committee; Councillor Forhad Hussain, Councillor Andrew Baikie, Councillor John Gray and Councillor Lester Hudson. No additional remuneration beyond their salary is paid to members of the Committee.

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

Support is provided to the Committee by the Local Pensions Board.

Note 26: Contingent Assets

Admitted bodies - Active Newham have a guarantee in place with the Authority to guard against the possibility of being unable to meet their pension obligations. This guarantee 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 – admissions are considered by the Committee.

Note 27: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £73m (31 March 2016: £29m).

There are no contingent liabilities to report.

Investment Strategy Statement 2016/17

1. Introduction

1.1 This is the first Investment Strategy Statement (ISS) adopted by the London Borough of Newham (LBN) Pension Fund (“the Fund”) and reflects the conclusions drawn from the strategy review undertaken in 2015 and 2016.

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 LBN is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how it meets each of 6 objectives aimed at improving the investment and governance of the Fund.

Although this ISS is new, the objectives behind it form the basis for robust investment and governance of the Fund’s assets and, as such, have not caused LBN to make significant changes to their governance framework.

This Statement addresses each of the objectives included in the 2016 Regulations:

- A requirement to invest fund money in a wide range of instruments
- The authority’s assessment of the suitability of particular investments and types of investment
- The authority’s approach to risk, including the ways in which risks are to be measured and managed
- The authority’s approach to pooling investments, including the use of collective investment vehicles
- The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

We deal with each of these in turn below.

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

1.3 The relevant terms of reference for the Committee within the Council’s Constitution (8.07 2) are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Financial Sustainability 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 Committee has responsibility for:
- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(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 ISS & 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 Financial Sustainability and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers. Elements of the fund allocation in the property and diversified alternatives portfolio are managed in-house with adviser support.

1.4 This ISS 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.

1.5 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharges their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS.
However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:
- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the

underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 4 broad categories; equities, bonds, real assets (i.e. assets with some form of link to inflation) and absolute return strategies. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the Committee is concerned with is to ensure the long-term ability of the Fund to meet pension, and other benefit obligations, as they fall due is met. As a result the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

Whilst the Fund currently has a surplus of income over expenditure the Committee is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the Committee takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

2.6 The table in Section 5.3 provides detail on the asset allocation.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments LBN takes into account a number of factors:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against. In addition the Funding Strategy Statement implies a performance target for the Fund as a whole (CPI + 3.0% p.a.)

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available to the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 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.

4.3 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.

4.4 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.

4.5 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

4.6 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.

4.7 Environmental, Social and Governance ('ESG') risk:

- It is recognised that ESG and ethical issues have the potential to impact on the long term financial viability of an organisation. The committee monitors both developments within the investment environment and the voting of its appointed managers, supported through regular reporting from the Fund's custodian on the voting and engagement activity of its investment managers.

4.8 Funding of the 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 Funding Strategy Statement. 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

4.9 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.

LBN and the Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of LBN to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial deficit and the impact this has on contributions.

4.10 LBN and the Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return in excess of CPI +3.0% p.a. and the Fund's Independent Adviser has confirmed that the current long-term investment strategy is expected to produce an investment return in excess of this amount. The investment strategy is considered to have a low degree of volatility and currently targets volatility of 10% over the medium-term.

4.12 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their Investment and Economic Advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

4.14 The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of directly held derivatives for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

5. Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

5.1 LBN recognises the government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 In this regard the Fund has indicated to the Government in its submission in 2016 that when opportunities to have assets within the investment strategy managed by an appropriate pooling partner it will give these consideration.

LBN and the Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the pooling partner for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the pooling partner will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.3 The table below shows the assets the Fund anticipates will be invested with the pooling partner, when the appropriate management becomes available, and those which it expects to sit outside of those managed by their pooling partner.

Asset Class	Fund Current Allocation	IAC Approved SAA
	%	%
Fixed Income	**10**	**14**
-Investment Grade	10	4
-Inflation linked debt	0	5
-Global High Yield	0	5
Equities	**56**	**39**
Property	**10**	**16**
-Property Funds	10	13
-Infrastructure	0	3
Alternatives (ultimately Pooled)	**3**	**15**
-Private Equity	3	5
-Private Debt	0	10
Alternatives (Pooling not anticipated)	**4**	**12**
-Diversified / Liquid Alternative funds	4	12
Tactical Asset Allocation (Pooling not anticipated)	**4**	**4**
Cash	**13**	**0**

5.4 The Committee is in the process of transitioning the assets from the current holdings above to the long term strategic asset allocation approved by the Committee shown in the table above. This transition process takes into account market conditions and investment opportunities. Until the transition is complete asset allocations will lie in the range between the two columns in the table above.

5.5 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by LBN, and in particular whether a collective investment option is appropriate.

5.6 More information on the preferred pooling partner and its operation is included in Appendix C of this statement.

6. Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A full of 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.

6.2 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.

6.3 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. To this end the Fund is a member of, and engages with, the Local Authority Pension Fund Forum, Institutional Investors Group on Climate Change and Pensions and Life Savings Association.

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

6.5 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.

7. Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

7.1 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.

7.2 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), Pensions and Lifetime Savings Association of Pension Funds (PLSA) and the Association of British Insurers (ABI).

8. Feedback on this statement

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

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Investment Strategy Statement: 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 Committee, which meets at least quarterly. The responsibilities of the I Committee are described in paragraph 1.4 of the ISS.

The Committee is made up of elected members of the Council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The Committee obtains and considers advice from and is supported by the Director of Financial Sustainability and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2014/15, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

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

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

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members. Committee Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members. The Committee 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 ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

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

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

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

Full Compliance

The Committee has, in conjunction with its 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 ISS.

During 2014/15, the Fund established an Admitted/Scheduled Body policy, which will outline its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

Principle 4 – Performance Assessment

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

Full Compliance

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

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Barnett Waddingham, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. 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 Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receive quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the Investment Strategy Statement.**
- **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 ISS 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 ISS and in the Fund's SRI Policy.

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

This ISS 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 ISS, 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.

Investment Strategy Statement: 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 ISS, which outlines the terms of reference of the Committee.

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

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

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to Committee 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 Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

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

3. Monitor their investee companies.

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

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

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

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

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

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

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

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

The Fund seeks to work collaboratively with other institutional shareholders in order
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). 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 Investment Strategy Statement 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

Investment Strategy Statement: Appendix C - Information on Pooling Partner

To be added when available

Investment Strategy Statement: Appendix C – Risk Register

Risk assessment completed by	Stephen Wild	Head of Pensions and Treasury	Deborah Hindson	Director of Financial Sustainability	March 2017

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
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	Deborah Hindson	Monitoring of advice received from Investment Advisor and Macro-Economic Advisor	100%	31/03/2018	Stephen Wild	1
			Review of investment advisor on hold pending outcome out the consultation on the new LGPS investment regulations to ensure it is fit for purpose.	50%	31/03/2018	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	Deborah Hindson	Monitoring of contributions, ensuring they are received on time	100%	31/03/2018	Stephen Wild	2
			Monthly checks to ensure cash received and banked	100%	31/03/2018	Stephen Wild	
			Monthly checks on the employer and employee rates	100%	31/03/2018	Stephen Wild	
3	**Business Objective:** **To ensure that the Council is in sound financial health.**						
	Pensioners living longer increasing liabilities of the pension fund giving rise to higher contributions required.	Deborah Hindson	Developments monitored via Fund's Actuary – next triennial valuation being completed in 2019	100%	31/03/2018	Stephen Wild	1
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	Deborah Hindson	Promotional campaign to boost membership of scheme among LBN staff	80%	31/03/2018	Stephen Wild	2
			Auto enrolment - new and sessional staff from October 2017	50%	31/03/2018	Stephen Wild	

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
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.	Deborah Hindson	Actuarial assessment completed for all new admission requests to assess level of risk	100%	31/03/2018	Stephen Wild	1
			Bonds or suitable guarantees put in place to protect the Fund in case of default	100%	31/03/2018	Stephen Wild	
			Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly	100%	31/03/2018	Stephen Wild	
6	**Business Objective**	**Ensure the Council's financial monitoring & forecasting is timely & contributes to the effective management of financial performance**					
	Assets and liabilities impacted by investment performance - assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore requirement for higher contributions	Deborah Hindson	Monitoring of Investment Managers, with meeting held on an exceptions basis. Quarterly strategy meeting	100%	31/03/2018	Stephen Wild	1
			Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification	100%	31/03/2018	Stephen Wild	
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2018	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	Deborah Hindson	Strategic Asset Allocation reviewed at quarterly strategy meeting to ensure asset mix remains appropriate	100%	31/03/2018	Stephen Wild	1
			Monitoring of investment performance against targeted returns.	100%	31/03/2018	Stephen Wild	
			Monitoring of Investment Managers, with meeting held on an exceptions basis where performance is below benchmark	100%	31/03/2018	Stephen Wild	
8	**Business Objective**	**To ensure the Council has effective methods for paying people and organisations**					
	Poor administration by the Pension Fund, employers and payroll providers in the Fund giving rise to inaccurate data with financial and reputational consequences, actuary unable to set contribution rates	Deborah Hindson	Annual monitoring of membership records, valuation checks	100%	31/03/2018	Stephen Wild	2
			Triennial Data Cleansing exercise and actuary data report	100%	31/03/2018	Stephen Wild	

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
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	Deborah Hindson	Adequate contract monitoring to ensure performance standards and financial security of external providers	100%	31/03/2018	Stephen Wild	1
			Monitoring of audited accounts to ensure consistent asset valuation.	100%	31/03/2018	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	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%	31/03/2018	Sarah Bryant	2
			Participate in the National Fraud Initiative	100%	31/03/2018	Sarah Bryant	
			Reclaim amounts over £100.00 that have been overpaid	100%	31/03/2018	Sarah Bryant	
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	Deborah Hindson	Annual Report on Pension Fund - summary version sent to all active members	100%	31/03/2018	Stephen Wild	1
			Annual General Meeting - all employers and other key stakeholders invited to attend	100%	31/03/2018	Stephen Wild	
			Union representation on the Committee. Pensioner representation being considered.	80%	31/03/2018	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.	Deborah Hindson	Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc.	100%	31/03/2018	Stephen Wild Sarah Bryant	1

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
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	Deborah Hindson	Active participation in consultations.	100%	31/03/2018	Stephen Wild	1
			Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach.	100%	31/03/2018	Stephen Wild	1
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/SRI records	Deborah Hindson	Investment Strategy Statement	100%	31/03/2018	Stephen Wild	2
			ESG/SRI Policy	50%	31/03/2018	Stephen Wild	

Funding Strategy Statement 2016/17

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 September 2016 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 and the Investment Strategy Statement

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 Scheme is a defined benefit arrangement with a final salary element for service accrued prior to 1 April 2014 and career average revalued earnings ('CARE') benefits accruing on and after this date. There is also a '50:50' option under which members can elect to pay 50% of the contribution rate to accrue 50% of the benefits. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations which also require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate certifying required contributions to be paid by the employers within the Fund.

Contributions to the Fund should be set so as to ensure solvency and long-term cost efficiency of the fund whilst supporting 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 Fund 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 ensure the solvency and long-term cost efficiency of the Fund are met; 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, Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 as amended.

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4 Responsibilities of the key parties

4.1 The Administering Authority

The administering authority is required to:

- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain an FSS and an SIP/ISS, both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

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 the council-tax payers, who would ultimately have to meet any shortfall in the assets of the fund, as well as to the contributors and beneficiaries of the fund. The terms of reference for the Investment & Accounts Committee within the Council's Constitution are:

- To make all decisions under Regulations made pursuant to Section 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of the Exchequer and Transactional Services 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/ ISS 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 such 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 Financial Sustainability

The Director of Financial Sustainability 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 is required to:

- 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 permitted 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.
- pay any exit payments on ceasing participation in the fund.

4.5 The Fund actuary

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- provide advice and valuations on the exiting of employers from the fund
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations

- ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the fund.

5 Solvency Issues and Target Funding Levels

5.1 The funding objective

The LGPS Regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises and express the desirability of maintaining as nearly constant a primary employer contribution rate as possible.

The administering authorities therefore prudentially seek to achieve an appropriate balance, in the light of actuarial advice, to ensure the income stream from contributions and investments achieves the ultimate aim of ensuring that the administering authority can meet its liabilities to pay pension benefits as and when they fall due over the life of the pension scheme.

Under Section 13(4)(c) of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund and long-term cost efficiency of the scheme so far as relating to the pension fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, E.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

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:

- 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.
- solvency issues for different employer bodies

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 general CIPFA guidance objectives for setting the individual employer contribution rates:

- the need to set appropriate employer contribution levels and deficit recovery periods
- the underlying investment strategy of the assets backing the liabilities of these
- employers
- the financial standing of those employers (and where applicable, the parent company or any guarantor) and:
    - their ability to meet the cost of current membership
    - their longer-term commitment to fund any deficit, including any potential deficit at exit; and
    - their ability to insure against default
- the short- and long-term effects of high contribution rates on the non-local-authority employers in terms of their financial viability.

For the Fund 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 the above guidance and Deficit Recovery Plan below).

Where a deficit is transferred to a new employer, or a deficit emerges over the period the employer participates in the scheme, a deficit recovery period of no longer than the shorter of the length of the contract (representing the expected future life of the employer in the Fund), with a maximum of 10 years will be applied, or other shorter period as may be determined by the Fund's actuary. For example for a short term contractor this is likely to be considered as the maximum length of the contract.

Employer specific deficit recovery periods have previously been agreed for Newham 6th Form College and Newham College of Further Education of a maximum of 10 years in each case. The other employers in the Fund where a maximum 10 year recovery period also currently applies are:

- Active Newham
- Churchill
- Crime Reduction Initiative (CRI)
- MITIE
- Newham Partnership Working
- Olive Dining
- RM Education
- Wilson Jones

On the cessation of any 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 admission bodies are covered in the Admission Bodies Policy. For all other employers any assessment on termination will be decided by the Fund Actuary reflecting the nature of the employer within the Fund and any remaining liabilities that may then fall due to other employers.

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 payroll 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 (primary 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.

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

The results of the 2016 valuation show the liabilities to be 85% covered by the current assets, with the funding deficit of 15% 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/ISS.

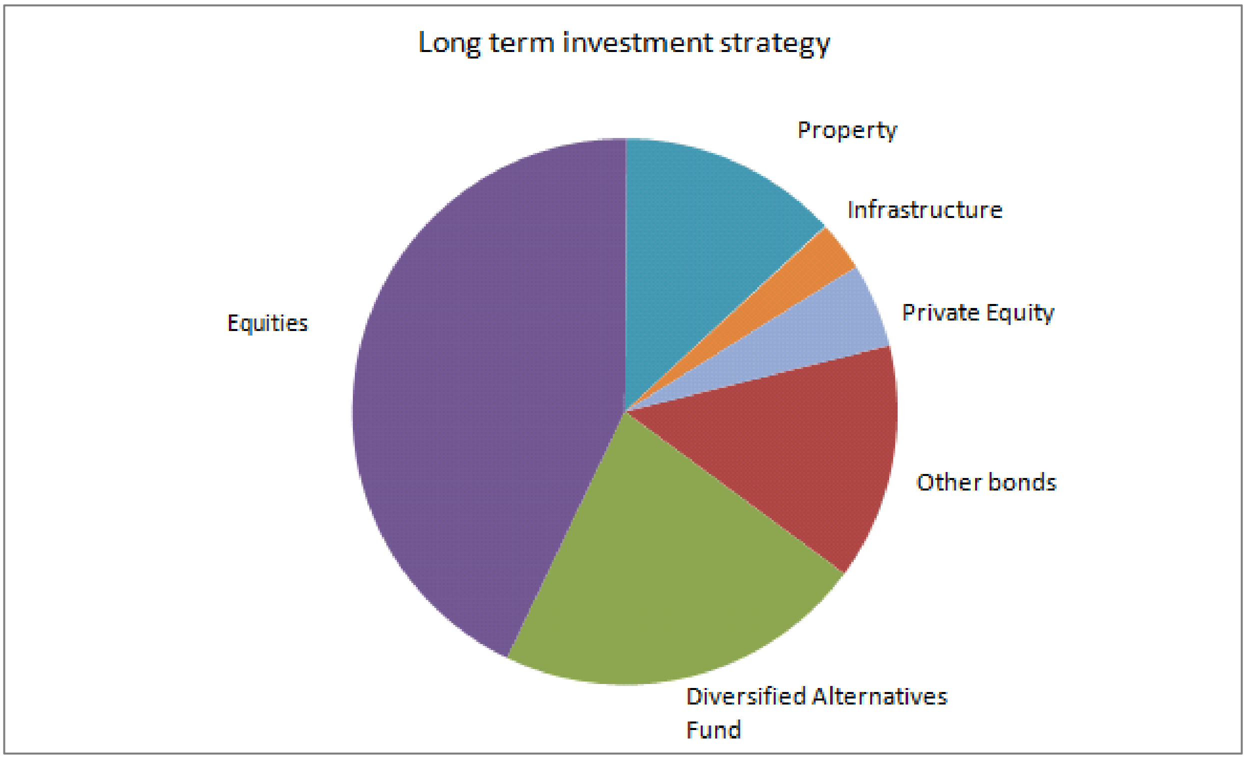
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would 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 should 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 – Target Returns for Asset Class

Future Assumed Returns at 2016		Risk Adjusted Discount Rate Weighting (rounded)
Equities	7.4% per annum	48%
Other Bonds	3.3% per annum	14%
Diversified Alternatives Fund	5.8% per annum	22%
Property	5.9% per annum	13%
Infrastructure	5.4% per annum	3%

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 2016 valuation assumptions.

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

7.1 Financial

The main financial risks are:

Investment risk – the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial

market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice taken and acted upon counterparty failure.

The specific risks associated with assets and asset classes are:
- equities – industry, country, size and stock risks
- fixed income – yield curve, credit risks, duration risk and market risks
- alternative assets – liquidity risk, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risks
- macroeconomic risks.

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

7.2 Liability Risk

The main demographic risks are that:
- Longevity horizon continues to expand
- There is a deteriorating pattern of early retirements.
- Inflation increase faster than allowed for
- Wage and salary inflation increase faster than allowed for.

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.

7.3 Employer Risk

Risks that arise from the ever-changing mix of employers; Examples being from
- short-term and ceasing employers
- the potential for a shortfall in payments and/or
- orphaned liabilities.

7.4 Liquidity/maturity risk –

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. Changes result in workforce reductions will reduce membership, reduce contributions and possibly prematurely increase retirements.

Some examples are
- The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS
- transfers of responsibility between different public sector bodies
- scheme changes that might lead to increased opt-outs
- the implications of spending cuts
- all of these will result in workforce reductions that will reduce membership, reduce contributions and
- prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.

7.5 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.

7.6 Regulatory and compliance risks

The key risks are:

- Changes to Regulations, e.g. more favourable benefits packages, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements or Regulations governing the Scheme

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 Consultations and Publication

LGPS Regulations with regard to the FSS, in effect, provide that the written statement setting out an administering authority's funding strategy can only be considered after consultation with such persons as the authority considers appropriate.

The Administering Authority has set out its plans to deal with the employers of the Fund. It will also inform their Local pension Board of the valuation process and explain the outcomes.

9 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 2016

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 1.5% per annum above CPI. However, we have allowed for a short- term overlay for salaries to rise in line with CPI over the period to 31 March 2020.

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 0.9% pa below RPI.

Mortality and other statistical assumptions

These are as described in the 2016 initial results report.

Summary of key assumptions for the 2016 actuarial valuation

Financial Assumptions	2016	2013
Discount Rate	5.4% per annum	6.0% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.4% per annum (RPI less 0.9%)	2.7% per annum
Pension and Deferred Pension Increases	2.4% per annum (RPI less 0.9%)	2.7% per annum
Short Term Pay Increases	In line with CPI assumption for the 4 years to 31 March 2020	In line with CPI assumption for the 2 years to 31 March 2015
Long Term Pay Increases	3.9% per annum (CPI plus 1.5% per annum)	4.5% per annum (CPI plus 1.8% per annum)

Socially Responsible Investment Policy 2016/17

1. Introduction

The Investment and Accounts Committee ("the 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 Investment Strategy Statement (ISS). 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 ISS, 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 ISS, 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 Committee 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

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Communications Policy 2016/17

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 Partnership (LPP), who undertake the Schemes administration, and scheme employers.

The current intranet site provides access to the Fund's statutory documentation, the Accounts, Annual Report, Investment Strategy Statement, 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 LPP. 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 LPP is 020 7369 6118.

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

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

2. Investment Committee Members

The Committee oversees the management of the Fund's assets. Although not trustees, the Members of the 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. 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
Committee 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 Committee.

Members also receive a variety of reports from the Director of Financial Sustainability 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 an emergency Committee 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 LPP.

Website
The LPP'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 LPP 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 LPP.

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:

- Boleyn Trust
- Brampton Manor Academy
- Chobham Academy
- East London Arts and Music
- East London Science School
- Education Links Free School (Community Links Academy Trust)
- EKO Trust
- Forest Gate
- Langdon Academy
- Learning in Harmony MAT
- London Academy of Excellence
- London Design & Engineering
- Leading Learning Trust
- Newco

Admitted bodies:

- Active Newham
- Better Together
- Birkin Services
- Carpenters TMO
- Churchill
- Community Links
- Change Grow Live
- FM Conway
- London Network for Pest Control
- MITIE
- Newham Partnership Working
- Pabulum
- Public Realm
- Olive Dining
- RM Education
- Stratford Renaissance Partnership Ltd
- St. Angela's
- Wilson Jones

Pension Fund Officers

Team Meetings

The Head of Pensions and Treasury host's regular team meetings with the Fund's finance and administration staff. If required, issues can be escalated through the Director of Financial Sustainability to Chief Officers.

Senior Finance Staff Management Team Meetings
The Head of Pensions and Treasury is a member of the Senior Finance Staff Management Team and attend regular meetings convened by the Director of Financial Sustainability. This enables the Director of Financial Sustainability 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 has 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 LPP. 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
Ernst & Young LLP are the Fund's external auditors.

Contact details:
Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

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
Pensions and Lifetime Savings Association;
Local Authority Pension Fund Forum;
Institutional Investors Group on Climate Change;
Fathom Consulting

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 Pensions and Treasury   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 Partnership (LPP) provides benefits administration – pension scheme membership records, advice, calculations and estimates.

- Advice and benefit calculations   LPP   020 7369 6249

Governance Statement 2016/17

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 Committee.

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

1. Composition & Quorum

1.1 The Committee 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 Director of the Exchequer and Transactional Services 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 Director of the Exchequer and Transactional Services 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. Committee Meetings

5.1 The Committee meets on a quarterly basis with support provided by the Director of Financial Sustainability 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 Committee 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 Investment Strategy Statement (ISS) 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 Committee has delegated the responsibility to the Director of Financial Sustainability:

- The Committee has delegated responsibility to the Director of Financial Sustainability 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 Committee. At the annual meeting, the Council agrees to the appointment of the members to the committee.

The Committee have delegated the day to day administration of the Fund to the Director of the Exchequer and Transactional Services.

The Fund's administration is outsourced to the Local Pensions Partnership (LPP). 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 Committee 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 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 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 2016/17

Date	Training Session	Attendees
13th April 2016	Asset Pooling within the LGPS	Cllr Forhad Hussain
10 May 2016	FT: Local Government Pension Schemes Leadership Briefing	Cllr Forhad Hussain
15 June 2016	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Tahmina Rahman Cllr Tonii Wilson Cllr Zubair Gulamussen

21 June 2016	Fathom Monetary Policy Forum	Cllr Forhad Hussain Cllr Lester Hudson
04 July 2016	Member Investment Training	Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson Cllr Zubair Gulamussen Cllr Tahmina Rahman Cllr Tonii Wilson
27 July 2016	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Tahmina Rahman Cllr Tonii Wilson Cllr Zubair Gulamussen Cllr Lester Hudson
28 July 2016	CBRE - Local Investment Workshop	Cllr Tonii Wilson Cllr Zubair Gulamussen Cllr John Gray
21 September 2016	Overview of the Annual Accounts for Members - Training session	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Lester Hudson
23 September 2016	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Tahmina Rahman Cllr Tonii Wilson Cllr Zubair Gulamussen Cllr Lester Hudson Cllr Andrew Baikie
30 September 2016	Private Equity Workshop	Cllr Forhad Hussain Cllr Tonii Wilson Cllr Zubair Gulamussen
19-21 October 2016	PLSA Conference	Cllr Forhad Hussain
01 November 2016	Fathom Monetary Policy Forum	Cllr Forhad Hussain Cllr Lester Hudson Cllr Tonii Wilson Cllr Zubair Gulamussen
8 November 2016	UBS First Steps Seminar 2016	Cllr Forhad Hussain Cllr Lester Hudson Cllr Tonii Wilson Cllr Zubair Gulamussen
16 November 2016	BNPP IP Investment Academy - Currency Risk	Cllr Forhad Hussain

16 November 2016	Triennial Valuation Training	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson Cllr Tahmina Rahman Cllr Tonii Wilson
18 November 2016	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Tonii Wilson Cllr Zubair Gulamussen Cllr Lester Hudson Cllr Andrew Baikie
22 November 2016	UBS Second Steps Seminar 2016	Cllr Forhad Hussain Cllr Lester Hudson Cllr Zubair Gulamussen
29 November 2016	IIGCC General Members Meeting	Cllr Tonii Wilson
08 December 2016	MAN FRM platform training	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson Cllr Zubair Gulamussen Cllr Tahmina Rahman
19 December 2016	Bfinance Training on Private Debt and High Yield Credit	Cllr Forhad Hussain Cllr Zubair Gulamussen Cllr Tahmina Rahman
18 January 2017	R&M Volatility Strategy Training	Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson Cllr Tonii Wilson
23 January 2017	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Andrew Baikie
31 January 2017	Admissions and FSS Training	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Zubair Gulamussen Cllr Tonii Wilson
01 February 2017	London CIV - Stewardship Seminar	Cllr Forhad Hussain
13 February 2017	Investment Strategy Training	Cllr Forhad Hussain Cllr Lester Hudson Cllr Tahmina Rahman Cllr Tonii Wilson

15 February 2017	IAC Annual General Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson Cllr John Gray Cllr Tahmina Rahman Cllr Tonii Wilson Cllr Zubair Gulamussen
01 March 2017	London CIV Annual Conference	Cllr Forhad Hussain Cllr Ted Sparrowhawk
09 March 2017	Quarterly Strategy Review Meeting	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Andrew Baikie Cllr Tonii Wilson
24 March 2017	R&M Volatility Strategy training II	Cllr Forhad Hussain Cllr Ted Sparrowhawk Cllr Lester Hudson Cllr Zubair Gulamussen
29 March 2017	Fixed Income Strategy Training	Cllr Ted Sparrowhawk Cllr Andrew Baikie Cllr Lester Hudson

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.

Collective Investment Vehicle (CIV) - is any entity that allows investors to pool their money and invest the pooled funds, rather than buying securities directly as individuals

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
CIV Collective Investment Vehicle
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
(N)NDR (National) Non-Domestic Rates
NPV Net Present Value
NRA Normal Retirement Age
NRD Normal Retirement Date
PSLA Pensions and Lifetime Savings Association
ISS Investment Strategy Statement
SLA Standard Lifetime Allowance
SPA State Pension Age
RPI Retail Price Index
SeRCOP Service Reporting Code of Practice
VAT Value Added Tax