

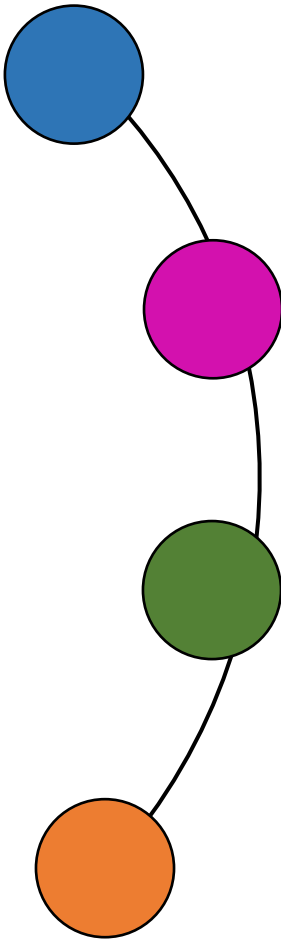


# **Northamptonshire County Council Pension Fund Annual Report and Statement of Accounts**

**Year Ended 31 March 2019**

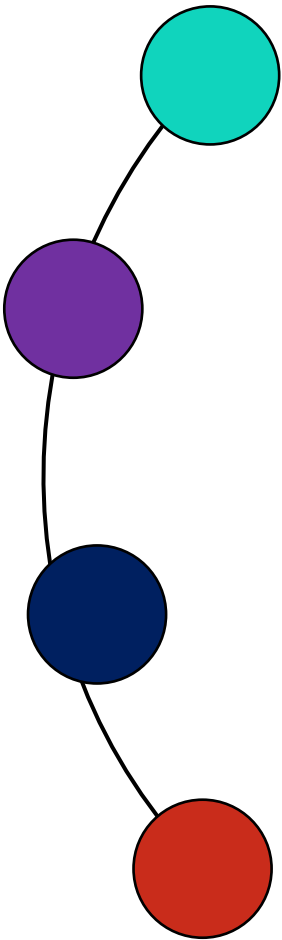


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# Chairperson's Foreword

It gives me great pleasure to introduce the Northamptonshire Pension Fund Annual Report and Statement of Accounts for 2018-19. I would like to take this opportunity to thank the Chairman during the 2018-19 year, Councillor Graham Lawman for his hard work and dedication, along with that of Members of the Pension Committee.

The Fund continually evolves to improve service standards and 2018-19 has been another busy year for the Fund with many highlights.

The Fund introduced a Data Improvement Policy and Plan, a requirement of the Pension Regulator's Code of Practice. As part of this Plan the Fund completed a significant and challenging project to reconcile the Fund's pensioner payroll and pensions administration system.

In the investments arena, the continued development of the ACCESS asset pool is progressing at a steady pace and is generating significant value for all participants.

The Fund's investment strategy over the past two years has steadily increased allocations to longer duration investments such as private equity and infrastructure, whilst reducing the dependency on listed equities. This has provided greater diversification across asset classes as well as reducing our exposure to equity risk.

The 2018-19 year continued the trend of increasing membership, with active membership increasing to 22,634 members and overall membership to 66,250 members (as at 31 March 2019). The number of employers within the Fund has also grown, with over 360 organisations providing for their employees' retirement through the Northamptonshire Fund.

At 31 March 2019 the Fund was valued at £2.51bn, an increase of £185m over the March 2018 valuation of £2.32bn. The Fund returned 7.4% for the financial year ending March 2019, slightly underperforming the Fund's benchmark of 7.9%, mainly reflecting underperformance of the Fund's active UK equity, diversified growth fund and real estate mandates. However, the Fund significantly outperformed the Local Authority universe average performance of 6.6% and the increase in the Consumer Price Index (CPI) of 1.9%.

Improving engagement with scheme members has been a key theme for this year, the successful implementation of a new website and Members' Hub have both provided a more integrated experience. It has been encouraging to see a 50% increase in members registering to view their pension details online during the year.

The transition to monthly data provision by scheme employers, our main data providers, has continued to gather pace. The majority of membership data is now provided by monthly return, as opposed to at year-end, thus increasing data quality and our ability to administer the Fund in an efficient manner.

This has been a successful year for the Fund and I would also like to thank the hard work of the Investment Sub-Committee, members of the Local Pension Board, the Chief Finance Officer, the Head of Pensions and all staff involved in the administration and management of the Fund.



Councillor Malcolm Longley

Chairman of the Northamptonshire Pensions Committee.

Dated: 30-11-2021

# Statement of Responsibilities

## Introduction

This Annual Report and Statement of Accounts sets out the arrangements by which the Local Government Pension Scheme operates, reports changes which have taken place and reviews the investment activity and performance of the Northamptonshire County Council Pension Fund ("Fund") during the year.

The Statement of Accounts has been prepared in accordance with the CIPFA/LASAAC Code of Practice for Local Authority Accounting in the United Kingdom 2018-19.

The accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Committee members. The accounts do not take account of the obligation to pay future benefits which fall due after year end. The actuarial position of the Fund which takes into account these obligations is available on the Fund's website, [2016 Actuary Valuation Report](#)

## The Council's Responsibilities

The Council 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 Council that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*.

In preparing this statement of accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also:

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

## Certificate of Accounts

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2019 and of its income and expenditure for the year 2018-19, and authorise the accounts for issue.



Barry Scarr  
Chief Finance Officer  
(Section 151 Officer)

Dated: 15/04/2021

# Scheme Management, Advisors and Partners

## Partners

 <a href="#">Abel Noser (Analytics)</a>	 <a href="#">ACCESS (Pension Pool)</a>	 <a href="#">Barclays (Bank)</a>	 <a href="#">Ernst &amp; Young (Auditors)</a>
 <a href="#">Hymans Robertson (Actuary)</a>	 <a href="#">LGSS Law (Legal Advisors)</a>	 <a href="#">Mercer (Investment Consultants)</a>	 <a href="#">Northern Trust (Custodian)</a>
Mark Stevens (Investment Advisor)			

## Asset Managers

 <a href="#">Adams Street Partners</a>	 <a href="#">Allianz Global Investors</a>	 <a href="#">AMP Capital</a>	 <a href="#">Baillie Gifford &amp; Co</a>	 <a href="#">Catapult</a>
 <a href="#">CBRE Global</a>	 <a href="#">HarbourVest Partners (UK)</a>	 <a href="#">Link Fund Solutions (ACCESS)</a>	 <a href="#">M&amp;G Residential</a>	 <a href="#">Majedie Asset Management</a>
 <a href="#">Newton</a>	 <a href="#">Skagen</a>	 <a href="#">UBS Asset Management</a>	 <a href="#">Wellington Management</a>	

## AVC Providers

 <a href="#">Prudential</a>	 <a href="#">Standard Life</a>
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# Scheme Management, Key Officers

## Key Officers of the Fund During the Year

Mark Whitby – Head of Pensions

Paul Tysoe – Investment and Fund Accounting Manager

Akhtar Pepper (Until February 2019) – Operations Manager

Richard Sultana (From February 2019) – Operations Manager

Cory Blose – Employer and Systems Team Manager

Joanne Walton – Governance and Regulations Manager

Ben Barlow – Pension Services Financial Manager

Tracy Pegram – Pension Services Financial Manager

Richard Perry – Pension Services Financial Manager

Further information regarding the accounts and investments can be obtained from:

### Paul Tysoe

Investment and Fund Accounting Manager LGSS

Email: [ptysoe@northamptonshire.gov.uk](mailto:ptysoe@northamptonshire.gov.uk)

Telephone: 01604 368 671



Enquiries relating to management and administration should be directed to:

### Mark Whitby

Head of Pensions LGSS

Email: [mwhitby@northamptonshire.gov.uk](mailto:mwhitby@northamptonshire.gov.uk)

Telephone: 01604 368 502



Registered Pension Scheme Number: 10079413

# Scheme Administration

## Introduction

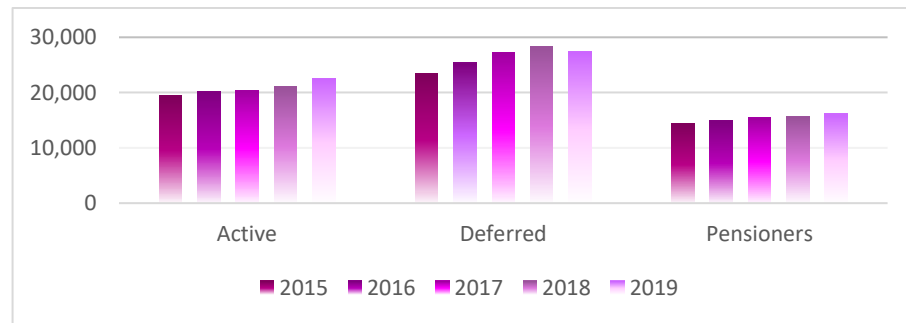
Northamptonshire County Council is responsible for administering the Northamptonshire Pension Fund, which is available to employees of the County Council, organisations with a statutory right to be in the scheme (scheduled bodies) and organisations, such as charities, which the County Council has admitted under its discretionary powers (admitted bodies).

The Fund is a qualifying scheme under the automatic enrolment regulations and can be used by employers to automatically enrol eligible employees, and every three years re-enrol anyone who opts out of the scheme.

## Membership

Membership of the Fund decreased by 1.5% from the previous year.

On 31 March 2019 there were 22,634 active, 27,472 deferred and 16,144 pensioner members in the Fund. The deferred figure is inclusive of 5,282 open cases that may change status (undecided leavers).



## Pension Fund Administration

LGSS, a partnership between Cambridgeshire County Council, Northamptonshire County Council and Milton Keynes Council, provides pension administration services to the Northamptonshire Pension Fund.

There are 60 staff members (55.32 full time equivalent) within the LGSS Pensions Team, providing all aspects of service to both the Cambridgeshire and Northamptonshire Funds, with an average staff to pension member ratio of 1:2,661.

Internal audit perform risk based audit procedures to assess the effectiveness and efficiency of administration services, and the LGSS Team have been awarded the national standard for excellence in customer service (CSE) since 2016.

The requirements of the General Data Protection Regulations (GDPR) are recognised and feature in the design of the Fund's administration processes. The Fund has in place a GDPR compliant privacy notice, conducts privacy impact assessments for all new activities involving personal data and has in place a Register of Processing Activities and Information Asset Register.

## Scheme Administration Tools

The LGSS Pensions website contains detailed information for all the Fund's stakeholders and has dedicated pages for both members and employers. There is a comprehensive suite of forms and factsheets for members, prospective members and employers.

Support for members and employers can be accessed via the website or by contacting the LGSS Helpline on 01604 366537.

[Member Self Service](#) is an online platform which allows members to securely access their records, amend their personal information, perform benefit projections and view their annual benefits statement.

[Employer Self Service](#) is available to all employers in the scheme and gives access to the pension database remotely and securely, allowing them to view, create and amend their employees' data, run reports and perform benefit calculations.

i-Connect is a system used which allows employers to securely upload monthly payroll data into the pension database, improving efficiency and accuracy of data and ensuring timely record maintenance

# Scheme Administration (continued)

## Scheme Framework

The Local Government Pension Scheme is a statutory funded pension scheme. The operation of the Northamptonshire County Council Pension Fund is principally governed by the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) which have been made within the context of the primary legislation of the Public Service Pensions Act 2013.

The Scheme covers eligible employees of the County Council, the Police Authority, Police and Crime Commissioner, Unitary, District and Borough Councils and Academies within the county area other than teaching staff, police officers and fire-fighters for whom separate statutory arrangements exist. A number of other bodies are also members of the scheme.

Employers' contribution rates are set by the Fund's Actuary every three years following the valuation of the Fund, in order to maintain the solvency of the Fund. The last valuation took place as at 31 March 2016. The results of the valuation were a funding level of 78% and an average primary employer contribution rate of 17.1%. The primary rate includes an allowance of 0.7% of the pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay. At the previous formal valuation at 31 March 2013 a different regulatory regime was in force and therefore no meaningful comparative rate is available.

On 1 April 2014, the new Local Government Pension Scheme 2014 came into effect, allowing more flexibility around paying into the scheme and drawing benefits. Normal pension age is linked to the state pension age but benefits can be drawn earlier or later, between age 55 and 75. The normal retirement age is the age a member can access their pension in full; if it is accessed before that date benefits will usually be reduced and if accessed after normal retirement age benefits may increase. All service built up to 31 March 2014 in the LGPS is fully protected and will continue to be based on a member's final year annual pay when the individual leaves the LGPS.

Benefits built up before April 2014 also retain their protected Normal Pension Age, which for most members is 65, although certain members have a retirement age of 60 for all or part of their membership. There is an additional protection known as the 'underpin' for members who were active on 31 March 2012 and were within ten years of their Protected Normal Pension Age on 1 April 2012. These members will get a pension at least equal to the pension they would have received in the LGPS had it not changed on 1 April 2014, subject to meeting certain criteria.



# Scheme Administration (continued)

The table below compares the 2008 and the 2014 schemes.

	LGPS 2008	LGPS 2014
<b>Basis of Pension</b>	Final Salary	Career Average Revaluated Earnings (CARE)
<b>Accrual Rate</b>	1/60 <sup>th</sup>	1/49 <sup>th</sup>
<b>Revaluation Rate</b>	Based on Final Salary	Consumer Prices Index (CPI)
<b>Pensionable Pay</b>	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours
<b>Employee Contribution Rates</b>	Between 5.5% and 7.5%	Between 5.5% and 12.5%
<b>Contribution Flexibility</b>	No	Option to pay 50% contributions for 50% of pension benefit
<b>Normal Pension Age</b>	65	Equal to individuals state pension age
<b>Lump Sum Trade Off</b>	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
<b>Death in Service Lump Sum</b>	3 x Pensionable Pay	3 x Pensionable Pay
<b>Death in Service Survivor Benefits</b>	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement
<b>Ill Health Provision</b>	Tier 1 – Immediate payment with service enhanced to Normal Pension Age (65)	Tier 1 – Immediate payment with service enhanced to Normal Pension Age
	Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age (65)	Tier 2 – Immediate payment with 25% service enhancement to Normal Pension Age
	Tier 3 – Temporary payment of pension for up to 3 years	Tier 3 – Temporary payment of pension for up to 3 years
<b>Indexation of Pension in Payment</b>	CPI (RPI for pre-2011 increases)	CPI
<b>Vesting Period</b>	3 months	2 years

# Scheme Administration (continued)

## Pension Committee and Board Membership.

The following table shows the attendance of Committee and Board members at applicable Pension Committee, Investment Sub-Committee and Local Pension Board meetings during 2018-19, training undertaken in year, including; including; Training days, Conferences and Strategic Workshops.

Councillor/Member Name	Committee/Board	Meetings Attended	Training Undertaken
Councillor Graham Lawman - Chairman	Pensions Committee	5/5	9 sessions
	Investment Sub-Committee	4/4	
Councillor James Hakewill (vice Chairman until 12 October 2018)	Pensions Committee	3/4	6 sessions
	Investment Sub-Committee	3/4	
Councillor Adil Sadygov (until 15 June 2018)	Pensions Committee	0/2	
	Investment Sub-Committee	1/2	
Councillor Bill Parker – (from 27 July 2018, vice chairman from 14 December 2018)	Pensions Committee	4/4	2 sessions
	Investment Sub-Committee	1/3	
Councillor Bob Scott	Pensions Committee	4/5	6 sessions
	Investment Sub-Committee	4/4	
Peter Borley-Cox	Pensions Committee	3/5	1 sessions
	Investment Sub-Committee	3/4	
Robert Austin	Pensions Committee	2/5	5 sessions
	Investment Sub-Committee	2/4	
Damian Pickard	Pensions Committee	5/5	5 sessions
	Investment Sub-Committee	3/4	
Andy Langford – substitute	Pensions Committee	1/1	4 sessions
	Investment Sub-Committee	1/1	
Councillor Stephen Legg	Pensions Committee	3/5	
Councillor Michael Tye (from 31 January 2019)	Pensions Committee	1/1	
Councillor Julie Brookfield (until 10 September 2018)	Pensions Committee	1/2	1 session
Councillor Robin Brown (from 8 May 2018 until 28 November 2018)	Pensions Committee	0/3	
Councillor Mike Hallam (from 22 March 2019)	Pensions Committee	1/1	
Councillor Peter Rawlinson (until July 2018)	Pensions Committee	0/1	
Councillor Richard Micklewright (from September 2018)	Pensions Committee	1/3	
Councillor Richard Lewis	Pensions Committee	4/5	
Janet Blunden	Pensions Committee	2/5	4 sessions
Paul Evans – Chairman	Local Pension Board	4/4	
Councillor Allan Matthews – vice Chairman	Local Pension Board	2/4	2 sessions
Councillor Mick Scrimshaw	Local Pension Board	2/4	
Penny Smith (until October 2018)	Local Pension Board	3/3	2 sessions
Kevin Standishday (from November 2018)	Local Pension Board	1/1	
Audra Stratham (until October 2018)	Local Pension Board	0/3	3 sessions
Julie Petrie (from December 2018)	Local Pension Board	1/1	
Martin Hammond	Local Pension Board	4/4	2 sessions

# Scheme Administration (continued)

## Policies and Strategy Statements

Information about the Fund's policies and procedures can be found on the Fund's website:

[Key Documents](#)

**The following policies were in place during the financial year (Click for hyperlinks)**

[Administering Authority Discretions](#)

[Administration Strategy](#)

[Admitted Bodies Scheme Employers and Bulk Transfers Policy](#)

[Annual Business Plan & Medium Term Strategy 2018-19](#)

[Anti-Fraud and Corruption Policy](#)

[Funding Strategy](#)

[Cash Management Strategy](#)

[Communications Strategy](#)

[Governance Policy and Compliance Statement](#)

[Investment Strategy Statement](#)

[Overpayment of Pension Policy](#)

[Payment of Pension Contributions Policy](#)

[Reporting Breaches of the Law to the Pensions Regulator Policy](#)

[Risk Register](#)

[Risk Strategy](#)

## Statement/Policy Changes in 2018-19

**The Data Improvement Plan** has been introduced during 2018-19:

- To demonstrate that the Fund was aware of its areas where data quality required improvement,
- To provide assurance to the Pensions Regulator and the Fund's stakeholders that the Fund was committed to an ongoing approach to ensure appropriate processes are in place to consistently hold accurate data,
- To set a timescale within which to achieve this.

**The Risk Register** has been reviewed during 2018-19 year resulting in the following changes:

- Consolidation of risks from 54 to 25 – more concise and high level with the detail encompassed in the controls to allow for easier monitoring,
- Not split into service areas as previous version (Governance, Funding and Investments and Administration and Communication); each risk has a responsible lead to demonstrate accountability,
- Risks are ordered by priority to allow for increased focus and easier monitoring,
- Revised criteria for assessing the impact and likelihood of a risk occurring, increasing detail to make a more accurate assessment, and
- A summary sheet has been designed to allow for an overview of the risks which shows priority, risk rating with RAG status, responsible lead and associated objectives.

**The Overpayment of Pension Policy** has been reviewed during 2018-19 resulting in the following changes:

- The Fund will generally seek to recover overpayments that are greater than £250.00 (gross) in value. Previously the value was £100.00 (gross),
- New section to cover where overpayments have occurred due to errors associated with the application of GMP.

**Investments and Fund Accounting Policies** has been reviewed during 2018-19 resulting in the following changes:

- Cash Management Strategy has been updated and developed in line with current requirements,
- Investment Strategy Statement has been updated to reflect the change to the strategic asset allocation.

# Management and Financial Performance

## The Team

LGSS Pensions is based in Northampton and consists of the following teams:

- **Operations** – maintain member records, calculate benefits and pensions payable.  
Contact: [Pensions@northamptonshire.gov.uk](mailto:Pensions@northamptonshire.gov.uk)
- **Employers** – contact point for employers of the scheme and those wanting to join. Deliver training sessions to employers and payroll providers covering the systems available to assist them in efficiently participating in the Fund.  
Contact: [PenEmployers@northamptonshire.gov.uk](mailto:PenEmployers@northamptonshire.gov.uk)
- **Systems** – ensure internal systems are operating efficiently and provide support to maintaining accurate member records.  
Contact: [Pensions@northamptonshire.gov.uk](mailto:Pensions@northamptonshire.gov.uk)
- **Investments** – oversee the safe investment of Fund assets and support the Investment Sub-Committee.  
Contact: [LGSS-Pen-Investments@northamptonshire.gov.uk](mailto:LGSS-Pen-Investments@northamptonshire.gov.uk)
- **Governance** – support all Committees in governing the Fund effectively, develop and monitor policies and practices to improve data quality and ensure regulatory compliance.  
Contact: [Pensions@northamptonshire.gov.uk](mailto:Pensions@northamptonshire.gov.uk)
- **Transactions** – record and reconcile contributions paid into the Fund and accounts for fund expenses.  
Contact: [PenContributions@northamptonshire.gov.uk](mailto:PenContributions@northamptonshire.gov.uk)
- **Corporate** – provide financial monitoring and reporting of functions such as debt management and cash requirements.  
Contact: [PenAccounting@northamptonshire.gov.uk](mailto:PenAccounting@northamptonshire.gov.uk)

## Complaints

Should you have a complaint about the service, we will do our best to put things right. To access support, please contact [Pensions@northamptonshire.gov.uk](mailto:Pensions@northamptonshire.gov.uk), telephone 01604 366537, or write to:

LGSS Pensions – Governance Team  
One Angel Square,  
Angel Street  
Northampton  
NN1 1ED

## Appeals

The LGPS regulations provide Internal Dispute Resolution Procedures (IDRP), details of which can be accessed via the LGSS [website](#).

Stage 1 disputes are heard by the Employer, if the complaint concerns an Employer decision or Head of Pensions if an admin authority decision. At Stage 2, the complaint is considered by Northamptonshire County Council's Monitoring Officer, and if the complainant is still unhappy with the decision they may refer the case to The Pensions Ombudsman. At any stage a scheme member has the right to direct their complaint to The Pensions Ombudsman. More information can be found at [Pensions Ombudsman](#).

The following formal disputes have arisen and/or been resolved during the year:

### Stage 1:

- 1 dispute from 2017-2018 was resolved during the year.
- 2 disputes arising in 2018-19 were resolved within the year.
- 1 dispute arising in 2018-19 remained outstanding at the end of the year.

### Stage 2:

- 1 dispute from 2017-2018 was resolved during the year.
- 2 disputes arising in 2018-19 remained outstanding at the end of the year.
- 2 disputes arising in 2018-19 were referred to the Pensions Ombudsman and remained outstanding at 31 March 2019.



# Management and Financial Performance (continued)

## Managing Decision Making

Northamptonshire County Council has established a Pension Committee (PC) and Investment Sub-Committee (ISC) having strategic and operational investment decision making powers, respectively.

Membership of both bodies consist of elected members, and non-elected employer and scheme member representatives. All members of the ISC sit on the PC.

The PC's business covers all Fund matters with the exception of non-strategic investment issues, which are delegated to the ISC. Officers across the operations, investment, transactions, corporate and governance functions support the PC and ISC as required. All meetings of the PC and ISC are duly minuted.

PC members and ISC members are required to attain a desired level of skills and knowledge, to ensure decisions being made on behalf of Northamptonshire County Council Pension Fund are made with full understanding of the impact and therefore mitigating the risk of unfounded decisions.

The Committee members must at all times be conscious of their accountability to stakeholders. The PC is responsible for determining the nature and extent of any significant risks taken on by the Administering Authority in the pursuit of its strategic objectives. Risk management should be dynamic and comprehensive, considering operational, reputational and environmental, social and governance (ESG) risks in addition to financial risks.

The Northamptonshire Full Council acknowledged the establishment of the ACCESS Joint Committee (AJC) delegating powers to this body in response to the Government's pooling agenda. The Chairman and Vice Chairman of the PC represent the Fund on the AJC, supported by Fund officers working in the ACCESS Officers Working Group (OWG).

The Local Pension Board (LPB) was established on 1 April 2015, providing an additional layer of governance for the Fund. The LPB is non-decision making but has the responsibility of assisting the Administering Authority to:

- secure compliance with the Local Government Pension Scheme (LGPS) regulations and other legislation relating to the governance and administration of the LGPS and also the requirements imposed by the Pensions Regulator in relation to the LGPS; and
- ensure the effective and efficient governance and administration of the LGPS.

The LPB has provided a separate annual report of its activities to Council for this financial year.

# Management and Financial Performance (continued)

## Risk Management

Northamptonshire County Council, the Administering Authority to the Northamptonshire Pension Fund, has both a risk strategy and a risk register in place to identify, evaluate, mitigate and monitor risks associated with the activities that the Fund carries out. Risk is managed through regular reporting to both the Pensions Committee and Local Pension Boards which have appropriate authorisation from the Northamptonshire County Council’s Monitoring Officer and Section 151 Officer. This ensures that risks are integrated within the governance structure of Northamptonshire County Council and all follow a consistent approach.

Identified risks are recorded in the Risk Register, a copy of which can be found at: [Risk Register](#)

The aim of the Risk Register is to ensure that an informed decision can be made on whether a risk can, or should be accepted. Risk appetite is informed by an understanding of any existing controls and will also be influenced by the expected reward or outcome. The Northamptonshire Pension Fund uses a matrix criteria for assessing the impact and likelihood of a risk to enable effective decision making.

Risks recorded in the Risk Register are managed in line with the Pension Fund objectives to ensure relevance and are reviewed by the Pension Committee twice a year and the Local Pension Board quarterly. New risks are therefore identified promptly and current risks are monitored on a regular basis, with risk ratings revised where necessary. The accompanying Risk Strategy is reviewed on an annual basis to ensure it remains relevant to support the Risk Register.

The objective of an internal audit is to educate management and employees about how they can improve business operations and efficiencies while giving reliability and credibility to the financial reports that go to shareholders. Internal audit awarded the Fund substantial assurance following its testing within the year.

Third party risks are managed through the Risk Register and associated policies, such as the Payment of Pension Contributions Policy. Mitigations are put in place to minimise third party risks and, in particular, the risks associated with Scheme Employers and effective covenant monitoring.

## Investment Risk

The Fund’s Investment Strategy Statement, which is reviewed annually, sets out the Fund’s investment strategy which incorporates evaluation of key investment risks. In addition the Statement of Accounts section of this document, provides further information about Investment risks and how they apply to the Investment Assets held by the Fund.

There are many risks inherent in investments. The Fund addresses these in the following ways:

<b>Market Risk</b> – investments will reduce in value due to fluctuations in prices, interest rates, exchange rates and credit spreads.	The Fund invests in different markets across the world and in different types of investment to reduce the risk of the portfolio reducing in value due to adverse market conditions and to smooth returns.
<b>Price Risk</b> – investments may be incorrectly valued due to price fluctuations or estimates used in pricing.	Investments are valued at published prices, where available. Investments that are not sold on a market are valued by specialist Investment Managers. Notes 16, 17 and 18 in the Statement of Accounts gives information about how investments are valued and gives an indication of the value of investments subject to an element of estimation.

At year end all Investment Managers are required to provide ISAE 3402 (Service Organisation Control Reports) which are made available to external audit. This is inclusive for Link Fund Solutions who are the Operator of the ACCESS pool

# Management and Financial Performance (continued)

## Financial Performance

The financial performance of the fund is monitored against budgeted performance on a regular basis throughout the year by the Pensions Committee

Performance Indicators	2018-19 Forecast £000	2018-19 Actual £000
Contributions	(105,000)	(107,318)
Transfers in from other funds	(6,045)	(5,856)
<b>Total Income</b>	<b>(111,045)</b>	<b>(113,174)</b>
Benefits payable	90,200	89,696
Payments to and for leavers	7,057	6,395
<b>Total Benefits</b>	<b>97,257</b>	<b>96,091</b>
<b>Surplus of contributions over benefits</b>	<b>(13,788)</b>	<b>(17,083)</b>
Management Expenses:		
Administration expenses	2,060	2,481
Investment management expenses	3,516	6,890
Oversight and governance expenses	674	729
<b>Total Management Expenses</b>	<b>6,250</b>	<b>10,100</b>
<b>Total Income less Expenses</b>	<b>(7,538)</b>	<b>(6,983)</b>
Investment Income	(35,007)	(44,950)
Taxes on Income	257	506
(Profit)/loss on disposal and changes in market value of investments	(162,788)	(133,266)
<b>Net return on investments</b>	<b>(197,538)</b>	<b>(177,710)</b>
<b>Net (increase)/decrease in assets during the year</b>	<b>(205,076)</b>	<b>(184,693)</b>

Management expenses per active member are shown below

	2016-17	2017-18	2018-19
<b>Active Members</b>	20,424	21,134	22,634
<b>Administrative Cost</b>	£71.78	£86.92	£109.61
<b>Investment Management Expenses</b>	£310.32	£297.58	£304.41
<b>Oversight and Governance Costs</b>	£20.47	£17.03	£32.21

## Variance Analysis:

- Investment Management expenses forecast is understated as this does not include pooled fees deducted from market value.
- Oversight and Governance costs include forecast expenditure on a one-off project for which there was no actual expenditure.
- Differences between actuals and forecast on Investment Income reflect strong equity returns over this financial year.
- The 2018-19 Forecast for profit/loss on disposal and changes in market value of investments assumed the actuaries target would be achieved. The actual market experience is explained in the independent investment advisors report on page 35.
- Details of non-investment assets and liabilities of the Fund can be found in the Statement of Accounts in Notes 21 to 22.

# Management and Financial Performance (continued)

## Performance Indicators

The Fund has developed a number of Key Performance Indicators (KPIs) to monitor service delivery, these KPIs are reviewed internally on a monthly basis to monitor and inform where delivery is met or remedial action is required. The Pension Committee receives quarterly performance updates within a Business Plan update.

The below table shows the number and trend of the top 7 types of scheme administration cases demonstrating both workload and efficiency in meeting internal KPI and external legal requirements.

	Cases completed in the year	Cases completed within KPI target
<b>Deaths</b> – initial letter acknowledging death of member <i>KPI: 5 working days, Legal requirement: 2 months</i>	501	501
<b>Deaths</b> – letter notifying amount of dependants pension <i>KPI: 5 working days, Legal requirement: 2 months</i>	300	300
<b>Estimates</b> – letter notifying estimate of retirement benefits to employee <i>KPI: 10 working days, Legal requirement: 2 months</i>	919	913
<b>Retirements</b> – process and pay pension benefits on time <i>KPI: 5 working days, Legal requirement: 2 months</i>	402	400
<b>Deferment</b> – calculate and notify deferred benefits <i>KPI: 15 working days, Legal requirement: N/A</i>	1495	1488
<b>Transfers in</b> – Letter detailing transfer in <i>KPI: 10 working days, Legal requirement: 2 months</i>	140	140
<b>Transfers out</b> – letter detailing transfer out <i>KPI: 10 working days, Legal requirement: 3 months</i>	60	60



# Management and Financial Performance (continued)

## Contributions

The Fund works closely with employers to collect contributions on time. The following table shows the amount of regular employee and employer contributions paid during the year and the value and percentage of which were paid both on time and after the deadline of the 19th day of the month following deduction.

Contributions	Total Paid in 2018-19 £	Total Paid On Time £	% Paid On Time	Total Paid Late £	% Paid Late
Employer	85,839	85,057	99%	782	1%
Employee	21,479	21,209	99%	270	1%
<b>Total</b>	<b>107,318</b>	<b>106,266</b>	<b>99%</b>	<b>1,052</b>	<b>1%</b>

The Fund did not apply any additional charges or levies in respect of contributions received late, and no reports were made to The Pensions Regulator in respect of late contributions during the year.

## Recovery of Overpayments of Pension

The following tables show the analysis of pension overpayments that occurred during the last five years:

Year	Overpayment	Recovered/in progress	Written Off
2014-15	£56,474	£15,133	£15,597
2015-16	£28,593	£8,782	£12,539
2016-17	£55,519	£21,033	£14,542
2017-18	£74,764	£55,518	£17,518
2018-19 <sup>1</sup>	£516,269	£379,396	£136,873

<sup>1</sup>Overpayments in 2018-19 appear particularly high, as in addition to usual activity, the Fund undertook a significant reconciliation project during the year in which a number of overpayments were identified.

Overpayments identified in 2018-19 with a value of under £250 are automatically written off, in line with the Fund's Overpayments Policy.

The Fund participates in the National Fraud Initiative which is a biennial process undertaken in conjunction with the Audit Commission. The necessary recoveries arising from identified overpayments are being pursued.

Annual Pensioner Payroll <sup>2</sup>	£77,132,145
Total write off amount	£136,873
Write offs amount as % of payroll	0.17%

<sup>2</sup>Excludes additional pension awarded by the employer.

# Management and Financial Performance (continued)

## Contributors to the Fund

Active Employers as at 31 March 2019

Type Of Body	Number of Active Employers
<b>Administering (AA)</b>	1
<b>Scheduled (S)*</b>	314
<b>Admitted (Ad)</b>	52
<b>Total</b>	<b>367</b>

This table, left, shows the number of employers in the Fund as at 31 March 2019. The breakdown of contributions by employer shown in the table below will show a different number of employers, as employers joined and left the fund throughout the year. An active or ceased column has been added to show this movement. Where contributions exist for ceased employers, these represent prior year adjustments that have been made within 2018-19, or contribution receipts recorded within the period.

\*LEA schools are included within Scheduled Bodies, and in the table below are shown in the column "Body" as S\*.

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Abbey Junior Academy (Daventry)	8,375	29,951	38,326		S
Abbeyfield School (Academy)	40,092	144,717	184,809		S
Abington Vale Academy	25,231	101,684	126,915		S
ABM Catering (Innovate)	1,625	7,268	8,893		S
ABM Catering (Magdalen)	513	2,275	2,787		Ad
ABM Catering (Upton Meadow)	643	2,866	3,509		Ad
ABM Catering Limited (2015 PDET: St Barnabas, Loddington, Milton, Ringstead, St Andrews)	3,015	13,340	16,355		Ad
ABM Catering Limited (2018 PDET: Collingtree CE Primary & Isham CE Primary)	742	3,317	4,059		Ad
All Saints C of E VA Primary School	17,201	75,492	92,693		S*

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Amey Plc	24,164	66,806	90,970		Ad
Ashby Fields Primary Academy	19,658	86,525	106,184		S
Aspens - (Danetre & Southbrook Academy )	1,264	7,024	8,288		S
Aspens - Hardingstone Primary & Castle Primary	90	530	620		Ad
Badby Primary Academy	10,737	32,635	43,373		S
Balfour Beatty Workplace Ltd	6,445	15,046	21,491		Ad
Barby Parish Council	658	3,265	3,922		S
Barby Primary Academy	6,384	24,999	31,383		S
Barry Road Primary	25,653	105,957	131,610		S*
Beanfield Primary	49,479	173,713	223,192		S
Billing Brook Academy	72,487	251,173	323,660		S
Billing Parish Council	0	3,400	3,400	Y	S
Bishop Stopford School	58,650	217,402	276,053		S

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Blackthorn Primary Academy	22,904	95,199	118,103		S
Blakesley CE Primary School	776	3,049	3,825		S
Boddington C of E Primary Academy	3,887	15,741	19,628		S
Boothville Primary School	44,055	132,713	176,767		S*
Borough Council Of Wellingborough	215,964	1,935,942	2,151,907		S
Boughton Primary Academy	10,381	38,529	48,910		S
Bracken Leas Primary Academy	17,916	76,727	94,643		S
Brackley Town Council	16,022	66,790	82,813		S
Brambleside Academy	20,462	76,603	97,065		S
Braunston Primary Academy	7,136	28,780	35,916		S
Briar Hill Primary Academy	17,808	53,210	71,018		S
Bridgewater Primary School	34,414	151,013	185,427		S*
Brighter Ltd	235	923	1,158		Ad
Brington Primary School	5,894	25,243	31,137		S*
Brixworth Parish Council	1,487	5,786	7,273		S
Brixworth Primary	22,150	95,052	117,202		S*
Brooke Weston Academy	119,504	286,935	406,438		S
Broughton Primary	12,334	53,788	66,122		S*
Bugbrooke Primary	11,960	53,036	64,996		S*

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Byfield Academy	4,000	14,208	18,208		S
Campion School	64,287	242,136	306,423	Y	S
Caroline Chisholm School	72,815	204,180	276,995	Y	S
Caterlink (The Grange Primary Academy)	962	4,301	5,263		S
Cedar Road Primary Academy	11,463	45,766	57,229		S
Chacombe CEVA Primary Academy	5,430	22,238	27,668		S
Chartwells (ACOE, Welton, King)	299	1,391	1,690		Ad
Chenderit Academy	33,095	121,338	154,433		S
Chipping Warden School Academy	4,283	17,599	21,882		S
Churchills (Campion School)	1,672	9,726	11,398		S
CleanTec Services (Northampton Academy)	771	2,829	3,600		Ad
Clipston Primary	7,072	31,220	38,292		S*
Clubs for Young People Northamptonshire	1,386	5,181	6,566		Ad
Collingtree Primary School	4,782	18,936	23,718		S
Complementary Education (Academy)	51,981	191,630	243,611		S
Corby Borough Council	604,810	3,145,276	3,750,086		S
Corby Business Academy	75,112	266,345	341,457		S

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Corby Old Village Primary School	9,476	21,265	30,741		S*
Corby Primary Academy	17,402	46,626	64,029		S
Corby Studfall Junior	4,729	19,419	24,148	Y	S*
Corby Technical College	26,380	93,626	120,006		S
Cottingham C of E Primary Academy	5,799	24,634	30,433		S
Cranford CE Primary School	4,782	15,651	20,433		S
CRI (NCC)	2,133	35,052	37,185		Ad
Croughton All Saints	5,821	24,818	30,638		S*
Croyland Children's Centre & Nursery	29,925	121,827	151,752		S*
CSN Resource Limited	34,266	139,228	173,495		S
Culworth C of E Primary Academy	5,216	22,111	27,327		S
CW Audit Services (South Warks NHS Foundation Trust)	2,865	7,382	10,247		Ad
Danesholme Infants Academy	13,061	52,290	65,351		S
Danesholme Junior Academy	12,516	54,154	66,670		S
Danetre & Southbrook Learning Village	50,919	183,505	234,424		S
Daventry & District Housing	27,316	269,390	296,705		Ad
Daventry District Council	395,775	1,981,279	2,377,053		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Daventry Hill Academy (all through)	36,924	110,392	147,316		S
Daventry UTC	0	27,645	27,645	Y	S
Deanshanger Parish Council	1,116	5,253	6,368		S
Denfield Park Primary	23,993	105,043	129,036		S*
Desborough town council	2,551	9,603	12,154		S
Duston Academy	75,927	277,472	353,399		S
Duston Eldean Primary	19,304	85,131	104,435		S*
Duston Town Council	11,648	49,571	61,219		S
Earls Barton Parish Council	1,206	5,675	6,881		S
East Hunsbury Parish Council	1,988	12,321	14,309		S
East Hunsbury School	25,223	98,976	124,199		S*
East Midlands Leadership Centre	11,798	22,846	34,643		Ad
East Northamptonshire District Council	384,220	1,824,810	2,209,030		S
Eastfield Academy	13,121	38,163	51,284		S
Easton Garford CEVA Primary Academy	315	1,447	1,762	Y	S
Ecton Brook Primary School Academy	47,277	185,987	233,264		S
Ecton Primary Academy	4,119	18,196	22,315		S
Education Fellowship HQ	14,655	63,577	78,232		S



# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Elizabeth Woodville Academy	69,347	185,914	255,261		S
EMBC	17,493	53,657	71,151		Ad
Enterprise Managed Services	30,804	0	30,804		Ad
Exeter - A Learning Community Academy	39,241	126,129	165,370		S
Fairfields Special School	58,008	256,802	314,810		S*
Falconers Hill Academy	11,587	46,030	57,617		S
Falconers Hill Infant School	13,880	59,423	73,303		S
Farthinghoe Primary School	1,567	5,340	6,906		S
Finedon Infants Academy	7,036	30,258	37,294		S
Finedon Mulsoe CEVA Junior Academy	10,955	45,631	56,586		S
Finedon Parish Council	2,143	5,055	7,199		S
First for Wellbeing	130,257	426,974	557,231	Y	S
Freemans Endowed C of E Junior Academy	13,853	50,480	64,333		S
Fresh Start Catering	538	2,408	2,946		Ad
Friars Academy	37,463	146,049	183,512		S
G4S	30,644	97,959	128,603		Ad
Gateway School	24,610	103,758	128,367		S*
Grange Community Academy	16,646	67,457	84,103		S
Grange Park Parish Council	1,273	6,965	8,238		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Great Addington CEVA Academy	5,068	20,270	25,339		S
Great Creaton Primary School	3,154	31,542	34,696	Y	S*
Greatwell Homes	24,920	23,417	48,337		Ad
Green Oaks Primary Academy	11,222	40,115	51,337		S
Greenfields Primary Academy (MAT)	22,587	84,929	107,516		S
Greenfields School & Sports College	56,081	235,686	291,767		S
Greens Norton Primary Academy	6,752	25,570	32,322		S
Gretton Primary	6,506	26,242	32,748		S
GSO Limited (Prince William and Stimpson Avenue)	648	2,923	3,570		Ad
Guilsborough Primary Academy	9,500	41,767	51,267		S
Guilsborough School (Academy)	52,172	170,602	222,774		S
Hall Meadow Primary Academy	17,318	72,081	89,399		S
Hardingstone Primary Academy	11,154	42,812	53,967		S
Harlestone Primary School	4,335	19,391	23,726		S*
Hartwell Academy	8,753	30,025	38,778		S
Havelock Infant Academy	15,880	62,736	78,615		S

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Havelock Junior Academy	17,701	72,378	90,079		S
Hazel Leys Primary & Nursery	15,230	62,144	77,374		S
Headlands Academy	36,069	144,876	180,945		S
Henry Chichele Primary	12,488	56,271	68,760		S*
Higham Ferrers Junior School	15,894	68,607	84,500		S*
Higham Ferrers Nursery & Infant School	13,763	59,764	73,527		S*
Higham Ferrers Town Council	2,998	12,036	15,034		S
Highfield Nursery & Childrens Centre	11,251	47,720	58,971		S
Hopping Hill Primary	21,798	94,381	116,180		S*
Horizons NFP Limited	0	25,498	25,498	Y	Ad
Hunsbury Park Primary	20,706	92,177	112,883		S*
HUXLOW SCIENCE COLLEGE	43,669	166,438	210,107	Y	S
Idverde	22,364	104,341	126,705		Ad
Irchester Primary	19,042	83,192	102,234	Y	S*
Irthlingborough Inf. Academy	15,400	63,178	78,579		S
Irthlingborough Jnr. Academy	21,378	84,193	105,571		S
Irthlingborough Town Council	6,564	28,891	35,455		S
Isebrook College Academy	62,112	243,109	305,221		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Isham CEVA Primary Academy	5,748	24,467	30,215		S
Islip Parish Council	248	1,233	1,481	Y	S
Just Ask Estate Services Limited	13,856	67,182	81,038		Ad
Kettering Borough Council	791,549	3,570,871	4,362,420		S
Kettering Buccleuch Academy	74,171	189,398	263,569		S
Kettering Millbrook Infant School	18,487	79,325	97,812		S*
Kettering Millbrook Junior School	24,615	108,292	132,907		S*
Kettering Science Academy	83,876	251,183	335,059		S
Kilsby Primary Academy	6,387	24,959	31,347		S
Kings Heath Academy	20,468	61,092	81,559		S
Kings Sutton Primary Academy	7,901	32,011	39,911		S
Kingsley Academy	62,855	226,633	289,488		S
Kingsley Primary	13,489	59,524	73,013		S*
Kingsley Primary School	3,157	13,877	17,034		S
Kingsthorpe College Academy	56,031	228,934	284,965		S
Kingsthorpe Grove Primary School	34,293	148,354	182,648		S*
Kingswood Catering (Bridgstock Lathams)	367	1,639	2,006		Ad
Kingswood Catering (Little Harrowden)	227	1,016	1,243		Ad

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Kingswood Primary Academy	13,640	54,177	67,818		S
Kingswood Secondary Academy	56,898	222,432	279,331		S
Kislingbury VC Primary School	4,280	18,364	22,644		S
Latimer Arts	43,821	185,096	228,917		S*
Legacy Leisure	2,730	14,010	16,740		Ad
LGSS Law Ltd (NCC)	74,977	236,259	311,236		S
Lings Academy	17,251	52,609	69,860		S
Little Harrowden Community Primary School	3,923	17,292	21,215		S*
Loatlands Primary Academy	19,042	76,495	95,537		S
Loddington CEVA Academy	6,898	24,636	31,534		S
Lodge Park Academy	34,154	146,749	180,903		S
Longtown Outdoor Learning Trust	3,749	18,267	22,016		Ad
LTS Cleaning Ltd - Deanshanger Primary School	62	278	340		Ad
Lumbertubs Primary Academy	12,134	53,044	65,178		S
Magdalen College (Academy)	55,708	210,955	266,663		S
Malcolm Arnold Academy	41,141	141,408	182,549		S
Malcolm Arnold Prep School	15,497	44,283	59,779		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Manor School Sports College	58,360	198,595	256,955		S
Maplefields Academy	41,029	156,787	197,815		S
Mawsley Primary School	18,465	80,615	99,081		S*
Maxim Facilities Management(Bishop Stopford)	1,761	7,158	8,919		Ad
May Gurney	51,431	52,795	104,226		Ad
May Gurney (NORDIS)	15,500	43,593	59,093		Ad
May Gurney Fleet & Passenger Services Limited	64,374	139,886	204,260		Ad
Meadowside Primary School	22,016	95,148	117,165		S*
Mears Ashby CEVA Primary Academy	4,710	17,760	22,470		S
Middleton Cheney Community Primary Academy	14,902	59,768	74,670		S
Milton Parochial Primary Academy	4,319	18,503	22,821		S
Montsaye Academy	70,600	232,942	303,541		S
Moulton Academy	71,122	252,249	323,371		S
Moulton College	218,828	714,561	933,389		S
Moulton Parish Council	7,123	27,572	34,696		S
Moulton Primary School	21,913	96,269	118,182		S*
Naseby Academy	2,765	8,932	11,697		S
National Car Parks (NCP)	5,876	0	5,876		Ad

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
NBC Housing (Northampton Partnership Homes)	449,808	2,858,635	3,308,443		S
Newnham Primary Academy	3,900	16,044	19,944		S
Newton Road School	25,058	91,656	116,714		S
Nicholas Hawksmoor Academy	20,976	77,944	98,921		S
Northampton Academy	69,416	223,465	292,881		S
Northampton Borough Council	592,479	5,740,377	6,332,856		S
Northampton College	365,283	1,302,556	1,667,838		S
Northampton High School	24,505	195,915	220,420		Ad
Northampton International	32,002	127,617	159,620		S
Northampton School for Girls Academy	57,134	218,210	275,344		S
Northampton School for Boys (Non LEA)	76,138	277,470	353,608		S
Northampton Theatres Trust	24,007	189,350	213,357		Ad
Northamptonshire Carers	4,962	19,084	24,045		Ad
Northamptonshire County Council	7,214,895	25,917,190	33,132,085		AA
Northamptonshire Healthcare NHS Foundation	0	61,000	61,000	Y	Ad

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Northamptonshire Music and Performing Arts Trust	7,915	12,048	19,963		Ad
Northants Chief Constable	1,488,413	5,447,238	6,935,650		S
Northgate Academy	75,820	216,298	292,117		S
Oakley Vale Primary Academy	21,560	66,457	88,017		S
Oakway Academy	23,126	91,919	115,045		S
Office of the Police, Fire and Crime Commissioner (OPFCC)	19,000	63,135	82,135		S
Old Stratford Primary School Academy	5,262	23,285	28,548		S
Olympic Primary Academy	15,019	60,283	75,302		S
Oundle CE Primary School	9,176	33,352	42,528		S
Oundle Primary School	8,867	39,302	48,169	Y	S*
Oundle Town Council	4,101	16,875	20,975		S*
Our Lady of Walsingham Catholic Prim. Academy	18,828	81,629	100,457		S
Overstone Parish Council	66	325	391		S
Park Infant School (Raunds)	5,276	23,351	28,626		S
Park Infants Academy (Kettering)	15,449	68,450	83,899		S
Park Junior Academy (Kettering)	18,434	77,762	96,196		S
Parklands Primary	6,339	28,165	34,504		S*



# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Parklands Primary School	7,208	27,353	34,561		S
Parkwood Leisure	1,872	7,281	9,152		Ad
Paulerspury Primary School	6,502	27,982	34,484		S*
Peterborough Diocese Education Trust (HQ Staff)	33,857	96,209	130,066		S
Pineham Barns Primary Academy	6,673	32,012	38,685		S
Pitsford Primary School	2,642	11,815	14,457		S*
Places for People (DC Leisure)	6,886	0	6,886		S
Polebrook CE Primary	2,548	11,396	13,944		S*
Police & Crime Commissioner (NCC)	85,620	234,396	320,017		S
Preston Hedge's Primary Academy	18,202	66,840	85,042		S
Prince William School (Academy)	34,094	151,019	185,113		S
Priors Hall - A Learning Community	1,044	3,709	4,753		S
Prospects Services Ltd	8,727	40,422	49,149		Ad
Purple Oaks Academy	14,287	58,337	72,624		S
Pytchley Endowed CEVA Primary Academy	5,697	24,124	29,821		S
Raunds Town Council	4,490	27,033	31,523		S
Rectory Farm Primary Academy	15,065	60,632	75,698		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Redwell Primary School (NCC)	25,676	111,949	137,625		S*
Ringstead C of E Primary Academy	4,722	19,415	24,137		S
Road Primary School	11,478	50,016	61,494		S*
Rockingham Forest Trust	5,547	33,299	38,846		Ad
Rockingham Primary Academy	14,120	56,553	70,674		S
Rothwell Junior Academy	17,297	66,935	84,233		S
Rothwell Town Council	961	3,915	4,877		Ad
Rothwell Victoria Infant Academy	17,274	68,097	85,371		S
Rowan Gate	69,120	301,486	370,606		S*
Rushden Community Academy	43,248	172,942	216,190		S
Rushden Primary Academy	10,810	42,284	53,094		S
Rushden Town Council	13,476	54,450	67,927		S
Rushton Primary Academy	5,059	20,094	25,152		S
Ruskin Junior Academy	14,104	57,322	71,426		S
Shaw Healthcare	10,839	18,940	29,780		Ad
Silverstone CE Primary Academy	9,870	39,182	49,053		S
Silverstone TUC Academy	30,315	60,779	91,094		S
Simon de Senlis Primary Academy	21,747	88,429	110,176		S

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Sir Christopher Hatton Academy	57,784	199,757	257,541		S
South End Infant Rushden	14,060	61,120	75,181		S*
South End Junior Rushden	19,348	84,755	104,103		S*
South Northampton Borough Council	357,347	874,313	1,231,660		S
South Northants Homes	94,966	504,965	599,930		Ad
Southfield Academy	37,407	139,636	177,042		S
Southfield Primary Academy (B)	13,012	58,096	71,108		S
Spire Homes Limited	7,707	208,388	216,095		Ad
Sponne School (Academy)	67,612	240,571	308,183		S
Spratton CE Primary	2,303	9,712	12,015		S
Spratton Parish Council	0	10,000	10,000	Y	S
Spring Lane Primary Academy	15,121	66,861	81,982		S
St Andrews Primary School	19,986	65,513	85,499		S
St Barnabas Church of England School	13,001	49,363	62,363		S
St Brendans Catholic Primary Academy	11,190	48,228	59,417		S
St Edwards Catholic Primary Academy	10,458	44,329	54,787		S
St Gregorys RC Primary Academy	21,864	93,353	115,216		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
St James C of E Primary School	31,632	127,254	158,886		S
St James Infant School	13,600	61,838	75,439		S
St Loys C of E Primary Academy	3,812	15,578	19,390		S
St Lukes Academies Trust HQ	4,656	16,068	20,723		S
St Lukes CEVA Primary Academy	15,830	68,067	83,897		S
St Mary's C of E Primary Academy, Burton Latimer	18,383	74,361	92,744		S
St Mary's C of E Voluntary Aided Primary Academy, Kettering	14,888	59,261	74,149		S
St Mary's Catholic Primary School	772	3,275	4,047		S
St Marys RC Primary Academy	9,749	39,270	49,019		S
St Patrick's Primary School	14,377	61,642	76,019		S*
St Peter's Church of England Academy	9,172	36,729	45,902		S
St Thomas More Catholic Primary Academy	8,763	47,373	56,136		S
Standens Barn Primary	15,497	69,125	84,622		S*
Standens Barn Primary School Academy	3,051	13,714	16,765		S
Stanion Parish Council	127	2,628	2,755	Y	S
Stanwick Parish Council	1,031	4,853	5,884		S

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Stanwick Primary School Academy	7,771	35,386	43,157		S
Staverton C of E Primary Academy	5,419	24,467	29,886		S
Stimpson Avenue Academy	18,435	69,745	88,180		S
Studfall Infant School & Nursery Academy	19,035	75,921	94,956		S
Studfall Junior Academy	25,204	103,050	128,254		S
Sunnyside Primary (Academy)	9,610	39,771	49,381		S
The Abbey Primary School	2,371	10,248	12,619		S
The Arbours Primary (Academy)	18,944	67,727	86,671		S
The Avenue Infants	12,777	55,400	68,177		S*
The Bramptons Primary School	3,877	17,092	20,969		S*
The Castle Primary Academy	24,757	78,993	103,750		S
The Ferrers School Academy	51,878	198,128	250,006		S
The Good Shepherd RC Primary Academy	14,625	71,169	85,794		S
The Grange, Daventry	21,788	94,618	116,406		S*
The Queen Eleanor Primary Academy	12,343	52,070	64,413		S
The Radstone Primary School	3,210	11,238	14,447		S
The Red Kite Academy	6,381	23,739	30,120		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
The Spires Academy	6,677	29,943	36,620		S
Thomas Becket Academy	31,790	152,020	183,810		S
Thorplands Primary Academy	26,768	101,869	128,637		S
Thrapston Primary	25,064	108,930	133,993		S*
Thrapston Town Council	2,377	9,506	11,883		S
Towcester Primary Academy	14,944	66,886	81,830		S
Towcester Town Council	3,618	15,459	19,077		S
Trinity CE Primary School	956	3,754	4,709		S
Unity Leisure	72,250	204,408	276,657		Ad
University Of Northampton	1,048,155	3,402,030	4,450,185		S
University of Northampton Enterprises Ltd	41,664	92,411	134,075		Ad
Upton Meadows Primary School	27,416	123,527	150,942		S
Upton Parish Council	207	1,237	1,444		S
Veolia UK Ltd	66,190	311,797	377,987		Ad
Vernon Terrace Primary	18,908	79,623	98,531		S*
Victoria Primary Academy	20,356	69,837	90,194		S
Voice for Victims and Witnesses Ltd	14,530	48,742	63,272		Ad
Walgrave Primary School	6,013	26,699	32,712		S*

# Management and Financial Performance (continued)

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
Warwick Primary Academy	18,713	71,150	89,863		S
Waynelete Infants	7,467	33,286	40,752		S
Weavers Academy	58,142	209,215	267,357		S
Weedon Bec Academy	16,423	64,663	81,086		S
Weedon Parish Council	1,172	5,517	6,689		S
Weldon Parish Council	1,612	7,980	9,592		S
Weldon Primary Academy	7,050	30,011	37,061		S
Welford, Sibbertoft & Sulby Primary Academy	3,116	13,762	16,878		S
Welford, Sibbertoft And Sulby Endowed School	256	1,136	1,392	Y	S*
Well Lady'S Catholic Junior School	20,409	89,437	109,846		S*
Wellingboro Croyland Primary	39,470	173,031	212,501		S*
Wellingborough Norse	73,788	483	74,270		Ad
Welton Primary Academy	5,258	19,045	24,303		S
West Haddon Parish Council	897	4,445	5,343		S
Weston Favell Academy	48,434	183,788	232,222		S
Weston Favell Primary Academy	26,581	104,715	131,296		S
Whitehills Primary School	14,765	65,571	80,336		S*
Wilbarston C or E Primary Academy	5,769	22,741	28,509		S

Employer	Employee Contributions	Employers Contributions	Grand Total	Ceased	Body
William Parker Academy	119,535	337,202	456,737		S
Windmill Primary Academy	17,472	71,970	89,442		S
Wollaston Parish Council	834	3,959	4,793		S
Wollaston Primary Academy	12,527	48,389	60,917		S
Wollaston Upper School	48,775	210,356	259,132	Y	S*
Woodford Halse Academy	14,612	53,410	68,022		S
Woodland View Academy	17,267	76,855	94,122		S
Woodnewton Learning Academy	72,407	265,516	337,923		S
Woodvale Primary (Academy)	21,328	73,250	94,577		S
Wootton Park Academy	25,230	74,148	99,378		S
Wootton Primary Academy	17,633	71,283	88,916		S
Wootton, Wootton Fields & Simpson Manor Parish Council	4,340	9,367	13,707		S
Wren Spinney Community Academy	25,947	109,273	135,220		S
Wrenn School Academy	69,072	255,305	324,377		S
WSP	86,533	0	86,533		Ad
<b>Grand Total</b>	<b>21,478,866</b>	<b>85,838,904</b>	<b>107,317,767</b>		

# Investment Policy and Performance

## Introduction

Investment of the Fund's assets is governed by the Local Government Pension Scheme – in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"). These seek to ensure that the Fund:

- has formulated an appropriate Investment Strategy; a copy of which is available at:  
[Investment Strategy Statement](#)
- in formulating its Investment Strategy has considered and documented its approach to:
  - risk assessment and risk management,
  - pooling investments,
  - how environmental, social and governance issues are taken into account in investment selection,
  - having suitably diversified investments,
- has taken appropriate advice,
- has an appropriate number of Investment Managers who invest fund monies on its behalf,
- has relevant investment limits which are not exceeded,
- regularly monitors and reviews investments and investment arrangements,
- understands the restrictions on its powers to borrow, and
- operates a separate bank account.

The 2016 Regulations also set out the circumstances under which the Secretary of State would issue a direction to intervene in the management of the Fund's investments.

The Pension Committee (PC) approves investment policies and strategy and has established an Investment Sub-Committee (ISC), with support from the Fund's Advisors, to implement these investment policies and strategy, which includes the appointment and dismissal of Investment Managers and monitoring of performance.

The Pension Fund adopts a long term perspective, focussing its investment strategy to generate return on a risk adjusted basis to grow the Fund's assets to reflect its equally long term future liabilities. The Fund's approach to Sustainable Responsible Investment (SRI) is covered in the Investment Strategy Statement (ISS), in which the

Pension Committee has delegated to Investment Managers the responsibility for any shareholder voting and engagement.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which is a voluntary association of LGPS funds that seeks to protect and enhance the value of its members' shareholdings by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest. Through LAPFF, the Fund exercises its belief that engagement with company management to promote improvements in SRI practices is more powerful than divesting from the company's shares.

The Fund supports the principles of the UK Stewardship Code (the "Stewardship Code") and will be working with the Fund's Advisors with the intention to sign up to the revised 2019 UK Stewardship Code when published.

Information about Investment Manager voting is available at: [Key Documents](#)

## Role of Investment Managers

The ISS seeks to ensure that the Fund has an appropriate number of Investment Managers to invest fund monies on its behalf. Each Investment Manager' relationship is governed by an Investment Management Agreement, which sets out how much they can invest, the asset class in which the Fund has employed them to invest, the expected target return and how much the Fund will pay for this service. Where the Fund invests in a pooled fund rather than appointing an Investment Manager to invest directly on behalf of the Fund, the terms of the investment are governed by the prospectus issued by the manager of the pooled fund, such as assets transferring over to the asset pool.



# Investment Policy and Performance (continued)

## Active focus

The Fund with the exception of the passive UK Equity and Global Equity mandate and a buy and hold strategy for index-linked bonds, favours “active” briefs to outperform agreed specific benchmarks.

## Custodian

The Fund’s Custodian is Northern Trust. The Custodian is responsible for ensuring that the Fund has good title to all investments, that all trades instructed by Investment Managers are settled on time and that all income due to the Fund is received and recorded accurately. Northern Trust also maintain the investment accounting records for the Fund.

## Asset Pooling

The Fund is working with ten like-minded LGPS funds to implement the ACCESS asset pool in response to the Government’s LGPS reform agenda. The main aim is to encourage LGPS Funds to work together to form asset pools to “pool investments to significantly reduce costs, while maintaining investment performance.” Individually, the participating funds have a strong performance history and potential for substantial benefits for a group of successful, like-minded authorities collaborating and sharing their collective expertise. Collectively the ACCESS Pool has significant scale with assets of £43bn, managed on behalf of c3,000 employers and c900,000 members.

The roles and decision-making relationship between the eleven funds is informed by an Inter Authority Agreement. The ACCESS pool is governed by the AJC comprising the Chairmen of the eleven constituent funds. The Joint Committee have appointed Link Fund Solutions Ltd (Link) as operator of the pool and the LF ACCESS Authorised Contractual Scheme (ACS).

In December 2017 the Fund participated in a collaborative procurement for a passive equity provider, resulting in the selection of UBS Asset Management, Northamptonshire’s existing passive provider, but at a lower cost which has generated significant fee savings for the Fund.

On 9 August 2018 Link received notification from the FCA that the prospectus for the ACS and the first sub-fund had been approved with the initial investment in the ACS by three fellow ACCESS funds following on 16 November 2018. Transition of the Fund’s active equity mandates are scheduled during 2019-20.

ACCESS is also setting up the ACCESS Support Unit (ASU) which will manage the Operator contract against specified KPIs and provide technical and secretariat support services to the AJC and Officer Working Group (OWG).

In addition to the savings in Investment Management fees due to the reduction in manager numbers and an increase in mandate size, there are other tangible benefits from pooling including a governance dividend (potential for reduced risk due to manager diversification achieved at pool level) and tax savings for funds moving from pooled funds to segregated mandates in the pool’s tax transparent ACS. For some asset classes such as global equities tax savings alone are material relative to additional costs of implementing pooling.

More information about the ACCESS asset pool can be found on their website: [ACCESS Pool](#)

# Investment Policy and Performance (continued)

## The Costs of Pooling

The costs of setting up the ACCESS pool and the operating costs of the pool are collected by a nominated ACCESS authority and re-charged in equal shares to the eleven ACCESS funds. Northamptonshire's share of costs is reported within Other Costs in Note 12 Investment Management Expenses to the Statement of Accounts and comprises the following:

Set Up Costs	2018-19 £'000	2015-16 to 2018-19 Cumulative £'000
Strategic & Technical	29.7	85.5
Legal	30.9	67.1
Project Management	15.3	77.1
ACCESS Support Unit	31.2	35.6
Other	2.4	21.5
<b>Total Set Up Costs</b>	<b>109.5</b>	<b>286.8</b>

Operational Costs	2018-19 £'000	2015-16 to 2018-19 Cumulative £'000
Strategic & Technical	-	-
Legal	-	-
Project Management	-	-
ACCESS Support Unit	1.7	10.4
Other	-	-
<b>Total Set Up Costs</b>	<b>1.7</b>	<b>10.4</b>

## Cost Savings

The combined fee savings for the 2018-19 financial year resulting from the asset pooling agenda exceed £115k per annum, resulting from the passive mandate.

## Cost Transparency

CIPFA have published a document "Accounting for Local Government Pension Scheme Management Expenses". The objective is to identify the total cost of the supply chain of Investment Management, including trading expenses, performance fees and other costs incurred indirectly by underlying sub-funds.

The LGPS Scheme Advisory Board in conjunction with the Investment Association has devised a cost reporting template to be used on a voluntary basis by Investment Managers to report their total costs. In May 2019 the Cost Transparency Initiative (CTI) issued a different set of templates which have been adopted by the SAB into their transparency framework. There is a period of transition for Investment Managers to adopt their systems to populate the new template.

The Fund will receive Cost of Transparency data in the 2019-20 financial year and report accordingly in the 2019-20 Annual Report. Direct costs include: invoiced costs and costs deducted from the value of fund, or from income generated, in accordance with the fee agreement in place with each manager.

# Investment Policy and Performance (continued)

## Investment Allocation and Performance

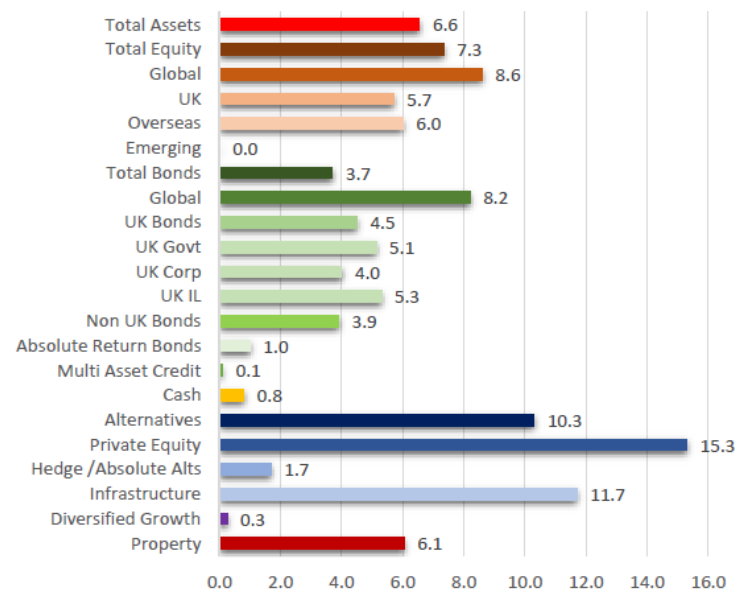
The Pension Committee are responsible for approving the Strategic Asset Allocation proposed by the ISC. The ISC have reviewed the allocation during 2018-19 in conjunction with the Fund's Investment Consultants, Mercer Ltd. The review assessed the appropriateness of the current strategy and any changes necessary to increase the chance of meeting the Fund's objectives, namely:

- To reach full funding and be in a position to pay benefits as they fall due; and
- To ensure contributions remain affordable to employers

The revised strategy approved by the Pension Committee in March 2019 has the objective of reducing the Fund's reliance upon, and the associated risks, of a large allocation to equities whilst retaining sufficient exposure to growth assets. The revised strategy, which will be implemented during 2019-20, focuses on a reduction in equities and an increase in assets (such as Private equity and Infrastructure) and a flexible allocation to fixed income. Any consequential changes to Investment Manager mandates will be implemented in conjunction with the roll-out of sub-funds offered by the ACCESS pool ACS. The Universe overview highlights the potential benefits of the revised strategy.

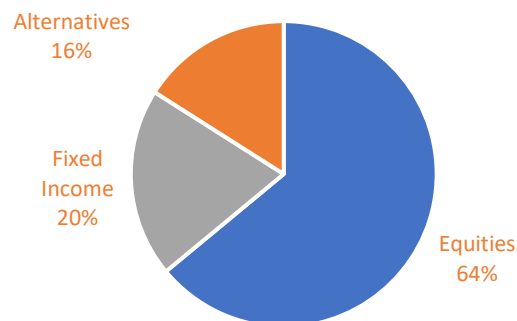
The Universe overview highlights the potential benefits of the revised strategy

### Universe Overview - Latest Year Latest Year Performance

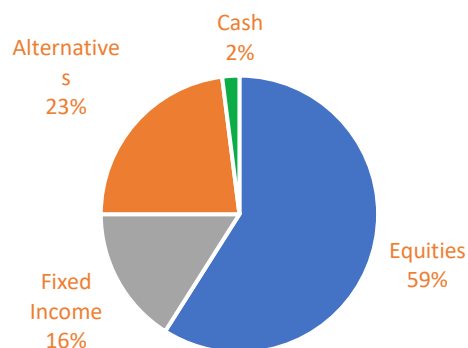


The charts below show the Strategic Asset Allocation at the start and close of the financial year compared to the actual allocation of assets at 31 March 2019 and the revised Strategic Asset Allocation targeted for 2019-20.

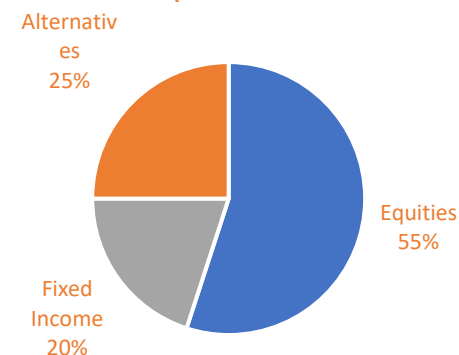
### Strategic Allocation at 31 March 2018 and 31 March 2019



### Actual Allocation 31 March 2019



### Strategic Allocation from 1 April 2019



# Investment Policy and Performance (continued)

Value of Investments held by each of the Fund's Investment Managers on 31 March 2018 and 31 March 2019:

Manager		31 March 2018 £million	% of Total	31 March 2019 £million	% of Total
	Majedie UK Equity	266.9	11.5	262.7	10.6
	UBS UK Equity	272.4	11.7	267.1	10.7
	UBS UK Passive Equity	0.0	0.0	24.4	1.0
	Newton Global Equity	361.6	15.6	390.8	15.7
	Skagen Global Equity	111.3	4.8	-	-
	UBS Passive Global Equity	531.8	22.9	539.0	21.7
	UBS Index Linked Gilts	202.5	8.7	214.1	8.6
	Wellington	177.3	7.7	181.6	7.3
	CBRE Property	193.3	8.3	196.1	7.9
	UBS Property	-	-	1.0	0.0
	Baillie Gifford – Diversified Growth	187.1	8.1	303.4	12.2
	M&G Residential Property	-	-	8.0	0.3
	HarbourVest	7.5	0.3	16.9	0.7
	Adams Street	0.6	0.0	8.3	0.3
	AMP Capital	8.5	0.4	17.1	0.7
	Allianz	-	-	11.1	0.4
	Catapult	0.7	0.0	0.8	0.0
	Cash	0.5	0.0	46.6	1.9
<b>TOTAL</b>		<b>2,322.0</b>	<b>100.0</b>	<b>2,489.0</b>	<b>100.0</b>

The table above excludes new commitments to the Alternatives allocation in infrastructure equity funds managed by JP Morgan and IFM Investors for which no funds had been called by 31 March 2019. During 2018-19 the initial cash calls were made on commitments made in previous years to AMP Capital and Allianz Global Investor's infrastructure debt funds and the M&G residential property fund. During the year the UBS Global passive mandate was reorganised to include regional indexed passive fund, and factor-based passive funds.

# Investment Policy and Performance (continued)

## Total Fund Performance

The total investment return for the Fund over the financial year was 7.4% compared with a weighted benchmark return of 7.9%. In the previous year the total investment return was 2.6% compared with a weighted benchmark of 2.9%. The Fund's total investment return was 10.3% p.a over the three years to 31 March 2019, 8.5% p.a over the five years to 31 March 2019, and 10.6% per annum over the ten years to 31 March 2019.

## Performance of Managers

The ISC continues to monitor the Investment Managers' performance against their benchmark at their quarterly meetings. All managers are measured against market-based performance benchmarks with bespoke outperformance targets set for active managers which are expected to be met over a three to five year period. All manager mandates returned positive performance in 2018-19. Net of fees performance of each manager compared to benchmark over one, three and ten years is shown in the table below.

Asset Class /Manager	1 year (% p.a)			3 year (% p.a)			10 year (% p.a)		
	Return	Benchmark	Variance	Return	Benchmark	Variance	Return	Benchmark	Variance
Majedie UK Equity	3.9	6.4	(2.5)	8.7	9.5	(0.8)	11.9	11.1	0.8
UBS – UK Equity	2.2	6.4	(4.2)	11.8	9.5	2.3	12.7	11.1	1.6
Newton – Global Equity	13.8	10.5	3.3	13.3	14.4	(1.1)	n/a	n/a	n/a
UBS – Passive Global Equity	11.3	11.5	(0.2)	15.0	15.1	(0.1)	n/a	n/a	n/a
UBS – Index-Linked Gilts	5.8	5.7	0.1	9.1	9.1	0.0	n/a	n/a	n/a
Wellington – Global Total Return	5.4	5.4	0.0	2.0	5.0	(3.0)	n/a	n/a	n/a
Wellington – Global Strategic Credit	0.4	2.4	(2.0)	2.5	1.4	1.1	n/a	n/a	n/a
Baillie Gifford - DGF	0.9	4.2	(3.3)	5.7	4.0	1.7	n/a	n/a	n/a
CBRE - Property	6.0	4.8	1.2	6.4	6.1	0.3	8.5	8.3	0.2
M&G – Residential Property	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
CBRE – Real Estate Debt	4.4	7.0	(2.6)	7.9	7.0	0.9	n/a	n/a	n/a
HarbourVest – Private Equity	12.3	12.6	(0.3)	n/a	n/a	n/a	n/a	n/a	n/a
Adams Street – Private Equity	3.2	12.6	(9.4)	n/a	n/a	n/a	n/a	n/a	n/a
AMP Capital – Infrastructure Debt	3.5	10.0	(6.5)	n/a	n/a	n/a	n/a	n/a	n/a
Allianz – Infrastructure Debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a = Not invested for the full period therefore no meaningful performance measure is available



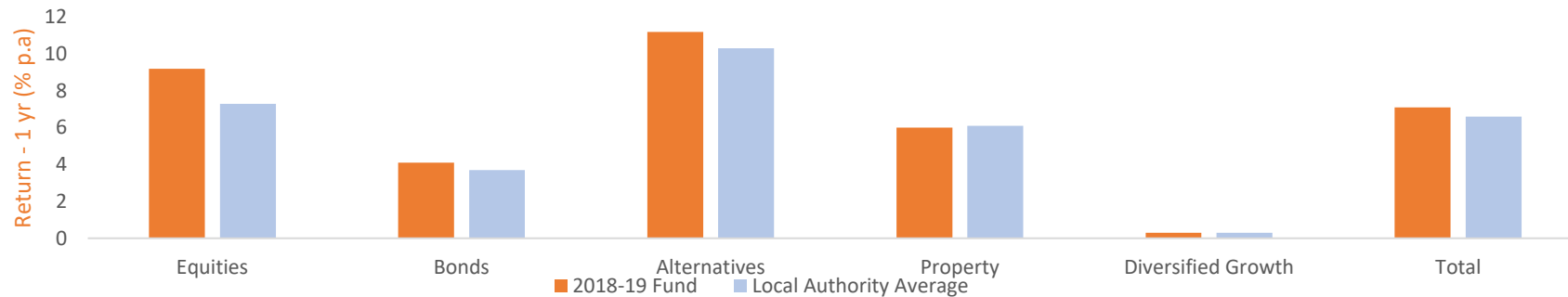
# Investment Policy and Performance (continued)

## Performance in Comparison with Local Authority Universe

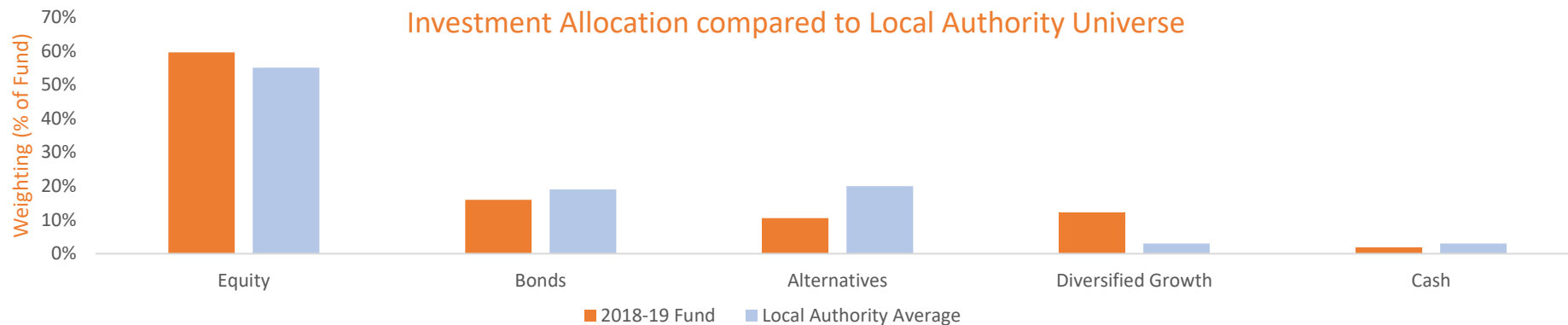
The Local Authority Universe is a national scheme consisting of 64 pension funds collated by PIRC Ltd that provides benchmarking of local authority pension funds investment performance.

In 2018-19 the Fund's performance of 7.4% over the financial year was ranked 18<sup>th</sup> percentile out of the 64 Funds participating in the Universe. The investment return achieved was influenced by the Fund's holding of a higher proportion of Equities, when compared to the Local Authority Universe.

### Investment Return compared to Local Authority Universe

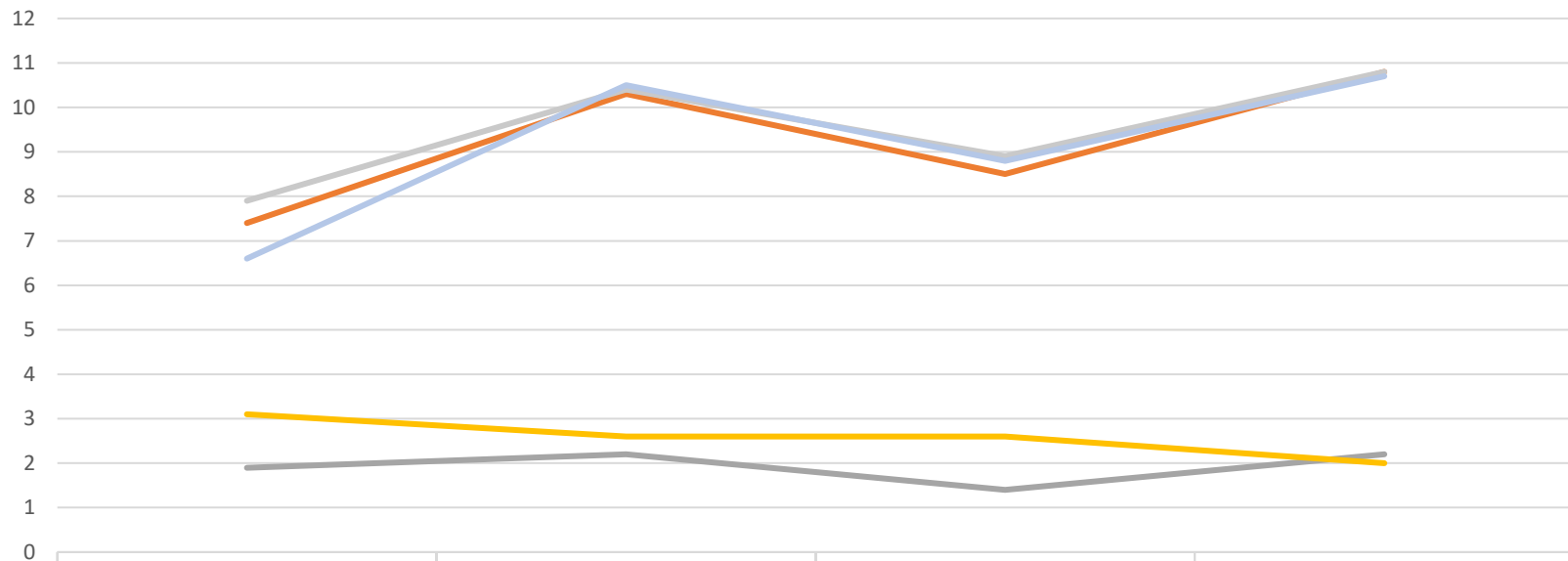


The Fund's current strategy has a higher allocation to Equities and a lower allocation to Alternatives when compared to the Local Authority Universe, however the revised investment strategy, being implemented during 2019-20, will change the profile of the Fund's assets resulting in an increased allocation to Alternatives.



# Investment Policy and Performance (continued)

% Returns p.a



	1 year 18th 2018-2019	3 years 40th 2016-2019	5 years 54th 2014-2019	10 years 43rd 2009-2019
The Fund	7.4	10.3	8.5	10.8
The Benchmark	7.9	10.4	8.9	10.8
Consumer Price Index	1.9	2.2	1.4	2.2
UK Average Weekly Earnings Index	3.1	2.6	2.6	2
Local Authority Average	6.6	10.5	8.8	10.7

The table above demonstrates the Fund's performance compared to Benchmark returns and the average investment return achieved by the Local Authority Universe over a one, three, five and ten year period.

# Investment Policy and Performance (continued)

## Independent Investment Advisors Annual Review

### Economic background and Market Review

The new financial year began with a strong recovery after the market correction of the previous quarter. The UK equity market, which had fallen sharply, recovered and hit new highs for the year. Unexpected weakness in the UK economy prompted the Bank of England to defer the much anticipated interest rate rise that in turn weakened sterling. The FTSE100 index is dominated by companies with large overseas earnings, as sterling weakened these earnings became more valuable and share prices rose strongly. The decline in sterling also boosted the value of foreign equities and bonds for UK based investors with all major markets showing gains with the exception of emerging markets, where the strength of the US dollar was acting as a drag. The continued strength of the US economy resulted in the US Federal Reserve raising rates for the second time during the calendar year and signalling two further rises before the year end. This in turn strengthened the dollar and put further pressure on a number of emerging economies particularly those that rely on significant amounts of dollar dominated debt.

Global economic growth had begun to slow slightly by the middle of the year. The growing prospect of a serious trade war between the US and China was beginning to undermine confidence in general, but in emerging Asia in particular. The Chinese equity market was now over 20% lower than at the January peak, damaged by a combination of tightening credit conditions aimed at reducing the high levels of domestic debt and the growing fear that the US-China tariff rhetoric would escalate into a full scale trade war with global implications.

Despite slowing growth in some economies, the year progressed with all major equity markets continuing to move higher over the summer months. The US equity market driven by a combination of a strong domestic economy and tax cut boosted corporate earnings growth raced higher up 8.5% in sterling terms over the quarter to September. There were also more modest gains for European and Japanese equity markets. UK equities were flat over the period and both UK Gilts and Index linked Gilts fell. Despite ongoing concerns over 'Brexit' the Bank of England went ahead and raised rates by 0.25% in early August. Immediately following the quarter end and close to the ten year anniversary of the market crash, concerns over US equity valuations and central bank rate rises caused a sharp sell off with highly rated technology stock the worst hit. After such a strong period of returns many market commentators had been anticipating a correction and this duly arrived when the calendar year ended with sharp falls in all equity markets. The declines were significant with the global index falling over 10% the worst performance over a quarter since 2009. US equities registered their biggest December decline since 1931. A number of pressures had been growing for investors but the most influential were concerns over the impact of raising interest rates in the US and fears that the speed of tightening was risking damage to the economy. Trade tensions between the US and China were escalating. Against this background investors already nervous of historically high market valuations became significantly more risk adverse.

Bonds were the main beneficiary of the sell-off in equity markets as investors looked for safe asset classes amid the volatility. Bond yields fell globally and in the UK 10 year Gilt yields fell to 1.15%, while in Europe a number of markets move back to trading at negative yields.

The financial year ended with a dramatic recovery from the sell-off seen over the previous quarter. The catalyst for this recovery was a marked change in tone by the US Federal Reserve. The over the period of a few months the Fed moved from a hawkish three rate rise stance to a more cautious 'data dependent' approach at the January meeting. This dovish approach was further reinforced by the quarter end with indications of no rate rise for 'some time' and a number of market participants forecasting actual rate cuts. Behind this rapid shift in stance is the growing realisation that economic growth is slowing globally particularly in Europe and China but also in Japan. The US economy despite continuing to perform well cannot be immune from

# Investment Policy and Performance (continued)

such a widespread slowdown. The ongoing and escalating trade war with China would also have been a concern. Inflation remains below target in the US despite a tight labour market and thus the case for further monetary tightening weakened future.

## Global Economy Highlights

- The US economy continued to deliver solid growth and corporate earnings were boosted by tax cuts. The Federal Reserve raised rates four times over the period. However further hikes previously indicated for the coming year appear now to be on hold. The US China trade war has intensified and moved from rhetoric to reality. US equity valuations remain at historically high levels
- China and the Emerging markets were volatile as concerns over slowing growth and high debt levels emerged. The escalating US-China trade war and US dollar strength caused investor nervousness. Intra Asian trade has slowed over the period and China is still grappling with a potential credit crisis internally.
- European growth decelerated over the period with Germany in particularly enduring a sharp slowdown in manufacturing as slowing Chinese demand for capital goods hit home. Manufacturing PMI figures fell below 50 over the period and have continued to fall into the new calendar year. Political concerns remain with President Macron facing on going protests including the '*Gilets jaunes*' movement. In Italy the dispute with the EU over budget deficits rumbles on.
- The UK economy continued to grow albeit slowly, the ongoing uncertainty over 'Brexit' and the seemingly intractable political log jam of a minority government failing to build a consensus on how to leave the EU is causing increasing harm to business planning and investment. The UK equity market continued to be driven by the high exposure to overseas revenues and the prospects for sterling, it trades at a modest valuation when compared to many other global markets in part because of concerns over the seemingly never ending 'Brexit' process.

## Market Returns

Financial market returns for the financial year 2018-19 were mixed. Many overseas asset returns were enhanced for sterling based investors as both the US dollar and Japanese yen strengthened against sterling. The sterling-euro exchange rate remained largely unchanged. The US dollar continued to gain ground against most other currencies, driven by a strong economy and a continuation of rate rises. The dollar gained 7% over the period against sterling.

In local currency terms most regions delivered positive returns. US equities rose 9.4% helped by a continuing strong economy and tax cut enhancements to corporate earnings. European equities gained 3.7% and Asian Pacific equities rose 1.5%. The most disappointing equity markets were the emerging markets, which were flat over the period and Japan which declined 4.1%. Despite on-going concerns over the final outcome of the 'Brexit' process, UK equities enjoyed a good year up 6.4%. Overall the global equity index returned 6.2% for the 2018-19 financial year.

For sterling investors the returns were boosted by the strength of the US dollar in particular. The global equity index gained 11.3% in sterling terms. US equities gained 17.7% with Asian Pacific markets up 3.9%. Despite a poor year for Japanese equities the strength of the Yen helped reduced the losses to under 1% for UK investors.

Bond markets also enjoyed a strong year UK over 15 year gilts returned 4.7% and Over 5 year Index linked Gilts returned 5.7%. Global bonds again helped by a strong dollar delivered 7.6% in sterling terms. The UK property market continued its positive run, up 5.6% over the financial year.

## Fund Performance

The Northamptonshire County Council Pension Fund reached £2,480m in value at the end of the financial year. However the fund slightly underperformed the bespoke benchmark during 2018-19, with a total return of 7.4% net of fees compared to 7.9% for the benchmark. The main driver of this underperformance was disappointing returns from the two UK equity active managers. Although employing differing investment styles both underperformed the FTSE UK all share index. The overseas active manager enjoyed a strong year outperforming the MSCI Global index.

# Investment Policy and Performance (continued)

The CBRE property fund had a good year and, delivered performance above the property benchmark. The diversified growth fund (DGF), which has an absolute return benchmark, performed poorly although it still delivered a small positive return. Despite this disappointment, over all periods longer than one year the DGF has delivered strong returns above the target benchmark. The fund's bond returns were mixed with absolute return bonds performing inline with their target, offset by a disappointing year in strategic credit, which delivered a zero return over the period. Over three years strategic credit continues to beat the target benchmark. The fund employs two private equity managers, strong public market conditions in recent years have helped the funds' private equity manager deliver good performance above the benchmark, however over the last year returns have lagged slightly the public benchmark equivalent.

The underperformance of the Northamptonshire County Council Pension Fund over one year slightly decreases the longer-term performance against the bespoke benchmark. Over three years the fund has returned a healthy 10.3% per annum, which although marginally below the benchmark of 10.4%, is significantly higher than both inflation and the return target return target, set at the March 2016 actuarial valuation of 4%. Over five years the fund return is 8.5% per annum with the benchmark at 8.9%.

## **Strategic Asset Allocation: Investment Strategy Statement**

The Fund's Investment Strategy Statement (ISS) makes clear that strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments. It also recognises, that the Fund is an open scheme with long-term liabilities, which consist of an obligation to pay benefits linked to inflation. In setting the strategic allocation the Investment Sub-Committee (ISC) also takes into account the covenant associated with the Fund's employers in deciding how much risk is appropriate. The Committee will retain full responsibility for strategic asset allocation as the ACCESS pool continues to develop and expand.

## **Strategic Asset Allocation: ISC Review**

It is good governance to review the investment strategy and strategic asset allocation on a periodic basis. The aim of any review will be to consider new information derived from the triennial actuarial review, including changes to liabilities. Changes in the overall market environment and a review of new investment solutions will also be considered. This process now incorporates monitoring and evaluating the developing ACCESS pool platform and the investment opportunities that are being opened up. The fundamental principle of the schemes investment strategy is to reach full funding and be in a position to pay benefits as they fall due, while ensuring that contributions remain affordable to employers. With this as a frame work the ISC considered the following issues.

The current investment strategy has been evolving over recent years but has maintained its main themes of investing in a broad spread of diversified return and income generating assets, complimented by a smaller weighting to risk mitigation assets including index linked bonds. The investment strategy of the scheme continues an emphasis long-term return generation over short term risk mitigation and seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. However as the funding level of the scheme has improved and valuations, particularly in equity markets have become further stretched, consideration of the risks inherent in the current strategy and opportunities to reduce this risk have been examined. The current target allocation to equities is 64%. A further 16% is allocated to growth assets offering strategic diversification, split equally between property and a diversified growth Fund. The remaining target allocation of 20% is currently invested in bonds, split between index linked Gilts and mandates less exposed to rising interest rates, such as total return and global credit. As part of the decision to reduce equity risk gradually as new diversifying investments become available a notional 10% of the fund was available for other alternatives. During the period the first allocations into this area were made.

# Investment Policy and Performance (continued)

Allocations to two private equity managers were approved and the decision was taken to commit to two global infrastructure funds, which will be drawing commitments in the new financial year. The residential property fund and infrastructure debt funds committed to during the last financial year have now started to draw down cash. In addition to new alternative commitments the ISC approved a reorganisation of the scheme's passive equity exposure. The exposure to capitalisation weighted global index funds was reduced and a fundamentally weighted global fund was introduced. In addition two 'factor' or 'smart beta' funds were introduced one investing in a global 'quality' factor the other in a minimum volatility factor. These passive 'smart beta' investments sit alongside and provide diversification from the traditional capitalisation weighed indices. Towards the end of the period a number of the passive investments were moved to GBP hedged share classes, to reduce currency volatility in these global investments. Also at this time the opportunity was taken to replace the global passive fund with regional funds allowing for a more bespoke weighting between regions.

The ISC had undertaken to examine whether a more significant decrease in the exposure to equities is a prudent risk reduction strategy; taking into account the current funding level, the required return from the funding strategy statement (FSS) and the investment opportunities available. The majority of expected return and risk is derived from the equity portion of the fund and a number of opportunities in non-equity return generating assets have been identified. The ISC have now approved a change to the ISS and strategic benchmark that reflects these considerations. The revised ISS and a new strategic asset allocation benchmark are to be published in the new financial year.

## Outlook

The coming year is expected to see the continuation of the market volatility seen over the previous year; many aspects of investment uncertainty remain both on the geopolitical and valuation fronts. The US-China trade war is still unresolved and the future of US-EU trade relations may be the next to be put under pressure. The slowing Chinese economy, new sanctions against Iran and ongoing pressures in Europe from populist movements are also concerns for global investors. Valuations remain stretched in a number of markets, the correction seen late in 2018 has largely been reversed with equity multiples particularly in the US once again looking demanding.

Against this background and with the eventual outcome of the 'Brexit' negotiations still unknown the ISC will continue to operate with high levels of governance, with attention to investment risk as a core focus for the coming financial year. Following the review of the strategic asset allocation the ISC will focus on delivering the funding strategy of the scheme while reducing reliance on equity returns, reducing volatility and increasing exposure to additional return generating assets.

The journey towards pooling will be almost complete by the end of the current period with the majority of the schemes assets sitting in pooled funds. Many exciting opportunities for co-operation and increased resources will be available from the ACCESS pool. The ISC will continue to examine ways to utilise these benefits and increased opportunities, for the benefit of the scheme and its members.

Mark Stevens

May 2019



# Actuarial Information

## Northamptonshire Pension Fund ("the Fund") Actuarial Statement for 2018-19

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's FSS, dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% likelihood that the Fund will return to full funding over 20 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,871 million, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £517 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

# Actuarial Information

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.2 years
Future Pensioners*	23.9 years	26.1 years

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

## Experience during the Period Since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Geoff Nathan FFA  
For and on behalf of Hymans Robertson LLP  
12 April 2019  
Hymans Robertson LLP  
20 Waterloo Street, Glasgow, G2 6DB

# Actuarial Information (continued)

## Extract from the actuarial valuation report

### Executive Summary

We have carried out an actuarial valuation of the Northamptonshire Pension Fund ("the Fund") as at 31 March 2016. The results are presented in this report and are briefly summarised below.

### Funding Position

The table below summarises the financial position of the Fund at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	2,191	2,388
Market Value of Assets	1,545	1,871
Surplus/(Deficit)	(646)	(517)
Funding Level	71%	78%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period, coupled with the positive impact on the liabilities of actual pay and benefit growth being lower than expected.

### Contribution Rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£)		
1 April 17 – 31 March 20	2017/18	2018/19	2019/20
17.1%	£24,731,000	£22,348,000	£23,214,000

The Primary rate also includes an allowance of 0.7% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore, a contribution rate that is directly comparative to the rates above is not provided. Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate.

# Audit Opinion

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHAMPTONSHIRE COUTY COUNCIL

### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Finance & Deputy Chief Executive's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Finance & Deputy Chief Executive has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# Audit Opinion

## Other information

The other information comprises the information included in the 'Statement of Accounts 2018 to 2019', other than the financial statements and our auditor's report thereon. The Executive Director of Finance & Deputy Chief Executive's is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

## Responsibility of the Executive Director of Finance & Deputy Chief Executive

As explained more fully in the Statement of Responsibilities set out on page 29, the Executive Director of Finance & Deputy Chief Executive is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director of Finance & Deputy Chief Executive is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

# Audit Opinion



## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

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

Debbie Hanson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

31 March 2021

*The maintenance and integrity of the Northamptonshire County Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.*

*Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*



# Fund Account

31-Mar-18 £000		Notes	31-Mar-19 £000
<b>Dealings with members, employers and others directly involved in the fund:</b>			
(101,214)	Contributions	<a href="#">7</a>	(107,318)
(4,650)	Transfers in from other pension funds	<a href="#">8</a>	(5,856)
<b>(105,864)</b>			<b>(113,174)</b>
89,806	Benefits	<a href="#">9</a>	89,696
33,334	Payments to and on account of leavers	<a href="#">10</a>	6,395
<b>123,140</b>			<b>96,091</b>
<b>17,276</b>	<b>Net (additions)/withdrawals from dealing with members</b>		<b>(17,083)</b>
8,486	Management Expenses	<a href="#">11</a>	10,100
<b>25,762</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>(6,983)</b>
<b>Returns on investments:</b>			
(38,760)	Investment income	<a href="#">13</a>	(44,950)
467	Taxes on income		506
(26,406)	(Profit) and losses on disposal of investments and changes in the value of investments	<a href="#">14a</a> , <a href="#">17b</a>	(133,266)
<b>(64,699)</b>	<b>Net return on investments</b>		<b>(177,710)</b>
<b>(38,937)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(184,693)</b>
(2,282,629)	Opening net assets of the scheme		(2,321,566)
<b>(2,321,566)</b>	<b>Closing net assets of the scheme</b>		<b>(2,506,259)</b>

Notes on pages 47 to 78 form part of the financial statements.

# Net Asset Statement

31-Mar-18 £000		Notes	31-Mar-19 £000
2,325,634	Investment assets		2,490,931
(3,549)	Investment liabilities		(1,937)
<b>2,322,085</b>	<b>Total net investments</b>	<a href="#">14</a>	<b>2,488,994</b>
20,019	Current assets	<a href="#">21</a>	22,064
(20,538)	Current liabilities	<a href="#">22</a>	(4,799)
<b>(519)</b>	<b>Net Current Assets</b>		<b>17,265</b>
<b>2,321,566</b>	<b>Net assets of the Fund available to fund benefits at the end of the reporting period</b>	<a href="#">17a</a>	<b>2,506,259</b>

Notes on pages 47 to 78 form part of the financial statements.

Note: The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

# Notes to the Pension Fund Accounts

## 1. DESCRIPTION OF THE FUND

The Northamptonshire County Council Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Northamptonshire County Council. The County Council 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 Annual Report 2018-19 on pages 1 to 41 and the underlying statutory powers underpinning the scheme.

### General

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

- the LGPS Regulations 2013 (as amended);
- the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Northamptonshire County Council to provide pensions and other benefits for pensionable employees of Northamptonshire County Council, the district councils in Northamptonshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Northamptonshire Pensions Committee, which is a committee of Northamptonshire County Council.

### Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Northamptonshire Pension Fund include:

- Scheduled bodies - local authorities and similar bodies whose staff are automatically entitled to be members of the Fund;
- Admitted bodies - 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.

As at 31 March 2019 there are 367 (2018: 305) active employers within the Northamptonshire Pension Fund, including the County Council itself. The Fund has over 66,000 individual members, as detailed below:

	31-Mar-18	31-Mar-19
<b>Number of employers with active members</b>	305	367
<b>Number of employees in scheme:</b>		
County council	6,815	8,049
Other employers	14,319	14,585
<b>Total</b>	<b>21,134</b>	<b>22,634</b>
<b>Number of Pensioners:</b>		
County council	7,915	8,547
Other employers	7,785	7,597
<b>Total</b>	<b>15,700</b>	<b>16,144</b>
<b>Deferred pensioners:</b>		
County council	15,352	13,724
Other employers	13,068	8,466
<b>Total</b>	<b>28,420</b>	<b>22,190</b>
<b>Undecided Leavers:</b>		
County council	*	2,360
Other employers	*	2,922
<b>Total</b>	<b>-</b>	<b>5,282</b>
<b>Total members</b>	<b>65,254</b>	<b>66,250</b>

\*included in deferred pensioners as at 31 March 18

# Notes to the Pension Fund Accounts (continued)

## Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. 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 ended 31 March 2019. Employers' contributions are set as part of the triennial actuarial funding valuation. The last such valuation was at 31 March 2016. Employers' contributions comprise a percentage rate on active payroll between 11% and 25.1% and deficit payments of fixed cash amounts set for each employer as part of the triennial funding valuation.

## 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 1 April 2008 to 31 March 2014
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump Sum</b>	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

## Career Average Revalued Earnings (CARE)

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based upon their pensionable pay in that year at an accrual rate of 1/49th or 1/98th for those members who have taken up the 50/50 option and pay proportionately lower contributions. Accrued pension is updated annually in line with the Consumer Price 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 Northamptonshire Pension Fund scheme handbook available from LGSS Pension Services based at One Angel Square, Angel Street, Northampton NN1 1ED.

# Notes to the Pension Fund Accounts (continued)

## 2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018-19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. Paragraph 3.3.1.2. of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018-19. 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 into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20. The Accounts have been prepared on a going concern basis.

At the date of authorisation of the financial statements, the Fund does not consider that the impact of COVID-19 give rise to material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. This will be to 30<sup>th</sup> April 2022.

Northamptonshire County Council remains satisfied the Fund that it administers continues to be a going concern.

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 93% funded – a significant increase from the position 3 years prior of 78%. As of 31 December 2020 the Pension Fund was 98% funded.

The actuarial valuation includes the Rates and Adjustment certificate detailing the contributions to the Pension Fund that participating employers are expected to make. It remains the Fund's expectation that these will be paid as planned. To date only one employer paying very small contributions relative to the size of the Fund (£10k pa), has enquired about deferring their

contribution payments because of the Coronavirus pandemic. However, the Employer continued to pay the assessed contributions from the actuarial valuation and did not proceed to defer.

Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund has reviewed its cash flow forecast. The Fund is satisfied it has sufficient cash to meet its obligations, for at least 12 months from date of authorisation of these accounts, without selling any investments. Should investments be required to be sold as a result of negative cash flows or employers being unable to pay their contributions (which is not expected) the Pension Fund would have ready access to cash as 77% of the Fund could be sold at short notice from the Level 1 and Level 2 investments as at 31<sup>st</sup> December 2020. For further information, please refer to the Fund's Cash Management Strategy.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account – revenue recognition

#### 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 actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due date on which they are payable 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 the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

# Notes to the Pension Fund Accounts (continued)

## Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10). Individual transfers in/out are accounted for on a cash basis. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on an accruals basis and are included in Transfers In (see Note 8). Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## Investment income

### *i) Interest income*

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

### *ii) Dividend income*

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

### *iii) Distributions from pooled funds*

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

### *iv) Movement in the net market value of investments*

Changes in the net market value of investments are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

## Stock lending

Stock lending income is recognised in the Fund Account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date. Securities on loan remain assets of the Fund and are recorded in the net assets statement at fair value.

## Fund Account – expense items

### Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities and paid in the following month.

### Taxation

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

### 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 CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

### Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's 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 in accordance with Council policy.



# Notes to the Pension Fund Accounts (continued)

## **Oversight and governance costs**

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

## **Investment Management Expenses**

Investment Management expenses are accounted for on an accruals basis.

Fees of external Investment Managers and the 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 year end 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 2018-19, £0.8m of fees are based upon such estimates (2017-18: £ 0.5m). In addition, manager fees deducted from pooled funds of £1.5m (2017-18: £1.6m) are estimated based upon information received from fund managers.

The cost of obtaining investment advice from external consultants is charged direct to the Fund. All staff costs associated with investment activity are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged to the Fund.

## **Net Assets Statement**

### **Financial Assets**

Financial assets are included in the Net Assets Statement on a fair value basis, except for loans and receivables.

Loans and receivables are assets for which the amounts receivable are fixed and determinable and where the Fund has not designated the asset at fair value through profit and loss. This includes contributions owing from employers and cash deposits. Loans and receivables are initially recognised at fair value and subsequently measured at

amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset.

Investment assets, other than cash held by Investment Managers on the Fund's behalf, are initially recognised at fair value and are subsequently measured at fair value with gains and losses recognised in the Fund Account. The values of investments as shown in the net assets statement 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).

### **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.

### **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 (see Note 15).

### **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.

# Notes to the Pension Fund Accounts (continued)

## Financial Liabilities

The Fund initially recognises financial liabilities at fair value and subsequently measure them at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability.

## Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 20).

## 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 Pension Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are deducted from the individual member's pay and 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 (see Note 23).

## Contingent Assets and Liabilities

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

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of a narrative in the notes.

## 4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

### Pension Fund Liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

The estimated liability is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant Investment Management policies, for example in terms of the balance struck between longer term investment growth and short-term investment yield/return.

## 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 Net Assets Statement as 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

# Notes to the Pension Fund Accounts (continued)

## ■ Actuarial Present Value of Promised Retirement Benefits

**Uncertainties:** Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rates at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An independent firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. The actuary has included the McCloud judgement within their calculation shown in note 20.

**Effect if Actual Results Differ from Assumptions:** The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £406 million. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £51 million, and a 1 year increase in assumed life expectancy would increase the liability by approximately 3-5%.

## Private Equity

**Uncertainties:** Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation

**Effect if Actual Results Differ from Assumptions:** The total private equity investments in the financial statements are £26.1 million. There is a risk that this investment may be under or overstated in the accounts.

## 6. EVENTS AFTER THE BALANCE SHEET DATE

### McCloud

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to “McCloud”), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements.

In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. It was announced on the 27<sup>th</sup> June 2019 that the Government has been denied the right to appeal.

It was subsequently announced that any remedy resulting from the McCloud case would also apply to the LGPS in the form of a small increase in benefits for some members. A HMCLG consultation on the required amendments to the LGPS regulations was issued on 16<sup>th</sup> July 2020 for a period of 12 weeks. It is anticipated that amendments to members benefits will not commence until the earliest of 1 April 2021.

The actuary has included the McCloud judgement impact within their calculation within note 20.

### COVID - 19

Subsequent to the Fund’s year end, there has been a dramatic downturn in global markets as a result of the Covid-19 pandemic, causing disruption to many businesses and economic activity. The Fund is monitoring the situation closely and liaising regularly with its investment adviser to consider any necessary actions to respond.

The Fund considers the outbreak to be a non-adjusting subsequent event for the financial statements to the year end 31 March 2019. As at 31 March 2020 the net asset value of the Fund was £2,404m, this is a 4.2% decrease compared to the position as of 31 March 2019. This reflects the impact of the Coronavirus pandemic on investment markets as of 31 March 2020.

As at December 2020, the Fund has experienced growth to £3,012m. This is a 17.4% increase in investments compared to the position as of 31 March 2019.

# Notes to the Pension Fund Accounts (continued)

## 7. CONTRIBUTIONS RECEIVABLE

### By category:

2017-18 £000		2018-19 £000
20,225	Employees' contributions	21,479
	<b>Employers' contributions:</b>	
59,001	Normal contributions	64,998
21,988	Deficit recovery contributions	20,841
80,989	<b>Total employers' contributions</b>	<b>85,839</b>
101,214		107,318

### By authority:

2017-18 £000		2018-19 £000
25,943	Administering Authority	33,133
71,749	Scheduled Bodies	70,211
3,522	Admitted Bodies	3,974
101,214		107,318

## 8. TRANSFERS IN FROM OTHER PENSION FUNDS

2017-18 £000		2018-19 £000
4,650	Individual transfers	5,856
4,650		5,856

## 9. BENEFITS PAYABLE

### By category:

2017-18 £000		2018-19 £000
71,852	Pensions	74,602
16,571	Commutation and lump sum retirement benefits	13,014
1,383	Lump sum death benefits	2,080
89,806		89,696

### By authority:

2017-18 £000		2018-19 £000
41,089	Administering Authority	39,184
41,986	Scheduled Bodies	42,926
6,731	Admitted Bodies	7,586
89,806		89,696

## 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017-18 £000		2018-19 £000
314	Refunds to members leaving service	439
147	Payments for members joining state scheme	-
25,035	Group transfers	(804)
7,838	Individual transfers	6,760
33,334		6,395

The credit shown against group transfers results from an over-estimate of a group transfer accrued in 2017-18.

# Notes to the Pension Fund Accounts (continued)

## 11. MANAGEMENT EXPENSES

2017-18 £000		2018-19 £000
1,837	Administrative costs	2,481
6,289	Investment management expenses	6,890
360	Oversight and governance costs	729
<b>8,486</b>		<b>10,100</b>

Fees payable to External Auditors, included within Oversight and governance costs, were £23k during the year (2017-18 £22k).

## 12. INVESTMENT MANAGEMENT EXPENSES

2017-18 £000		2018-19 £000
4,251	Management fees	4,585
-	Performance related fees	804
1,679	Transaction costs	1,022
359	Other costs	479
<b>6,289</b>		<b>6,890</b>

## 13. INVESTMENT INCOME

2017-18 £000		2018-19 £000
26,844	Income from equities	32,417
3,252	Pooled investments – unit trusts and other managed funds	3,489
8,059	Pooled Property Investments	7,663
-	Private equity/infrastructure income	782
143	Interest on cash deposits	369
462	Other – securities lending income	230
<b>38,760</b>		<b>44,950</b>

# Notes to the Pension Fund Accounts (continued)

## 14. INVESTMENTS

31-Mar-18 £000		31-Mar-19 £000
	<b>Investment assets</b>	
847,092	Equities	901,836
1,251,479	Pooled investments	1,281,981
165,615	Pooled property investments	197,117
17,370	Private equity/infrastructure	62,296
	Derivative contracts:	
3	• Forward currency contracts	7
40,526	Cash deposits	41,726
3,280	Investment income due	4,539
269	Amounts receivable for sales	1,429
<b>2,325,634</b>	<b>Total investment assets</b>	<b>2,490,931</b>
	<b>Investment liabilities</b>	
	Derivative contracts:	
	• Forward currency contracts	(12)
(1)	• Amounts payable for pending spot FX	-
(3,548)	Amounts payable for purchases	(1,925)
<b>(3,549)</b>	<b>Total investment liabilities</b>	<b>(1,937)</b>
<b>2,322,085</b>	<b>Net investment assets</b>	<b>2,488,994</b>



# Notes to the Pension Fund Accounts (continued)

## 14(a). RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 01-Apr-18	Purchases during the year and derivative payments*	Sales during the year and derivative receipts*	Change in market value during the year	Market value 31-Mar-19
	£000	£000	£000	£000	£000
Equities	847,092	192,571	(174,125)	36,298	901,836
Pooled investments	1,251,479	1,242,612	(1,293,638)	81,528	1,281,981
Pooled property investments	165,615	27,068	(6,741)	11,175	197,117
Private equity/infrastructure	17,370	46,886	(5,555)	3,595	62,296
	<b>2,281,556</b>	<b>1,509,137</b>	<b>(1,480,059)</b>	<b>132,596</b>	<b>2,443,230</b>
<b>Derivative contracts:</b>					
• Forward Currency Contracts	3	915	(1,781)	858	(5)
	<b>2,281,559</b>	<b>1,510,052</b>	<b>(1,481,840)</b>	<b>133,454</b>	<b>2,443,225</b>
<b>Other investment balances:*</b>					
• Cash deposits	40,526			(173)	41,726
• Amount receivable for sales	269			7	1,429
• Investment income due	3,280			-	4,539
• Spot FX contracts	(1)			(27)	-
• Amounts payable for purchases of investments	(3,548)			5	(1,925)
<b>Net investment assets*</b>	<b>2,322,085</b>			<b>133,266</b>	<b>2,488,994</b>

Note 17b

\* Other Investment balances and Net investment assets do not add across as purchases, sales and other movements are not disclosed here, in accordance with CIPFA guidance.

# Notes to the Pension Fund Accounts (continued)

## 14(a). RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES (CONTINUED)

	Market value 01-Apr-17	Purchases during the year and derivative payments*	Sales during the year and derivative receipts*	Change in market value during the year	Market value 31-Mar-18
	£000	£000	£000	£000	£000
Equities	843,989	204,472	(193,081)	(8,288)	847,092
Pooled investments	1,182,505	44,797	(8,394)	32,571	1,251,479
Pooled property investments	169,741	25,746	(31,319)	1,447	165,615
Private equity/infrastructure	3,328	14,721	(1,664)	985	17,370
	<b>2,199,563</b>	<b>289,736</b>	<b>(234,458)</b>	<b>26,715</b>	<b>2,281,556</b>
<b>Derivative contracts:</b>					
• Forward Currency Contracts	53	365	(315)	(100)	3
	<b>2,199,616</b>	<b>290,101</b>	<b>(234,773)</b>	<b>26,615</b>	<b>2,281,559</b>
<b>Other investment balances:</b>					
• Cash deposits	58,072			(125)	40,526
• Amount receivable for sales	162			-	269
• Investment income due	2,949			-	3,280
• Spot FX contracts	(2)			(50)	(1)
• Amounts payable for purchases of investments	(3,918)			(34)	(3,548)
<b>Net investment assets*</b>	<b>2,256,879</b>			<b>26,406</b>	<b>2,322,085</b>

\* Other Investment balances and Net investment assets do not add across as purchases, sales and other movements are not disclosed here, in accordance with CIPFA guidance.

# Notes to the Pension Fund Accounts (continued)

## 14(b). ANALYSIS OF INVESTMENTS

31-Mar-18 £000		31-Mar-19 £000
	<b>Equities</b>	
495,783	UK - Quoted	525,394
351,309	Overseas - Quoted	376,442
<b>847,092</b>		<b>901,836</b>
	<b>Pooled funds – additional analysis</b>	
202,457	UK - Fixed income	214,133
24,498	UK - Equity	43,058
177,312	Overseas - Fixed income	181,617
847,212	Overseas - Equity	842,473
127	Overseas - Cash Fund	700
<b>1,251,606</b>		<b>1,281,981</b>
165,615	Pooled property investments	197,117
17,243	Private equity/ infrastructure	62,296
<b>182,858</b>		<b>259,413</b>
3	Derivatives	7
40,526	Cash deposits	41,726
3,280	Investment income due	4,539
269	Amounts receivable from sales	1,429
<b>44,078</b>		<b>47,701</b>
<b>2,325,634</b>	<b>Total investment assets</b>	<b>2,490,931</b>
	<b>Investment liabilities</b>	
	Derivative contracts:	
-	• Forward currency contracts	(12)
(1)	• Amounts payable for pending spot FX	-
(3,548)	Amounts payable for purchases	(1,925)
<b>(3,549)</b>	<b>Total investment liabilities</b>	<b>(1,937)</b>
<b>2,322,085</b>	<b>Net investment assets</b>	<b>2,488,994</b>

# Notes to the Pension Fund Accounts (continued)

## 14(c). INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31-Mar-18			Market value 31-Mar-19	
£000	% of net investment assets		£000	% of net investment assets
<b>Investments managed outside of ACCESS asset pool:</b>				
640	0.0	Adams Street Partners	8,328	0.3
-	-	Allianz Global Investors	11,114	0.5
8,528	0.4	AMP Capital	17,110	0.7
187,087	8.1	Baillie Gifford & Co	303,421	12.2
678	0.0	Catapult	813	0.1
186,985	8.1	CBRE Global Investment Partners	195,249	7.9
6,290	0.3	CBRE Debt	8,294	0.3
7,526	0.3	HarbourVest Partners (UK)	16,950	0.7
-	-	M&G Residential	7,984	0.3
266,942	11.5	Majedie Asset Management	277,083	11.1
361,610	15.6	Newton Investment Management	401,110	16.1
111,311	4.8	Skagen	-	-
272,601	11.7	UBS Asset Management	276,688	11.1
734,099	31.6	UBS Global Asset Management	777,553	31.2
177,310	7.6	Wellington Management	181,617	7.3
478	0.0	Cash with custodian	5,680	0.2
<b>2,322,085</b>	<b>100.0</b>	<b>Net investment assets</b>	<b>2,488,994</b>	<b>100.0</b>

All the above companies are registered in the United Kingdom.

# Notes to the Pension Fund Accounts (continued)

The following investments represent more than 5% of the net assets of the scheme.

Security	Market value	% of total fund	Market value	% of total fund
	31-Mar-18		31-Mar-19	
	£000	%	£000	%
Baillie Gifford Diversified Growth Fund	187,087	8.1	<b>303,441</b>	<b>12.1</b>
UBS Asset Management Life 5 Year Fixed Index Linked Gilts	202,457	8.7	<b>214,132</b>	<b>8.5</b>
UBS Life World Equity Tracker	476,388	20.5	-	-

## 14(d). STOCK LENDING

The Fund's Investment Strategy sets the parameters for the Fund's stock-lending programme. At 31 March 2019, the value of quoted equities on loan was £110.3m (31 March 2018: £119.1m). These equities continue to be recognised in the Fund's financial statements. Counterparty risk is managed through holding collateral at the Fund's custodian. At the year end the custodian held collateral at fair value of £117.5m (31 March 2018: £129m) representing 107% of stock lent. Collateral consists of acceptable securities and government debt.

## 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.

#### ■ Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements. There were no outstanding exchange traded future contracts at 31 March 2019 or 31 March 2018.

#### ■ Forward foreign currency

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by the Fund managers.

There is no specified requirement to use currency hedging within the Fund's Investment Management Agreements. Instead, the Fund managers use their discretion as to whether or not any currency hedging should be used to mitigate any potential risk.

# Notes to the Pension Fund Accounts (continued)

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
		Currency '000		Currency '000	£000	£000
Up to one month	GBP	911	EUR	(1,065)	-	(8)
Up to one month	GBP	168	JPY	(24,585)	-	(2)
One to six months	GBP	271	EUR	(316)	-	(2)
Up to one month	JPY	107,636	GBP	(740)	7	-
<b>Total</b>					<b>7</b>	<b>(12)</b>
Net forward currency contracts at 31 March 2019						<b>(5)</b>
<b>Prior Year Comparative</b>						
Open forward currency contracts at 31 March 2018					<b>3</b>	<b>(1)</b>
Net forward currency contracts at 31 March 2018						<b>2</b>

## ■ Options

In order to minimise the risk of loss of value through adverse equity price movements, equity option contracts can protect the Fund from falls in value in its main investment markets, principally the UK, USA and Europe. There were no outstanding option contracts at 31 March 2019 or 31 March 2018.



# Notes to the Pension Fund Accounts (continued)

## 16. FAIR VALUE

### 16a. FAIR VALUE HIERARCHY

#### Valuation of Financial Instruments Carried At Fair Value

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur. The Fund has adopted the classification guidelines recommended in the Practical Guidelines on Investment Disclosures (PRAG/Investment Association, 2016).

- Level 1** Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.
- Level 2** 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. The price used is based upon inputs from observable market data.
- 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 values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Northamptonshire Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2015, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,645,059	640,382	157,776	2,443,237
<b>Total financial assets</b>	<b>1,645,059</b>	<b>640,382</b>	<b>157,776</b>	<b>2,443,237</b>

*This disclosure has been amended in the current year to better reflect the requirements of the Code*

Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	2,104,350	54,721	125,626	2,284,697
Loans and Receivables	43,176			43,176
<b>Total financial assets</b>	<b>2,147,526</b>	<b>54,721</b>	<b>125,626</b>	<b>2,327,873</b>

There has been no change in the valuation techniques used for individual investments during the year.

# Notes to the Pension Fund Accounts (continued)

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date. The fair valuation of each class of investment asset is set out below.

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 the account period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities valued at a market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments – not exchange traded open ended funds	Level 2	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Not required
Pooled investments – not exchange traded closed ended funds	Level 3	Closing bid and offer prices are published. Closing single price where a single price is 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 and lack of liquidity.
Private equity and infrastructure- equity	Level 3	Comparable valuation of similar companies	Price/Earnings or EBITDA multiple	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date.
Private equity and infrastructure - other	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Share of net assets	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, and by any differences between audited and unaudited accounts.

# Notes to the Pension Fund Accounts (continued)

## 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 within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Asset Type	Value as at 31-Mar-19 £000	Assessed valuation range (+/-)	Value on Increase £000	Value on Decrease £000
Venture Capital	54,312	19.7	65,011	43,613
Equities	208	16.9	243	173
Property Funds	103,256	14.3	118,023	88,491
<b>Total Assets</b>	<b>157,776</b>		<b>183,278</b>	<b>132,276</b>

## 16(b) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2018-19	Market value 1-Apr- 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market value 31-Mar-2019
	£000	£000	£000	£000	£000	£000
Venture Capital	17,243	38,901	(4,957)	2,552	573	54,312
Equities	20,754	-	(20,435)	(111)	-	208
Property Funds	87,629	20,713	(6,699)	1,526	87	103,256
<b>Total</b>	<b>125,626</b>	<b>59,614</b>	<b>(32,091)</b>	<b>3,967</b>	<b>660</b>	<b>157,776</b>

# Notes to the Pension Fund Accounts (continued)

## 17. FINANCIAL INSTRUMENTS

### 17a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the year.

31-Mar-18			31-Mar-19		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
Financial assets					
847,092	-	-	Equities	901,836	-
1,251,479	-	-	Pooled investments	1,281,981	-
165,615	-	-	Pooled property investments	197,117	-
17,370	-	-	Private equity/ infrastructure	62,296	-
3	-	-	Derivative contracts	7	-
-	40,526	-	Cash	-	53,697
3,549	-	-	Other investment balances	-	5,968
-	20,019	-	Debtors	-	10,093
2,285,108	60,545	-	2,443,237	69,758	-
Financial liabilities					
-	-	-	Derivative contracts	-	(12)
(1)	-	-	Other investment balances	-	(1,925)
-	-	(24,086)	Creditors	-	(4,799)
-	-	(24,086)	-	-	(6,736)
2,285,107	60,545	(24,086)	2,443,237	69,758	(6,736)
2,321,566			Total		
			2,506,259		

# Notes to the Pension Fund Accounts (continued)

## 17b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2017-18 £000		2018-19 £000
	<b>Financial assets:</b>	
26,715	Fair value through profit and loss	132,596
-	Amortised cost – realised gains on de-recognition of assets	12
-	Amortised cost – unrealised gains	-
	<b>Financial liabilities:</b>	
(100)	Fair Value through profit and loss	858
(209)	Amortised cost – realised losses on de-recognition of assets	(200)
-	Amortised cost – unrealised losses	-
<b>26,406</b>	<b>Total gains</b>	<b>133,266</b>

## 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 Council manages these investment risks as part of its overall Pension Fund Risk Management Programme.

Responsibility for the Fund's Risk Management Strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### a) Market Risk

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

The objective of the Fund's Risk Management Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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

The Fund manages these risks in two ways:

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

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

# Notes to the Pension Fund Accounts (continued)

## Other Price Risk

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

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

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment Advisors, the Council has determined that the following movements in market price risk would have reasonably

been possible for the 2018-19 reporting period. The potential price changes above are broadly consistent with one-standard deviation movement in the assets. The sensitivities are consistent with the assumptions contained in the investment Advisors most recent review. This analysis assumes that all other factors, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movement +/- (%p.a.)
UK equities	16.6%
Overseas equities	16.9%
Global pooled equities	16.9%
Diversified Growth Fund	12.5%
Index Linked Bonds	7.2%
Pooled fixed interest bonds	10.5%
Property	14.3%
Alternatives	19.7%
Cash and Other investment balances	0.5%



# Notes to the Pension Fund Accounts (continued)

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

<b>31 March 2019</b>	<b>Value as at</b>	<b>% (rounded) Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
<b>Asset Type</b>	<b>31-Mar-19</b>		<b>£000</b>	<b>£000</b>
	<b>£000</b>			
UK equities	568,452	16.6	662,815	474,089
Overseas equities	376,442	16.9	440,061	312,823
Global pooled equities	539,032	16.9	630,129	447,936
Diversified Growth Fund	303,441	12.5	341,371	265,511
Index Linked Bonds	214,133	7.2	229,550	198,715
Pooled fixed interest bonds	181,617	10.5	200,687	162,547
Property	197,117	14.3	225,306	168,930
Alternatives	62,296	19.7	74,545	50,048
Cash and Other investment balances	46,464	0.5	46,697	46,232
<b>Total Assets</b>	<b>2,488,994</b>		<b>2,851,161</b>	<b>2,126,831</b>

<b>31 March 2018</b>	<b>Value as at</b>	<b>% (rounded) Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
<b>Asset Type</b>	<b>31-Mar-18</b>		<b>£000</b>	<b>£000</b>
	<b>£000</b>			
UK equities	520,281	16.8	607,688	432,874
Global equities	1,011,434	17.9	1,192,481	830,387
Diversified Growth Fund	187,085	12.6	210,660	163,510
Index-linked bonds	202,457	9.2	221,083	183,831
Pooled fixed interest bonds	177,312	12.7	199,831	154,793
Property	165,615	14.3	189,298	141,932
Alternatives	17,243	20.1	20,709	13,777
Cash and Other investment balances	40,658	0.5	40,860	40,456
<b>Total Assets</b>	<b>2,322,085</b>		<b>2,682,610</b>	<b>1,961,560</b>

# Notes to the Pension Fund Accounts (continued)

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest Rate Risk Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) (i.e. 0.80%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1.0%) change in interest rates:

31-Mar-18 £000	Asset Type	31-Mar-19 £000
40,526	Cash and cash equivalents	41,726
8,750	Cash balances	11,970
202,457	Index-linked securities	214,133
177,312	Fixed interest securities	181,617
429,045	Total	449,446

Exposure to interest rate risk	Asset values at 31-Mar-19 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	41,726	41,726	41,726
Cash balances	11,970	11,970	11,970
Index-linked securities	214,133	216,274	211,991
Fixed interest securities	181,617	183,433	179,801
<b>Total change in assets available</b>	<b>449,446</b>	<b>453,403</b>	<b>445,488</b>

Exposure to interest rate risk	Asset values at 31-Mar-18 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	40,526	40,526	40,526
Cash balances	8,750	8,750	8,750
Index-linked securities	202,457	204,482	200,432
Fixed interest securities	177,312	179,085	175,539
<b>Total change in assets available</b>	<b>429,045</b>	<b>432,843</b>	<b>425,247</b>

# Notes to the Pension Fund Accounts (continued)

Exposure to interest rate risk	Interest receivable 2018-19 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits, cash and cash equivalents	369	373	365
Index-linked securities	-	-	-
Fixed interest securities	2,923	2,952	2,894
<b>Total</b>	<b>3,292</b>	<b>3,325</b>	<b>3,259</b>

Exposure to interest rate risk	Interest receivable 2017-18 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits, cash and cash equivalents	143	144	142
Index-linked securities	-	-	-
Fixed interest securities	-	-	-
<b>Total</b>	<b>143</b>	<b>144</b>	<b>142</b>

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

## Currency Risk

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

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

# Notes to the Pension Fund Accounts (continued)

## Currency Risk – Sensitivity Analysis

Following analysis of historical data with the Fund's Advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 10.0% (the 1 year expected standard deviation).

A 10.0% (31 March 2018: 10.0%) fluctuation in the currency is considered reasonable based on the Fund Advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10.0% strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value at 31-Mar-19 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas Equities	1,218,915	121,892	1,340,807	1,097,024
Overseas Fixed Income	181,617	18,162	199,779	163,455
Overseas Cash Fund	700	70	770	630
<b>Total</b>	<b>1,401,232</b>	<b>140,124</b>	<b>1,541,356</b>	<b>1,261,109</b>

Assets exposed to currency risk	Value at 31-Mar-18 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas Equities	1,198,521	119,852	1,318,373	1,078,669
Overseas Fixed Income	177,310	17,731	195,041	159,579
Overseas Cash Fund	127	13	140	114
<b>Total</b>	<b>1,375,958</b>	<b>137,596</b>	<b>1,513,554</b>	<b>1,238,362</b>

## b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

# Notes to the Pension Fund Accounts (continued)

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency, Standard & Poor's. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £53.7m (31 March 2018: £44.4m). This was held with the following institutions:-

	Rating	31-Mar-18 £000	31-Mar-19 £000
<b>Money market funds</b>			
Northern Trust Global Investors Global Cash Fund	AAAF S1+	40,526	41,535
UK Treasury Bills		-	
<b>Bank deposit account</b>			
Barclays Bank	A	3,696	11,971
<b>Bank current accounts</b>			
Northern Trust custody accounts	A-1+	129	191
<b>Total</b>		<b>44,351</b>	<b>53,697</b>

## c) Liquidity Risk

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

The Fund has immediate access to its cash holdings, with the exception of holdings that are for a fixed term when the deposit is placed. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2019 the value of illiquid assets was £259.4m, which represented 10.4% of the total Fund assets (31 March 2018: £166.3m, which represented 7.2% of the total Fund assets).

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 2019 are due within one year.

## d) Refinancing Risk

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

# Notes to the Pension Fund Accounts (continued)

## 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.

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 council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a maximum period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 100%, a deficit recovery plan is put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the Fund was assessed as 78.4% funded (70.5% at the March 2013 valuation). This corresponded to a deficit of £517m (2013 valuation: £646m) at that time.

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon. The table below summarises the whole fund Primary and Secondary Contribution rates at the 2016 triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate %	Secondary Rate %		
1 April 2017 to 31 March 2020	2017/2018	2018/2019	2019/2020
17.1%	£24,731,000	£22,348,000	£23,214,000

The Primary rate above includes an allowance of 0.7% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the Fund's website. At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

# Notes to the Pension Fund Accounts (continued)

## Basis of Valuation

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:

## Financial Assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

Assumption	Description	31-Mar-16		31-Mar-13	
		Nominal	Real	Nominal	Real
Price inflation (RPI)		3.3%	-	3.3%	-
Price Inflation (CPI)/ Pension increases		2.1%	-	2.5%	-
Pay increases - 2016	RPI minus 0.7% p.a.*	2.4%	(0.7)%	n/a	n/a
Pay increases - 2013	RPI plus 1% p.a.*	n/a	n/a	4.3%	1.0%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.8% p.a. (2013: 1.6% p.a).	4.0%	n/a	4.6%	n/a

\*Plus an allowance for promotional pay increases.

## Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Assumed life expectancy at age 65	Active and Deferred Members		Current Pensioners	
	Male	Female	Male	Female
2013 valuation	24.0	26.6	22.3	24.3
2016 valuation	23.9	26.1	22.1	24.2

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

## Other Demographic Valuation Assumptions:

- a) Retirements in ill health** - Allowance has been made for ill-health retirements before Normal Pension Age.
- b) Withdrawals** - Allowance has been made for withdrawals from service.
- c) Family details** - A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
- d) Commutation** - Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 25% of HMRC limits for service to 31 March 2008 and 63% of HMRC limits for service from 1 April 2008.
- e) 50:50 option** - 5.0% of members (uniformly distributed across the age, service and salary range) are assumed to choose the 50:50 option under which they pay 50% lower contributions and receive proportionately lower retirement benefits.



# Notes to the Pension Fund Accounts (continued)

## 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 Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

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.

31-Mar-18		31-Mar-19
£m		£m
(3,454)	Present value of promised retirement benefits	(3,892)
2,322	Fair value of scheme assets (bid value)	2,506
<b>(1,132)</b>	<b>Net liability</b>	<b>(1,386)</b>

As noted above, the liabilities 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.

Note that the above figures include allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

### Assumptions Used

Assumptions	31-Mar-18	31-Mar-19
	% p.a.	% p.a.
Inflation/pension increase rate assumption	2.4	2.5
Salary increase rate	2.7	2.8
Discount rate	2.7	2.4

# Notes to the Pension Fund Accounts (continued)

## 21. CURRENT ASSETS

31-Mar-18 £000		31-Mar-19 £000
	<b>Debtors:</b>	
1,805	Contributions due – members	1,563
3,779	Contributions due – employers	5,767
1,749	Other debtors	2,212
3,936	Funds due from County Council	551
<b>11,269</b>		<b>10,093</b>
8,750	<b>Cash balances</b>	11,971
<b>8,750</b>		<b>11,971</b>
<b>20,019</b>		<b>22,064</b>

## 22. CURRENT LIABILITIES

31-Mar-18 £000		31-Mar-19 £000
328	Benefits payable	543
17,236	Other creditor	3,855
2,974	Funds due to County Council	401
<b>20,538</b>		<b>4,799</b>

## 23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market value 31-Mar-18 £000		Market value 31-Mar-19 £000
4,700	Prudential	4,863
727	Standard Life	655
<b>5,427</b>		<b>5,518</b>

## 24. AGENCY SERVICES

Agency Services represent activities administered by the Fund on behalf of scheme employers which are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

2017-18 £000		2018-19 £000
2,551	Unfunded pensions	2,552
<b>2,551</b>		<b>2,552</b>

# Notes to the Pension Fund Accounts (continued)

## 25. RELATED PARTY TRANSACTIONS

### Northamptonshire County Council

The Northamptonshire County Council Pension Fund is administered by Northamptonshire County Council. Consequently there is a strong relationship between the Council and the Fund. The Council incurred costs of £1.8m (2017-18: £1.9m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of members of the Pension Fund and contributed £25.9m of employer's contributions to the Fund in 2018-19 (2017-18: £20.7m). At 31 March 2019 there was £150k due to the Council by the fund (31 March 2018: £962k was due to the Fund by the Council).

### Governance

The following Pension Committee members declared a personal interest due to either being a member of the scheme themselves or having a family member in the scheme: Councillor Bill Parker, Councillor Stephen Legg, Councillor Richard Micklewright, Councillor Julie Brookfield, Robert Austin, Peter Borley-Cox, Damian Pickard, Andy Langford and Janet Blunden.

County Council members have declared their interests in their Register of Members' Interests. Other members of the Pension Committee are required to declare their interests at each meeting.

## 25(a) KEY MANAGEMENT PERSONNEL

The administration of the Fund is provided by LGSS Pensions which is a shared service arrangement between Northamptonshire County Council and Cambridgeshire County Council. The Head of Pensions in the shared service unit reported directly to the LGSS Director of Finance, followed by the Interim Managing Director of LGSS, whose costs are reported in the Northamptonshire County Council statement of accounts. Other key personnel include the Section 151 Officer, who is Treasurer to the Fund, and the Head of HR. The Interim Managing Director of LGSS, the Section 151 Officer and the Head of HR are remunerated for their services to the organisation as a whole and it is not possible to identify within the overhead charge from LGSS the proportion of costs relating to these services to the Fund.

## 26. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2019 totalled £252.6m (31 March 2018: £131.4m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

## 27. CONTINGENT ASSETS

Fourteen admitted body employers in the Northamptonshire Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

# Glossary

**ACCRUAL** An amount to cover income or spending that belongs to the accounting year, which was outstanding at the accounting date.

**ACTUARY** An independent company which advises on the assets and liabilities of the Fund with the aim to ensure that the payment of pensions and future benefits are met.

**ACS** ACCESS Authorised Contractual Scheme.

**ADMITTED BODIES** Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

**AJC** ACCESS Join Governance Committee

**AUM** Assets Under Management

**BENEFICIAL OWNER** The true owner of a security regardless of the name in which it is registered.

**BID PRICE** The price at which securities are purchased by market makers.

**BOND** Security issued by a corporate or government body borrowing in the capital markets. Bonds promise to pay interest (coupons) during the life of the bond plus the principal sum borrowed on the redemption date. Bonds may be secured over assets of the firm or be unsecured.

**CASH EQUIVALENTS** Assets which are readily convertible into cash.

**CIPFA** Chartered Institute of Public Finance and Accountancy

**COMMUTATION** Giving up part or all of the pension payable from retirement in exchange for an immediate lump sum. Commutation factors (usually calculated by the Fund Actuary) are used to determine the amount of pension which needs to be given up in order to provide the lump sum.

**CONTINGENT ASSETS AND LIABILITIES** Are assets and liabilities that may or may not be incurred depending on the outcome of a future event.

**CONTRACT NOTE** The documentary record of a trade which is sent from the broker to the investor.

**CONVERTIBLE** Unsecured loan stock (bond) which converts into equity of the issuing company. The UK Government also issues convertible gilts which convert into other government stock.

**COUPON** The regular payment made on bonds.

**CTI** Cost Transparency Initiative

**CURRENT ASSETS** Short-term assets such as inventories, receivables and bank balances.

**CURRENT LIABILITIES** Amounts owed which are due to be settled in less than one year, such as bank overdrafts and money owed to suppliers.

**CUSTODIAN** An external body responsible for ensuring Fund assets are registered in the name of the Fund, managing the settlement of trades entered into by the Fund, collecting income arising on Fund assets and reporting transactions and values to the Fund on a regular basis.

**DEFERRED PENSION BENEFIT** A pension benefit which a member has accrued but is not yet entitled to receive.

**DEFICIT** An outcome as a result of taking away all expenses from income.

# Glossary (continued)

**DERIVATIVE** A financial instrument derived from a security, currency or commodity, or an index indicator representing any of these, the price of which will move in a direct relationship to the price of the underlying instrument. Derivatives can be used for a number of purposes - including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard to trade assets or markets.

**DIVIDEND** The distribution of profits by a company to its shareholders. The dividend may be passed or cut if profits fall. [See also Equities]

**EARNINGS PER SHARE (EPS)** The net (after tax) profits of a company divided by the number of ordinary shares in issue. This is used as the 'E' term in the P/E ratio to value shares.

**EQUITIES** Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business. Equity holders rank last in the event of the winding up of a company.

**FINANCIAL INSTRUMENTS** Contracts which give rise to a financial asset of one entity and a financial liability or equity instrument of another.

**FINANCIAL CONDUCT AUTHORITY (FCA)** The lead UK regulator. A designated agency which is not a government department.

**FIXED INTEREST CORPORATE BOND** A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

**FTSE-100 INDEX** The main UK index used to represent the approximate price movements of the top 100 shares.

**FTSE All Share Index** Summarises the state of the UK equity market. It covers some 900 of the major UK industrial, commercial and financial companies.

**FUTURES** Instruments which give a buyer the right to purchase a commodity at a future date.

**GMP** Guaranteed Minimum Pension

**HEDGE** To protect a fund from a fall in prices. This is usually accomplished by the selling of futures.

**HEDGE FUND** A limited partnership with very little restriction on the scope of its investment. Usually quoted in Luxembourg or Dublin. Hedge funds often use borrowing to gear up exposure to markets.

**IDRP** Internal Dispute Resolution Procedures

**INDEX LINKED** Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation.

**INTEREST YIELD** The annual coupon on a bond divided by the price of a bond which is quoted without accrued interest.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** Accounting Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB).

**ISC** Investments Sub-Committee

**LGSS** A partnership between Cambridgeshire and Northamptonshire County Councils to create a wholly owned public sector organisation to deliver professional and transactional support services.

**LOAN STOCK** Unsecured bonds, which may be convertible if they have a warrant attached.

**LPB** Local Pension Board.

**MARKET CAPITALISATION** For an individual stock it is the value of all shares held in the equity of the company. For a market or index it is the total of all the market caps of the constituent companies.

**OFFER PRICE** The price at which market makers will sell stock.

# Glossary (continued)

**ORDINARY SHARES** 'A' Shares which confer full voting and dividend rights to the Owner.

**PENSIONS STRAIN** Charges to employers to cover discretionary early retirement costs, which are the responsibility of the employer, recovered in the first year of retirement in full.

**PC** Pension Committee.

**PLSA** Pensions and Lifetime Savings Association.

**PORTFOLIO** A collection of investments. This can refer to the investments managed by a particular Investment Manager, or to describe the whole Fund's investments.

**RAG** Red, Amber and Green

**RELATED PARTY** A person or an organisation which has influence over another person or organisation.

**RIGHTS ISSUE** A new issue of shares offered to existing shareholders in proportion to their existing holdings. Usually offered at a discount to entice take-up, which causes the existing shares to fall in value to the theoretical ex-rights price.

**SAB** Scheme Advisory Board

**SCHEDULED BODIES** Local Authorities and similar bodies whose staff are entitled automatically to become members of the local Authority Pension Fund.

**STOCK** Shares (e.g. Common stock). However, UK Gilts are more correctly described as stock.

**SURPLUS** An outcome as a result of taking away all expenses from income.

**TRANSFER VALUES** Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

**TREASURY MANAGEMENT** A process which plans, organises and controls cash, investments and borrowings so as to optimise interest and currency flows, and minimise the cost of funds.

**TRUST** Investments are owned by trustees for the underlying beneficial owners. A unit trust is a trust, incorporated under a trust deed. An investment trust is a company, not a trust.

**UNIT TRUST** An open-ended trust investing in a wide spread of stocks, shares and cash (subject to FSA limits). Investors buy units directly from the Investment manager to participate in a diversified portfolio. Unit trusts are subject to FSA investment and borrowing regulations.

**WARRANTS** Long dated options warrants give the holder the right to buy/sell a specified quantity of a particular stock, or any other asset, at a fixed price on or before a specified date.