Waltham Forest Council

Pension Fund Annual Report

2013/14

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Waltham Forest

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND

PENSION FUND ANNUAL REPORT 2013/14

CONTENTS LIST

INTRODUCTION

This Annual Report covers the management and performance of the London Borough of Waltham Forest Pension Fund (the Fund) for the financial year 2013/14

The first part of this Annual Report deals with the investment management structure of the Pension Fund and the fund managers appointed by the Pension Fund to manage the various portfolios. Investment performance for the year is analysed in context of economic conditions prevailing at the time. A report is also provided on the administration performance on the benefits administration service provided over the year.

The second part of the report is concerned with the governance arrangements put in place for the oversight of the Pension Fund and its management, including the approach taken to ethical investment issues.

Investment Review

Market Background

The financial year 1 April 2013 to 31 March 2014 was, similar to 2012-13, another year in which the Central Banks played a major role. The year began with a dramatic announcement on 4 April 2013 by Haruhiko Kuroda, the Governor of the Bank of Japan, of a radical policy of monetary easing whereby the bank aimed to double the amount of money in circulation to reach 2% inflation in two years. This announcement combined with intended fiscal and structural reforms by the Japanese Government represented a concerted effort (known as “Abenomics” after the Japanese Prime Minister Shinzo Abe) to end 15 years of deflation and general economic malaise through growth orientated policies. Following the announcement by the Bank of Japan of its huge Quantitative Easing programme the Nikkei 225 equity index ended the financial year 20% up. Despite questions about the likely long term success of “Abenomics” 2013-14 saw annual consumer price inflation rise to 1.6% by March 2014 a remarkable figure in the context of recent Japanese economic history.

2013-14 was a clearly positive year for US equities. Despite some downward corrections the S&P index reached new record highs during the year. The index began the year on 1 April 2013 at 1569 and ended 19% higher at 1872 on 31 March 2014. This indicates that despite market concerns surrounding the “tapering” (reduction) in the US Federal Reserve’s $85 billion per month Quantitative Easing programme and consequently a slower pace of monetary easing these were more than offset by other factors including improved sentiment resulting from continuing reductions in unemployment (which was 6.7% in March 2014 compared to 7.6% a year earlier), continuing house price increases (the Case Shiller House Price indices indicated increases of over 10% during the year), strong corporate earnings/balance sheets with pre-tax corporate profits at record highs, and the fact that the Federal Reserve indicated continued support for the Federal Funds (Base Rate) to remain at virtually zero.

Speculation and announcements regarding the future of Quantitative Easing were major features of the year. On 19 June 2013 Ben Bernankie the Chairman of the US Federal Reserve set out the case for “tapering” (reducing) its monthly $85 billion Quantitative Easing programme if the US economy grew as predicted.

Following further improvements in economic activity and reductions in unemployment the Federal Reserve announced on 18 December 2013 that it would “taper” its monthly Quantitative Easing programme by $10 billion from January 2014. This represented a decision by the Federal Reserve that it no longer needed to do ever more to facilitate economic recovery not an end to its highly stimulative monetary policy. Indeed at the same time as announcing the beginning of the “taper” the Federal Reserve strengthened its forward guidance on policy emphasising that it would keep interest rates close to zero “well past” when US unemployment fell below 6.5% and said it wanted to see inflation heading back up towards its 2% target before the first rate rise. Further “tapering” of $10 billion per month were approved by the Federal Reserve at both its January and March 2014 meetings.

2013-14 was another difficult year for Emerging Markets. The prospect and then announcement of “tapering” by the US Federal Reserve was a major issue for Emerging Market economies which had seen large capital inflows as a result of the Unites States Federal Reserve policy of Quantitative Easing. Tapering by the Federal Reserve also implied a stronger United States economy and ultimately higher United States interest rates all of which would potentially entice investors towards the United States and away from Emerging Markets.

Concerns over tapering by the Federal Reserve together with deteriorating fundamentals such as high inflation (for example in India and South Africa), weakening growth, large current account deficits and economic slowdown in China resulted in significant selling off in emerging market currencies. There were interest rate rises in a number of Emerging Market countries including India, South Africa and Turkey in an attempt by their Central Banks to improve economic stability. Over the financial year the FTSE All-World Emerging Markets index fell by 13.5%.

The promise by Mario Draghi President of the European Central Bank (ECB) in July 2012 to do “whatever it takes” continued to have positive effects in 2013-14.The prospect of a Eurozone crisis, receded further as shown by significant falls in Greek, Portuguese, Irish, Italian and Spanish 10 Year Government Bond yields between 1 April 2013 and 31 March 2014. 2013-14 saw growth rather than contraction across the Eurozone economy, with Gross Domestic Product expanding by approximately 1% over the financial year. Eurozone stocks had a clearly positive year with the FTSE All-World Eurobloc Index advancing 18%.

The generally positive trend in the Eurozone was however mitigated by several factors. There was continued weakness in lending by the Eurozone banking sector and continued high unemployment in the peripheral Eurozone countries with Greece and Spain still experiencing levels in excess of 20%. In particular there were growing concerns regarding a trend towards possible deflation with core Eurozone inflation below 1% for the last five months of the financial year. In January 2014 Mario Draghi strongly emphasised that the ECB “will maintain an accommodative stance of monetary policy for as long as necessary.”

2013-14 was positive for the UK economy. There was broad based growth across manufacturing, services and construction. In March 2014 the Office for National Statistics reported unemployment was 6.8% compared to 7.8% a year earlier. The FTSE All Share index advanced by 5.2% over the financial year.

2013-14 saw losses for holders of the “safe haven” government bonds. Despite the “taper” US Government 10 Year Bonds ended the 2013-14 financial year with a yield of 2.75% only 0.9% up over the financial year influenced at least in part by the Federal Reserve’s continued commitment to ultra low interest rates. The UK 10 year benchmark increased over the year by 0.98% from 1.78% to 2.76%. However the German 10 year benchmark increased by only 0.29% from 1.29% to 1.58%.

The growing yield spread between UK and German Government Bonds and US and German Government Bonds was a clear feature of 2013-14. A significant factor in this trend is likely to have been developing differences in Central Bank policy and economic trends and expectations during 2013-14.

The Eurozone experienced very low inflation and weak growth and the ECB remained open to further monetary easing as demonstrated by its reductions in its main interest rate in May and November 2013. In contrast the US enjoyed broadly clearly positive economic indicators and the US Federal Reserve moved, albeit tentatively, towards tightening exceptionally loose monetary policy. UK economic performance was also clearly positive and the Bank of England was also anticipated to potentially begin monetary tightening in the foreseeable future.

John Raisin Financial Services Ltd
Independent Advisor
29 July 2014

Fund Investment Strategy

During the first quarter of the year the fund under-took a new investment strategy review, specifically looking at its alternatives strategy for going forward. Following this review a new structure for the alternatives portfolio was agreed in June 2013. The new structure has three main catagories: a core portfolio which includes property, infrastructure and hedge funds, an opportunistic portfolio which would contain small allocations to either more medium term opportunities or those with a higher risk return profile and thirdly a risk management portfolio containing strategies that either reduce downside risk (relative to the fund’s assets) or provide protection against specific liability driven risks such as interest rates and inflation. With this new Alternatives structure in place the fund under-took a selection process and made the following new investments:- £20m in Darwin leisure Property Fund, £6.2m in Markham Rae Global Macro Fund, a hedge fund, and committed £6.2m to Impact Ventures UK, a social impact fund.

As the fund has moved to a more diverse approach over the last two years it has had an impact on the fee structure of the fund – in particular the use of alternatives but also the use of performance fees for an active equity manager. This structure is being used in order to manage risk (particularly volatility), specifically the use of alternatives, therefore our fees will be higher but the fund should be more than compensated for this as the performance should more than justified these fees over the long term.

Table 1 below shows the current and target strategic benchmarks.

Further detail of the benchmark composition, benchmark indices and performance targets for the managers are contained in the Statement of Investment Principles, (Appendix 2), which was updated in September 2014.

Table 1 –Current and Proposed Strategic Benchmark

Manager	Benchmark Weightings Current (%)	Target Benchmark Weightings (%)
UK Equities	42.0	35.4
Global Equities	22.4	23.6
Fixed Income	22.9	15.0
Property	4.1	8.0
Hedge Funds	4.5	5.0
Infrastructure	3.9	10.0
Other Alternative	0	3.0
Cash	0.2	0.0
	100	100

A summary of the resulting distribution of fund assets as at 31 March 2014, is shown in Table 2 below. It should be noted that one UK property investment is shown in the Accounts ("RREEF Limited"). These investments remain from the former Aberdeen portfolio and are in process of being liquidated, but being a property portfolio this is a long process that is still unwinding.

Table 2 - Summary of Fund Investment Assets as at 31 March 2014 and 2013

Manager	Asset Class	Market Value 31 March 2014 £M	Total Fund 31 March 2014 (%)	Market Value 31 March 2013 £M	Total Fund 31 March 2013 (%)
AXA Framlington	UK Equities	284.3	43.1	252.1	42
JO Hambro	Global Equities	156.7	23.8	134.4	22.4
Wellington Management	Global Fixed Income	105.5	16	137.3	22.9
BlueCrest	Hedge Fund	27.6	4.2	27.1	4.5
Global Infrastructure Partners	Infrastructure	9.6	1.4	7.2	1.2
Capital Dynamics	Infrastructure	22.5	3.4	16.5	2.7
DTZ	European Property	10.2	1.5	15.3	2.6
UBS	UK Property	9.6	1.5	9	1.5
RREEF	UK Property	0.6	0.1	0.5	0.1
Darwin	UK Property	21.4	3.2	0	0

Markham Rae	Hedge Fund	5.9	0.9	0	0
Impact Ventures Uk	Social Impact	*0.6*	*0.1*	*0*	*0*
Cash		5.2	0.8	1.1	0.1
TOTAL		**659.7**	**100**	**600.5**	**100.0**

Table 2 reflects the movement between asset classes throughout 2013/14. Thus the change in asset allocation over the year reflects the relative performance between the different asset classes and the managers' own relative performance against their own specific benchmarks. £3.6m was returned to the fund from DTZ Aurora property Fund. This investment is now in wind down with the fund due to close in 2017. Any undrawn commitments have been cancelled. Between the two infrastructure funds £23.9m was drawn down and £13.8 return to the fund due to equalisation as other investor made commitments to the funds leaving an undrawn commitment of £22.6m. £620K was drawn down in the Impact Venture UK fund leaving and undrawn commitment of £5.58M.

Following changes to the funds investment strategy a review of the funds rebalancing policy was undertaken. Recommendations for the new policy were approved at the Pension Fund Committee in March 14. Re-balancing against the new policy will be considered at each quarterly Committee meeting.

Pension Fund Accounts 2013/14

The 2013/14 Accounts are attached as Appendix 1. The Accounts show that overall there was a net increase in the investment assets of the scheme from £599.8m at 31 March 2013, to £661m at 31 March 2014.

From dealings with members, employers and others directly involved in the scheme, there was a net increase of £0.8m this was mostly the effect of an 11% increase in contributions into the fund, and a decrease of 3% in pension payments out of the scheme.

Taking investment income net of management expenses, plus this addition to the Fund from dealings with members provided £2.7m more funds for investment. The net increase in the value of the fund investments, (realised and unrealised), was £59.2m. The investment performance for the year is set out in the next section.

Pension Fund Performance 2013/14

Fund Returns 2013/14

Table 3 below sets out the quarter by quarter results for the Fund in 2013/14. Over the year as a whole the Fund return was 11.4%, against the benchmark return of 7.7%, the Fund thus showed relative out performance of 3.5%.

Table 3 – Quarterly Fund Returns 2013/14

LBWF 2011/12	First Quarter April to June 2013	Second Quarter July to September 2013	Third Quarter October to December 2013	Fourth Quarter January to March 2014	Total Annual Performance 2013/14
	%	%	%	%	%
Fund Return	-0.3	+4.1	+6.0	+1.3	+11.4
Benchmark Return	-0.1	+3.0	+4.0	+0.6	+7.7
Relative Return	-0.2	+1.0	+1.9	+0.7	+3.5

All figures WM Performance Services

Table 4 provides a breakdown of the results for the fund managers for the last two years.

Table 4 – Fund Manager Returns vs Benchmark 2012/13 and 2013/14

Manager	Asset Class	Portfolio Return for 2012/13 %	Benchmark return for 2012/13 %	Relative Performance 2012/13 %	Portfolio Return for 2013/14 %	Benchmark return for 2013/14 %	Relative Performance 2013/14 %
AXA Framlington	UK Equities	+14.8	+16.8	-1.9	+18.9	+8.8	+9.2
BankInvest	Global Equities	+13.0	+17.0	-3.4	0	0	0
JO Hambro CM	Global Equities	0	0	0	+16.6	+6.7	+9.2
Wellington	Global Fixed Income	+3.3	+0.3	+3.0	+0.8	+4.4	-3.5
Nordea	(GTAA)	+15.9	+0.6	+15.3	0	0	0
DTZ	European Property (Aurora Fund)	-7.1	+2.5	-9.4	-11.8	+14.0	-22.6
UBS	UK Property (Triton Fund)	-10.2	+2.5	-12.4	+11.6	+14.0	-2.1
Darwin	UK Property (DLPF)				+6.9	+2.6	+4.2
Markham Rae	Hedge Fund				-6.2	+3.2	-6.2
BlueCrest	Hedge Fund (AllBlue)				+2.4	+10.0	-6.9
Capital Dynamics *	Infrastructure (CEI)				-1.4	+15.0	-14.3
GIP II *	Infrastructure				+10.8	+15.0	-3.7
Impact Venture UK *	Social Impact				0	+1.7	-1.7

All figures WM Performance Services

* Due to the nature of these asset longer draw down and investment period. The true returns will only be reflected later on in the investment life.

Investment Performance

April 2013 to March 2014

The Fund returned +11.4% over the year as a whole, against a benchmark return of +7.7%. Relative return was +3.5%. The overall positive return for the year was principally due to outperformance of the UK and global Equities portfolio's.

Results from the WM Local Authority Universe showed that the average local authority returned 6.4% in 2013/14. Against the universe the LBWF fund (11.4%) was ranked 3rd out of 100. Our UK equity portfolio manager Axa Framlington ranked 7th and our global equity manager JO Hambro ranked 10th, property portfolio's (ranked 100th), bonds ranked 19th. (Figures from WM Performance Services).

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Fund Return %	**-1.1**	**-20.1**	**23.4**	**11.7**	**24.4**	**7.0**	**-5.7**	**-24.1**	**43.1**	**10.4**	**4.3**	11.8	11.4
Ranking in Local Authority Universe	**53**	**47**	**60**	**36**	**60**	**50**	**85**	**85**	**6**	**3**	24	86	3

LB Waltham Forest Pension Fund returns vs Local Authority Universe

figures: WM Performance Services

Longer Term Performance

Over 3, 5 and 10 years

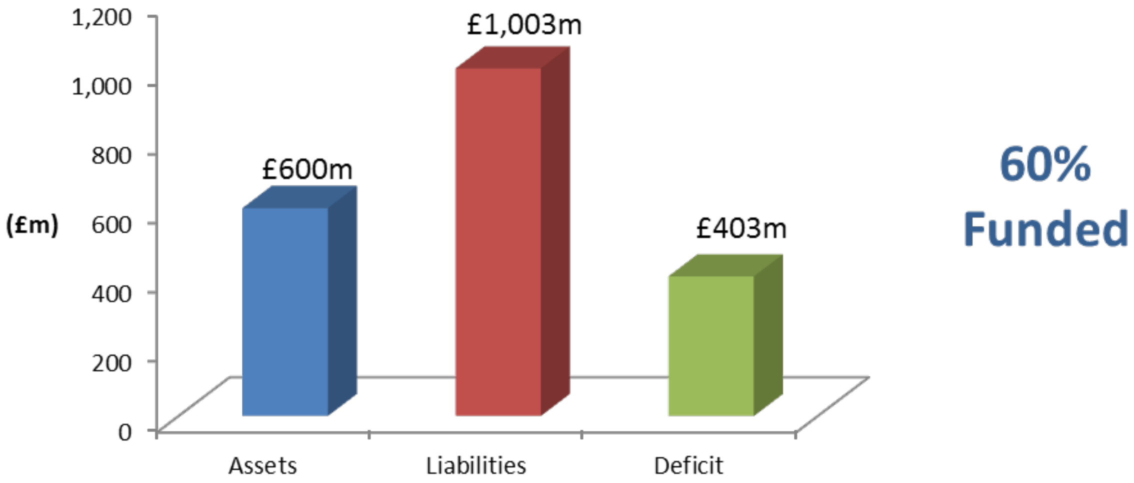
	3 years	**5 years**	**10 years**
Fund	9.1%	15.5%	8.1%
Benchmark	7.6%	13.5%	7.9%
Relative return	1.4%	1.8%	0.3%
WM ranking	16	6	31

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough of Waltham Forest Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £600 million represented 60% of the Fund's past service liabilities of £1,003 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £403 million.



The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 63% with a resulting deficit of £348 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £16.1m per annum increasing at 4.1% per annum (equivalent to approximately 13.5% of projected Pensionable Pay at the valuation date) for 25 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (including ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases (long term)	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the yearend than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the yearend has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,094 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by *c*£74 million. Adding interest over the year increases the liabilities by a further *c*£46 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by another *c*£4 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£8 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,054 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

Administration and Benefits

Scheme rules and benefits pre 1st April 2014

Scheme membership and income

(a) All employees of the London Borough of Waltham Forest are eligible for membership of the LGPS. Full and part-time employees, whether permanent or temporary (Contract must be for 3 months or longer), become members automatically with the right to opt out (back-dated to the start of membership if made within three months).

(b) Members' contributions depend on how much they are paid but it will be between 5.5 and 7.5% of their pensionable pay. Part-time workers should note that the rate will be based on the whole time pay rate for their job, although they will only pay contributions on the pay they actually earn. The pay band ranges that applied from April 2013 were as follows:

Whole Time Rate of Pay (per annum):	Contribution Rate of:
Up to £13,700	5.5%
£13,701 - £16,100	5.8%
£16,101 - £20,800	5.9%
£20,801 - £34,700	6.5%
£34,701 - £46,500	6.8%
£46,501 - £87,100	7.2%
More than £87,100	7.5%

Members of the LGPS attract tax relief at the time contributions are deducted from their salary and are also be contracted out of the State Second Pension scheme (S2P).

(c) Membership accrual for service up to 31 March 2008, the pension is based on 1/80th of the member's final year's pensionable pay. For service after 1 April 2008, the pension is based on 1/60th of the member's final year's pensionable pay.

Benefits available

(Three month's membership or more or a transfer value has been received):

a) Retirement pension and lump sum awarded:

- Payable immediately on cessation of employment:

  (i) Voluntarily from age 55 (with the Employer consent if under age 60);

  (ii) Through permanent incapacity at any age;

  (iii) As a result of redundancy or efficiency after age 55.

- Preserved and payable from retirement age in any other circumstances.

b) Spouses' and children's pensions and a tax-free lump sum death grant following death:

- In employment;
- In receipt of retirement pension (a lump sum may **not** always be payable);
- Before preserved benefits become payable.

From April 2014 a new LGPS scheme was introduced please see below summary of the main changes to the scheme:-

• A change from a pension based on final pay to one based on average pay throughout your career.
• A higher accrual rate of 1/49th per year of service rather than the current 1/60th per year of service.
• Benefits are calculated on pensionable earnings each year rather than final salary.
• Benefits are held in a pension account and revalued each year in line with inflation.

Other important changes that have happened to the LGPS

1. The Scheme's normal pension age is equal to the State Pension Age (SPA) for both active and deferred members and will be determined at the date benefits are paid. Legislation is in place to increase the SPA to 66 by 2020 with an announcement in the Queen's Speech to raise it again to 67 by 2028 with reviews every 5 years to ensure it keeps in line with life expectancy. Members do not have to wait until SPA to receive there LGPS pension but there may be penalties for drawing it earlier. Find out about SPA at www.gov.uk/calculate-state-pension.

2. Members will be able to take retirement benefits on leaving from age 55 without needing employer's consent, although an early retirement reduction applies.

3. New contribution bands with an average contribution of 6.5% mean that members will pay increased contributions if they earn above £43,000. If a member earns £43,000 or less they will pay the same or lower contributions.

4. A low cost option allows members to pay 50% contributions to build up 50% of benefits.

The 50/50 option is intended to allow members to continue to save for their retirement during periods of financial hardship. If a member choses to pay the lower contributions they would build up pension based on a 1/98th accrual rate but death and ill health benefits would not be affected should you need them.

5. Death benefits are unchanged in the new scheme with spouse and partners' pensions based on an accrual rate of 1/160 and three times death in service benefit.

6. Options to pay additional regular contributions (ARCs) to purchase additional pension or contribute to an inhouse additional voluntary contribution (AVC) scheme continue.

Further information can be obtained from **www.lgps2014.org** or www.mylgpspension.co.uk

Scheme Movement Analysis – 1 April 2013 to 31 March 2014

The following statistics summarise administration activity during the financial year:

Number of retirees / preserved pensions put into payment:	262
Number of new dependant's pension paid:	80
Number of leavers (not entitled to immediate benefits):	547
Number of refund of contributions paid:	2
Number of transfer out payments made:	46
Number of deaths on pension/in service:	219
Number of new members into the scheme:	746

Pensions increases

Pensions in payment and deferred benefits are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order 2013 required increase (2012: 5.2%) of 2.2% to be awarded, based on CPI.

Communications

To ensure all members and employers kept aware of any changes to the scheme specifically the LGPS 2014 changes, a number of Seminars were held in early 2014:

A pre-retirement course is held four times a year. These courses provide members who are approaching retirement with useful information from State benefits to spare time activities. The pension's team also attends and provides all attendees with a personal estimate and the opportunity to discuss any aspect of their Local Government Pension.

Enquiries concerning the Local Government Pension Scheme with the London Borough of Waltham Forest or entitlement to benefits should be addressed to:

LBWF Pensions Team
Capita Hartshead
PO Box 195
Mowden Hall
Darlington
DL1 9FS

Tel: 020 8339 7063/7052/7062

Email: lbwf.pensions@capita.co.uk

Website: www.mylgpspension.co.uk

GOVERNANCE REPORT

Pensions Fund Committee

On 25 September 2008, the Council's Audit Committee considered a report on the governance, monitoring and administration of the Council's Pension Fund, where revisions to the decision making process were considered, in particular that the Pension Fund Members Panel had no delegated powers as then constituted, and that this was not compliant with best practice.

In March 2009, the Council agreed to the establishment of a new Pensions Fund Committee with effect from the 2009/10 Municipal Year, with new terms of reference and delegated powers, and recommending that sufficient members be appointed to the Committee to ensure cover and in recognition of the importance of the decisions being taken. At the Annual Council meeting it was decided that 7 Members would be appointed, and that Members with relevant experience and background be encouraged to serve on the new Committee. When the Committee was re constituted in May 2009 due to the election it was decided that only 5 members would be appointed to the Pension Fund Committee. During the 2013/14 Committee cycle we had one change on the Pension Fund Committee membership.

Members and Observers of the Committee

Chair: Councillor Nicholas Buckmaster
Vice Chair: Councillor Terry Wheeler
Councillors: Masood Ahmad, Andy Hemsted and Geraldine Reardon

Observers: Union (Unison) Representative Ray Bellas
Employer Representatives Alan Leak and Jo Moore
Independent Advisor John Raisin
Officer Representatives John Turnbull – Director of Finance, Debbie Drew – Pensions and Treasury Manager, Vince Yeboah – Principal Accountant, Tracey Wolstenholme – Senior Accountant and Pat Rodgers – Senior Finance Officer

The following table lists the voting rights of each member and their attendance at each Committee meeting for 2013/14:-

Name	*Voting Rights*	*June*	*Oct*	*Dec*	*Jan**	*March*
Nick Buckmaster	*yes*	√	√	√	*X***	*X***
Terry Wheeler	*yes*	√	√	√	√	√
Masood Ahmad	*yes*	√	√	√	√	*X***
Andy Hemsted	*yes*	√	√	√	√	√
Geraldine Reardon	*yes*	√	*x*	√	√	√
John Turnbull	*no*	√	*x*	√	√	√
Debbie Drew	*no*	√	√	√	√	√
John Raisin	*no*	√	√	√	*n/a*	√
Union Representative (David Knight)	*no*	*x*	√	√	*x*	√
Pensioner Representative (George Beattie)	*no*	*x*	*x*	√	√	√
Alan Leek	*no*	√	√	√	√	*x*
Jo Moore/Derek Young	*no*	*x*	*x*	√	*x*	√

**an addition Committee meeting took place to agree the Funding Strategy Statement*
***member representatives were sent in replacement of the Committee member*

Governance Compliance Statement

The Council as administering authority to the Fund must publish a statement to demonstrate its compliance with good practice on governance issues. This is required under the LGPS Administration Regulations 2008. The statement must set out the degree of compliance with nine principles set out in a statutory guidance document issued by the Department of Communities and Local Government.

The final version of the Statutory Guidance on LGPS Governance Compliance Statements was issued by CLG in November 2008 and the Fund statement takes into account this version of the statutory guidance.

The statutory guidance accepts that there are many models for the administration and management of Local Government Pension Funds and seeks to set out best practice principles for their governance. As such they may be used by the Council to develop its policies for the management of the Fund in the immediate future, in particular where the statement shows the Fund is not fully compliant with the suggested best practice model.

The Council's Compliance Statement has been amended to take into account the establishment of the new Pensions Fund Committee following the recommendations made during 2008/09 and outlined above and other minor changes in 2009/10,1011/12 and 2012/13.

The Governance Compliance Statement for the Fund is attached as Appendix 4.

Ethical Investment Policy

The Pension Fund Committee has recognised the need to consider the long term impact on the Fund of the approach taken by companies on governance compliance, responsible investment and sustainable investment issues. This is a complex issue requiring careful analysis and due regard to the legal responsibilities of the Pension Fund.

Taking this into account, the Pension Fund's approach is to work with other LGPS Funds and gain from others experience and approaches through membership of the Local Authority Pension Fund Forum.

Local Authority Pension Fund Forum (LAPFF)

The Fund joined the LAPFF in January 2008. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest. With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

Statement of Compliance with the CIPFA Skills & Knowledge Framework

As the administering authority of the Local Government Pension Scheme, London Borough of Waltham Forest recognises the importance of ensuring all staff and members charged with the financial management and decision making with regards to the pension scheme are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Over the course of 2012/13 staff and members of the Pensions Committee have attended external training and had training delivered by external fund advisors and other pensions experts at the normal Pensions Committee. External Training events were attended by:- Councillor Nick Buckmaster (various), other staff members (various). Training covered by normal Committee meetings covered the following topics:

Environmental social and governance issues
2013 Valuation
LGPS 2014
CIPFA code of practice – public sector finance knowledge and skills
Various alternative investment ideas and strategies

Independent auditor's report to the members of Waltham Forest Council on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 21 to 46.

Respective responsibilities of the Corporate Director Finance and Procurement and the auditor

As explained more fully in the Statement of Responsibilities the Corporate Director Finance and Procurement is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Waltham Forest Council, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Waltham Forest Council for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section
8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit. We have nothing to report in respect of these matters.

Tamas Wood
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

25 September 2014

STATEMENT OF RESPONSIBILITIES

THE COUNCIL’S RESPONSIBILITIES:

The London Borough of Waltham Forest as Administering Authority of the London Borough of Waltham Forest Pension Fund is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Director of Finance.

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- to approve the Statement of Accounts.

THE DIRECTOR OF FINANCE’S RESPONSIBILITIES:

The Director of Finance is responsible for the preparation of the Pension Fund 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 Director of Finance has: -

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Local Authority Code.

The Director of Finance has also: -

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

ISSUE DATE

The date that these Financial Statements were authorised for issue was 23 September 2014. All known material events that have occurred up to and including this date which relate to 2013/14 or before have been reflected in the statements and notes.

CERTIFICATION BY THE DIRECTOR OF FINANCE

I certify that this Statement of Accounts gives a true and fair view of the financial position of the London Borough of Waltham Forest Pension Fund as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014 and I hereby authorise its issue.

Date: 23 September 2014
John Turnbull CPFA
Corporate Director Finance and Procurement

Pension Fund Advisers and Other Service Providers 2013/14

During 2013/14, the following provided services to the Pension Fund:

Custodial Services

All assets and cash allocated for investment purposes are held by the Council's custodian bank - State Street:

State Street Bank and Trust Company
20 Churchill Place
Canary Wharf
London E14 5HJ

Actuarial Services

Actuarial services were provided during the year by Mercer:

Mercer Limited,
Mercury Court,
Tithebarn Street,
Liverpool,
L2 2QH

Investment Consultancy and Advice Services

Investment consultancy advice was provided by Mercer:

Mercer Limited,
Mercury Court,
Tithebarn Street,
Liverpool,
L2 2QH

Pension Fund Performance Measurement

Statistics provided were by WM Performance Services (A State Street Company):

State Street Investment Analytics,
525 Ferry Road,
Edinburgh,
EH5 2AW

Legal services

Legal services were provided in-house by the Director of Governance and Law and externally By Sackers, 20 Gresham Street, London, EC2V 7JE.

Independent Advice is provided by:

John Raisin, John Raisin Financial Services Limited

External Auditors

External Audit of the Pension Fund Accounts was carried out by KPMG

KPMG LLP (UK)
15 Canada Square
London
E14 5GL

PENSION FUND ACCOUNT

2012/13 £'000		2013/14 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
	Contributions receivable:		
	Employers:		
11,212	Normal contributions	11,439	
12,424	Deficit contributions	14,974	
3,960	Additional contributions (early retirement)	3,954	
(778)	Additional contributions (termination)	0	
	From members:		
6,598	Normal contributions	6,732	
118	Additional contributions	128	
33,534		37,227	**7**
	Transfers in:		
1,571	Transfers from individuals	3,404	**8**
35,105		40,631	
	Benefits payable:		
(28,899)	Pensions	(30,208)	**9**
(6,815)	Lump sum retirement benefits	(5,865)	**9**
(1,163)	Lump sum death benefits	(404)	**9**
	Payments to and on account of leavers:		
(7)	Refund of contributions	(4)	**10**
(3,233)	Individual transfers out to other schemes	(2,354)	**10**
(976)	Administrative and other expenses borne by the scheme	(1,017)	**11**
(41,093)		(39,852)	
(5,988)	**Net (withdrawals)/additions from dealings with members**	779	
	Return on investments		
9,194	Investment income	9,399	**12**
60,586	Profit and losses on disposal of investments and changes in value of investments	58,531	**15**
(4,740)	Investment management expenses	(7,480)	**14**
65,040	**Net return on investments**	60,450	
59,052	**Net increase/(decrease) in the net assets available for benefits during the year**	61,229	
540,735	**Opening net assets of the scheme**	599,787	
599,787	**Closing net assets of the scheme**	661,016	

PENSION FUND ACCOUNT (continued)

2012/13 £'000	NET ASSETS STATEMENT	2013/14 £'000	Notes
	Investment assets		
	Pooled investment vehicles:-		
0	LGT	620	
27,128	Hedge Funds	33,461	
23,668	Infrastructure	32,114	
137,278	Fixed interest securities	105,478	**15 b**
386,465	Equities	440,964	**15 c**
24,857	Unit trusts - Property	41,781	**15 e**
1,085	Cash and money market instruments	5,229	**17**
600,481	**Total Investment assets**	659,647	
	Investment assets and liabilities		
383	Debtor	849	**23**
(907)	Creditor	(256)	**24**
	Net current assets and liabilities		
938	Debtors	1,234	**23**
(1,624)	Creditors	(1,325)	**24**
516	Cash in hand/(overdrawn)	867	**17**
599,787	**Net assets of the scheme available to fund benefits at the period end**	661,016	

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued using the International Accounting Standard IAS19 basis, is disclosed at note 22 of these notes.

2012/13 £'000	RECONCILIATION OF MOVEMENT IN NET ASSETS	2013/14 £'000
540,735	Fund balance at beginning of year	599,787
(1,534)	Excess income over expenditure	2,698
48,316	Net profit/(loss) on realisation of investments	4,954
12,270	Unrealised profit/(loss) on investments	53,577
599,787	Fund balance at 31 March	661,016

1. INTRODUCTION

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

The following description of the fund is a summary only. For further detail, reference should be made to the London Borough of Waltham Forest Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The Director of Finance is responsible for the scheme in accordance with standing authority given by the Council. The constitutional arrangements for the decision making for the Pension Fund are made by the Pension Fund Committee which was formed in 2009 to replace the previous Pension Fund Members Panel. The terms of reference for the Pension Fund Committee can be found within the Statement of Investment Principles, as an appendix to the Pension Fund Annual Report 2013/14.

a) General

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009
- the LGPS (Miscellaneous) Regulation 2012

Under the above regulations it is a contributory defined pension scheme administered by the London Borough of Waltham Forest to provide pension and other benefits for pensionable employees of the London Borough of Waltham Forest and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The LGPS 2014 Reforms - Local Government Pension Scheme Regulations 2013, which came into effect from 1st April 2014.

These regulations change the scheme from one based on final pay to one based on average pay throughout your career.

The fund is overseen by the London Borough of Waltham Forest Pension Fund Committee.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. This will change in 2017, the Council's deferred staging date, when the Government's auto-enrolment Legislation applies.

1. INTRODUCTION continued

Organisations participating in the London Borough of Waltham Forest Pension Fund include:

Scheduled bodies, which are the Ascham Homes (ALMO), colleges and academies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 36 employer organisations within the London Borough of Waltham Forest Pension Fund, as at 31 March two admitted bodies joined the Scheme and two left the scheme, under scheduled bodies there were 3 new academies as detailed below:

31 March 2013		31 March 2013
33	Number of employers with active members	36
	Number of employees in scheme:	
5,425	London Borough of Waltham Forest	5,163
956	Other employers	1,450
6,381	Total	6,613
	Number of pensioners:	
5,940	London Borough of Waltham Forest	5,954
357	Other employers	494
6,297	Total	6,448
	Number of Deferred members:	
3,449	London Borough of Waltham Forest	3,794
613	Other employers	723
4,062	Total	4,517

The Pension Fund had the following scheduled and admitted bodies at 31 March 2014:

Scheduled bodies

Ascham Homes
Thomas Gamuel Academy
Leyton VI Form College
Sir George Monoux College
Waltham Forest College
Walthamstow Academy
Sybourn Academy
Hillyfields Academy
Roger Ascham Academy
Yardley Academy
Highams Park Academy
Barclays Primary Academy
Brookfield House Academy
Chingford Academy
Chingford Hall Academy
Connaught Girls Academy
Emmanuel Community School
Rushcroft School Academy
Whittingham Academy
William Morris Academy
Chapel End Academy
Willow Brook Academy
Woodside Academy

Admitted bodies

Kier Facilities Services Ltd
(formerly Caxton FM)
CT Plus Ltd
Urbaser Ltd
London and Quadrant Housing Trust
Maidment Judd
(administrators for Orient Regeneration Trust)
Reach 2
J.B.Riney
Outlook Care (formerly Canopy Care)
Family Mosaic
Kier (May Gurney) Street Lighting
Harrison Catering Ltd (Frederick Bremer)
Ruskin Private hire Ltd
Kier Waste

1. INTRODUCTION continued

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013.

d) Benefits

Pension Benefits under the LGPS are based on final pensionable pay and length of pensionable service up until 31st March 2014, summarised below:

	Service Pre 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. 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.
	Service Post 31 March 2008
Pension	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	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.
	Service Post 31 March 2014
Pension	Each year worked is worth 1/49 x pensionable earnings of that year. Benefits are held in a pension account and revalued each year in line with inflation.
Lump Sum	Members of the LGPS before April 2008 will have built up benefits which will include an automatic lump sum. In the new scheme eligible members are still entitled to the aforementioned benefit but can also exchange some pension to get a tax-free cash lump sum. Every £1 of pension sacrificed is equivalent to £12 of tax-free lump sum (subject to HM Revenue & Customs limits).

There are a range of other benefits provided under the scheme including early retirement, disability pension and death benefits. For more details, please refer to the Capita website www.mylgpspension.co.uk or www.lgps2014.org for more information. Benefits are index-linked in order to keep pace with inflation.

1. INTRODUCTION continued

e) Fund Activity

During the year the fund completed new investments with Darwin Leisure Property Fund, Markham Rae Hedge Fund and Impact Ventures UK Fund. Further drawdowns into the infrastructure funds also took place during the year.

The fund fully completed its transition to its new asset allocation strategy with the expectation of full investment into the infrastructure and social impact funds which will take place over the next few years or so. In the interim undrawn money is being held with the fund's UK equity manager.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Pension Fund's transactions for the 2013/14 financial year and its position at year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account - revenue recognition

a) Contribution income

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

Employers' augmentation contributions and pension strain contributions are accounted for when paid.

b) Transfers to and from other schemes

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

Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to make additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) 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 at the date of aquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(ii) Dividend income

This is recognised on the date the shares are quoted ex-dividend. Any amount not received at the end of the reporting period is disclosed in the net assets statement as a current financial asset.

(iii) Distributions from pooled funds

These are recognised at the date of issue. Any amounts not received by the end of the reporting period are 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 (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

d) Benefits payable

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

e) Taxation

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

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

g) Investment income expenses

All investment management expenses are accounted for on an accruals basis.

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

In addition, the fund also pays an element of their fee as performance related with the following managers:

- Darwin Leisure Property Fund
- Markham Rae - Hedge Fund
- JO Hambro Capital Management - Global Equities
- Wellington - Fixed Income
- Capital Dynamics - Infrastructure
- Global Infrastructure Partners - Infrastructure
- BlueCrest - Hedge Funds
- Impact Ventures UK - Social Impact Fund

Performance related fees were paid in 2013/14 and 2012/13 in relation to some of the above funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Net Assets Statement

h) Financial assets

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

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

i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market ruling on the final day of the accounting period.

ii) Unquoted investments

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

- Valuations of delisted securities are based on the last sale price prior to delisting.
- Investments in unquoted property and pooled funds are valued at the net asset value or a single price advised by the manager.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property. The valuation of these pools is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

iii) Pooled investment vehicles

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

i) Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the 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 accounting period.

j) Cash and cash equivalents

Cash comprises of cash in hand and demand deposits.

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 change in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards [Code 6.5.2.8].

m) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes in the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no material events post balance sheet date.

7. CONTRIBUTIONS RECEIVABLE

2012/13 £'000		2013/14 £'000
	Employers:	
11,212	Normal Contributions	11,439
12,424	Deficit Contributions	14,974
3,960	Additional Contributions (early retirement)	3,954
(778)	Additional Contributions (termination)	0
6,716	Members	6,860
33,534	Total contributions receivable	37,227

2012/13 £'000		2013/14 £'000
28,929	LBWF	31,169
3,839	Scheduled bodies	5,215
766	Admitted bodies	843
33,534	Total contributions receivable	37,227

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2012/13 £'000		2013/14 £'000
1,476	LBWF	3,267
13	Scheduled bodies	31
82	Admitted bodies	106
1,571	Total	3,404

9. BENEFITS PAYABLE

2012/13 £'000		2013/14 £'000
28,899	Pensions	30,208
6,815	Commutation and lump sum retirement benefits	5,865
1,163	Lump sum death benefits	404
36,877	Total	36,477

9. BENEFITS PAYABLE continued

2012/13 £'000		2013/14 £'000
33,550	LBWF	33,295
1,795	Scheduled bodies	1,194
1,532	Admitted bodies	1,988
36,877	Total	36,477

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2012/13 £'000		2013/14 £'000
7	Refunds to members leaving service	4
2958	LBWF	2220
245	Scheduled bodies	106
30	Admitted bodies	28
3,240	Total	2,358

Individual transfers are payments made for members/leavers who have elected to transfer their future pension benefits/contribution to a different pensions provider. The gross amount transferred for the year was £2.4 million (£3.2 million 2013).

11. ADMINISTRATION EXPENSES

Regulations permit the Council to charge administration costs to the scheme. A proportion of relevant council officers' salaries, including on-costs, have been charged to the fund on the basis of actual time spent on scheme administration and investment related business.

Administration expenses during the year were as follows:

2012/13 £'000		2013/14 £'000
714	Administration	714
151	Actuary expenses	147
111	Investment management - central administration/other	156
976	Total administration expenses	1,017

11. ADMINISTRATION EXPENSES continued

Benefit administration of the fund was outsourced to Capita Employee Benefits (previous named Capita Hartshead Ltd) with effect from 1 September 2005 and a new contract awarded through tender procedures to Capita Employee Benefits with effect from 1 September 2009.

12. INVESTMENT INCOME

Interest and dividends receivable in 2013/14 have been accounted for on an accruals basis. The accrual in the 2013/14 accounts amounted to £849,000 (£383,000 in 2012/13). The total investment income received during the year was £9.4 million analysed as follows:

2012/13 £'000		2013/14 £'000
7,841	Dividends equities	6,106
	Income from pooled investment vehicles:-	
229	Managed Funds GTAA	0
221	Hedge Funds	949
391	Infrastructure	1,577
878	Property	702
0	Other	72
(366)	Interest on cash deposits	(7)
9,194	Total	9,399

Investment income has been grossed up to include fees of £3.91 million for 2013/14 (£2.96 million for 2012/13).

13. TAXES ON INCOME

2012/13 £'000		2013/14 £'000
(358)	Withholding tax - equities	0

14. INVESTMENT EXPENSES

2012/13 £'000		2013/14 £'000
19	Performance measurement expenses	22
40	Custody fees	23
159	Investment consultancy fees	134
4,522	Investment management expenses	7,301
4,740	Total investment management expenses	7,480

15. INVESTMENTS

Movements in Investment Assets	2011/12 £'000	Purchases £'000	Sales £'000	Change in market value £'000	Cash movement £'000	2012/13 £'000
Pooled vehicle - Managed funds other	15,063	38	(17,457)	2,356	0	0
Hedge Funds	0	26,900	0	228	0	27,128
Infrastructure	0	22,313	(445)	1,800	0	23,668
Pooled vehicle - Fixed interest securities	72,438	62,900	0	1,940	0	137,278
Equities	416,269	504,609	(591,442)	57,029	0	386,465
Unit trusts - Property	26,998	631	0	(2,772)	0	24,857
Cash and money market instruments	8,497	7,660	(13,661)	4	(1,415)	1,085
Total	539,265	625,051	(623,005)	60,585	(1,415)	600,481

Movements in Investment Assets	2012/13 £'000	Purchases £'000	Sales £'000	Change in market value £'000	Cash movement £'000	2013/14 £'000
Pooled vehicles:-						
LGT UK Impact Ventures	0	620	0	0	0	620
Hedge Funds	27,128	6,218	0	115	0	33,461
Infrastructure	23,668	23,937	(14,478)	(1,013)	0	32,114
Pooled vehicle - Fixed interest securities	137,278	0	(32,500)	700	0	105,478
Equities	386,465	10,295	(13,980)	58,184	0	440,964
Unit trusts - Property	24,857	20,000	(3,623)	547	0	41,781
Cash and money market instruments	1,085	863	(589)	(2)	3,872	5,229
Total	600,481	61,933	(65,170)	58,531	3,872	659,647

15. INVESTMENTS continued

Transaction costs are included in the cost of purchases and in sales proceeds. These costs are charged directly to the fund, such as fees, commissions, stamp duty and other fees. There were no transaction costs incurred during the year (£223,000 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Listed investments are stated at bid-market values, as quoted at the close of business of the relevant stock exchange. Unlisted investments are stated at fair value as advised by the investment managers. Exchange Traded Funds are stated at mid-price as quoted on the relevant stock exchange.

Valuation bases for the portfolios are as follows:

	Description	
AXA Framlington Investment Management	UK (Pooled) Equities	Bid market value
Wellington Management	Global bonds	Fair value
JO Hambro Capital Management	Equities	Fair value
Capital Dynamics	Infrastructure	Fair value
Global Infrastructure Partners	Infrastructure	Fair value
UBS	UK property	Fair value
DTZ Investment Management	Overseas property	Fair value
RREEF Limited	UK property	Fair value
BlueCrest	Hedge Funds	Fair value
Markham Rae	Hedge Funds	Fair value
Darwin	Property	Fair value
LGT	Social Impact Fund	Fair value

INVESTMENTS 2012/13 £'000		**2013/14 £'000**
	Pooled investment vehicles	
	Unit trusts	
265,169	Equities UK quoted	289,214
121,296	Global Equities	151,750
9,565	Property	31,619
	Other managed funds	
15,292	Property	10,162
137,278	Fixed interest securities	105,478
27,128	Hedge Funds	33,461
23,668	Infrastructure	32,114
0	Social Impact	620
1,085	**Cash and money market instruments**	5,229
600,481	**Total Investment assets**	659,647

Analysis of pooled funds with underlying derivatives

These strategies are implemented through portfolios of highly liquid derivative instruments made up of a subset of asset classes: equity, fixed income, commodity and currency.

15. INVESTMENTS continued

Wellington Global Total Return Fund - the Global Total Return Portfolio seeks to generate total returns in excess of a cash index through investments in a diversified portfolio of global fixed income, currency and credit strategies. The Portfolio uses derivatives, primarily liquid government bond futures and currency forwards for the purpose of risk management and alpha generation.

The investment process is opportunistic in nature and therefore can have long and short exposure of varying size to global interest rates, currencies and credit securities. If the process identifies attractive investment opportunities, risk level and position sizes can increase rapidly and significantly. The Portfolio will generally be diversified by country, currency, issuer and investment strategy, but may hold concentrated positions from time to time.

The Portfolio includes positions based on both long-term and short-term investment ideas. The time horizon for macro thematic ideas often have long-term investment horizons, while tactical ideas often have much shorter-term investment horizons. This is a high turnover approach as the investment process employs various relative value investment strategies that are often tactical in nature.

a) Investments analysed by Fund Manager

2012/13 Market value £'000	**%**		**Description**	**2013/14 Market value £'000**	**%**
9,023	1.50	UBS Global Asset Management	UK property	9,638	1.46
0	0.00	Darwin Leisure	UK property	21,375	3.24
542	0.09	RREEF Limited	UK property	606	0.09
15,292	2.55	DTZ Investment Management	Overseas property	10,162	1.54
252,095	41.98	AXA Framlington IM	UK (Pooled) equities	284,294	43.10
134,370	22.38	JO Hambro	Global (Pooled) equities	156,670	23.75
137,278	22.86	Wellington Management	Global bonds	105,478	15.99
16,462	2.74	Capital Dynamics	Pooled Infrastructure	22,508	3.41
27,128	4.52	Blue Crest	Hedge Fund	27,613	4.19
0	0.00	Markham Rae	Hedge Fund	5,848	0.89
7,206	1.20	Global Infrastructure Partners II	Pooled Infrastructure	9,606	1.46
0	0.00	Impact Ventures UK	Pooled Social Impact	620	0.09
1,085	0.18	Cash		5,229	0.79
600,481	100.00	**Total Fund Value**		659,647	100.00

15. INVESTMENTS continued

b) Analysis of fixed interest securities by sector using market values as at 31 March 2014:

2012/13 £'000		2013/14 £'000
137,278	Overseas private sector	105,478
137,278	Total	105,478

There were no index-linked bond investments held as at 31 March 2014 or during the year.

c) Analysis of equities and convertibles by region using market value as at 31 March 2014:

2012/13 £'000		2013/14 £'000
265,169	United Kingdom - listed	289,214
	Overseas Equities	
58,827	United States and Canada	81,625
25,719	Europe	32,494
10,628	Japan	18,973
26,122	Other	18,658
386,465	Total	440,964

d) Analysis of equities and convertibles by type using market values at 31 March 2014:

2012/13 £'000		2013/14 £'000
28,395	Basic materials	34,746
25,285	Consumer goods industry	10,490
59,712	Consumer services industry	87,934
23,626	Health care	55,910
39,198	Financials	53,874
80,066	Industrials	84,835
11,566	Telecommunications	15,157
63,204	Technology	63,322
46,239	Oil and gas	25,598
9,174	Other	9,098
386,465	Total	440,964

15. INVESTMENTS continued

e) Analysis of property unit trusts by type using market values at 31 March 2014:

2012/13 £'000		2013/14 £'000
9,023	United Kingdom - listed	9,638
542	United Kingdom - unlisted	21,981
15,292	Overseas - unlisted	10,162
24,857	Total	41,781

16. PURCHASES AND SALES OF INVESTMENTS

During the year, the fund purchased investment assets totalling £61.9 million (£625.1 million in 2012/13) and sold investment assets at a value of £65.2 million (£623.0 million in 2012/13). These purchases and sales included purchase of investments in new funds for hedge funds, property and social impact funded from the sale of units in UK equities, global bonds and cash. Also some purchases were due to the draw down into two infrastructure funds and the new social impact fund.

The Pension Fund made new investments with Darwin Leisure Property Fund of £20 million, Markham Rae of £6.2 million and committed £6.2 million to IVUK Social Impact Fund. During the year £23.9 million was drawn down as part of commitments to the Global Infrastructure Partners II and Capital Dynamics Clean Energy and Infrastructure Fund (Infrastructure) and £620,000 in to Impact Ventures UK fund. All other purchases and sales relate to transactions made by the Investment Managers within the portfolios under their management.

17. CASH HOLDINGS

2012/13 £'000		2013/14 £'000
1,085	Cash held by investment managers	5,229
516	Cash in hand/(Overdrawn)	867
1,601	Total	6,096

18. PROPERTY

Interest on property development is not applicable.

19. FINANCIAL INSTRUMENTS

Accounting policies describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during this accounting period.

19. FINANCIAL INSTRUMENTS continued

The income, expense, gains and losses arising from investing activities which are included in the Pension Fund Account are as follows:

2012/13 £'000		2013/14 £'000
	Financial asset at fair value through profit and loss	
(16,573)	Losses on derecognition	0
(16,573)	Total expense in Pension Fund account	0
9,194	Dividend and interest income	9,399
64,889	Gains on derecognition	4,954
74,083	Total income in Pension Fund account	14,353
66,283	Gains on revaluation	101,991
(54,013)	Losses on revaluation	(48,414)
12,270	Surplus/(deficit) arising on revaluation of financial assets in the Pension Fund account	53,577

20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

2012/13			2013/14	
Carrying value £'000	**Fair value £'000**	**Financial assets**	**Carrying value £'000**	**Fair value £'000**
599,396	599,396	Fair value through profit and loss	654,418	654,418
2,922	2,922	Loans and receivables	8,179	8,179
602,318	602,318		662,597	662,597
Carrying value £'000	**Fair value £'000**	**Financial liabilities**	**Carrying value £'000**	**Fair value £'000**
(2,531)	(2,531)	Financial liabilities at amortised cost	(1,581)	(1,581)
(2,531)	(2,531)		(1,581)	(1,581)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES continued

Valuation of financial instruments carried at fair value

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

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

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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

Level 3 Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity instruments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

	Quoted market price	**Using observable Inputs**	**With significant unobservable Inputs**	**Fair value**
Values at 31 March 2014	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	597,185	0	57,233	654,418
Loans and receivables	8,179	0	0	8,179
Total financial assets	605,364	0	57,233	662,597
Financial liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	(1,581)	0	0	(1,581)
Total financial liabilities	(1,581)	0	0	(1,581)
Net financial assets	603,783	0	57,233	661,016

20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

	Quoted market Price	Using observable Inputs	With significant unobservable Inputs	Fair value
Values at 31 March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets				
Financial assets at fair value through profit and loss	574,538	0	24,858	599,396
Loans and receivables	2,922	0	0	2,922
Total financial assets	577,460	0	24,858	602,318
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(2,531)	0	0	(2,531)
Total financial liabilities	(2,531)	0	0	(2,531)
Net financial assets	574,929	0	24,858	599,787

21. 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 investment strategy. Responsibility for the fund's risk management strategy rests with the Pension Fund committee. Risk is dealt with as part of the Pension Fund's overall policies and strategies. Policies are reviewed regularly to reflect changes in activity and in market conditions.

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 investment 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 diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

Market risk continued

The Pension Fund manages these risks in three ways:

(i) the exposure of the fund to market risk is monitored through a factor analysis to ensure that risk remains within tolerable levels.

(ii) specific risk exposure is limited by applying risk weighted maximum exposures to individual assets.

(iii) the investment managers have their own risk parameters within each investment held with them.

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.

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

Other price risk - sensitivity analysis

In consultation with the fund's performance advisers, following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	Potential market movements (+/-) %
UK equities	13.55
Global Pooled inc UK	12.17
Pooled bonds	1.74
Cash	0.02
Property	8.48
Alternatives	12.59

21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

The potential volatilities are consistent with a one deviation movement in the change of value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	284,294	13.55	322,816	245,772
Overseas equities	156,671	12.17	175,738	137,604
Global bonds	105,478	1.74	107,313	103,643
Cash	5,229	0.02	5,230	5,228
Property	41,781	8.48	45,324	38,238
Alternatives	66,194	12.59	74,528	57,860
Total assets available to pay benefits	659,647	9.74	723,897	595,397

Asset type	Value as at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	252,095	14.1	287,540	216,650
Overseas equities	134,370	13.0	151,892	116,848
Global bonds	137,278	1.7	139,571	134,985
Cash	1,085	0.0	1,085	1,085
Property	24,857	6.4	26,436	23,280
Alternatives	50,796	14.8	58,299	43,293
Total assets available to pay benefits	600,481	10.7	664,732	536,230

The % change for the Total Assets include the impact of correlation across asset classes.

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 risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

Credit risk

This is the risk that other parties may fail to pay amounts due to the Pension Fund. For example an interest payment or coupon due may not be paid, or a loan (bond) may not be repaid. The fund allows its investment managers a low level of risk when undertaking investments to reduce the likelihood of a default occurring on an investment. The fund also employs a custodian to ensure that all transactions are settled in an appropriate fashion.

Liquidity risk

This is the risk that the Pension Fund might not have the monies available to meet payments due from the fund. Contributions have tended to be greater than benefits paid over the last few years ensuring that enough cash is available to meet payments. The fund currently utilises two bank accounts and one money market fund. The money market fund is held with the custodians and holds cash relating to investment activities. The other accounts are held with the Pension Fund benefits administrator (Capita) and with the Council. This is a separate account from the Council's main bank account. If the fund did not have the monies available to meet its immediate commitments, it is able to borrow for up to 90 days. If there was a longer term shortfall, then assets could be sold to provide additional cash. The fund has a mix of liquid assets such as equities and bonds, alongside small amounts in less liquid assets such as property.

Refinancing risk

This is the risk that an investor cannot borrow to repay existing debt. To minimise exposure to this risk, the fund places limits on the amount of leverage investment managers can deploy within portfolios to ensure that all transactions are settled in an appropriate fashion.

22. ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014 - STATEMENT BY THE CONSULTING ACTUARY

Please see page 8 in the Pension Fund Annual Report.

23. CURRENT ASSETS

Analysis of debtors outstanding at 31 March 2014:

2012/13 £'000		2013/14 £'000
	Other entities and individuals:-	
938	Pension contributions	1,234
383	Investment income	849
1,321		2,083

24. CURRENT LIABILITIES

Analysis of creditors outstanding at 31 March 2014:

2012/13 £'000		2013/14 £'000
	Other local authorities:-	
990	London Borough of Waltham Forest General Fund	723
	Central government bodies	
284	HMRC - PAYE	267
	Other entities and individuals:	
350	Accrued benefits	335
907	Investments	256
2,531		1,581

25. ADDITIONAL VOLUNTARY CONTRIBUTIONS

During 2013/14, members paid £29,211 contributions to their personal AVCs (£24,365 in 2012/13) and the value of their investments was £642,454 at 31 March 2014 (£606,938 at 31 March 2013).

26. ADDITIONAL CONTRIBUTIONS FOR EARLY RETIREMENT

Additional contributions have been made to the Pension Fund on the basis of recovering the additional costs of early retirement, ill-health retirements and corporate redundancies over a period of three years. The additional contribution made in 2013/14 was £3.954 million (£3.960 million in 2012/13).

27. RELATED PARTY TRANSACTIONS

There is a strong relationship between the Council and the Pension Fund.The Pension Fund is administered by the Council for which it charged £714,000 in 2013/14 (£714,000 in 2012/13).The Council is also the single largest employer of members of the Pension Fund and contributed £22.7 million to the fund in 2013/14 (£21.3 million in 2012/13).

Key management personnel, members of the Pension Fund committee cannot be apportioned on a reasonable basis and are therefore disclosed in full in the Council's accounts, please refer to Notes 17, 19 and 20 of the Council's accounts. The Director of Finance holds a key position in the financial management of the Fund, the financial value of this relationship (in accordance with IAS24) is, short term benefits £55,000 in 2013/14 (£19,000 in 2012/13), long term benefits £ 5,000 in 2013/14 (£5,000 in 2012/13).

28. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

(i) Infrastructure funds

The fund has commitments in relation to its two infrastructure funds, one European property fund and Social Impact Fund. These commitments are drawn down in tranches over time as and when the managers request them. The fund had £1.341 million of European property commitments outstanding as at 31 March 2014 (£1.369 million as at 31 March 2013), £22.565 million of infrastructure commitments outstanding as at 31 March 2014 (£34.399 million as at March 2013) and £5.580 million of Social Impact committments outstanding as at 31 March 2014. These are not required to be included in the Pension Fund accounts.

29. EXTERNAL AUDIT FEES

Included within the administration expenses in the Pension Fund Account are KPMG's external audit costs of £21,000 for 2013/14 (£21,000 in 2012/13 - Audit Commission). KPMG took over the external audit contract from the Audit Commission for the audit of the 2012/13 accounts.

30. FURTHER INFORMATION

Copies of the Pension Fund Annual Accounts, Annual Report, Statement of Investment Principles, Funding Strategy Statement, Myner's Compliance Document and Pension Fund Valuation 2013 are published on the Council's website: www.walthamforest.gov.uk

APPENDIX 2

WALTHAM FOREST PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES 2014

Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, this instrument is primarily a consolidation of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 with numerous instruments which have amended them since they were made, require administering authorities to prepare, maintain and publish after consultation with such persons as it considers appropriate, a written statement of the principles governing its decisions about the investment of fund money. The Regulations required the publication of the revised Statement of Investment Principles by 1st July 2010.

The Statement must cover the policy on:

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if any) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attached to investments, if the authority has any such policy and

(h) Stock lending.

Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance. This is included 1 (*the revised Myners Principles*)

1. **The Scheme**

1.2. The London Borough of Waltham Forest Local Government Pension Scheme ("the Fund") was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Fund is a defined benefit scheme, with benefits determined by a range of statutory provisions. Employee contribution rates set at variable rates against pensionable pay and employer rates vary depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation proofed in line with increases in the CPI (Consumer Price Index) for September. Prior to 2011 pensions were increased in line with RPI. This change was set down in legislation and historically, CPI has been around 0.5%p.a. lower than RPI.

1.3. At a meeting of The Council on 26th March 2009 it was approved that a Pension Fund Committee be formed to replace the previous Pension Fund Members Panel. The new Pension Fund Committee has full delegated powers to take all decisions in connection with the exercise of the functions outline in the Pension Fund Committee Terms of Reference. A revised terms of reference was agreed at Pension fund Committee on 6th March 2013.

1.4. The Pension Fund Committee has obtained and considered verbal and written advice from the Director of Finance, the Chartered Institute of Public Finance and Accountancy, investment consultants and World Markets Company and has consulted the Investment Managers, representatives of members of the Fund, admitted bodies, the Scheme's actuary and the funds independent advisor.

1.5. This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers, whose activities are regulated by detailed Investment Management Agreements.

1.6. The Pension Fund Committee approved the principles outlined in the previously published document on 7th October 2013. This current 2013 revised document is to be submitted to the Pension Fund Committee h October 2014 for approval before publishing.

2. RESPONSIBLILITES

2.1 Pension Fund Committee terms of reference as at the date of the publication are as follows:

Membership and Meeting Arrangements

The Committee will comprise 5 Councillors, including a Chair and Vice-Chair appointed by the Council

The Committee may appoint observers to attend and participate in meetings to represent employing authorities and scheme members.

APPENDIX 2

(Note: Observer status is currently available to:
(Unison), (TGWU), (staff representative – active contributor), (Waltham Forest College), (Ascham Homes), (Leyton 6th Form College), (Sir George Monoux College) and (Pensioner Representative)

Meetings will be scheduled on a quarterly basis. The Head of Legal and Democratic Services after consultation with the Director of Financial Services, and the Chair or Vice-Chair of the committee, may cancel, re-schedule or call additional meetings as required.

The quorum of the Committee shall be two-thirds of the committee's membership (i.e. not including observers), or the nearest whole number below two-thirds.

Members of the Pensions Fund Committee will be offered appropriate training, in accordance with a training policy agreed by the Committee, in order to ensure they have or quickly develop sufficient expertise in investment matters to be able to conduct their Pensions Fund Committee responsibilities and interpret the advice, which they receive.

Minutes of meetings will be kept by the Head of Legal and Democratic Services.

Functions

The Pensions Fund Committee is responsible for the following, and has full delegated powers to take all decisions in connection with the exercise of these functions:

1.1 determining overall investment strategy and strategic asset allocation for the Pension Fund, taking account of the overall profile of Fund liabilities and considering the approach to tolerance of risk.

1.2 to be consulted on the appointment and termination of investment managers and changes to the terms of the mandates of existing managers.

APPENDIX 2

1.3 policy with regard to socially responsible investment, corporate governance and shareholder activism. These tasks may be delegated to the Fund's investment managers, who conduct the delegated tasks in line with the Pensions Fund Committee's policies.

1.4 to be consulted on the appointment and termination of Additional Voluntary Contribution (AVC) providers.

1.5 to be consulted on the appointment and termination of investment advice consultants, the fund actuary, custodian for Pension Fund assets, and other contracts related to the management of the Pension Fund

1.6 maintenance of statutory compliance statements, including the Statement of Investment Principles (SIP), the Funding Strategy Statement (FSS) and the document setting out the Fund's Myners disclosures.

1.7 obtaining regular professional advice from the fund managers, officers, investment advisers and the fund actuary as appropriate.

1.8 recommending broad policy guidelines for the investment managers.

1.9 monitoring the fund and the performance of the investment management arrangements and recommend any changes as are considered appropriate.

1.10 receiving details of the annual accounts and agree an Annual Report for submission to the Audit Committee and Full Council .

1.11 determining matters related to pensions benefits administration for the Local Government Pension Scheme receiving monitoring reports for performance of the contract for pensions benefits administration

1.12 considering issues associated with the membership and marketing of the Fund.

APPENDIX 2

1.13 the Director of Finance (section 151 Officer) has delegated authority from the Pension Fund Committee to made investment decision concerning investments with managers and appointments of new managers in consultation with the Chair of the Pension Fund Committee, Pension Fund officers and advisors to the Fund.

2.3.1 **Investment Managers**

Day to day management of the Fund's investment portfolios and related activities (see Section 6) has been delegated to the Fund's 11 investment managers. These managers have been given the following mandates:,

Name of Investment Manager		**Mandate Type**
AXA Framlington	UK Opportunities Fund	UK Equity Mandate
JO Hambro Capital Management	Global Select Fund	Global Equity Mandate
Wellington Management Company LLP	Global Total Return Fund	Global Fixed Income
DTZ	Aurora Property Fund	European (inc UK) Property
UBS	Triton Property Fund	UK Property
Capital Dynamics	Clean Energy & Infrastructure Fund	Infrastructure
Global Infrastructure Partners	GIPII Fund	Infrastructure
BlueCrest	AllBlue Fund	Hedge Funds
Darwin Leisure Property Fund	Leisure Property Fund	UK Property
Markham Rae	Global Macro Fund	Hedge Fund
LGT Venture Philanthropy	Impact Ventures UK	Social Impact

The managers' roles include:

a. the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by the SIP and the detailed Investment Management Agreement
b. security selection within each asset class
c. preparation of quarterly report including a review of investment performance, quarterly valuations of the Scheme's assets and details of all transactions during the quarter
d. attending meetings of the Pension Fund Committee as requested

e. voting shares in accordance with the policy set out in sections 6 and 7 of the SIP, providing details in a timely manner to State Street Investment Analytics (previously WM) and State Street Custodians for monitoring purposes and accounting.

f. providing Fund accounting data concerning the investment portfolio and transactions in a timely manner

2.4 Custodian

The custodian, State Street Bank and Trust Company is responsible for the settlement of all investment transactions, collection of income, tax reclaims, exercising corporate administration, cash management and accounting information and reconciliation with the Pension Fund Managers valuation.

2.5 Performance Management

The State Street Investment Analytics (previously WM) is responsible for assisting the Pension Fund Committee in their regular monitoring of the investment managers' performance.

2.6 Investment Consultants

The Investment Consultant, Mercer, are responsible for assisting the Pension Fund Committee in monitoring, selection and appointment of investment managers and custodians and for providing advice on investment strategy and structure as requested.

2.7 Scheme Actuary

The Funds Actuary, Mercer, are responsible for:

a. undertaking a triennial valuation of the Fund's assets and liabilities

b. setting the contribution rates for the Council and the admitted and scheduled bodies in the Fund

c. providing the advice required by the Regulations as to the maturity of the Scheme and its funding level in order to aid the Pension Fund Committee in balancing the short term and long term objectives of the pension fund

d. assisting the Pension Fund Committee in the review of the SIP and FSS

2.8 Officers

The Director of Finance is responsible for:

a. preparation of annual budgets, annual report and accounts and the business plan for the Fund

b. ensuring compliance with the SIP and bringing breaches there of to the attention of the Pension Fund Committee and ensuring the SIP and

APPENDIX 2

Myners compliance documents are regularly reviewed and updated in accordance with the Regulations

c. the negotiation of formal agreements with managers, custodians and other investment service providers.

2.9 In house staffing support

In house staffing support is proposed to consist of part duties from the Pensions and Treasury Manager, Principal Accountant, Principal Finance Officer and the Senior Finance Officer. There is a suitably qualified officer to oversee the day to day running of the Pension Fund, but the post is not full time on this task.

2.9 Council Constitution and Financial Procedure Rules

Appropriate revisions will be made to the Council's Constitution and Financial Procedure Rules.

3. FUNDING POSITION

3.1. The Pension Fund is a defined benefit scheme, which provides benefits related to final salary for members up until 1 April 2014, from this date a new scheme was introduced which provides benefits on a care average basis (for more information on the new scheme please visit the following website **www.lgps2014.org**). Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the LGPS Regulations. All active members of the Scheme are required to make pension contributions, which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations. From 1st April 2008, this percentage is related to their pensionable pay in the previous financial year according to a table of contributions specified in the Regulations.

3.2. The Administering Authority is responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme. Employers' contributions are determined triennially based on the advice and certificate of the Scheme's actuary. The Administering Authority therefore has a direct responsibility for the investment return achieved on the Scheme's assets.

3.3. The liabilities of the Pension Fund are the pension due to be paid to current pensioners and their dependents, deferred members of the scheme and the future benefits that will be paid to active members of the scheme. The assets held to meet those liabilities are the investments held by the Pension Fund. The Funds Actuary undertakes an actuarial valuation once every three years in accordance with the regulations. This reviews the projected liabilities of the Fund at the valuation date and the assets held by the Fund to meet those liabilities. Arrangements have been put in place for the funding position of the

Fund to be monitored each year in consultation with the employers and the Scheme Actuary in connection with the preparation of the FRS 17 statement.

3.4. The last actuarial valuation was conducted as at 31st March 2013. The key statistics relating to reviews of the funding position of the Waltham Forest Fund are as follows:

	Actuarial Valuation Mar 2001 £m	Actuarial Valuation Mar 2004 £m	Actuarial Valuation Mar 2007 £m	Actuarial Valuation Mar 2010 £m	Actuarial Valuation Mar 2013 £m
Active members	149	184	288	324	321
Deferred pensioners	56	73	89	133	220
Current pensioners	149	200	296	341	462
Total liabilities	354	457	673	798	1003
Market value of assets	332	318	472	480	600
Deficit	22	139	200	318	403
Solvency of Fund	94%	70%	70%	60%	60%

3.5 Under the Local Government Pension Scheme (Administration) 2008 Regulations, the Fund is required to publish a Funding Strategy Statement in an actuarial valuation year. This is to set out how the Fund intends to meet its liabilities and where there is a deficit to set out how it intends to recover that deficit. The latest Funding Strategy Statement can be found on the Council website as appendix 2 to Pension Fund Annual Report 2013/14 as the following address: http://www.walthamforest.gov.uk/pension-fund-annual-report-2013-14.pdf

4. INVESTMENT POLICY

4.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement for their dependants, on a defined benefits basis. Benefits for active members increase as set out in the regulations. Benefits for preserved members are subject to statutory increases.

4.2 The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers (Waltham Forest Council and the admitted and scheduled bodies), to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

4.3 The following main aims and objectives have been defined for the purpose of meeting the primary objectives above:

a. Ensure that the arrangements for pension fund investments and accounts comply with the relevant legislation and CIPFA recommended

APPENDIX 2

practice and both the practice and system documents adopted by the Council from time to time

b. Improve the funding position of the Pension Fund and stabalise the Employer's Contribution rate
c. Achieve the levels of performance ahead of benchmark agreed with each investment manager and returns required by the actuarial valuation.
d. Reduce investment costs as a percentage of the Fund Value and as an amount per fund member whilst aiming to meet the return and risk requirements of the scheme.
e. Improve communication with members and beneficiaries of the Fund on investments,accounts and administration.
f. Continue to develop corporate governance, socially responsible investment and review investment policies.

4.4 The investment approach is to appoint professional fund managers with clear performance benchmarks and to place accountability on the fund managers for performance against their specific benchmarks. The investment managers discuss the performance of the portfolios under their management with the Pension Fund Committee/Officers on a regular basis. The authority has adopted a 100% active (specialist) manager approach for the Fund with 11 fund managers (from 2013/14).

5 INVESTMENTS

5.1 The investment strategy will be reviewed annually, with a potential major review following the triennial actuarial valuation if this is deemed necessary.

5.2 During the year the first quarter of the year the fund under took a investment strategy review, specifically looking at its alternatives strategy for going forward. Following this review a new structure for the alternatives portfolio was agreed in June 2013. The new structure has three main areas: a core portfolio which includes property, infrastructure and hedge funds, an opportunistic portfolio which would contain small allocations to either more medium term opportunities or those with a higher risk return profile and a risk management portfolio containing strategies that either reduce downside risk (relative to the fund's assets) or provide protection against specific liability driven risks such as interest rates and inflation. With the new alternatives structure in place the fund under took a selection process and made the following new investments as follows:- £20m in Darwin leisure Property Fund, £6.2m in Markham Rae Global Macro Fund a hedge fund and committed £6.2m to Impact Ventures UK a social impact fund.

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APPENDIX 2

5.4 The current strategic benchmark, weightings and Targets

Mandate	**Manager**	**Weightings %**	**Benchmark/ Index**	**Target**
UK Equities	Axa Framlington	35.5	FTSE A All Share	+4% pa
Global Equities	JO Hambro CM	23.6	MSCI AC World	+3% pa
Global Fixed Income	Wellington Management	15	UCITS – BoA ML 3 Mth US LIBOR (GBP) Non UCITS – BoA ML 3 Mth T-Bill (GBP)	UCITS: +2-4% p.a. Non UCITS: +4-6% p.a.
Property:-		8		
European (inc UK) property	DTZ		IPD Property	No formal target. Targets absolute return of 8-10% p.a.
UK property	UBS		IPD Property	+1% p.a.
UK property Leisure	Darwin		-	No formal target. In excess of 8% p.a.
other alternatives:-		3	1 month £ LIBOR	
Social Impact	LGT Venture Philanthropy		-	No formal target. 7% p.a.
Hedge Fund	Markham Rae		3 month LIBOR	No formal target. 10-15%p.a.
Hedge Funds	BlueCrest	5	3 Month LIBOR	No formal target. 10-15%p.a.
Infrastructure:-		10		
	Global Infrastructure Ptnrs		CPI	No formal rarger. 14-16%p.a. gross internal rate of return
Clean Energy	Capital Dynamics		CPI	No formal target. 15-20%p.a. gross internal rate of return

5.5 Information on current Investment Managers given below

(a) **UK Equities –** Axa Framlington has a fundamental growth approach to investing using bottom-up stock selection.

(b) **Global Equities** – J O Hambro Capital Managerment – have a concentrated portfolio of 50 stocks all of broadly equal weights. They aim for returns by looking where traditional growth investors do not look. They look for stock returns that are idiosyncratic but recognise that most stocks have varying degrees of beta or correlation to their sector or country, so they also research sectors and countries.

(c) **Bonds –** Wellington Management Global Total Return is a scalable approach designed to meet client-specified risk and return objectives. It seeks to generate excess returns over a cash benchmark using diversified alpha sources, specialization, and integrated risk management.

(d) **Property**

UBS - manage the funds UK property exposure on an active basis through the Triton property Fund.

DTZ - manage the funds European property exposure on an active basis through the Aurora property Fund.

Darwin - Invest in UK holiday parks where scale and management expertise can be applied to create attractive returns.

(e) **Infrastructure**

GIP - Invest in large complex assets, with a recent purchase being Edinburgh Airport. The fund in which the Fund invests will be looking to invest in c.12 assets. The return target is high, at 14-16%p.a. and this is exected through operational improvements in the assets purchased.

Capital Dynamics – The Clean Energy and Infrastructure Fund seeks to capture returns from investing in the generation of clean and renewable energy and the supply of that energy into energy markets that the Manager believes will become increasingly 'short' relative to mandated targets for more renewables and which may in the near term, become compelled to significantly reduce their carbon intensity. Investments will also be targeted at larger scale energy efficiency projects using asset-based solutions to enhance efficiency and reduce emissions.

(f) **Hedge Funds** – BlueCrest AllBlue is BlueCrest's multi-strategy flagship fund, which is a diversified portfolio of internally managed funds. The investment objective of AllBlue is to provide an annual return of 10-15% net of fees with a volatility of 6-8%.

(g) **Other Alternatives**

LGT Venture Philanthropy (IVUK) - will be investing in social enterprises that create a strong positive social impact for people living in the UK. Focusing on specific and measurable social impact results in the UK and targeting a financial return of 7% IRR net of fees and expenses.

Markham Rae – Is a global macro trading strategy, investing in G10 interest rates and G12 currency contracts.

6 EXPERT ADVICE

6.1 Mercer is the Fund’s actuarial adviser having been appointed from 1st November 2011 following a competitive tendering process.

6.2 Mercer is the Fund’s investment adviser having been appointed from 1st November 2011 following a competitive tendering process.

APPENDIX 2

6.3 The Pension Fund Committee also receives advice from the Section 151 Officer and the Performance Management consultant State Street Investment Analytics (previously named WM).

6.4 The Fund's independent advisor John Raisin (John Raisin Financial Services Limited) was appointed by the Pension Fund Committee in November 2011.

7. PERFORMANCE MONITORING

7.1 The investment managers provide summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. The Pension Fund Committee receives independent measurement of returns from the State Street Investment Analytics (previously WM Company) quarterly basis and Mercer Investment Consultants when it is deemed necessary .

7.2 The Pension Fund Committee monitors the relative and absolute performance of its investment managers on a quarterly basis. The monitoring will consider not only the investment returns, but also an assessment of the investment managers' adherence to their mandate requirements. The Pension Fund Committee will also consider the investment managers' investment processes, stability of key personnel and market positions.

7.3 The investment manager's report on performance, their active asset allocation positions relative to the benchmark on a quarterly basis.

7.4 The individual managers' current activity is monitored by the Section 151 Officer and reported to the Pension Fund Committee on a quarterly basis.

8. Risk

8.1 There are a number of risks to which the Pension Fund is exposed and the policy of the Pension Fund Committee on these risks is briefly described here. A fuller statement of risk considerations is included in the FSS and the Pension Fund Accounts.

8.2 The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. This is a yield based on market returns on UK Government gilt stocks and other investments which reflects a market consistent discount rate for the profile and duration of the scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.65% p.a. The Pension Fund Committee recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

8.3 The Committee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields, as well as producing more short-term volatility in the funding position. The Committee has taken advice on the matter and (in light of the objectives) considered carefully the implications of adopting different levels of risk.

8.4 While the risk introduced through investing a significant proportion of the Fund's assets in equities could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is acceptable in view of the potential benefits of the expected extra returns. Should there be a material change in the Fund's circumstances, the Committee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

8.5 Risk is also controlled by (at least) quarterly reviews of past performance and future plans of each fund manager, and obtaining the advice of the investment consultant. The Committee also determines the degree of risk taken by the investment fund managers by setting performance targets and monitoring the risk levels taken by each manager in order to achieve that target.

8.6 The Pension Fund Committee recognises that the use of active managers introduces a risk of underperformance. However, they believe that this risk is outweighed by the potential gains from successful active management. In addition to provide an additional measure of control of this risk the Pension Fund Committee also imposes various limitations and restrictions on the investment managers as detailed in section 9 below.

8.7 Investment Managers will seek to achieve a balance of income and capital growth and manage the Portfolio in such a way as to achieve maximum total return consistent with the avoidance of undue risk. The Council will agree particular performance targets with each of the Investment Managers from time to time.

9. INVESTMENT RANGES AND TARGET WEIGHTINGS

Except as stated below, investments may be made in any market, without restriction as to weighting. Investment ranges or target weightings will be agreed between the Council and the Investment Managers individually on a periodic basis, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

9.1 Investments Permitted in Specific Circumstances

The Council wishes to minimise its exposure to the following investment vehicles but Wellington Management, BlueCrest and Markham Rae are permitted to use these investment vehicles for its Global Total Return Fund, AllBlue and Global Macro funds:

APPENDIX 2

a. Exchange-Traded Contingent Liability Transactions
b. Other Exchange-Traded Derivative Transactions
c. Off-Exchange Traded Contingent Liability Transactions
d. Other Off-Exchange Traded Derivative Transactions
e. Short Sales

9.2 Prohibited Investments

There is to be no lending of Portfolio Securities to a third party at this present time and the Fund Managers are to observe any restrictions specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

9.3 Borrowing

The Investment Manager may not commit the Council to supplement the Portfolio either by borrowing on the Council's behalf or by committing the Council to a contract, the performance of which may require the Council to supplement the Portfolio. The Investment Manager may, however, incur a temporary overdraft for settlement purposes of up to 2% of the market value of the Portfolio that they hold.

9.4 Market and Sector Restrictions

There are no restrictions.

9.5 Diversification

At an overall Fund level, the Committee believes that an appropriate degree of diversification is achieved, whilst still maintaining the required level of expected return. Diversification is obtained via investments in alternative asset classes, but we note also that diversification within equities is achieved by allocating across the globe rather than solely the home market. In addition, the maximum holding in any single equity investment shall be limited to the greater of:

a. 5% of the market value of the fund; or
b. the stock's weighting in the relevant index plus 3%
c. subject to a maximum of 10% of the market value of the Fund at the time of purchase.

9.6 Investments which are not readily realisable

In general, the investments of the Fund are liquid, but the Investment Manager may invest the Portfolio in investments, which are not readily realisable, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

APPENDIX 2

9.7 Management Arrangements

The investment management arrangements are summarised in the table below:

Investment Manager	Appointed	Brief	%
AXA Framlington	July 2007	Active UK equity	35.5
JO Hambro Capital Management	February 2013	Active Global Equity	23.6
Wellington Management	December/January 2011/12	Active Global Fixed income	15
DTZ Investment Management	September 2007	European (inc UK) Property	5.6
UBS Global Asset Management	December 2002	UK Property	2.4
BlueCrest	March 2013	Hedge Fund	5
Capital Dynamics	2012	Infrustructure	5
Global Infrastructure Partners	2012	Infrastructure	5
Markham Rae	November 13	Hedge Fund	1
Darwin	September 13	UK Property	3
LGT Venture Philanthropy	December 13	Social Impact	1

Benchmarks for Fund Managers

9.8 The following benchmarks apply from March 2014.

Asset Class	Weighting %	Range %
UK Equities	35.4	+/-5
Global Equities	23.6	+/-5
Global Fixed Interest	15	+/-5
Property	8	+/-3
Other Alternative Opportunities	3	+/-3
Hedge Funds	5	+/-3
Infrastructure	10	No range
Total	100	

10. CORPORATE GOVERNANCE

Fund managers have delegated authority to exercise shareholder’s voting rights in accordance with the authority’s corporate governance policy as set out below. Where necessary the fund managers can use their discretion in the interpretation of the policy, without reference back to the Council and the action taken will be reviewed between the Council officers and the fund managers and by the Pension Fund Committee as required.

APPENDIX 2

The Pension Fund reserves the right to instruct the Fund Manager to vote in a particular way in connection with it holdings if it feels that this is a necessary step to be taken.

The objective of these policies is to preserve and enhance long-term shareholder value.

10.1 **Concentration of Executive Authority**

The roles of Company Chairman and Chief Executive should be kept separate to avoid a concentration of executive power, unless:

a. There is a strong independent element on the board of directors in the form of a sufficient quorum of fully independent directors, one of whom is designated deputy chairman or senior non executive director or
b. A temporary arrangement is required whilst one of the positions is vacant or
c. The company has openly and publicly justified the arrangement and the reasons are sound.

10.2 **Nomination Committees and Election of Company Directors**

a. Appointments to the board of directors should be made open through a Nominations Committee comprising a majority of the independent non-executive directors.
b. A third of the board should stand down each year and no director should serve more than three years at a time and there should be published criteria for selection of directors.
c. Fund Managers can also vote against any director whom they feel has not performed his role effectively and in particular against the chair of the audit or remuneration committee if they feel the committees are not effective and the chair is not effective.
d. Fund Managers can vote against executive directors being elected to these committees.

10.3 **Independence of Non-Executive Directors**

a. One third of the board or at least three directors should be non-executive and the majority of these should be independent in being free of business relationships and blood relationships and not receiving a significant remuneration.

10.4 **Service Contracts**

a. There should be short-term contracts for directors. Rolling contracts of one year, two-year rolling contracts where these are justified by the remuneration committee and fixed contracts up to two years with subsequent terms on a one year rolling period are acceptable.

10.5 **Remuneration**

a. There needs to be adequate disclosure of the details, challenging targets to be met and remuneration in line with comparable benchmarks.
b. Director's pay should be linked to the results of the company
c. There should be a properly constituted remuneration committee made up of independent non-executive directors.

10.6 **Incentive Schemes**

a. Long term incentive plans should directly align the interests of directors with shareholders, establish challenging performance criteria, which measure performance by total shareholder return in relation to the market or comparable companies, are at least of three years duration and encourage long term ownership of shares. If fund managers are not satisfied they should try to secure changes by dialogue with the company rather than simply voting against the proposals.

10.7 **Auditors**

a. Companies must appoint auditors annually and fix their remuneration in accordance with legal requirements.
b. The company needs to comment in its annual report on its compliance with the Combined Code on Corporate Governance and on its system of internal control and risk management.
c. There should be an independent audit committee, with a majority of independent non-executive directors, within the company's structure.

10.8 **Political Donations**

a. The Council does not support political donations on the grounds that they are an inappropriate use of shareholders' funds. Where companies do not put forward specific resolutions, the Council's views should be conveyed to the Board of Directors.

10.9 **Changes to Memorandum or Articles of Association**

a. Fund managers should consider each proposal on its merits and oppose attempts to withdraw pre-emption rights for any share issue exceeding 5% of the existing shares issued.

10.10 **Dividend Policy**

a. Offers of enhanced scrip dividends, scrip dividend proposals or dividend reinvestment schemes should be considered on their merits and fund managers should vote according to what they think is in the long term interests of Waltham Forest as shareholder.

APPENDIX 2

10.11 **Take Over Bids**

a. Fund managers should make a decision based on whether the proposal and price offered for shares is in the client's best long-term interest.

10.12 **Annual Report and Accounts**

a. Companies must comply with best practice and the Corporate Governance codes in making full disclosure of their policies. If this is not the case fund managers should vote against the adoption of the annual report and accounts.

b.

11. SOCIALLY RESPONSIBLE INVESTMENT

11.1 With regard to socially responsible investment the Authority is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes

a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

b. Administering authorities are free to avoid certain kinds of prudent investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the fund consistent with proper diversification and prudence is paramount.

11.2 The Waltham Forest Pension Fund does not propose to invest any part of the Fund exclusively in Socially Responsible Investments at the current time. Nor is it proposed that positive or negative screening should be adopted by the Fund on socially responsible issues.

11.3 The Waltham Forest Pension Fund wish to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance the trustees would like environmental issues, human rights and employment standards to be raised with company management. Environmental issues could include issues such as conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.

11.4 The trustees are prepared to give fund managers full discretion on the interpretation of this policy. Fund managers may proceed in this area by encouraging companies to formulate codes of conduct and monitoring compliance and employee participation or by raising specific issues with company management as appropriate. Fund Managers may raise other issues not included in the definition above if they feel that this appropriate and in keeping with Waltham Forest Pension Fund policy.

11.5 In circumstances when the Fund is invested in the fund managers' pooled funds it is recognised that the above policies may not be implemented and in these cases it will be the manager's SRI policy which will be followed.

11.6 It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.

11.7 The London Borough of Waltham Forest has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds.

12. COMPLIANCE

12.1 In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulation 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

12.2 The current guidance relates to that issued by the CIPFA Pension Panel – Principles for Investment Decision Making and disclosure in the Local Government Pension Scheme in the United Kingdom – A guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds. The principles revolve around Pension Fund investment, scheme governance, disclosure and consultation and have been set at a relatively high level to six principles giving flexibility whilst at the same time ensuring that Local Authority Funds have a common set of principles and guidance on which to operate. These principles have replaced the 10 Myners Principles published in 2001.

12.3 The set of six Myners Principles as they apply to Local Authority Pension Funds are:

Effective Decision Making

Clear Objectives

Risk and Liabilities

APPENDIX 2

Performance Assessment

Responsible Ownership

Transparency and Reporting

12.4 The Principles and the requirements are set out in Appendix 1 to this report. Compliance against these principles is also detailed in the appendix.

APPENDIX 2

PRINCIPLES FOR INVESTMENT DECISION MAKING AND DISCLOSURE IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINDOM 2009 – APPLICATION OF MYNERS PRINCIPLES 2008 TO THE MANAGEMENT OF THE LGPS FUNDS

The LGPS (Management and Investment of Funds) Regulation 2009, regulation 12(3) requires Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State and give reasons for non-compliance.

Principles
Effective Decision Making

Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Compliance Statement
Partially Compliant

The Pension Fund Committee is the body responsible for the management of the Pension Fund.

The committee meet quarterly and receive training as required by the CIPFA "Pensions Finance, knowledge and skills framework". Papers are circulated in advance of meetings. The Committee recognise their fiduciary responsibilities for managing the Pension Fund. Briefing meetings are held with the Chair of the Pension Fund Committee prior to each Committee.

The CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) is adopted as the basis for its training and development programme.

The fund appointed an Independent Advisor to the Pension Fund in November 2011.

The Pension Fund has a 3 year business plan which is Reviewed and updated yearly. The fund has an approved draft Pensions Administration strategy which will be sent out for Consultation during 2014/15.

Clear Objectives

- An overall investment Objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisers and investment managers.

Compliant

The committees investment objectives are as follows:-

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

The Committee regularly reviews the asset/liability position of the

APPENDIX 2

Fund and seeks advice from its advisers including Fund Actuary when determining investment policy. The Fund has its own objective for performance.

The Fund lays down in detail its investment strategy in its Funding Strategy Statement and its Statement of Investment Principles. These can be found on the Councils web site with the Pension Fund Annual Report for 2013/14.

Risk and liabilities

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

Partially Compliant

The Fund Actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and liabilities. The Committee receives regular updates on the funding position of the Fund, performance and review of asset allocation and benchmarks.

The funds risk register which is reviewed on a yearly basis will be approved at the Pensions Committee in October 2014, it will also be attached as an appendix to the Pension Fund Annual Report.

The Committee is aware of their responsibility to all stakeholders in the Fund including local tax payers. We communicate regularly with employers in the Fund and hold Seminars to update them on the valuation process, giving them an opportunity to ask any question.

An investment strategy Review was undertaken in March 2013 and proposals agreed by Committee on 19th June 2013. This strategy is reviewed on a regular basis.

All External Audit reports are taken to Committee following their production.

Performance assessment

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

Partially Compliant

Formal arrangements are in place for monitoring both quarterly and longer term performance of the Fund's investments and investment managers with the use of the Funds investment consultants and external performance measurement service.

The Pension Fund produces and Annual Report in relation to the Fund's activities, performance, accounts and governance arrangements. Members are also involved in a dedicated training programme which is line with the requirements of the CIPFA Knowledge and Skills Framework.

The Committee's performance can be reviewed against the Pension Fund Business Plan that is reviewed and updated on a yearly basis.

It has been noted as part of CIPFA's Governance Review of the Fund that it does not have performance targets for or report on its advisors. Also that it does not report on the pension fund administration service. These issues will be added to the business plan for the Fund.

APPENDIX 2

Responsible ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,
- include a statement of their policy on responsible ownership in the Statement of Investment Principles; and
- report periodically to scheme members on the discharge of such responsibilities.

Partially Compliant

The Funds Statement of Investment Principles (SIP) contains a statement on the Funds policy towards socially responsible investment.

Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the Pension Funds corporate governance policy as set out in its SIP. Action taken will be reviewed at the quarterly meetings between the Council officers and the fund managers and by the Pension Fund Committee twice a year.

The London of Waltham Forest Pension Fund is a member of Local Authority Pension Fund Forum (LAPFF), which comprise of 52 local authority pension funds. The forum promotes the investment interests of its members, and it maximises their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

As part of the development of a business plan for the fund the process for review and reporting on Fund Managers voting activity will be considered.

Transparency and reporting

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and
- provide regular communication to scheme members in the form they consider most appropriate.

Partially Compliant

The Fund's Governance Policy, Compliance Statement and Fund's Communication Policy Statement setting out the Fund's policies in respect of governance and communicating with stakeholders can be found along with the Funds Annual Report and Accounts, risk register, business plan and draft pension administration strategy on the Council's website.

The Fund aims to hold at least one employer seminar per year to update and make employers aware of any issues or just to refresh information allowing for employers to feed back idea's and ask questions.

Employers and employee seminars were held in during the year in respect of the new 2014 scheme.

The Fund sends out a bi-annual newsletters to active members of the Pension Fund and an annual newsletter to pensioners. In addition active and deferred members of the scheme are sent an Annual Benefit Statement. Additional news letters are also sent as required. We also have a website for members of the Fund were they can find out much more information. A review of the Fund Communications Strategy will be under taken as part of the development of a business plan for th Fund.

APPENDIX 3

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND
2013 Funding Strategy Statement (FSS)

This Statement has been prepared by London Borough of Waltham Forest (the Administering Authority) to set out the funding strategy for the London Borough of Waltham Forest Pension Fund (the LBWFPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the LBWFPF, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the LBWFPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

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

The LBWFPF is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the LBWFPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the LBWFPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

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

2. PURPOSE OF THE FSS IN POLICY TERMS

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

The purpose of this Funding Strategy Statement is:

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

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

3. AIMS AND PURPOSE OF THE LBWFPF

The aims of the Fund are to:

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

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as

amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBWFPF's actuary
- review the investment strategy of the LBWFPF
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- prepare the annual report and accounts for the LBWFPF and arrange for the actuary to provide FRS17 statements for the separate employers in the LBWFPF if required
- monitor all aspects of the LBWFPF's performance and funding and amend FSS/SIP as and when appropriate
- appoint, terminate and monitor the performance of the investment managers and providers for additional voluntary contributions, and
- manage the appointment and relationships with the administrators in a manner consistent to support the above.

The Individual Employer should:

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

The Fund actuary should:

- prepare valuations including the setting of employers' contribution levels after agreeing assumptions with the Administering Authority and having regard to the FSS and other Fund policies
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,

- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority’s long term funding objective is for the LBWFPF to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the ”**funding target**”) assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the LBWFPF is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term, and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the distinct employers in the LBWFPF.

In attributing the overall investment performance obtained on the assets of the LBWFPF to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the LBWFPF as a whole.

All costs in relation to early retirements (including those due to ill health) will be funded as they occur over a maximum period of 3 years. These costs will be assessed on the basis of the actuary’s advice, as required.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution requirements arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the LBWFPF does not believe it appropriate for contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain. As a result, the LBWFPF will operate a default recovery period of 14 years (compared to 17 years at the 2010 valuation).

- Subject to the agreement of the Administering Authority, a maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- Contribution reductions may only apply if an employer's deficit recovery period is in line with (or shorter than) the default recovery period.

- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 14 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

- The employer contributions will be expressed and certified as two separate elements:
    - a percentage of pensionable payroll in respect of the future accrual of benefit
    - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

- Where increases in contribution levels are required, subject to sufficient demonstration of an employer's financial strength to the Administering Authority, these may be implemented in steps over a period of up to [6] years.

- On the cessation of an employer's participation in the LBWFPF, the actuary will be asked to make a termination assessment. Any deficit in the LBWFPF in respect of the employer will be due to the LBWFPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the LBWFPF to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate policy note.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

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

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

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

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

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

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the LBWFPF or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the LBWFPF.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

In certain instances, and in particular for LBWFPF employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. This higher level of return assumed will, in particular reflect the actual investment strategy of the LBWFPF, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 60% covered by the current assets, with the funding deficit of 40% being covered by future deficit contributions and investment returns.

In assessing the value of the LBWFPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the LBWFPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the LBWFPF's assets in line with the least risk portfolio would minimise fluctuations in the LBWFPF's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the LBWFPF had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the LBWFPF investments. On this basis of assessment, the assessed value of the LBWFPF's liabilities at the 2013 valuation would have been significantly higher, and the declared funding level would be correspondingly reduced.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)		**%**
	UK Equities	35.5
	Global Equities	23.6
	Fixed Income	15
	Property	8
	GTAA/other alternatives	3
	Hedge Funds	5
	Infrastructure	10
	TOTAL	**100.0**

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

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

The Administering Authority has been advised by the actuary that the greatest risk to the LBWFPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

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

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than that built into the actuarial assumptions.

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the LBWFPF.

Regulatory

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

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)

- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

8. MONITORING AND REVIEW

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

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

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

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

Name John Turnbull
Title Director of Finance
London Borough of Waltham Forest as lead authority for the London Borough of Waltham Forest Pension Fund

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the LBWFPF on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the LBWFPF's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum .

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the LBWFPF relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the LBWFPF's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for all employers in the LBWFPF. This results in a total salary increase of 1% per annum for the first three years following the valuation with it then being in line with CPI for the following three years. The long term assumption of 1.5% per annum above CPI would then apply at the end of the six year period.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting LBWFPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, at the discretion of the Administering Authority, allowing for take-up of the 50:50 option may be made up to a maximum of 5% of current and future members for certain employers (who have sufficient size of current contributing members). Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the LBWFPF will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	153% / 110%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	113% / 101%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	97% / 97%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	97% / 97%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	113% / 101%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	No allowance

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years and for additional returns to be earned by the LBWFPF.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the LBWFPF's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period.

Increases in yields on fixed and index linked gilts

A maximum increase in fixed and index linked gilt yields of 0.4% p.a. reflecting expected increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

Investment return on existing assets and future contributions

In addition, a maximum overall return of 2.5% p.a. in excess of gilts, reflecting the underlying investment strategy of the LBWFPF and, in particular, including the assets of the LBWFPF that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

Again, the above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the 2010 valuation will be no less that the current level of contributions payable by the employer or the Future Service Contribution Rate.

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

On 30 June 2007 the LGPS regulations 1997 (as amended) (73A(1)(c) requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under regulation 31(3) (c) LGPS Administration Regulations 2008 to give, in their governance compliance statement, the reason for not complying.

Principle A - Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

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

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

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

	Non Compliant				Fully Compliant
a)					√
b)				√	
c)			n/a		
d)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations) Item b) LBWF has no deferred member representation.

Comments on ratings given above:

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

Principle B - Representation

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

i) employing authorities (including non-scheme employers, e.g., admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

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

	Non Compliant				Fully Compliant
a)				√	
b)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item a) ii) LBWF does not have direct representation for deferred ex-members, because of difficulty of identifying candidates and communicating with this constituency.

Comments on ratings given above:

APPENDIX 4

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

Principle C - Selection and role of lay members

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

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

	Non Compliant				Fully Compliant
a)					√
b)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

Principle D – Voting

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

	Non Compliant				Fully Compliant
a)				√	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:
The Pensions Fund Committee received a report at its first meeting concerning the appointment of observers. This report was clear that observer posts carried no voting rights and the reason for taking this approach. The Committee's approach to voting rights will be considered as part of the development of a Fund business plan.

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

<u>Principle E – Training/Facility time/Expenses</u>

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

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

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

	Non Compliant				Fully Compliant
a)					√
b)					√
c)				√	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations) Item c) Pensions Fund Committee needs to formally implement the new policy once the training analysis has been completed and a training plan approved.

Comments on ratings given above:

<u>Principle F – Meetings (frequency/quorum)</u>

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

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

c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

APPENDIX 4

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

	Non Compliant				Fully Compliant
a)					√
b)			n/a		
c)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above: Item b) There is no secondary committee or panel. Item c) Lay members are included as observers to the Pensions Fund Committee (the main committee)

<u>Principle G - Access</u>

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

	Non Compliant				Fully Compliant
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

<u>Principle H – Scope</u>

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

	Non Compliant				Fully Compliant
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2014

Comments on ratings given above:

The Council's Pension Fund Committee has been established for Municipal Year 2013/14 with terms of reference covering the broader range of policy issues envisaged. Training will be emphasised in the early stages of the Committee to enable key scheme issues to be considered and decisions taken as experience builds.

Principle I – Publicity

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

	Non Compliant				Fully Compliant
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

Item a) Newsletters are circulated to scheme members and pensioners on scheme issues. These have been used to advertise representative vacancies as they arise. This Governance Compliance Statement will be published as part of the Pension Fund Annual Report as required by the Regulations and will be available to stakeholders on the Council's website.

APPENDIX 5

London Borough of Waltham Forest Pension Fund Communications Policy Statement 2014

1. The principal objectives of this Communications Policy shall be as follows:
    - to communicate the provisions and requirements of the Local Government Pension Scheme accurately to all stakeholders;
    - to identify and meet all regulatory requirements regarding provision of information;
    - to promote appropriately membership of the Scheme to employees of participating employers;
    - to communicate clearly to all stakeholders their own responsibility for communications and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications as needed;
    - to ensure communications are made in a timely manner;
    - to use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

2. The major stakeholders for the purpose of this policy are as follows:
    - Members
    - Representatives of members
    - Prospective members
    - Employers

3. Day-to-day responsibility for the operation of the policy shall be delegated to Capita Hartshead Ltd, the administrators of the Fund. Their functions shall include the following:
    - Arranging for the publication of booklets describing the Scheme in Waltham Forest, ensuring these are given to all new members on joining and any other members on request
    - Producing and sending annual benefit statements to all active members
    - Giving prompt and accurate replies to all correspondence and enquiries received
    - Arranging for appropriate and accurate information to be published on the LBWF website
    - Providing a separate e-mail address for members to contact
    - Providing access to the LGPS website
    - Ensuring prospective new members are advised of the benefits of the Scheme as part of the induction process

4. This statement shall be revised by the Pensions and Treasury Manager if there is any material change in the Administering Authority's Communications Policy.

Waltham Forest
17 September 2014

London Borough of Waltham Forest Pension Fund Risk Register

Risk Ref	Business Unit	Rating/Risk	Type	Nature of Risk	Details [Description of Risk]	Details 2 [Triggers]	Details 3 [Consequences]
PEN0001	Pensions	2 Low	Data And Information For Decision Making	Failure of key supplier	WM (a State Street Company) provide performance measurement figures for the Pension Fund. These are a check on those supplied by the Fund Managers themselves and incorporate comparisons with other local authorities and the markets in general. Failure to provide contracted services does not constitute a material risk.	Failure of WM internal control and quality assurance processes	Lack of comparative performance information to populate reports to Pension Fund Committee.
PEN0002	Pensions	2 Low	Financial	Failure of key supplier	Mercer provide actuarial services to the Pension Fund. Failure to provide contracted services including actuarial assessment/triennial valuation of the Pension Fund, provision of materially incorrect conclusions, failure to provide FRS17 disclosures for Statement of Accounts.	Failure of Mercer internal control and quality assurance processes.	Incorrect employer contributions levied, failure to meet deadlines to notify employers in the Fund of employer contributions or FRS17 accounting data..
PEN0003	Pensions	2 Low	Contracts & Partnerships	Failure of key supplier	State Street provide custodial services to the Pension Fund and are responsible for safekeeping of pension fund assets. Risks include failure to provide contracted services impacting security of the assets or achievement of transaction objectives of the fund managers.	Market events, internal system / quality assurance failures	Unless remedy obtained from custodian, material loss is possible. Security of assets is the core business objective of custodial services.
PEN0004	Pensions	2 Low	Professional judgement &	Professional Errors and Omissions	There is a legal requirement to maintain and update statutory compliance statements including the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement, Communications Policy Statement, and to publish an Annual Report with up to date versions of the Statements attached. Risk involves failure to comply with these legal requirements.	Failure to produce and publish statements / reports to statutory deadlines due to staffing shortages, logistics issues around internal decision making processes, e.g. difficulties revising docs in time where major strategy changes require significant revision.	Possible reputational risk, censure or legal action from central government. Threat to achievement of closure of accounts and reporting objectives.
PEN0005	Pensions	9 Medium/High	Financial	Failure of key supplier	Investment under performance on Fund Management Contracts for the London Borough of Waltham Forest Pension Fund (11 contracts - UBS; DTZ; AXA Framlington; JOHCM; Darwin; BlueCrest; Markham Rae; IVUK; Wellington; Capital Dynamics and GIP)	Adverse market conditions, ineffective risk controlsby fund managers, manager under performance	Failure to meet Funding Strategy Statement objectives, resulting in significant increases in employer contributions required from the General Fund to meet Pension Fund shortfalls. Budget set aside in the MTFS.
PEN0006	Pensions	9 Medium/High	Competition & Markets	Economic climate	Economic turbulence affecting the pension fund	Economic recession, market turbulence, company failures	Threat to success of Pension Fund reorganisation and new investment strategy, increased Pension Fund deficit

THE LONDON BOROUGH OF WALTHAM FOREST

PENSION FUND

DRAFT

PENSION ADMINISTRATION STRATEGY

JUNE 2013

INTRODUCTION

This is the Pension Administration Strategy of the London Borough of Waltham Forest Pension Fund, administered by the London Borough of Waltham Forest (the Administering Authority). It has been prepared in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. The strategy has been developed following consultation with employers who participate in the London Borough of Waltham Forest Pension Fund, schools who employ their own payroll providers and CAPITA who undertake pensions benefit administration on behalf of the Fund.

The aim of the Pension Administration Strategy is to set out the responsibilities, quality and performance standards expected of the London Borough of Waltham Forest in its role as Administering Authority and scheme employer, as well as all other employers within the Fund (including for example Academies and private sector bodies) and CAPITA in its pensions benefits administration role. The strategy seeks to promote positive working relationships, improve efficiency, quality and governance of the Fund.

The introduction of a new Local Government Pension Scheme from 2014 provides a further and important reason for the introduction of a Pension Administration Strategy as under a Career Average Scheme administration for the Administering Authority and employers will become significantly more complex. A Career Average scheme will require that the annual salaries of Active members are accurately provided in a timely manner by employers to the Administering Authority/ its outsourced Benefits Administrator. This will be fundamental to the accurate calculation of benefits.

This Pension Administration Strategy also sets out the circumstances and procedures the Fund will apply, in accordance with Regulation 43 of the Local Government Pension Scheme (Administration) Regulations 2008, for recovering costs from an Employer where costs have been incurred by the Fund because of an Employers' levels of performance in carrying out its functions under the Local Government Pension Scheme Regulations.

IMPLEMENTATION

This Pension Administration Strategy has been subject to consultation with employing authorities in accordance with Regulation 65(4) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. This document has been considered and approved by the Pensions Committee of the London Borough of Waltham Forest at its meeting held on 19th June 2013. Therefore this Pension Administration Strategy applies to the London Borough of Waltham Forest as both the Administering Authority and a scheme employer and to all other existing and future employers within Fund from provisionally December 2013.

REGULATORY FRAMEWORK

Under Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended issues that can be covered in a Pension Administration Strategy include:

- Procedures for liaison and communication with Employing Authorities.

- Establishing levels of performance which the Administering Authority and Employing Authorities are expected to achieve through performance targets or agreements about levels of performance.

- Procedures for improving communication.

- Circumstances in which the Administering Authority may consider giving written notice under Regulation 43 of the Administration Regulations of its intention to recover additional costs it has incurred as a result of unsatisfactory performance by an Employing Authority in carrying out its functions.

- The publication by the Administering Authority of Annual Reports in respect of performance achieved.

- Such other matters as, after due consultation, it considers to be suitable for inclusion in the Strategy

Once an Administration Strategy is approved it must be kept under review and revised if there are major changes to any matter covered in the strategy.

The Administering Authority must consult the Employing Authorities in preparing and revising the Pension Administration Strategy.

The Administering Authority must publish its Pension Administration Strategy and send a copy to each Employing Authority and the Secretary of State. Revisions must also be sent to Employers and the Secretary of State.

LIAISON AND COMMUNICATION BETWEEN THE FUND AND EMPLOYERS

The London Borough of Waltham Forest Pension Fund has published a number of documents in respect of statements of policy and procedures including the following

- Communication Policy
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Annual Report

The delivery of an effective service by the Fund to scheme members and other stakeholders is not solely the responsibility of the London Borough of Waltham Forest in its role as Administering Authority. The Council in its role as Administering Authority and Employing Bodies have a joint role and responsibility to ensure a high quality cost effective administrative service is provided. Effective liaison and communication between the Administering Authority, Employing Bodies and CAPITA in its pensions benefit administration role is therefore crucial. Examples of the requirements of both the Administering Authority and Employers in respect of liaison and communication are set out below:

Designated Named Individual

Each Employing Body will designate a named individual to act as the main point of contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS). The name of the designated individual, plus a deputy to act in their absence, will be communicated to the Administering Authority and CAPITA in its role as pension benefits administrator. Each Employer will immediately inform both the Administering Authority and CAPITA of any change in respect of the main or deputy point of contact.

The key responsibility of the individual main point of contact will be to:

- Act as a link for communications to appropriate staff within the Employer – for example Human Resources, Payroll, the Director of Finance
- To ensure that standards and levels of service are maintained
- To ensure that details of all nominated representatives and authorised signatures are correct and to notify the Fund and CAPITA of any changes immediately
- To arrange distribution of communications literature as and when required
- To assure data quality and ensure the timely submission of data to the Fund and any of its agents including CAPITA and the Fund Actuary.
- To attend, if at all possible, seminars held by the Administering Authority

Employer Seminars and Training

The Fund holds periodic Employer Seminars and Training events. At these sessions the Fund Officers, the Fund Actuary and CAPITA provide information, advice and training on a range of issues including Administrative matters, the Actuarial Valuation process & Fund Finances and Investment approaches & performance. Attendance by each Employers main contact and Senior Management is strongly recommended.

Policy Discretions

Each employer must produce, publish and maintain a statement of policy regarding the exercise of discretions available to them under the LGPS Regulations. This policy statement must be kept under review and where revisions are made the revised policy statement must be sent immediately following its approval to the Fund, CAPITA, and made readily available to all employees within the Employing Body.

Internal Disputes Resolution Procedure

Each Employing Body is required to nominate and name the person to whom applications under Stage 1 of the Internal Dispute Resolution Procedure (IDRP) should be made. The name, job title and contact details of this nominated person must be communicated to both the Fund and CAPITA. Any changes in relation to the nominated person should be communicated to the Fund and CAPITA immediately.

PERFORMANCE STANDARDS

Certain actions and decisions must be taken by either the Fund (Administering Authority) or the relevant employer, in relation to the rights and entitlements of individual scheme members. To meet these obligations the Fund (after consultation) has agreed Levels of Performance between itself and employers which are set out below and which take into account the requirements of overriding legislation, internal standards and timeliness.:

Overriding legislation

The Administering Authority and employers will, as a minimum, comply with overriding legislation including:

- Local Government Pension Scheme Regulations
- Public Service Pensions Act 2013
- Pensions Act 1995
- Pensions Act 2004
- Freedom of Information Act 2000
- Data Protection Act 1988
- Finance Act 2004
- Health and Safety legislation
- Any other legislation that may apply at the current time

and any future amendments to the above legislation.

Where specified in this Pension Administration Strategy, the Fund and Employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation.

Internal standards

The Fund and employers will ensure that all functions and tasks are carried out in accordance with the following quality standards:

- Compliance with all requirements set out in the Employers' Guide
- Information to be legible and accurate
- Communications to be in a plain language style
- Information provided to be checked for accuracy by an appropriate member of staff
- Information provided to be approved by an authorised member of staff
- Actions carried out, or information provided, within the timescales set out in this Pension Administration Strategy

Timeliness

Overriding legislation and regulations set minimum standards that Administering Authorities and Employers within the LGPS must meet in providing certain information to the various parties associated with the Scheme. Local performance indicators, for the London Borough of Waltham Forest Scheme, have been determined, where appropriate going beyond the overriding legislative and regulatory requirements.

Levels of Performance

Xxxxxxxxxxxxx
Xxxxxxxxxxxxx
Xxxxxxxxxxxxxx

RECOVERY BY THE ADMINISTERING AUTHORITY OF ADDITIONAL COSTS

Regulation 43 of the Local Government Pension Scheme (Administration) Regulations 2008 permits an Administering Authority to recover from an Employer any additional costs incurred as a result of the poor level of performance of that employer. Where an Administering Authority wishes to recover such costs they must give notice in writing setting out the reasons for considering that additional costs should be recovered, the amount of the additional costs, the basis on which the additional cost has been calculated and the provisions of the Pension Administration Policy which are relevant to the decision to levy additional costs.

The London Borough of Waltham Forest in its role as Administering Authority will seek to work with an employer to identify areas of poor performance, set out in writing areas of poor performance, meet with the employer, provide any necessary training and put in place an improvement plan.

Where however, after the provision of advice and assistance from the Administering Authority, poor performance continues then the additional costs incurred will be recovered from the Employer.

Circumstances where additional costs will be recovered from an Employer are:

- Ongoing failure to provide relevant information to the Administering Authority, CAPITA, the Fund Actuary, a scheme member or other interested party in accordance with specified performance targets either through failures in quality of information or timeliness of delivery.
- Failure to pass relevant information to scheme members or potential members either due to poor quality or failure to adhere to timescales in the performance targets of this strategy.
- Failure to deduct and pay over correct employee and employer contributions to the London Borough of Waltham Forest Pension Fund within the stated timescales.
- Where the performance of the scheme employer results in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman or any other regulatory body.

REVIEW OF THE PENSION ADMINISTRATION STRATEGY

The London Borough of Waltham Forest in its role as Administering Authority will keep this strategy under review. At least every three years the Fund will undertake a formal review of the strategy in consultation with Employers.

A current version of the Pension Administration Strategy will be provided to the Secretary of State, Employers and will be available on the Fund website.

Draft 5th June 2013