# LONDON BOROUGH OF RICHMOND UPON THAMES

# PENSION FUND ANNUAL REPORT

# 2013/14

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# FOREWORD

## The Pension Fund

The Pension Fund is part of the Local Government Pension Scheme (LGPS), a statutory pension scheme available to employees within local government and certain other bodies. The LGPS is a national scheme with regulations set by the government, but is administered mainly by local authorities, or in some cases statutory bodies established to administer the LGPS scheme for larger areas covering a number of local authorities. These councils and pension authorities are responsible for the day to day running of the scheme, including the collection of pension contributions (from employers and employees), paying benefits and investing surplus of contributions. The term Pension Fund derives from the investment of contributions into the 'Fund' until needed.

The Council of the London Borough of Richmond upon Thames (the Council) is an Administering Authority of the LGPS. It has delegated oversight and administration of the Pension Fund to the Pension Fund Committee.

Details of the management and administration of the Richmond Pension Fund are provided in the first main section of this report.

## Introduction to the Pension Fund Annual Report

This is the third Pension Fund Annual Report that is published in accordance with statutory requirements and the content follows the prescribed format set out in LGPS Regulations.

The Report contains a number of formal policies and statements as required under the Regulations:

- Governance Compliance Statement
- Policy on Communication with Members and Employing Authorities
- Statement of Investment Principles
- Actuarial Statement on the Level of Funding
- Funding Strategy Statement

With the exception of the actuarial statement on the level of funding, these policies and statements are reviewed on a regular basis and the current versions are included in this Report.

## Content of the Report

The Report is set out in four sections, dealing with:

- Administration of the Fund
- Investments of the Fund
- Actuarial and Funding Statements
- Pension Fund's Accounts for 2013/14

Each of these sections starts with a brief introduction and commentary followed by the more formal statements and policies.

## Feedback and Further Information

Copies of the Report

This Report is published on the Council's website and is circulated to each of the employer organisations in the Fund. If you would like a hard copy of this Report please contact us via the details given at the end of this section.

Feedback

We continuously try to improve our communications with the public and welcome any comments or suggestions on this publication. Please send any comments to the address below.

### Further Information

**The Local Government Pension Scheme**
The Council has published further information on the pension scheme (the LGPS) and this is explained on page 10 together with contact details.

**The Pension Fund**
If you want any further information on the Pension Fund please contact us via the details below.

**Other Financial and Performance Publications by the Council**
In addition to this Report the Council publishes a range of other reports covering finance and performance. A selection of the most popular publications can be found on the Council's website, and if you require hard copies of any of these or other publications please contact us using the links below.

**Other formats**
This Report and other Council publications are available in a variety of formats – see page 115 for details.

## CONTACT DETAILS

### Our website is:

**www.richmond.gov.uk**

### Contact us by letter or phone:

**Coral Baxter**
Head of Capital Finance
London Borough of Richmond upon Thames
44 York Street
Twickenham
Middlesex TW1 3BZ

Telephone: 020 8891 7247

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**accountancy@richmond.gov.uk**

# INTRODUCTION BY THE CHAIR OF THE PENSION FUND COMMITTEE

For several years now it has been a relatively easy task to find subject-matter for this introduction, given the seemingly relentless pace of change within the LGPS. The year 2013/14 has more than matched any expectations in this regard.

Last year I commented briefly on the “Call for Evidence” on the future structure of the LGPS, the initial consultation for which was in progress at the time of writing. Although not yet concluded, that exercise has travelled a significant distance in the intervening period, in appearing to remove from the agenda – for the time being at least – the widely anticipated prospect of fund mergers (at some level). The alternative “direction of travel”, toward collaboration and possible increased use of passive management is an interesting development, to say the least – in that it is clear that perhaps for the first time in the history of the LGPS, central government is giving consideration to the fundamental rationale of funds’ investment approaches from a “top down” perspective. This has long been a relevant question, based on the straightforward evidence of aggregate LGPS performance against benchmark indices, and arguably one that is well worth addressing as part of individual funds’ own investment evaluations. This Fund went through a review process in 2007/08 in which it explicitly sought to question the “default assumption” in favour of active management, with the result that although elements of the Fund have remained actively managed since (and in fact the proportion of these increased in the last year), over 50% of investments are managed on a fully passive basis – including the vast majority of equity and bond assets. Another key component of the current exercise, cost saving, has also been part of the Council’s focus throughout. The Fund is amongst the majority of London boroughs who have agreed to participate in the governance process of the proposed London “Collective Investment Vehicle”. Whilst this is undoubtedly a very challenging undertaking in logistical terms, it is clear that the project ultimately has the potential to deliver cost savings to funds (including those such as ours whose fund management cost are currently in the range of 20-25bps). It is also clear that the initiative has attracted a significant amount of attention outside its immediate geographical area – including on the part of DCLG, who refer to it in their latest consultation document.

Also the subject of comment last year was governance reform, the very last leg (for the LPGS) of the “post-Hutton” scheme reforms. Although even at this point the Regulations are still in draft form, it is now clear that within a year’s time, the vast majority of LGPS funds will have a “two-tier” governance structure in place (and in the interim will face the significant challenge of constituting a local “Pension Board” comprising equal numbers of employer and employee representatives). These changes will without question increase the “governance overhead” imposed on funds, but equally have the potential to increase real participation in fund governance on the part of both members and employer stakeholders. The remainder of the “2014 reforms” (most obviously the new CARE-based scheme itself) are now well bedded-in, having been in operation for over a year. Once again, those responsible for the administration of the scheme at member-level seem to have ensured a smooth transition.

Although well underway this time last year, 2013/14 saw the completion of the 2013 triennial Fund valuation. This particular valuation (as noted 12 months ago) required a new approach for the Fund in terms of individual employer treatment, with the latter now in place for the principal scheduled and admitted employers. Full details of the process and methodology applied are given in a substantially revised and expanded Funding Strategy Statement, included elsewhere in this document.

Finally, turning to the performance and management of the Fund's investments (on a strictly local level, this time), the year to 31 March 2014 saw the reasonably steady accrual of an overall investment return for the Fund of 6.2%. This was broadly in line with the (floating) scheme investment benchmark for the period but in fact comfortably above the current actuarial return assumption of 4.6% pa. The result was another "year-end high" for the Fund at a value of £539.2m. Less visibly, movements in government bond yields subsequent to the valuation date will have materially improved the funding level measured by the actuary (83.1% as at 31 March 2013). Partly in response to this, the Pension Fund Committee agreed at its November meeting to increase the allocation to the Baillie Gifford Diversified Growth Fund from 10 to 15% of the Fund – a change that was implemented prior to the end of the calendar year. As with the initial investment in 2012, the explicit objective here was to mitigate Fund volatility without compromising long-term return potential. With continuing (and sustained) equity gains over the period, however, the immediate impact of this has been a slight dampening of short-term returns, with the Fund around the median level relative to its peer group in 2013/14 (remaining at 18th percentile over 10 years, however).

No doubt another interesting – and demanding – year lies ahead!

Cllr Geoff Acton
Chair, Pension Fund Committee

# MANAGEMENT AND ADMINISTRATION OF THE PENSION FUND

## Introduction

The Council as the Administering Authority is responsible for collecting pension contributions from both employers and employees within the Pension Fund and paying benefits due to scheme members.

Contributions from scheme members are determined by LGPS Regulations and are on the same basis for all members within the LGPS. The contributions made by employer organisations are determined by actuarial valuations that are separately assessed for each Pension Fund. This is explained more fully in the section of this Report on Actuarial Statements on page 46.

Benefits for pension scheme members are largely determined by LGPS regulations although there are some discretionary elements that can be determined by the Administering Authority.

As contributions are paid into the Fund during the period of each member's service and benefits paid out after service has finished, the Fund accumulates a surplus of contributions that are invested until required. Further information on this aspect of the Fund's administration is provided in the introduction to the section of this Report on Investment, Management and Performance on page 42.

This section of the Report deals separately with the overall management of the Fund (governance arrangements, investment and policy matters) and the day to day administration of the Fund in its dealings with scheme members and employers.

## Governance and management of the Fund

The Council has delegated its functions as the Administrating Authority for the LGPS within the London Borough of Richmond upon Thames to the Pension Fund Committee. These arrangements were put in place in June 2008 in advance of changes affecting the governance of LGPS pension funds that included the establishment of separate audit engagements for LGPS funds, the statutory requirement to publish an annual report (with prescribed content) and subsequent moves to improve transparency and the independence of LGPS funds from their Administering Authority. More details on governance arrangements are included in the Governance Compliance Statement.

<u>Governance arrangements</u>

The formal governance arrangements are set out in the Governance Compliance Statement (on page 17). The Pension Fund Committee (the Committee) has responsibility for the overall policy of the Fund, within the statutory framework of the LGPS, and for its governance arrangements. The Committee consists of five Councillors and details of its membership, advisors and staff involvement are set out below.

The Committee meets at least four times each year and its principal business relates to:

- overall governance matters including the review of its responsibilities, approving the appointment of the principal advisors to the Fund (including investment managers and the Fund's actuary), approving formal policies and statements that are required by legislation;

- matters relating to the LGPS – considering and commenting on government proposals for overall design of the LGPS;
- policy on admission of external bodies to the Fund;
- matters relating to the investment of the Fund including determining the long-term investment strategy, establishing an appropriate investment management structure to implement this strategy and on-going monitoring of both these arrangements in the light of investment performance, changes in the overall investment environment and the circumstances of the Fund;
- matters relating to the future liabilities of the Fund to pay benefits that include receiving and commenting on the tri-ennial valuation of the Fund and approving a Funding Strategy that is required to ensure the long-term solvency of the Fund;
- matters relating to the accounts of the Fund that include the formal approval of the Fund's accounts and considering the independent auditor's report on these accounts and related matters in his report to 'those charged with governance'.

The Director of Finance and Corporate Services (and also on his behalf the Pensions Manager) is authorised to interpret and implement the statutory provisions of the LGPS and the Director is also responsible for the proper administration of the financial affairs of the Fund and its day to day operation.

<u>Size of the Fund and impact on its activities and managements</u>

The Fund is one of the smallest in the LGPS measured in terms of its size (Net Assets) and is classified by the Audit Commission (along with all London Boroughs) as a 'single employer fund'. Although this is not technically the case (the Fund currently includes 31 other scheduled and admitted bodies), the Council of the London Borough of Richmond upon Thames (the Council) is the largest employer with 81% of the membership at 31 March 2014.

To put this in context, the larger funds within the LGPS are up to 30 times the size of the Richmond Fund and typically (apart from London boroughs) will have a number of employer bodies of substantial size.

This relatively small size has a significant bearing on the management and administration of the Fund, its systems and staffing arrangements and its governance arrangements with regard to the smaller bodies in the Fund. In simple terms, the Fund's day to day management arrangements are integrated within those of the Borough Council in order to ensure an economic and efficient use of resources. This contrasts with the larger LGPS funds that are 'stand-alone' entities in most respects with their own staff, IT systems etc.

<u>Committee Members, scheme management and advisers</u>

Members of the Pension Fund Committee during 2013/14 were:

Councillor G. Acton (Chair)
Councillor R. Martin (Vice-Chair)
Councillor J. Churchill
Councillor G. Evans
Councillor T. O'Malley

In addition to these Councillors, Mr M Potts was a non-voting attendee at meetings of the Committee as staff observer during 2013/14. All Councillors have full voting rights.

Details about the Committee, including agendas and minutes are available on the Council's website at:

http://www.richmond.gov.uk/home/council/decision_making_council/council_committees_list.htm?mgl=mgCommitteeDetails.aspx&ID=443

External investment managers, advisors and service providers appointed by the Committee, are:

**Investment Managers**
Baillie Gifford & Co
Henderson Global Investors
Legal and General Investment Management Limited
Schroder Investment Management Limited

**Investment Advisor**
Hymans Robertson LLP

**Custodians**
JP Morgan

**Fund Actuary**
Hymans Robertson LLP

**Independent Performance Measurer**

WM Performance Services

**AVC Providers**
Clerical Medical
Equitable Life

**Auditors**
Grant Thornton UK LLP

**Bankers**
Co-Operative Bank PLC

Further details of the Fund's investment management are included in the next section of the Report. The following paragraphs deal with the administration of the Fund and the LGPS.

## Administrative Arrangements

All the administration of the Fund is carried out internally by staff of the Council. The administration of the LGPS includes day to day dealings with employers and individual members of the LGPS and is carried out by the Pensions Team which is described in more detail in the following section.

Support services to the Fund are provided by a range of Council services and cover all aspects of the Fund's activities including investments. Apart from staff in the Pensions Team no individual staff members are engaged full time on Pension Fund work and, in most cases, this work represents only a small proportion of individual's time. The main support is from the Accountancy section that provides overall financial management, accounting, treasury etc. services and manages the overall investment activities carried out by managers. Other support is provided by Internal Audit and Risk Management and ICT, and occasionally Legal Services. These support costs are recharged to the Fund on the basis of time allocations of the staff involved.

**Pensions Team**

The Pensions team is responsible for collecting contributions and paying benefits. It is part of the Council's Finance function. During 2013/14 staffing of the service was 2.7 full time equivalent staff dealing with 11,170 individual Fund members and 32 employer organisations. Details of the membership of the Fund are shown on page 90 in Note P3 of the Fund's Accounts.

The Pensions team can be contacted in the following ways:

| | |
|---|---|
| **In writing:** | Pensions Manager<br>Civic Centre<br>44 York Street<br>Twickenham<br>TW1 3BZ |
| **By Fax:** | 020 8891 6339 |
| **By email:** | Pensions@richmond.gov.uk |
| **By Telephone** | 020 8891 7292 |

A number of publications explaining the LGPS and its benefits are available from the Pensions team and referred to in the section of the Report on Communications Policy Statement. The service also holds an annual Employers' Forum to discuss scheme issues and administrative arrangements with employers. Employer 'Roadshows' that are open to employees are also held by arrangement with individual employers.

Service Administration – performance management

The Pensions team, in common with all other sections within the Council, has its own formal management arrangements that include the setting and monitoring of performance targets. For the 2013/14 year there were 61 performance targets set, against which over 4,537 individual activities were measured. Overall, 8.9% of individual activities were completed within the target timescales. (The equivalent figures for 2012/13 were 4,131 / 27.43%.)

There is also a comprehensive Administration Strategy that formally sets out detailed performance standards for both the Administering Authority and employers in the Fund. This is included in the following section of this report. Where performance statistics are kept for a particular Strategy task, the compliance level for 2013/14 is shown (NB due to staff shortages, statistics for the "quantitative" performance targets in section 2 of the Strategy were not able to be maintained throughout the year).

Communications

The final part of the Administration section of the Report sets out the formal Communications Policy Statement, Statements of Policy Concerning Communications with Members and Employing Authorities (including Non-Scheme Employers), that provides details of how the Fund communicates with its members and employing authorities.

## Pension Administration Strategy Statement

### 1. The Council's responsibilities for communications to employers and members:

| | Method of liaison or communication | Media | Frequency of issue | Method of distribution | Audience group |
|---|---|---|---|---|---|
| 1 | Employer "Provision of Information" guide | Paper based only | At joining Fund and updated as necessary | Post or via email | Main contact for all employers |
| 2 | Member newsletters | Paper based, and then posted on Council's Pension website | 4 are issued each year to active members<br>1 is issued each year to deferred members<br>Currently none are issued specifically to pensioner members | Post | All active and deferred members (as appropriate) direct by the Fund |
| 3 | Employer newsletters | Paper based | No specific newsletters are issued to employers, although they are provided with copies of all information issued by both CLG and the Local Government Pensions Committee (part of the Local Government Employers organisation) in relation to the LGPS | Post and email | All contacts for all employers |
| 4 | Annual employer meeting | Face to face | Annually | Invitations by e-mail | All contacts for all employers |
| 5 | Employer liaison meetings/meetings to discuss performance of scheme employer | Face to face | These are held informally, as and when the need arises | Arranged by e-mail or telephone | Either main contacts or specific groups (e.g. HR or payroll) depending on topics |
| 6 | Pension Fund Report and Accounts | Paper based and employer website | Annually | Post | Main contact for all employers |
| 7 | Summary Pension Fund Report and Accounts | Paper based and employer website | Annually | Post | All active, deferred and pensioner members direct by the Fund |
| 8 | Pension Fund valuation report | Pdf | On completion of triennial valuation exercise | By e-mail | Chief finance officer and/or main contact |
| 9 | Meeting with adviser | Face to face | On request | Invite sent by post or email | Senior management involved in funding and HR issues |

## 2. Performance levels: Council as the administering authority

| | Function / Task | Performance target |
|---|---|---|
| | **LIAISON AND COMMUNICATION** | |
| 10 | Publish and keep under review the London Borough of Richmond Pension Fund administration strategy | Within three months of decision to develop an administration strategy or one month of any changes being agreed with scheme employers |
| 11 | Issue and keep up to date the Provision of Information pamphlet | 30 working days from admission of new employer or date of change/amendment |
| 12 | Issue and keep up to date scheme guide and all other literature for issue to scheme members | 30 working days from admission of new employer or date of change/amendment |
| 13 | Issue and keep up to date all forms required for completion by either scheme members, prospective scheme members or scheme employers | 30 working days from admission of new employer or date of change/amendment |
| 14 | Formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the scheme | Within 30 working days of policy being agreed by the Pension Fund Committee |
| 15 | Host employer forum | Annually (usually during January each year) **[16 Jan 2014]** |
| 16 | Attend meetings with scheme employers | As and when required, following agreement with individual scheme employers |
| 17 | Organise training sessions for scheme employers | Upon request from scheme employers, or as required |
| 18 | Notify scheme employers and scheme members of changes to the scheme rules | Within one month of the change(s) coming into effect |
| 19 | Notify scheme employer (including the Council in its role as a scheme employer) of issues relating to scheme employer's poor performance (including arranging meeting if required) | Within 5 working days of performance issue becoming apparent |
| 20 | Notify scheme employer (including the Council in its role as a scheme employer) of decision to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due) | Within 10 working days of scheme employer failure to improve performance, as agreed |
| 21 | Issue annual benefit statements to active members as at 31 March each year | By the following 31 January **[Sept 2013]** |
| 22 | Issue annual benefit statements to deferred benefit members as at 31 March each year | By the following 31 May **[May 2013]** |
| | **FUND ADMINISTRATION** | |
| 23 | Issue formal valuation results (including individual employer details) | 10 working days from receipt of results from Fund actuary (but in any event no later than 31 March following the valuation date) |
| 24 | Publish, and keep under review, the Fund's governance policy statement | Within 30 working days of policy being agreed by the Pension Fund Committee |
| 25 | Publish and keep under review the Pension Fund's funding strategy statement | To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary<br>Revised statement to be issued with the final valuation report |
| 26 | Publish the Pension Fund Annual Report and any report from the auditor | By 1 December following the year end **[30 Sept 2013]** |

| | Function / Task | Performance target |
|---|---|---|
| | **SCHEME ADMINISTRATION** | |
| 27 | Maintain member records (inc. changes in hours or circumstances/death grant expression of wish notifications/co-habitee notifications) | 6 working days of receipt of all necessary information |
| 28 | Make all necessary decisions in relation to a scheme member and issue combined statutory notification to new scheme member (including aggregation of previous LGPS membership) | 5 working days of receipt of all necessary information |
| 29 | Provide responses to scheme members/scheme employers/personal representatives/dependents and other authorised persons | 7 working days from receipt of enquiry |
| 30 | Provide transfer-in quote to scheme member | 6 working days of receipt of request from scheme member |
| 31 | Confirm transfer-in payment and membership change to scheme member | 7 working days of receipt of payment of transfer of value |
| 32 | Arrange for the transfer of scheme member additional voluntary contributions into in-house arrangement | 10 working days of receipt of request from scheme member |
| 33 | Process all applications to pay arrears of pension contributions in relation to leave of absence (inc. maternity/paternity/adoption leave) | 9 working days of receipt of all necessary information |
| 34 | Notify scheme employer of scheme member's election to pay additional regular contributions, including all required information to enable deductions to commence | 6 working days of receipt of election from scheme member |
| 35 | Calculate cost of additional regular contributions, and notify scheme member | 6 working days of receipt of request from scheme member |
| 36 | Re-determine benefits from additional regular contributions, following publication of revised Government Actuary's Department guidance from time to time | 6 working days of receipt of revised GAD guidance |
| 37 | Notify scheme employer of request from scheme member to cease additional regular contribution, and notify scheme member of the amount of additional pension credited | 6 working days of receipt of request from scheme member |
| 38 | Process scheme member request to pay/amend/cease additional voluntary contributions | 6 working days of receipt of request from scheme member |
| 39 | Process all enquiries relating to pension sharing on divorce | 5 working days of receipt of all necessary information |
| 40 | Provide requested estimates of benefits to employees / employers including any additional Fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency, including bulk exercise requests | 6 working days from date of request |
| 41 | Notify leavers of deferred benefit entitlements | 12 working days of receipt of all necessary information |
| 42 | Notify retiring employees of benefits (enclosing HMRC disclosure forms) | 5 working days of receipt of all necessary information |
| 43 | Payment of retirement benefits (including any interest due as a result of the late payment of benefits) | Make payment of lump sum within 5 working days of retirement or such later date as all information enabling payment to be made is available<br>Commence payment of annual pension on the next available payroll and thereafter on the 26th day of each month |
| 44 | Death notifications | 7 working days following notification of death |

| | Function / Task | Performance target |
|---|---|---|
| 45 | Recovery of arrears of scheme member's contributions | Via issue of invoice to the scheme member, within 30 working days of notification of arrears by the scheme employer |
| 46 | Return of employee contributions (including less than 3 month opt-outs where contributions have been credited to the Pension Fund and the period covers two financial years) | 6 working days following receipt of all necessary documentation |
| 47 | Payment of interest to scheme member where employee contributions have been deducted in error and payment has been credited to the Pension Fund | Within 6 working days of receipt of notification from the scheme employer |
| 48 | Appoint stage 2 "appointed person" for the purposes of the pension dispute process and notify all scheme employers of the appointment | Within 30 working days following the resignation of the current "appointed person" |
| 49 | Process all stage 2 pension dispute applications | Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required |
| 50 | Publish and keep under review the London Borough of Richmond Pension Fund policy on the abatement of pension on re-employment | Notify scheme members and scheme employers within one month of any changes or revisions to the policy |

## 3. Performance levels: All scheme employers

| | Function / Task | Performance Target |
|---|---|---|
| | **LIAISON AND COMMUNICATION** | |
| 51 | Formulate and publish policies in relation to all areas where the employing authority may exercise a discretion within the scheme (including providing a copy of the policy decision(s) to the London Borough of Richmond Pension Fund) | Formulate or amend policy within 2 months of discretion being introduced or amended<br>Publish policy within 30 working days of policy being agreed by the appropriate Committee |
| 52 | Remit and provide schedule of employer/employee contributions | 3rd calendar day of month after deduction **[81%]** |
| 53 | Respond to enquiries from Administering Authority | 5 working days from receipt of enquiry |
| 54 | Provide year end information required by the London Borough of Richmond Pension Fund, in a format agreed with the London Borough of Richmond Pension Fund | By 30 April following the year end |
| 55 | Ensure payment of additional costs to the London Borough of Richmond Pension Fund associated with the poor performance of the scheme employer | Within 28 working days of receipt of invoice from the London Borough of Richmond Pension Fund |
| 56 | Distribute any information provided by the London Borough of Richmond Pension Fund to scheme members/potential scheme members | Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers |
| 57 | Provide new/prospective scheme members with scheme information and new joiner forms | Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers |
| | **FUND ADMINISTRATION** | |
| 58 | All new prospective admitted bodies to undertake, to the satisfaction of the London Borough of Richmond Pension Fund, a risk assessment of the level or bond required in order to protect other scheme employers participating in the Pension Fund | To be completed before the body can be admitted to the London Borough of Richmond Pension Fund |

| | Function / Task | Performance Target |
|---|---|---|
| 59 | All admitted bodies to undertake a review of the level of bond or indemnity required to protect the other scheme employers participating in the Fund | Annually, or such other period as may be agreed with the Administering Authority |
| 60 | Payment of additional Fund payments in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement | Within 28 working days of receipt of invoice from the London Borough of Richmond Pension Fund |
| | **SCHEME ADMINISTRATION** | |
| 61 | Make all necessary decisions in relation to new scheme members in the LGPS (whether full or part time, pensionable pay, appropriate pay band, etc) | Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers |
| 62 | Provide Administering Authority with scheme member details via paper notification/via electronic interface | To be included within monthly return remitted with monthly payment over of employee and employer pension contributions |
| 63 | Arrange for the correct deduction of employee contributions from a scheme members pensionable pay on becoming a scheme member | Immediately on joining the scheme, opting in or change in circumstances |
| 64 | Ensure correct employee contribution rate is applied (including the transitional arrangements for former “manual” staff) | Immediately upon commencing scheme membership, thereafter in line with employer policy and each April payroll |
| 65 | Ensure correct rate of employer contribution is applied | Immediately following confirmation from the Administering Authority of appropriate employer contribution rate |
| 66 | Arrange for reassessment of employee contribution rate in line with employer’s policy and notification of change in rate to employee | Review as per policy and notification within monthly return to the London Borough of Richmond Pension Fund |
| 67 | Ensure correct deduction of pension contributions during any period of child related leave, trade dispute or other forms of leave of absence from duty | Immediately, following receipt of election from scheme member to make the necessary pension contributions |
| 68 | Commence deduction of additional regular contributions or amend such deductions, as appropriate | Month following notification received from the London Borough of Richmond Pension Fund |
| 69 | Cease deduction of additional regular contributions | Immediately following receipt of notification from the London Borough of Richmond Pension Fund |
| 70 | Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s) | Commence deduction of AVCs in month following the month of election/notification from the London Borough of Richmond Pension Fund<br>Pay over contributions to the AVC provider(s) by the 19th of the month following the month of deduction |
| 71 | Refund any employee contributions deducted in error | Month following month of deduction or month notified of the deduction in error |
| 72 | Cease deduction of employee contributions where a scheme member opts to leave the scheme | Month following month of receipt of notification from the London Borough of Richmond Pension Fund, or such later date specified by the scheme member |
| 73 | Provide Administering Authority with details of all contractual changes to a scheme members hours and/or weeks via paper notification/via electronic interface | To be included within monthly return remitted with monthly payment over of employee and employer pension contributions |

| | Function / Task | Performance Target |
|---|---|---|
| 74 | Notify other material changes in employee's circumstances (e.g. marital or civil partnership status) | To be included within monthly return remitted with monthly payment over of employee and employer pension contributions |
| 75 | Leave of absence with permission (maternity / paternity / secondment / without pay etc. (communications with employee and confirmation to Pension Fund)) | To be included within monthly return remitted with monthly payment over of employee and employer pension contributions |
| 76 | Determine reason for leaving and provide notification to Administering Authority of scheme leavers via paper notification/via electronic interface | To be included within monthly return remitted with monthly payment over of employee and employer pension contributions |
| 77 | Determine reason for retirement and provide notification to Administering Authority of retiree via paper notification/via electronic interface | Notify the London Borough of Richmond Pension Fund immediately at point of resignation/notice given by employer |
| 78 | Accurately assess final pay for each scheme member who leaves/retire/dies and forward to the London Borough of Richmond Pension Fund | Carried out by the London Borough of Richmond Pension Fund on behalf of all scheme employers |
| 79 | Notification to the London Borough of Richmond Pension Fund of death of scheme member via paper notification/via electronic interface | Immediately on being notified of the death |
| 80 | Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment with the London Borough of Richmond Pension Fund | Within one month of commencing participation in the scheme or date of resignation of existing medical adviser, although employers currently make use of medical advisor used by the London Borough of Richmond Pension Fund |
| 81 | Appoint person for stage 1 of the pension dispute process and provide full details to the Administering Authority | Within 30 working days following the resignation of the current "appointed person", although employers currently make use of the stage 1 person used by the London Borough of Richmond Pension Fund |

# GOVERNANCE COMPLIANCE STATEMENT

## INTRODUCTION

The LGPS Regulations require the preparation of a Governance Compliance Statement, its regular review and publication in the Pension Fund Annual Report. The Statement must set out how the Council makes arrangements for the delegation of its functions and demonstrate compliance with formal guidance on this matter and, where appropriate, reasons for non-compliance.

## GOVERNANCE ARRANGEMENTS

1.1 The London Borough of Richmond upon Thames (the Council) is an Administering Authority of the Local Government Pension Scheme (LGPS) as defined by Schedule 2 to Regulation 3 of the Local Government Pension Scheme Regulations 2013 (SI 2013 No 2356).

1.2 Functions relating to local government pensions are defined as "non-executive" functions by Schedule 1 to Regulation 2.1 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No 2853).

1.3 Full details of the Council's democratic structure and procedures, including the Council's Constitution, which sets out how the Council operates and how decisions are made, can be accessed at the Council's website http://www.richmond.gov.uk. The Constitution itself can be accessed directly at:-

http://www.richmond.gov.uk/home/council_government_and_democracy/council/decision_making_council/council_constitution.htm.

1.4 The Council delegates to the Pension Fund Committee overall responsibility for all functions relating to local government pensions. These responsibilities include (but are not limited to):-

(i) considering and responding to proposals to amend the design of the LGPS;
(ii) determining policy on the admission of external bodies to the Pension Fund;
(iii) determining the long-term investment strategy of the Fund and keeping this under review at appropriate intervals;
(iv) implementing this strategy through deciding on, and keeping under review, appropriate arrangements for investment management, appointing managers and monitoring their performance;
(v) appointing the Fund's actuary, external investment advisor and other providers of services to the Pension Fund;
(vi) receiving and commenting upon the tri-ennial valuation of the Pension Fund prepared by the actuary;
(vii) determining the Pension Fund's communications strategy and policies toward corporate governance and responsible investment;
(viii) approving all documents required to be published by the Fund on a statutory basis, including the Pension Fund Annual Report, Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement; and
(ix) approving the Pension Fund accounts, and dealing with all aspects relating to the audit of the Pension Fund, including receiving any reports by the Fund's independent auditor.

1.5 The Director of Finance and Corporate Services (and also on his behalf the Pensions Manager) is authorised to interpret and implement the statutory provisions within the Local Government Pension Scheme Regulations. Further information on the operation of the Regulations can be accessed by users of the Council's intranet at:

http://rio/home/our_organisation/directorates/finance_and_corporate_services/payroll_and_pensions.htm
Or from the Council's website (follow the external link to the LGPS):
http://www.richmond.gov.uk/home/council_government_and_democracy/council/council_tax_and_finance/payroll_pensions_introduction.htm

1.6 Within the policies set by the Pension Fund Committee, the Director of Finance and Corporate Services is also authorised to arrange and oversee the investment of the Pension Fund.

1.7 The Pension Fund Committee is appointed by the Council at its Annual Meeting.

1.8 The Committee consists of 5 elected members of the Council and a Staff Observer appointed by the Staff Side Committee (representing the principal Trades Unions recognised by the Council). The quorum of the Committee is 3 elected members. The Committee does not include any representatives of scheme employers other than the Administering Authority.

1.9 Decisions of the Committee are taken by reference to a simple majority of votes cast by elected members present, to be decided if necessary by a Chairman's casting vote. The Staff Observer is not permitted to vote on Committee decisions. Full details of procedural matters relating to the operation of the Committee are set out in the applicable provisions of the Council Procedure Rules (within Part 4 of the Council's Constitution).

1.10 The Committee meets a minimum of 4 times a year.

## COMPLIANCE WITH GUIDANCE ISSUED BY THE SECRETARY OF STATE

In this section the formal guidance is shown in italics followed by a table showing the degree of compliance (measured in five steps from not compliant to fully compliant) and explanations for non-compliance where appropriate.

### Principles

*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.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |
| (b) | | | ✓ | | |
| (c) | N/A | | | | |
| (d) | N/A | | | | |

Partial non-compliance indicated in respect of (b) reflects the position that only one representative of the constituent groups referred to (the Staff Observer representing member interests, and appointed by the Staff Side Committee of the Administering

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| Authority) is currently appointed to the Pension Fund Committee. See comments relating to Principle B. (a), below, for further information. |

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| The above statement refers to representation other than that of elected members of the Administering Authority. |

*B. Representation*

(a) *That all key stakeholders are afforded the opportunity to be represented within them 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) 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, meetings and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | ✓ | | | | |
| (b) | | | | | ✓ |

| |
|---|
| Excluding elected members of the Administering Authority, only stakeholder group (ii), of those listed above, is currently represented on the Pension Fund Committee (as formally constituted), although every Committee meeting is attended by at least one representative of the Administrating Authority's appointed actuaries and investment consultants, Hymans Robertson. The Administering Authority has not to date considered it necessary or appropriate to extend representation on the Pension Fund Committee beyond this level, taking account of (a) the requirement to maintain a responsive and concise governance structure that is representative of and proportionate to respective employer interests and (b) the fact that as the majority employer in the Fund (representing around 85% of overall members on a numerical basis), it has the greatest interest in the efficient management of all matters relating to the administration of the Pension Fund, and one that is generally consistent with the interests of other scheme employers. This policy also reflects the fact that it is the Council itself, and local council tax payers, who are the final guarantors of the scheme (and, more specifically, the guarantors of benefits accrued by scheme members from all employer bodies). |

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| The Administering Authority is currently seeking to extend consultation on Pension Fund matters with scheme employers by a variety of means (see comments relating to Principle F. (c), below). Representatives of all scheme employers (and other stakeholder groups) are permitted to attend and participate in Pension Fund Committee meetings under the rules governing public attendance at Council meetings. |

*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.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |
| (b) | | | | | ✓ |

N/A

Members of the Pension Fund Committee are made aware of the role and function of the Committee set out in the main body of the governance statement, above. Members of the Pension Fund Committee will forthwith be formally invited to declare any relevant financial or pecuniary interests relating to specific matters on the agenda at the start of any meeting.

*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.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |

N/A

The Staff Observer is not permitted to vote on Pension Fund Committee matters decided by this means. This policy again reflects the fact that it is the Council itself, and local council tax payers, who are the final guarantors of the scheme, and that to date employees contributions to the LGPS have been fixed on a national basis. This policy may be reviewed in the light of any changes to scheme regulations based on “cost-sharing” between employers and employees (to be announced by the Department for Communities and Local Government in due course).

*E. Training / Facility Time / Expenses*

*(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 re-imbursement 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.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | | | ✓ | | |
| (b) | | | | | ✓ |

Currently, no formal or written policy regarding the training of Pension Fund Committee members exists, although a record of all training events attended by members is maintained. All members (regardless of status within the Committee) are offered the opportunity to attend several training events each year and are invited to

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| request attendance at any additional events from which they believe they could benefit. All costs relating to such events are met by the Administering Authority. |

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| It is the intention of the Administering Authority to develop a formal training policy in due course. |

*F. Meeting (Frequency / Quorum)*

(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 which 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.*

| | Not Compliant | | | | Fully Compliant |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |
| (b) | N/A | | | | |
| (c) | | | | | ✓ |

| |
|---|
| N/A |

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|---|
| The Administering Authority has introduced the practice of an annual Employers' Forum to which representatives of all employer bodies are invited to receive and to request information on all matters relating to scheme administration. At the initial Forum, employers' representatives were advised of the intention to introduce "employer Roadshows" for the benefit of individual scheme members (of both the Administering Authority and all other scheme employers), and were invited to request that these events be held at their own premises if more convenient. |

*G. Access*

(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.*

| | Not Compliant | | | | Fully Compliant |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |

| |
|---|
| N/A |

| |
|---|
| Equal access to committee papers, documents and advice considered at meetings of the Pension Fund Committee as allowed to all members. |

*H. Scope*

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

| | Not Compliant | | | | Fully Compliant |
|---|---|---|---|---|---|
| (a) | | | | | ✓ |

| |
|---|
| N/A |

| |
|---|
| The terms of reference of the Pension Fund Committee now encompass a wide range of pension-related matters, including the approval of the Pension Fund Annual |

| |
|---|
| Report (where originally its scope was limited to investment-related matters). |

*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 and interest in wanting to be part of those arrangements.*

| | Not Compliant | | | Fully Compliant | |
|---|---|---|---|---|---|
| (a) | ✓ | | | | |

| |
|---|
| Currently, there is limited scope for stakeholders not directly represented in the scheme’s governance arrangements to request to be part of those (on a formal basis). |

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|---|
| It is intended that publicity should be given to the employer and employee events described in relation to Principle F. (c). |

## STATEMENT OF POLICY CONCERNING COMMUNICATIONS WITH MEMBERS AND EMPLOYING AUTHORITIES (including Non-Scheme Employers - "Communications Policy Statement")

1.1 The London Borough of Richmond upon Thames (the Council) is an Administering Authority of the Local Government Pension Scheme (LGPS) as defined by Schedule 2 to Regulation 4.2 of the Local Government Pension Scheme Regulations 2008 (SI 2008 No 239).

1.2 The purpose of this statement is to set out the Administering Authority's policy concerning communications with:

(i) members;

(ii) representatives of members;

(iii) prospective members;

(iv) employing authorities.

1.3 Groups (i), (ii) and (iii) are provided with the following information (which may be applicable collectively or exclusively to one or more of the groups).

| Information | Format | Frequency |
|---|---|---|
| Information regarding the LGPS included in "starter pack" and corporate induction programme literature | Printed | Ad hoc |
| Statutory Notification of Scheme Membership | Printed | Ad hoc |
| Annual Benefits Statement | Printed | Annually |
| "Scheme Booklet" (summary of Scheme Regulations/Benefits) | Printed & Electronic (Intranet) | Continuously available; updated when necessary |
| Annual Pension Fund Report | Electronic (Intranet) Printed (on request) | Annually |
| Policy Document on the Granting of Discretionary Benefits | Electronic (Intranet) | Continuously available; updated when necessary |
| Information on changes (or proposed changes) to Scheme Regulations/Benefits | Electronic (Intranet & E-mail) | Ad hoc |
| Members' Newsletters | Printed and Electronic (Intranet) | Annual |

1.4 In addition to the above, employing authorities are provided with the following information:

| Information | Format | Frequency |
|---|---|---|
| Actuarial Valuation of the Fund and Schedule of Contribution Rates | Printed & Electronic (on request) | Triennially |
| Funding Strategy Statement | Printed & Electronic (on request) | Triennially (or as updated) |
| FRS17 Reporting | Printed & Electronic (on request) | Annually |
| Information on changes (or proposed changes) to Scheme Regulations/Benefits or Policy on the Granting of Discretionary Benefits | Printed & Electronic (E-mail) | Ad hoc |
| Employers' Forum | Presentation / Meeting | Annual |
| Employer Roadshows (to which employees are invited) | Presentation / Meeting | On request |

# STATEMENT OF COMPLIANCE WITH CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

## Policy Statement / Approach

As an administering authority of the Local Government Pension Scheme, this Council recognises the importance of ensuring that all staff and members of charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide / arrange training for staff and members of the pensions decision-making body to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Administering Authority has nominated Graham Russell IPFA, Assistant Director of Finance, to be responsible for ensuring that the above objectives are met and that appropriate policies and strategies for that purpose are implemented.

## Activity in Year / Member Training Report

In the course of 2013/14, officers responsible for Pension Fund matters attended (in whole or part) a total of 17 external events with a direct or indirect training or development objective and elected members a total of 3. In 2013/14, the composition of the Committee was the same as that who received training structured to the CIPFA Knowledge and Skills Framework (as described in the 2012/13 Member Training Report).

# MANAGEMENT OF THE PENSION FUND'S INVESTMENTS

## Introduction

The LGPS is a 'funded' pension scheme in which the contributions that are paid into the Fund during an individual scheme member's employment are invested to provide adequate funds to pay benefits when employment ceases. One of the main responsibilities of the Council, as the Administrating Authority, is to manage the investment of the Fund to maximise the return over time commensurate with an acceptable level of risk.

This section of the Report deals with the investment aspects of the Fund including the Statement of Investment Principles (SIP) and commentary on the investment performance.

## Management Arrangements

The Fund appoints professional managers to carry out the investment of the Fund's assets and uses an independent investment advisor to provide professional support and advice on investment matters. A small part of the Fund is directly invested in a property Unit Trust managed by CCLA Investment Management Limited for the Local Authorities Mutual Investment Trust (LAMIT).

The following appointments were in place for 2013/14:

**Fund Managers:**

| | |
|---|---|
| Baillie Gifford & Co | (Pooled Multi-Asset / Diversified Growth Fund) |
| Henderson Global Investors | (Multi-Asset including Property) |
| Schroder Investment Management Limited | (Property only) |
| Legal & General Investment Management Limited | (Multi-Asset including Property) |

**Investment Advisor:**

Hymans Robertson LLP

**Custodians:**

JP Morgan

**Independent Performance Measurer:**

WM Performance Services

Details of the investments under management and transactions during the year are shown in Notes P14 to P16 from page 98 in the Accounts section of the Report.

As explained in the Management and Administration section, the Administrating Authority for the Fund is the Council and governance arrangements are delegated to the Pension Fund Committee of the Council and details of the Committee's governance arrangements are included in that section.

The Committee reviews the Fund's investments on a quarterly basis at each of its regular meetings (the Committee meets at least four times a year) and considers:

- officers' reports on investment activity, investment valuations and performance. Performance is reviewed for each manager by type of investment asset against the Fund's benchmark;

- managers' reports covering their investment activities in the past quarter and policies for the current period;
- in the light of these, the Fund's assets allocation is reviewed within its overall benchmark.

The Committee also receives commentary and advice at each of its meetings from its investment advisor and commissions and considers specific reports from time to time as required. Managers attend the Committee on a rota basis to make presentations to the Committee and answer questions. Because of the relatively passive nature of the Fund's investments, there is less of a requirement to discuss particular investment policies with the managers than if the Fund had an active investment management policy.

At least annually the Committee receives a report from an independent performance measurement service (currently provided by the WM Company) on the Fund's detailed comparative performance.

Full access to the agendas, reports and minutes of the Committee are available on the Council's website from the following link:

http://www.richmond.gov.uk/home/council/decision_making_council/council_committees_list.htm?mgl=ieListMeetings.aspx&CommitteeId=443

### Performance

Details of investment performance and a commentary on 2013/14 are contained in the final part of this section – Fund Investment Management and Performance.

### Risk

The Statement of Investment Principles includes a section on risk that explains the reliance on formal assurance reports on the internal control environments of fund managers and custodians in the absence of the direct physical holding of investments and cash. These reports (termed AAF 01/06 and based on guidance issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants In England and Wales and / or other similar standards such as ISAE 3402) are produced annually and satisfactory reports have been received from the Fund's fund managers in respect of reporting periods ending within 2012/13.

# STATEMENT OF INVESTMENT PRINCIPLES

## 1. INTRODUCTION

1.1 This Statement of Investment Principles (SIP) has been adopted by the London Borough of Richmond upon Thames (“the Council”) in relation to the investment of assets of the Council’s Pension Fund (“the Fund”).

1.2 The Local Government Pension Scheme (LGPS) is established by statute to provide death and retirement benefits for eligible employees, principally local government staff. The LGPS is a funded final salary scheme, with tiered employee contribution rates set nationally and variable employer rates dependent on funding level. Statutory benefits (full details of which are set out in the LGPS Regulations) are index-linked and are not related to investment performance achieved. The scheme is operated by designated administering authorities – each of which maintains a pension fund and invests surplus monies held. The London Borough of Richmond upon Thames is a designated Administering Authority and incorporates, in addition to the Administering Authority itself, 11 further scheduled bodies and a total of 20 bodies under admission agreements.

1.3 Local authority Schemes were required under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) to publish a Statement of Investment Principles (SI 1999 No 3259), and to include disclosure of the extent of compliance with the investment principles issued by the Government in October 2001 in response to proposals in the Myners Review (SI 2002 No 1852). The revised main Investment Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, extend the scope of required disclosures to (i) include reference to the management and measurement of risk, and stock lending and (ii) state the extent to which the administering authority complies with guidance given by the Secretary of State (representing the latest version of the Myners principles as interpreted by the CIPFA Pensions Panel). The first statement including the new requirements was to be published by 1 July 2010.

1.4 LGPS administering authorities are also required to prepare and publish (and update) a Funding Strategy Statement (FSS), taking into account the CIPFA Pensions Panel document entitled “Guidance on Preparing and Maintaining a Funding Strategy Statement”. The purpose of the FSS is to establish a strategy for the funding of future pension liabilities on a prudent and stable basis. The FSS is required to state how the funding strategy is linked to the investment strategy set out in SIP, and therefore the two documents are complementary in nature.

1.5 Investments are monitored by the Pension Fund Committee of the Council, comprising five elected members. Advice is received as required from professional advisors. The Committee reviews the performance of investments, investment managers and strategy on a quarterly basis.

1.6 In April 2002, the Pension Fund Committee completed an investment strategy review and agreed a revised, Fund-specific benchmark and performance objective, implemented by 1 October 2002. Prior to this, the Fund had used the WM Local Authority Universe as its benchmark.

1.7 At the May 2008 meeting, the Pension Fund Committee concluded a review of investment strategy and agreed a revised the Fund-specific benchmark, details of which are provided elsewhere in this document. The revised benchmark was introduced from 10 December 2008.

1.8 At the February 2011 meeting, the Pension Fund Committee concluded a further review, principally of alternative investment possibilities. This agreed that an allocation of 10% of the Fund be made to a “pooled multi-asset” vehicle, also referred to as a “Diversified Growth Fund (DGF)”. In addition, a minor adjustment to overseas equity allocation was also agreed. These changes were carried during the course of 2011 and 2012 and were fully effective from 1 October 2012. At the November 2013 meeting, it was agreed that the allocation to the DGF be increased to 15% (with implementation the following month.)

## 2. CONTENTS

2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 specify the following as minimum requirements for a Statement of Investment Principles:

(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 at all) 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) attaching to these investments; and

(h) stock lending;

2.2 In addition, the above Regulations require that the Statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not comply, the reasons for not complying.

## 3. PRIMARY OBJECTIVE

3.1 The primary objective of the Fund is as follows.

“To provide for members pension and lump sum benefits on their retirement or for their dependants benefits on death before or after retirement, on a defined benefits basis.”

3.2 In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

## 4. FUNDING OBJECTIVES

4.1 To fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund’s assets and the level of employer’s contributions to be met by the Administering Authority (and other Fund employers) remains at the lowest and most stable level compatible with this aim.

4.2 To achieve this objective an actuarial valuation is carried out every three years. The most recent valuation was undertaken as at 31 March 2013. The main financial assumptions, together with the results of this valuation are summarised in Appendix A.

## 5. INVESTMENT OBJECTIVES

5.1 “To achieve a return on Fund Assets which is sufficient, over the long-term, to meet the funding objectives set out above.”

5.2 To achieve these objectives the Pension Fund Committee will ensure that one or more investment managers are appointed who are authorised under the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund.

### Types of Investment to be Held

5.3 Investments must be managed in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These regulations specify limits on particular types of investment and these are incorporated within each manager's investment management agreement (or equivalent instructions). Details of the current limits are set out in Appendix B. Derivatives are permitted for use within certain of the pooled investment vehicles held by the Fund, and permission has also been granted for use of these on a segregated basis by one of the managers for the purpose of the efficient tracking of regional benchmark weights. Managers are also permitted on a case-by-case basis to use forward currency contracts to hedge stock-related currency exposure where deemed necessary. This dispensation has been used in the past, but is unlikely to be used under current arrangements, where no significant tactical asset allocation in non-sterling denominated assets is undertaken.

5.4 The Pension Fund Committee, after seeking appropriate investment advice, may give specific directions as to the strategic asset allocation and will ensure the suitability of assets in relation to the needs of the Fund. The investment managers are given a degree of discretion over the choice of individual stocks that is appropriate to the style of management employed[1] and are expected to maintain a diversified portfolio. The investment managers are also given limited discretion (within set parameters) to add value relative to the chosen benchmark via the operation of tactical asset allocation. Currently, however, instructions to managers reflect that the majority of the discretion permitted is designed to accommodate natural relative movements between (and within) major asset classes rather than to facilitate tactical asset allocation.

5.5 The Pension Fund Committee decided in April 2002 to adopt a revised, Fund-specific benchmark to replace the former peer group benchmark (the WM Local Authority Universe) around which the Fund's investment strategy and performance objective had previously been based. In taking this decision, the Committee viewed a fund-specific benchmark as providing the following advantages.

- The establishment of a link between strategic asset allocation and the Fund's liability profile and individually determined long-term investment strategy.
- The removal of potentially sub-optimal long-term asset weightings (such as in cash) held due to the influence of the peer group allocation.
- Clarity and consistency in reporting and performance monitoring.

5.6 The Pension Fund Committee decided in principle that equities should remain the core asset of the Fund, whilst recognising in full the risk/return characteristics and volatility associated with this asset type. The other key decision was to introduce a 10% property weighting in the benchmark, again in recognition that its long-term return characteristics are particularly suited to the Fund.

[1] Currently, this discretion does not apply in practice to the Fund's passively managed assets where portfolio is determined wholly by the composition of the reference index.

5.7 In May 2008, the Pension Fund Committee agreed to revise the Fund-specific benchmark in order to reduce the extent of the domestic bias within the equity component and to rationalise the bond component by reducing the number of sub-classes held from four to two (dispensing with index-linked and overseas bonds and increasing the allocations to conventional gilts and corporate bonds commensurately). In overall terms, however, the original "top-level" asset allocation (from 2002) of 72.5% equities; 16.5% bonds; 10% property and 1% cash remained.

5.8 The subsequent revision to the Fund's investment allocation (Aug / Sept 2013) reduced overall equities by 10% to 62.5% and allocated this to the DGF (managed by Baillie Gifford & Co). The object of this change was to reduce the Fund's overall volatility whilst still maintaining the same aggregate exposure to "growth assets". The transfer was funded entirely from UK equities, reducing these to 28% of the Fund (for the first time a minority proportion of the Fund's equity allocation). In portfolio terms, the change was effected entirely through a reduction in Henderson's UK equities. This change was extended in December 2013 by a further 5% reduction in overall / UK equities (57.5% / 23%) and an increase in the DGF allocation to 15% – on this occasion funded from L&G's UK equity holdings. This change coincided, however, with a transfer of HGI's Emerging Markets equities to L&G (who became the Fund's sole manager in this regional equity class).

5.9 The current Fund Benchmark is given below.

| | Benchmark % | Asset Ranges % |
|---|---|---|
| UK Equities | 23.0 | +/- 2.5% |
| Overseas Equities | 34.5 | +/- 2.5% |
| *US* | *15.0* | +/- 1.5% |
| *Europe Ex UK* | *9.0* | +/- 1.5% |
| *Japan* | *3.0* | +/- 1.0% |
| *Pacific Ex Japan* | *2.5* | +/- 1.0% |
| *Emerging Markets* | *5.0* | +/- 1.0% |
| Total Equities | 57.5 | +/- 4.0% |
| UK Government Bonds | 6.5 | +/- 1.5% |
| Corporate Bonds | 10.0 | +/- 1.5% |
| Total Fixed Interest | 16.5 | +/- 3.0% |
| Property | 10.0 | +/- 4.0% |
| Pooled Multi-Asset | 15.0 | +/- 3.0% |
| Cash/Other | 1.0 | +/- 1.0% |
| Total | 100.0 | |

| | Index |
|---|---|
| UK Equities | FTSE All Share Index |
| Overseas Equities | FT Developed World Indices & FTSE All World Emerging Markets Index |
| UK Government Bonds | FTSE UK Gilts Index – All Stocks |
| Corporate Bonds | Merrill Lynch Sterling Non Gilts All Stocks Index |
| Property | IPD AREF All Balanced Funds Weighted Average |
| Pooled Multi-Asset | Base Rate + 3.5% |
| Cash/Other | 7-Day GBP LIBID |

### Performance Objective

5.10 A management agreement (or equivalent) is in place for each investment manager. This specifies the performance target and asset allocation ranges (set around the agreed benchmark) determined by the Committee. An individual performance objective is set for each manager that is appropriate to the style of management employed (see below). Where a margin above a specified index (or composite index) is specified, the requirement is to achieve this on an annualised basis over rolling three-year periods.

## Investment Style

5.11 The Fund's investments are currently managed using a range of styles demonstrating different approaches (within a relatively narrow spectrum). The style selected in each case reflects the preference of the Pension Fund Committee, taking into account appetite for (active) risk, management cost factors and empirical evidence relating to the success of particular approaches in different markets.

- Passive – conventional market-cap weighted index management.
- Active – conventional active management and alternative investments (including property and pooled multi-asset).
- Enhanced Index – a purpose-designed approach employing a diversified portfolio and a number of specific strategies to achieve a 0.75% outperformance objective combined with a low tracking error.

## Investment Managers

5.12 Henderson Global Investors have been appointed to manage the Fund's enhanced and passive equity, active bond and property assets under a multi-asset mandate. Henderson has an overall outperformance target (excluding property) of 0.60% above-index, reflecting their use of "enhanced index" techniques for the majority of equity categories. In late 2011, Henderson announced that all of the equity funds in the portfolio other than those covering the US and Europe would revert to a fully passive approach, a move which has been regarded as consistent with the Fund's existing stance on active risk.

5.13 L&G manage funds in all of the asset categories excluding property on a passive basis, and property on an active basis. In view of this they are required as a formal investment objective to match the returns of the reference indices in each asset category (although they may, where possible, attempt to add value relative to these).

5.14 In addition, the Fund holds some of its property investments via the Schroder Exempt Property Unit Trust and the Local Authorities Mutual Investment Trust (LAMIT) Property Fund, managed by CCLA Investment Management Limited. All property investments are by definition "active" insofar as they seek to outperform the Fund's property benchmark.

5.15 The latest manager to be appointed, Baillie Gifford & Co, manage a "Diversified Growth Fund" which is a pooled vehicle encompassing multiple, dynamic asset allocations. The style can be defined as active (in relation to its "cash-plus" benchmark). Asset classes invested include: listed equities, Emerging Market, high-yield and investment grade bonds, cash, structured finance, insurance-linked securities, absolute return, commodities, private equity and infrastructure. For those managers responsible for multiple asset classes (via separate vehicles), the respective investment styles are as follows.

| | Management Style | |
|---|---|---|
| | L&G | Henderson |
| UK Equities | Passive | Enhanced Index |
| US Equities | Passive | Passive |
| European Equities | Passive | Enhanced Index |
| Japanese Equities | Passive | Passive |
| Pacific Rim Equities | Passive | Passive |
| Emerging Markets Equities | Passive | N/A |
| UK Government Bonds | Passive | Active |
| Corporate Bonds | Passive | Active |
| Property | Active | Active |
| Cash/Other | N/A | Active |

Under the current Fund Structure, the proportion of assets allocated to the managers (aggregating the property and cash investments) is as follows:-

| Manager / Mandate | Notional | Range |
|---|---|---|
| L&G (excl Property) | 42.0% | (+/-) 4.0% |
| Henderson (excl Property) | 32.0% | (+/-) 3.0% |
| Property (Aggregate) | 10.0% | (+/-) 4.0% |
| Baillie Gifford (Pooled Multi-Asset) | 15.0% | (+/-) 3.0% |
| Cash | 1.0% | (+/-) 1.0% |

### Fund Managers' Benchmarks

5.16 The benchmarks and asset ranges operated by the multi-asset investment managers have been adjusted relative to the total Fund benchmark set out above to accommodate the "free-standing" property components.

### Pooled Investments

5.17 The investment managers exclusively used pooled investment vehicles to achieve exposure to a diversified range of holdings whilst minimising transaction and administrative costs. The styles of passive and enhanced index management currently employed in most asset categories effectively require this approach, due to the increased number of stocks held (by comparison with conventional active styles). Henderson use both authorised and unauthorised unit trusts, and open-ended investment companies, subject to the limit for such vehicles set out in Appendix B. L&G, as is conventional for passive managers, provide insurance policies linked to the values of unitised holdings in underlying assets. Baillie Gifford also operate an insurance-linked structure for the Fund's investment with that manager.

### Risk

5.18 Investment-related risk can be separated into at least three major types: benchmark risk (the risk that the chosen benchmark will give rise to asset value fluctuations that are largely uncorrelated with fluctuations in liabilities); portfolio risk (the risk that the Fund performs poorly relative to the chosen benchmark); and operational risk (the risk of fraud and breaches of regulatory constraints).

5.19 In adopting the current Fund-specific benchmark, the Pension Fund Committee specifically considered the degree of benchmark risk associated with the equity weighting adopted, and decided that the Fund's capacity to absorb volatility was sufficient to permit a 57.5% equity weighting in combination with the fixed interest, property and pooled multi-asset elements included in the benchmark. Accepting the degree of benchmark risk entailed, the key factors in the selection of equities as the principal Fund asset were (a) the long-term investment horizon of the Fund (b) the associated lower cost of pension provision and (c) the protection afforded against the effect of future increases in pension liabilities arising from inflation and pay growth. As noted above, the introduction of the pooled multi-asset investment was designed to mitigate, to some extent, the volatility of the Fund as a whole.

5.20 Portfolio risk is controlled via the adoption of asset allocation ranges and the explicit monitoring of quarterly performance relative to the benchmark return. For the Henderson portfolio, the selection of a 0.55% per annum performance target in excess of the benchmark return is designed to obtain a required degree of out-performance consistent with moderate portfolio risk. In the case of L&G, portfolio risk is minimised by the passive style employed.

5.21 Operational risk is controlled primarily by the audit and compliance functions maintained by the fund managers, supervised by the Council's Internal Audit and Risk Management section. The Council relies primarily on the annual FRAG21 (or latterly AAF 01/06) reporting framework on fund managers' internal controls as evidence of their risk management mechanisms, but recognises that this is provided to clients for information purposes only by the reporting auditor.

5.22 It is recognised that in adopting a benchmark in which equities are the dominant asset class, the Fund is exposed to considerable volatility, both in the short-term and in terms of longer-term potential outcome. This volatility encompasses both the absolute value of the investment fund and its value relative to the liabilities of the Fund. From current measurements, it is recognised that Fund's benchmark has an expected annual volatility of around 9%[2].

5.23 The Fund has in the past undertaken asset liability modelling but does not currently measure properties such as Value at Risk[3] (VaR) on an ongoing basis.

## Expected Return on Investments

5.24 The performance target is expected to produce a return over the long term marginally in excess of the investment return assumed in the actuarial valuation. Due to the nature of the fund management styles employed, the scope to outperform the generic return assumed from the Fund's long-term asset allocation is limited, but the risk of underperforming this should be commensurately reduced.

## Realisation of Investments

5.25 The majority of the Fund's investments in pooled vehicles constitute (or are referenced to) assets quoted on major stock markets. Although this provides underlying liquidity it is possible that dilution levies or spread costs may be incurred in realising the pooled investments, unless an in-specie transfer is obtainable. (In many cases, however, these costs would reflect only those that would be incurred in trading the underlying assets on a segregated basis.) Certain of the Fund's investments e.g. the LAMIT property units are relatively illiquid by comparison but represent a modest proportion of the Fund's assets.

## Stock Lending

5.26 Being wholly invested (for the time being) in pooled investments, the Fund does not currently undertake any stock lending activity as principal. Stock lending is undertaken within various of the pooled vehicles in which the Fund invests, and the

[2] WM Company analysis as at 31 March 2013.
[3] Value at Risk (VaR) is a general term used to describe a mechanism for the measurement of the risk of loss on a portfolio of financial assets. In the context of a defined benefit pension scheme, it typically encompasses the liabilities of the scheme and their correlation to assets, thereby quantifying the risk of volatility in scheme funding level, as opposed to that of assets and liabilities discretely.

level of activity undertaken is governed by the discretion of the manager, subject to the rules under which the collective schemes operate.

### Fees

5.27 Investment managers' fees have historically been paid on a fixed percentage, ad valorem basis. Following the decision to adopt an enhanced index approach for part of the portfolio, a performance fee basis has been agreed for the assets managed by Henderson Global Investors (excluding property), in recognition of the lower out-performance target of this portfolio. The assets managed by L&G are subject to a fixed percentage, ad valorem fee, as are all of the property investments of the Fund. Fee levels are a key factor in the evaluation of potential investment approaches.

### Additional Voluntary Contributions (AVCs)

5.28 Scheme members have the opportunity to invest in AVC funds provided by Equitable Life and Clerical Medical.

## 6. OTHER ISSUES

### Exercise of Voting Rights

6.1 Prior to February 2004, the Council operated its own set of corporate governance policies (introduced in the mid-1990s), and voted its shares in accordance with these. Since then, however, responsibility for corporate governance issues (and associated voting policy) has been delegated to the appointed Fund managers. The reason for the change of approach was a recognition that corporate governance issues had become more complex since the inception of the Council's own policies, but also more "mainstream", and that as a result investment managers were devoting more resources to the area, and were therefore well placed to act for clients in this capacity. An additional consideration was the potential advantage to be derived from integrating corporate governance and investment policy rather than treating the two as separate disciplines. The Fund managers report on voting action taken on behalf of the Fund on a regular basis.

### Social, Environmental and Ethical Issues

6.2 The Pension Fund Committee has discussed social, environmental and ethical issues in the context of investment strategy. It notes the judgement in the case of Cowan and Others v Scargill and Others in 1984 (commonly referred to as the Megarry Judgement), and has decided that the overriding principle of the Fund's investment policy is to obtain the best possible return. The Committee does, however, recognise that taking account of social, environmental and ethical issues may in some circumstances protect or enhance shareholder returns or that it will deliver some other tangible benefit to stakeholders without compromising financial returns.

6.3 The Pension Fund Committee has from the start in its consideration of these issues decided to adopt an "active shareholder" approach to social, environmental and ethical issues, initially meeting representatives of selected companies directly to discuss environmental performance. Currently, engagement activity in this area is delegated to investment managers.

### The Stewardship Code

6.4 All of the Fund's investment managers have published a statement of commitment to The Stewardship Code released by the Financial Reporting Council in 2010. The Fund's principal managers have all, in addition, completed the NAPF's Stewardship Disclosure Framework and these can be accessed at:-

http://www.napf.co.uk/PolicyandResearch/Corporate-Governance/Stewardship/Stewardship-disclosure-framework.aspx

6.5 At its July 2014 meeting, The Pension Fund Committee required that forthwith, all fund managers employed by the Fund should be required to provide to the Council an annual statement of compliance with the Stewardship Code (in relation to the calendar year 2014, and thereafter) or, in the absence of such a statement, give good reason as to why one was not provided.

## 7. COMPLIANCE WITH THE "MYNERS PRINCIPLES"

The following is a statement of compliance with the guidance issued by the Secretary of State (see section 2. on content). This guidance is currently issued in the form of the publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles". In the following statement, the term "the Fund" is employed to indicate the administering authority acting via its principal governance entity, the Pension Fund Committee.

### Principle 1: 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; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Fund receives advice from and maintains regular contact with its appointed external investment advisor, Hymans Robertson.

In addition, officers advising the Fund seek independently to obtain the widest possible range of training, information and opinion on investment matters.

Members of the Pension Fund Committee are encouraged to attend training from a range of providers on a regular basis, and a log of training received by both Members and officers is maintained.

In appointing to the Pension Fund Committee, consideration is given to relevant skills and experience.

When considering any proposed investment strategy, the Fund seeks to challenge and evaluate all advice received.

### Principle 2: 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 the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.**

A clear objective is set for the Fund via the selected investment benchmark. The current benchmark explicitly does not seek to match the Fund's liabilities in the short term.

The Fund recognises and accepts the significant level of risk relative to liabilities (both short- and long-term) associated with its investment benchmark. The Fund elects to take a relatively low level of active risk, however, obtaining the majority of it investment exposure via passive and near-passive strategies. These strategies also contribute to the minimisation of investment management fees and transaction costs.

Where fees above a minimum level are paid for the Fund's equity and bond exposure, these are proportionate to index outperformance.

### Principle 3: Risk & 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.**

The Fund is substantially non-compliant, at this point, with the precepts that (i) investment strategy should relate to (or be devised by reference to) the form and structure of a fund's liabilities, and (ii) that risk relative to liabilities should be measured on a continuous and sophisticated basis. The investment benchmark predominantly comprises relatively volatile "risk assets" such as equities, acknowledged to be a poor match to the Fund's liabilities over the short-term (and potentially also the long term, for some of a range of outcomes).

In support of its current and historical approach, the Fund refers to the very long term record of equities in providing a significant above-inflation return, against the context of the long investment horizon of the LGPS as an open defined benefit pension scheme.

The Fund has not previously made investments on an employer-specific basis, and does not plan to do so in the near future.

### Principle 4: Performance Assessment

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

**Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.**

The Fund receives independent reporting on the performance of its investments, from the WM Company. This is received both quarterly and annually (in various formats) and in the form of an annual performance presentation to the Pension Fund Committee.

Being predominantly passively oriented (in overall terms) the Fund currently has fewer relative performance issues to monitor and address than the majority of LGPS funds, allowing attention to be focussed on those areas where the limited active risk is taken.

The Fund adopted its broadly passive stance in response to perceived difficulties in managing and assessing the performance of fully active managers, and in the light of consistent research evidence of the difficulty, over the long-term, in achieving index outperformance after fees via active strategies.

The Fund does not currently seek formally to measure the performance of its investment advisors, recognising the difficulty of establishing a suitable methodology for this. The recent decision not to employ any conventional active mandates was partly informed by, and in response to, a recognition of the poor historical record of the Fund, in overall terms, in the successful governance of these mandates (over a period in excess of 20 years).

The Fund reports its investment performance relative to its own benchmark and the average performance of LGPS funds to scheme members on an annual basis.

### Principle 5: Responsible Ownership

**Administering Authorities should:**

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

The Fund currently delegates responsibility for voting and responsible ownership issues to its appointed investment managers.

Both of the Fund's principal investment managers have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

The Fund has previously been at the forefront of shareholder activism within the LGPS but recognised that as such issues became more "mainstream" (with fund managers developing more capacity in the area) and the Fund progressively adopted a pooled approach to investment, it would be both more practicable and more efficient to delegate this activity.

In this area the Fund believes that it is reasonable to make some differentiation between expectations placed on larger LGPS funds and those considerably smaller in size, of which the Fund is one.

The Fund does not currently have its own statement of policy on responsible ownership.

### Principle 6: Transparency & 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;**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The governance of the Fund is via the Pension Fund Committee, whose business has been conducted wholly in public for a number a years and is reported via the Council's (Administering Authority's) website.

The Fund provides limited information to scheme members on a direct basis, but this includes reporting investment performance relative to benchmark and other local authorities.

The Pension Fund Annual Report, containing all the Fund's statutory declarations, accounts and additional information on investment approach and performance is available to all stakeholders via the above website.

**APPENDIX A**

## ACTUARIAL VALUATION

### Main Actuarial Assumptions as at 31 March 2013

| | Nominal % p.a. | Real % p.a. |
|---|---|---|
| Price Inflation (CPI) | 2.5 | - |
| Increases in Pay (excluding Increments) | 3.3 | 0.8 |
| Funding Basis Discount Rate | 4.6 | 2.1 |

### Valuation Method – Liabilities

The value of scheme members' benefits is determined by estimating the payments which will be made from the Fund throughout the future lifetime of existing active members, deferred benefit members, pensioners and their dependants and, by reference to the investment returns shown above, calculating the amount of money that will be required to meet those payments after allowing for income and growth. Separate calculations are made in respect of benefits arising in relation to service before the valuation date ("past service") and for service after the valuation date ("future service"). A comparison of the value of the existing assets of the Fund with the present value of past service liabilities gives rise to a surplus or deficit position, commonly referred to as the "funding level" of the Fund.

The name of the particular method used to value future liabilities is the Projected Unit Method of valuation.

### Valuation Method – Assets

At the 2013 valuation, assets were taken into account at their market value as indicated in the Fund accounts for the period ended 31 March 2013.

### Valuation Results

| **Past Service Liabilities** | **£m** | **% of Total Liabilities** |
|---|---|---|
| Active Members | 193 | 32 |
| Deferred Pensioners | 149 | 24 |
| Pensioners | 265 | 44 |
| Total | **607** | **100** |
| Assets / Funding Level | 504 | 83 |
| Surplus (Deficit) | (103) | 17 |

The funding level has increased marginally relative to that measured at 31 March 2010, which was 80%.

The average contribution across the Fund has been calculated as 27.7%, comprising a future service rate of 19.4% and a past service adjustment of 8.3%. However, at the latest valuation the majority of Fund employers have been given individual valuation results and set specific contribution rates contribution rates (with the option to pay the past service adjustment as a fixed sum or % rate).

**APPENDIX B**

## LIMITS ON INVESTMENTS

Limits on investments are specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the Regulations"). Under regulation 14(3), an Administering Authority may increase the limit on the proportion of the fund invested in that type of investment, having taken appropriate advice on risks. The maximum limits allowed by the Regulations are shown in brackets.

**1% Limit**

1. Any single sub-underwriting contract [5%].

**2% Limit**

2. All contributions to any single partnership [5%].

**5% Limit**

3. All contributions to partnerships [15%].

**10% Limit**

4. The sum of:-
   (a) all loans [*excluding government loans*]; and
   (b) any deposits with:-
      (i) any local authority; or
      (ii) any body with the power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (with the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.
5. All investments in unlisted securities of companies [15%].
6. Any single holding [*excluding investments made by an investment manager authorised as such under the Regulations, unit trusts, National Savings Certificates, UK government bonds or securities on which interest payments are guaranteed by the UK government, or a deposit with relevant institution*].
7. All deposits with any single bank, institution or person (other than the National Savings Bank).

**15% Limit**

8. All sub-underwriting contracts.

**25% Limit**

9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body [35%].
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body [35%].
11. Any single insurance contract [35%].
12. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements [35%].

This summary is intended as a guide only and does not necessarily follow the precise format, wording or order of the Regulations. Details of exclusions in italics are paraphrases of the

Regulations for ease of use, and reference should be made to the full Regulations for a complete interpretation of the restrictions on investments.

**Use of Extended Limits**

The Fund utilises the extended limit [35%] permitted under regulation 14(3) of the Regulations in respect of item 9. above:

> "units or other shares of the shares of the investments subject to the trusts of unit trust schemes managed by any one body."

In doing so, the Administering Authority has taken proper advice and has taken account of factors relating to diversification and suitability set out in regulation 15 of the Regulations and of any risks attending the use of the extended limit.

Further information relating to the use of the extended limit is set out below.

(a) The extended limit of 35% applies to the use of two unit trusts managed by Henderson Investment Funds Limited. The unit trusts comprise UK and North American quoted equity investments and are managed on an "enhanced index" basis. The unit trusts explicitly seek to minimise negative variance in investment performance relative to the broad-based, market-cap weighted indices to which they are benchmarked, whilst simultaneously seeking (in each case) to exceed the index return to an indicative level of 0.75% per annum. In each case it is a practical requirement of the management approach (involving a highly diversified portfolio of stocks) that investments should be organised on a collective basis.

(b) The collective sum in the two unit trusts marginally exceeds the default 25% limit but is not expected to exceed 27.5% in normal circumstances.

(c) The decision has been taken explicitly to minimise portfolio risk (as detailed in paragraph 5.16 of the main document).

(d) The use of the extended limit is not subject to maximum duration.

(e) Notwithstanding (d), and for avoidance of doubt, the particular investments made under the extended limit will independently be subject to the requirements to review investment managers' performance as set out in regulation 8 of the main Regulations.

(f) The Administering Authority believes that the use of the extended limit complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

# INVESTMENT MANAGEMENT AND PERFORMANCE

The Fund's investment approach is centred around equities, bonds and property. Equities are managed on either a fully passive or low-alpha targeting "enhanced index" approach, whilst bonds are divided between both active and passive portfolios. In addition, the Fund has a 15% allocation respectively to both property and a "diversified growth" vehicle managed by Baillie Gifford & Co (this mandate is also referred to elsewhere as "pooled multi-ssset" or "PMA").

The Baillie Gifford mandate was funded during the second quarter of 2012/13, by reducing the allocation to UK equities by 10% (to 28%). In 2013/14, this allocation was increased to 15% (by a further 5% reduction in UK equities). In all other respects, the Fund's high-level investment allocation remained unchanged. (N.B. due the fact that it has been invested for a short period the Bailie Gifford mandate has limited representation in the performance analysis below, but is fully reflected in the aggregate Fund returns shown.)

## Asset Allocation & Fund Value

The Fund's planned asset allocation together with the actual level at the start and end of the year is shown below.

| Investment Category | 31 March 2013 | | | 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | Target % | Actual % | Value £m | Target % | Actual % | Value £m |
| UK Equities | 28.0 | 29.3 | 147.6 | 23.0 | 23.3 | 125.3 |
| US Equities | 15.0 | 16.3 | 82.3 | 15.0 | 15.7 | 84.5 |
| Eur'pn Equities | 9.0 | 9.7 | 48.8 | 9.0 | 9.6 | 51.3 |
| Jap Equities | 3.0 | 3.2 | 16.2 | 3.0 | 2.9 | 15.4 |
| Pac Equities | 2.5 | 2.8 | 14.1 | 2.5 | 2.5 | 13.2 |
| EM Equities | 5.0 | 4.8 | 24.3 | 5.0 | 5.0 | 26.8 |
| UK Gov Bds | 6.5 | 5.9 | 29.7 | 6.5 | 6.2 | 33.3 |
| UK Corp Bds | 10.0 | 9.8 | 49.3 | 10.0 | 10.3 | 55.5 |
| Property | 10.0 | 8.0 | 40.3 | 10.0 | 9.2 | 49.7 |
| PMA | 10.0 | 9.6 | 48.4 | 15.0 | 14.2 | 76.3 |
| Cash / Other | 1.0 | 0.6 | 3.1 | 1.0 | 1.1 | 6.1 |
| Total | 100.0 | 100.0 | 504.1 | 100.0 | 100.0 | 537.4 |

## Fund Performance

In the year to 31 March 2014, the Fund's overall investment return relative to that achieved by local authorities as a whole (represented by the WM Local Authority Universe), and the specific indices comprising the scheme-specific benchmark, was as follows.

Annual and Longer-Term (Whole Fund) Performance

| Investment Category | London Borough of Richmond | WM Local Authority Universe (Weighted Av.) | WM Ranking (Percentile) | LBR Scheme-Specific Benchmark |
|---|---|---|---|---|
| UK Equities | 8.5 | 11.3 | 83 | 8.8 |
| US Equities | 10.3 | 11.9 | 66 | 10.3 |
| Eur'pn Equities | 18.2 | 15.1 | 25 | 18.3 |
| Jap Equities | -1.7 | 0.5 | 64 | -1.6 |
| Pac Equities | -6.0 | -7.1 | 30 | -6.6 |
| EM Equities | -10.4 | -5.1 | 69 | -10.8 |
| UK Bonds | 0.0 | 0.4 | 60 | 0.0 |
| Property | 12.8 | 11.0 | 26 | 11.9 |
| PMA | 1.1 | n/a | n/a | 4.0 |
| Cash | 0.4 | 1.4 | 63 | 0.4 |
| Total Assets | 6.2 | 6.4 | 54 | 6.5 |
| Total Asset Comparison (Longer Term) | | | | |
| 3 years | 7.4 | 7.5 | 58 | 7.3 |
| 5 Years | 13.6 | 12.7 | 26 | 13.3 |
| 10 Years | 8.3 | 7.8 | 18 | 7.8 |

Source: WM

Longer-Term Performance by Asset Class

| Investment Category | 3 Years to 31.03.14 | | 10 Years to 31.03.14 | |
|---|---|---|---|---|
| | London Borough of Richmond | LBR Scheme-Specific Benchmark | London Borough of Richmond | LBR Scheme-Specific Benchmark |
| UK Equities | 8.8 | 8.8 | 9.1 | 8.6 |
| US Equities | 12.1 | 12.0 | 9.3 | 8.7 |
| Eur'pn Equities | 7.5 | 7.4 | 9.6 | 9.8 |
| Jap Equities | 4.2 | 4.3 | 1.8 | 3.2 |
| Pac Equities | 2.1 | 2.1 | 12.6 | 12.9 |
| EM Equities | -4.4 | -4.3 | 10.4 | 11.6 |
| UK Bonds | 6.8 | 6.7 | 5.7 | 4.5 |
| Property | 7.3 | 6.1 | 5.0 | 4.1 |
| Cash | 0.8 | 0.4 | 3.2 | 2.6 |
| Total Assets | 7.4 | 7.3 | 8.3 | 7.8 |

Source: WM

## Commentary

In 2013/14, the Fund marginally underperformed (at total asset level) relative to both its own benchmark and the Local Authority Universe (being ranked just below the median in latter at 54th percentile). In the "peer group" measurement, being underweight equities and overweight property / pooled multi-asset were the key factors in a year when UK, US and European markets performed strongly. Another notable feature of the year was the significant premium for active management in the UK and US markets. The return relative to the scheme's own benchmark was influenced by the fact that the additional 5% switch in-year to the DGF pre-empted (by 2-3 weeks) the quarter-end change of total fund benchmark at 31 December 2013 (due to the benchmark calculation methodology this is represented above as a underperformance in UK equities – although neither of the Fund's managers in the asset class was below this index when measured at portfolio level).

Over longer periods, the Fund's rankings are remain well above average (around or within the top quartile) – especially over 10 years where it is ranked in the 18th percentile. Over this period, both asset allocation and stock selection have contributed to the outperformance, but – as noted last year – the Fund has also achieved a very "consistent" return in quartile rankings over the constituent years:-

| Total Return Quartile Distribution Mar '05 – Mar '14 | |
|---|---|
| Ranking | No of Years |
| Top Quartile | 1 |
| Upper Quartile | 4 |
| Lower Quartile | 5 |
| Bottom Quartile | 0 |

Source: WM

## Fund Managers' Performance

In 2013/14 both the multi-asset fund managers' performance was in line with expectations, given the nature of the respective mandates (wholly passive in the case of L&G and a combination of passive, enhanced index and active in the case of HGI).

For the first full year in which the mandate was invested, the Baillie Gifford Diversified Growth Fund returned 1.1% against a benchmark of 4.0%.

Further details of the managers' performance by mandate are given below.

| 1 Year to 31 March 2014 | | |
|---|---|---|
| Mandate | Performance | Benchmark |
| HGI ex-Property+ | 6.5 | 6.1 |
| L&G ex-Property+ | 6.1 | 5.9 |
| HGI Property | 12.1 | 11.9 |
| Schroder Property | 13.5 | 11.9 |
| L&G Property | 10.7 | 11.9 |
| CCLA Property (LAMIT) | 14.6 | 11.9 |
| Baillie Gifford (DGF) | 1.1 | 4.0 |

| 3 Years to 31 March 2014 | | |
|---|---|---|
| Mandate | Performance | Benchmark |
| HGI ex-Property+ | 8.0 | 7.7 |
| L&G ex-Property+ | 7.8 | 7.7 |
| HGI Property | 7.0 | 6.1 |
| Schroder Property | 7.7 | 6.1 |
| L&G Property | 6.1 | 6.1 |
| CCLA Property (LAMIT) | 8.8 | 6.1 |

| 5 Years to 31 March 2014 (or since inception) | | |
|---|---|---|
| Mandate | Performance | Benchmark |
| HGI ex-Property | 14.6 | 14.2 |
| L&G ex-Property | 14.3 | 14.4 |
| HGI Property | 8.4 | 7.8 |
| Schroder Property | 8.6 | 7.8 |
| L&G Property | n/a | n/a |
| CCLA Property (LAMIT) | 11.7 | 7.8 |

Source: WM / Fund Managers

+ Due to benchmark matching issues, where indicated the managers' own performance data / benchmark calculations are used.

By agreement, WM re-started all incumbent managers' individual performance records at the point of a Fund re-organisation on 9 December 2008; L&G's ex-prop and all property records are from 9 December 2008 (L&G's property component was acquired in November 2010).

# INTRODUCTION

## Contributions into the Pension Fund

The pension contributions into the Pension Fund for employees are prescribed in the LGPS regulations. The basis of these contributions is the same nationally for all members of the LGPS and cannot be varied by the Administering Authority or employer organisations in the Fund. Lump sum and retirement benefits are also prescribed by the LGPS.

Employer contributions, however, are not fixed and are required to be set at a level that is sufficient to enable the Pension Fund to meet its future obligations to pay benefit entitlements due under the LGPS. The level of employer contributions is determined by an Actuarial Valuation undertaken every three years for every Fund within the LGPS.

The Fund is required to appoint an independent qualified actuary to undertake the triennial valuation and the Fund's actuary is Hymans Robertson LLP.

## Actuarial Valuation

This valuation takes into account the current value of the Fund's investments and information on membership and projects forward the income into the Fund (contributions and investment income) and the expenditure on benefits to calculate a projected surplus or deficit in the Fund's assets (investments and income) over its liabilities (future benefits). The employers' future contributions into the Fund are then adjusted to take account of the actuarial valuation. In recent years the Pension Fund, along with other funds in the LGPS and generally, has been in deficit.

Summary details of the latest valuation, undertaken as at 31st March 2013 are given in the next two parts of this section – the Actuarial Statement and Funding Strategy. The 2013 valuation introduced "separate employer treatment" for the Fund's principal scheduled admitted employers.

# London Borough of Richmond Pension Fund ("the Fund") Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

## Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

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

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

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £504 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £103 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

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

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

### Method

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

### Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

| Financial assumptions | 31 March 2013 | |
|---|---|---|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 4.60% | 2.10% |
| Pay increases | 3.30% | 0.80% |
| Price inflation/Pension increases | 2.50% | - |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.  Based on these assumptions, the average future life expectancies at age 65 are as follows:

| | Males | Females |
|---|---|---|
| Current Pensioners | 22.2 years | 24.4 years |
| Future Pensioners* | 24.3 years | 26.9 years |

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Richmond upon Thames Council, the Administering Authority to the Fund.

## Experience over the period since April 2013

Experience has been better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than anticipated meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

**Steven Law**

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

9 May 2014

Hymans Robertson LLP

20 Waterloo Street

Glasgow G2 6DB

# FUNDING STRATEGY STATEMENT

## 1 Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Richmond upon Thames Pension Fund ("the Fund"), which is administered by London Borough of Richmond upon Thames ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

### 1.2 What is the London Borough of Richmond Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund, in effect the LGPS for the London Borough of Richmond upon Thames area, to make sure it:

- receives the proper amount of contributions from employees and employers and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

### 1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above and also to minimise cross-subsidies between different generations of taxpayers.

### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

### 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed;

B. who is responsible for what;

C. what issues the Fund needs to monitor, and how it manages its risks;

D. some more details about the actuarial calculations required;

E. the assumptions which the Fund actuary currently makes about the future; and

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Graham Russell in the first instance at his e-mail address g.russell@richmond.gov.uk on telephone number 0208 891 7226.

# 2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

### 2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate* for all employers collectively at each triennial valuation combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 28 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

### 2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund, then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

### 2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, an increasingly significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

### 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1).

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

# Calculating contributions for individual Employers

### 2.7 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the Actuary to adopt alternative funding approaches on a case by case basis for specific employers.

### 2.8 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

## 2.9 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies | |
|---|---|---|---|---|---|---|---|
| **Sub-type** | **Council** | **Colleges** | **Academies** | **Open to new entrants** | **Closed to new entrants** | **Open to new entrants** | **Closed to new entrants** |
| **Basis used** | Ongoing, assumes long-term Fund participation (see Appendix E) | | | Ongoing, but may move to "gilts basis" - see Note (a) | | Ongoing, assumes fixed contract term in the Fund (see Appendix E) | |
| **Future service rate** | Projected Unit Credit approach (see Appendix D – D.2) | | | | Attained Age approach (see Appendix D – D.2) | Projected Unit Credit approach (see Appendix D – D.2) | Attained Age approach (see Appendix D – D.2) |
| **Stabilised rate?** | Yes - see Note (b) | No | No | No | No | No | No |
| **Maximum deficit recovery period – Note (c)** | 20 year maximum | 20 year maximum | 20 year maximum | 20 year maximum | Future working lifetime or other agreed period | Outstanding contract term or other agreed period | |
| **Deficit recovery payments – Note (d)** | Monetary amount | May use percentage of pay or monetary amounts at the discretion of the Administering Authority | | | | | |
| **Treatment of surplus** | Covered by stabilisation arrangement | Contributions kept at future service rate. | Contributions kept at future service rate. | Contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority | | Reduce contributions by spreading the surplus over the remaining contract term | |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | 3 years - Note (e) | 3 years - Note (e) | 3 years - Note (e) | 3 years - Note (e) | None | |
| **Review of rates – Note (f)** | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract | |
| **New employer** | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) | |
| **Cessation of participation: cessation debt payable** | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation is assumed to expire at the end of the contract. Cessation debt (will be on a basis appropriate to the circumstances of cessation – see note (j) | |

**Note (a)** (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer or an Admission Body but not a Transferee Admission Body; and
- the employer has no guarantor; and
- the admission agreement is likely to terminate or the employer is likely to lose its last active member within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

**Note (b)** (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the Council will be permitted to stabilise rates such that contributions will be frozen at the current rate until 31 March 2017.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation to take effect from 1 April 2017.

**Note (c)** (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

**Note (d)** (Deficit Recovery Payments)

The deficit recovery payments for each employer covering the three year period until the next valuation will be set as monetary amounts or percentage of pay at the discretion of the Administering Authority. However, the Administering Authority reserves the right to amend these rates between valuations.

**Note (e)** (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

The maximum phasing period is 3 years and is applied purely at the discretion of the Administering Authority.

**Note (f)** (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions) and/or an increased level of security or guarantee.

**Note (g)** (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, the above policies will be reconsidered at each valuation.

**Note (h)** (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

**Note (i)** (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

**Note (j)** (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; and/or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### 2.10 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### 2.11 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and/or
- whether the admission agreement is likely to be open or closed to new entrants.

### 2.12 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### 2.13 Ill health early retirement costs

Each employer has an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis against this allowance. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

### 2.14 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 2.15 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of three situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other remaining employers in the Fund; or

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 2.16 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

# Funding strategy and links to investment strategy

### 2.17 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP) which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time and is kept under review to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 2.18 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

### 2.19 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 2.20 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

### 2.21 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, every three years and reports this to the Pensions Committee.

# Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS 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 framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in winter 2013 for comment;

b) Comments were requested by 21 February 2014;

c) Following the end of the consultation period the FSS was published, on 28 March 2014.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- A copy sent to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory change or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

### A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents are available on request.

# Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

## B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

## B2 The Individual Employer should:-

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

## B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund; and
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

# Appendix C – Key risks and controls

## C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

## C2 Financial risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. | Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.<br><br>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.<br><br>Analyse progress at three yearly valuations for all employers. |
| Inappropriate long-term investment strategy. | Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.<br><br>Chosen option considered to provide the best balance. |
| Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities. | Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.<br><br>Some investment in bonds helps to mitigate this risk. |
| Active investment manager under-performance relative to benchmark. | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. |
| Pay and price inflation significantly more than anticipated. | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.<br><br>Some investment in bonds also helps to mitigate this risk.<br><br>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. |
| Effect of possible increase in employer's contribution rate on service delivery and | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are |

| Risk | Summary of Control Mechanisms |
|---|---|
| admission/scheduled bodies | also in place to limit sudden increases in contributions. |
| Orphaned employers give rise to added costs for the Fund | The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.<br><br>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9). |

### C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Pensioners living longer, thus increasing cost to Fund. | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:<br><br>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).<br><br>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. |

## C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. |

## C5 Governance risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.<br><br>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations<br><br>Deficit contributions may be expressed as monetary amounts. |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | The Administering Authority maintains close contact with its specialist advisers.<br><br>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br><br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by:<br><br>Seeking a funding guarantee from another scheme |

| Risk | Summary of Control Mechanisms |
|---|---|
| | employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.<br><br>Vetting prospective employers before admission.<br><br>Where permitted under the regulations requiring a bond to protect the Fund from various risks.<br><br>Requiring new Community Admission Bodies to have a guarantor.<br><br>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).<br><br>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |

# Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

## D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[4], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[5]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

## D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

[4] See LGPS (Administration) Regulations 36(5).
[5] See LGPS (Administration) Regulations 36(7).

### a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

### b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

### D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

### D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;

- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

### D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year; and
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

# Appendix E – Actuarial assumptions

## E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

## E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

## E3 What assumptions are made in the ongoing basis?

### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

### b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

### c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

### d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves” produced by the Club Vita’s detailed analysis which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the release of the CMI projections model (“the CMI model”). This is a change in approach from the 2010 valuation where the rate of future longevity improvements was assumed to be in line with medium cohort projections with a minimum level of improvement of 1% per annum. Our recommended assumption for the future rate of longevity improvements is as follows:

- The current rate of improvements has reached a peak;
- Long term rate of 1.25% p.a. (or around 1 year per decade); and
- Longevity improvements for the over 90s will decline.

This is a higher allowance for future improvements than was made in 2010.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

### e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

# Appendix F – Glossary

| | |
|---|---|
| **Actuarial assumptions/basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value. |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5). |
| **Common contribution rate** | The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**. |
| **Covenant** | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| **Deficit** | The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions). |
| **Deficit repair/recovery period** | The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa. |
| **Designating Employer** | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| **Discount rate** | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**. |
| **Funding level** | The ratio of assets value to **liabilities** value: for further details (see 2.2). |
| **Future service rate** | The actuarially calculated cost of each year's build-up of pension by the current |

| | |
|---|---|
| | active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**. |
| **Gilt** | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. |
| **Guarantee / guarantor** | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. |
| **Letting employer** | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |
| **Liabilities** | The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**. |
| **LGPS** | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| **Maturity** | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| **Members** | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| **Past service adjustment** | The part of the employer's annual contribution which relates to past service **deficit** repair. |
| **Pooling** | Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a |

| | |
|---|---|
| | single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4). |
| **Profile** | The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also. |
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| **Solvency** | In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| **Theoretical contribution rate** | The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment. |
| **Valuation** | An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also. |

# INTRODUCTION TO THE PENSION FUND ACCOUNTS

Basis on which the Accounts have been prepared

The Pension Fund Accounts (the Accounts) present the financial position of the Pension Fund for the accounting year that ended on 31st March 2014. The Accounts have been prepared and presented in accordance with 'proper practices' in relation to the Accounts (as required by the Accounts and Audit Regulations), principally as set out in 'The Code of Practice on Local Authority Accounting in the UK 2013' and 'Pensions SORP'. Further details are set out in Note 2 to the Accounts.

Presentation of the Accounts

The Accounts have been approved and audited as an integral part of the Council's Statement of Accounts (Council's accounts) as they are required to be under the Code. For the purposes of this Report the Accounts are reproduced with only superficial changes such as the numbering of the Notes to the Pension Fund Accounts (to reflect their relationship in the Accounts in this publication).

Accounting Policies

The accounting policies of the Pension Fund are set out in Note 2 to the Accounts. These state that the accounting policies adopted by the Council are applied to the Pension Fund Accounts except where they are not applicable or overridden by the specific policies. The full disclosure note setting out the Council's accounting policies is not included in this publication but is available in the Council's Statement of Accounts 2013/14 and can be found at the following link:

http://www.richmond.gov.uk/statement_of_accounts_2013_2014_unaudited.pdf

Further Information

If you have any questions or require further information on the Accounts please refer to the contact details on page 4.

# PENSION FUND ACCOUNTS

The Pension Fund accounts are required to be included in the Council's Statement of Accounts (given the Council's statutory position as the Administering Authority).

## FUND ACCOUNT

| | Note | 2013/14 £000 | 2013/14 £000 | 2012/13 £000 | 2012/13 £000 |
|---|---|---|---|---|---|
| **DEALINGS WITH MEMBERS AND EMPLOYERS** | | | | | |
| **Contributions receivable** | | | | | |
| From employers | *P7* | | (19,078) | | (18,756) |
| From members | *P7* | | (4,781) | | (4,784) |
| Transfers In: | | | | | |
| Group transfers from other schemes | | 0 | | 0 | |
| Individual transfers from other schemes | | (1,272) | (1,272) | (1,885) | (1,885) |
| | | | (25,131) | | (25,425) |
| **Benefits payable** | *P7* | | | | |
| Pensions | | 17,271 | | 16,228 | |
| Commutation of pensions and lump sum retirement benefits | | 3,121 | | 3,311 | |
| Lump sum death benefits | | 267 | 20,659 | 462 | 20,001 |
| **Payments to and on account of Leavers** | *P8* | | | | |
| Refunds of Contributions | | 9 | | 17 | |
| Transfers Out: | | | | | |
| Group transfers to other schemes | | 0 | | 3,374 | |
| Individual transfers (to other Schemes or Funds within the LGPS) | | 954 | 963 | 2,544 | 5,935 |
| **Administrative and other Expenses borne by the Scheme** | *P10* | | 463 | | 420 |
| **Net Additions/(Withdrawals) from Dealings with Members** | | | **(3,046)** | | **931** |
| **Returns on Investments** | | | | | |
| Investment income | | | | | |
| Dividends from equities | | 0 | | (3) | |
| Income from pooled investments | | (7,804) | | (8,548) | |
| Interest on cash deposits | | (19) | | (30) | |
| Other | | 0 | (7,823) | (3) | (8,584) |
| Taxes on income | | | | | |
| Income from pooled investments | | 362 | 362 | 551 | 551 |
| Change in market value of investments: | | | | | |
| Realised gains | | (12,286) | | (5,616) | |
| Unrealised gains | | (11,790) | (24,076) | (47,845) | (53,461) |
| **Investment Management Expenses** | *P19* | | 1,240 | | 1,016 |
| **Net Returns on Investments** | | | **(30,297)** | | **(60,478)** |
| Net increase during the year | | | (33,343) | | (59,547) |
| Opening net assets of the Fund 1 April | | | (504,054) | | (444,507) |
| **Closing Net Assets of the Fund 31 March** | | | **(537,397)** | | **(504,054)** |

## NET ASSETS STATEMENT

| | Note | 31 March 2014 £000 | 31 March 2014 £000 | 31 March 2013 £000 |
|---|---|---|---|---|
| **Investment Assets** | | | | |
| **Pooled investment Vehicles :** | | | | |
| Unit trusts: | | | | |
| Property | | 49,687 | | 40,289 |
| Other | | 87,682 | 137,369 | 85,733 |
| Unitised insurance policies: | | 305,455 | | 284,685 |
| Open ended investment companies (OEICS) - Other | | 88,503 | | 90,258 |
| Cash (Interest Bearing Deposits) | | 4,969 | 398,927 | 2,862 |
| **Total assets invested** | *P12* | | **536,296** | **503,827** |
| **Other investment balances** | | | | |
| Investment debtors: | | | | |
| Investment income accrued | | | 732 | 741 |
| Investment creditors: | | | | |
| Investment settlements outstanding | | | (562) | (571) |
| | | | **536,466** | **503,997** |
| **Net Current Assets and Liabilities** | | | | |
| Debtors: | | | | |
| Monthly contributions due from employers | | 713 | | 395 |
| Monthly contributions due from employees | | 92 | | 61 |
| Pre-paid benefits (lump sum entitlements) | | 60 | | 0 |
| Other | | 518 | 1,383 | 310 |
| Creditors: | | | | |
| Unpaid benefits (lump sum entitlements) | | (76) | | (179) |
| Investment management expenses | | (86) | | (72) |
| PAYE payable to HMRC | | (211) | | (196) |
| Other | | (79) | (452) | (262) |
| | | | **931** | **57** |
| **Total Net Assets** | *P12 & P14* | | **537,397** | **504,054** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE P1 DESCRIPTION AND OPERATION OF THE FUND

**Description of the Fund**

The Local Government Pension Scheme (LGPS) is a statutory scheme, and rules in respect of membership and benefits etc. are prescribed under regulation. The Pension Fund ("the Fund") makes benefit payments as required by legislation and collects and invests contributions from members and their employers. The LGPS is a defined benefit scheme, in which members of the scheme make a contribution based on a percentage of pensionable salary, and on retirement receive a guaranteed, index-linked pension. Historically, the LGPS has been a "final salary" scheme with benefits based on final pensionable salary and the period of scheme membership. From April 2014, the LGPS became a CARE (Career Average Revalued Earnings) scheme, with benefits based on average pay received over time. Full details on the LGPS can be found at the following website:

www.lgps.org.uk

Employers' contributions are reviewed and adjusted (if required) every 3 years by the Actuary in their triennial valuation of the Fund. The valuation estimates Fund assets (current assets, assumed growth and cash flows inwards) and liabilities (assumed future payments to members) to get to an overall funding position. This is then used to calculate the required contributions from employers to achieve a fully funded position. The latest valuation took place as at 31st March 2013 and includes the assumed impact of the change to a CARE scheme.

**Responsibilities of the Council to administer the Pension Fund**

The London Borough of Richmond upon Thames (also referred to as "the Council") is an Administering Authority of the LGPS, in the year of account under the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) and subsequently under the Local Government Pension Scheme Regulations 2013 (SI 2013/2356). As such it is required to operate the LGPS on its own behalf and on behalf of other nominated employers (see Note P3). The Fund is a separate entity for accounting purposes and its Fund Account and Net Asset Statement are separate financial statements although they are also presented, but not consolidated, in the Council's accounts for information because the Council is the administering authority.
The Council, as an employer within the Pension Fund, is responsible for collecting and paying over employee contributions to the Fund. Under the LGPS rules, employee contributions are periodically set by the government, whereas employer contributions have to be set at a level sufficient to meet the long-term obligations of the Fund, as determined by the triennial Actuarial Valuation.

The role of the Pension Fund is to collect employees' and employers' contributions from the Council and the other employer bodies, invest surplus funds and make payment of benefits out of the Fund. It is also responsible for making and receiving transfer payments for members joining and leaving the Fund. The Fund's accounts and disclosure notes reflect these responsibilities as opposed to those of the Council.

## Governance arrangements for the Fund

The Council's responsibilities for administering the Pension Fund are delegated to the Pension Fund Committee. The Committee's principal business is:

- considering and responding to proposals to amend the design of the LGPS;
- determining policy on the admission of external bodies to the Pension Fund;
- determining the long-term investment strategy of the Fund and keeping this under review at appropriate intervals;
- implementing this strategy through deciding on, and keeping under review, appropriate arrangements for investment management, appointing managers and monitoring their performance;
- appointing the Fund's actuary, external investment advisor and any other providers of services to the Pension Fund;
- receiving and commenting upon the triennial valuation of the Pension Fund prepared by the actuary;
- determining the Pension Fund's communications strategy and policies toward corporate governance and responsible investment;
- approving all documents required to be published by the Fund on a statutory basis, including the Pension Fund Annual Report, Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and Communications Policy Statement;
- approving the Pension Fund accounts, and dealing with all aspects relating to the audit of the Pension Fund, including receiving any reports by the Fund's independent auditor.

The Pension Fund Committee meets at least four times each year. The membership of the Committee during 2013/14 was:

Councillor G. Acton (Chairman)
Councillor R. Martin (Vice-Chairman)
Councillor J. Churchill
Councillor G. Evans
Councillor T. O'Malley

In addition to these Councillors, Mr M. Potts was a non-voting attendee of the Committee as staff observer.

The Fund's investment advisor (Mr W. Marshall of Hymans Robertson LLP) also attended Committee meetings to provide professional investment advice. Representatives of appointed fund managers and actuaries (also Hymans Robertson LLP) attended as required. The Fund's independent auditor attended the Committee to present both the audit plan and report on matters arising from the audit of the Pension Fund accounts.

## Investment management arrangements

The Fund has appointed fund managers to undertake its investment management responsibilities. During 2013/14 the Fund employed two principal external fund managers with multi-asset mandates (Henderson Global Investors and Legal & General Investment Management Limited), each with over a third of the Fund's total investments, and Schroder Investment Management Limited with whom the Fund holds property unit trusts. The Fund also directly holds units in the Local Authorities Property Fund (LAPF), managed by Local Authorities Mutual Investment Trust (LAMIT). In the course of 2013/14, the Fund increased its investment in the Baillie Gifford & Co "Diversified Growth Fund" mandate (by 5% of the total Fund value), transferring assets from Legal & General.

Details of investments under management are provided in Notes P14 to P18.

The Fund has made the following external appointments:

| | | |
|---|---|---|
| Investment advisors | – | Hymans Robertson LLP |
| Performance measurers | – | The WM Company |
| Custodians | – | JP Morgan Chase & Co |

The Fund's Independent auditors are Grant Thornton UK LLP.

Other professional advice (e.g. legal advice) is provided by Council officers.

## NOTE P2 PENSION FUND ACCOUNTING POLICIES

### Basis of Preparation

The Fund's accounts are prepared in accordance with proper accounting practice that represents compliance with:

- The Code of Practice on Local Authority Accounting in the UK 2013/14 (the Code), and
- (where relevant) Financial Reports of Pension Schemes; A Statement of Recommended Practice (Revised May 2007) – (the Pensions SORP).

The Pension Fund accounts are prepared on the basis that they will be incorporated within the Pension Fund Annual Report to be published later in the year, after the accounts have been audited. This report includes more detail on the actuarial valuation, governance arrangements for the Fund and includes the Statement of Investment Principles (SIP).

### Accounting Policies

General Policies

The general accounting policies are those that have been adopted by the Administering Authority – the Council of the London Borough of Richmond upon Thames, and these are applied to the accounts of the Pension Fund where they are applicable.

The accounts are prepared on an accruals basis with the significant exception that no recognition is made in respect of liabilities to pay pensions and other benefits after the year end. This treatment is prescribed in the Pensions SORP on the basis that future liabilities that are subject to actuarial valuation are best considered in the context of the full actuarial valuation and the consequent funding statement and funding policy. As the future net liabilities are required to be funded by employer contributions, these are covered in some detail in the Council's accounts where the full impact of future pension liabilities is disclosed in accordance with IAS 19.

The only other exception to the accruals basis is in respect of transfer values. Transfer payments are made normally when an employee changes employer and moves from one pension scheme to another. Occasionally, following a reorganisation for example, a group of employees may transfer to a different pension scheme. In normal circumstances, the receiving pension scheme will not be liable for any pension benefits in respect of the transferring member until the relevant assets (the transfer value) have been received. Transfer values are therefore accounted for on the basis of when they are paid or received and when the receiving scheme has accepted liability.

Specific accounting policies are adopted in relation to investments. These are covered in the following statements.

Valuation of Investments

Investments are recognised at Fair Value. This is the amount for which an asset could be exchanged, or a liability settled, between unrelated, willing and knowledgeable parties, in an arm's-length transaction, and is generally taken as the appropriate market value at the quoted bid price. These are taken at close of business on 31 March or the last prior trading day for relevant markets.

The Fund's non-cash investments are currently held exclusively in pooled vehicles, which for this purpose include unitised insurance policy-based investments. The vehicles themselves would generally be defined as "unquoted" in that they are not, continuously, "listed on or traded on a recognised investment exchange". With the exception of the property units trusts, however, they generally comprise equity and bond securities that would individually be described as "quoted". Liquidity in the non-property investments is broadly equivalent to that of the underlying securities, with the exception of the insurance policy-based investments which are traded weekly. Further information on the valuation of individual managers' holdings is included in Note P16 below.

Foreign Currency Translation

All non-sterling transactions and valuations are translated using the closing rate of exchange as at the date of valuation.

Overseas income is translated at rates of exchange applicable when remitted.

All gains and losses arising from currency transactions in the purchase of non-sterling investments are shown in the Fund Account as realised gains or losses.

Administrative Expenses charged by the Administering Authority

The administrative costs of the Fund are set out in Note P10. Administration and processing costs (such as salaries, accommodation and ICT costs) are initially borne by the Council (as the Administering Authority) and charged to the Fund on appropriate bases such as time spent on work related to the Fund and floor area of office accommodation occupied by the relevant staff.

Liabilities to Pay Pensions and Other Benefits after the Balance Sheet Date

Unlike most financial statements, the Pension Fund's financial statements do not take account of any liabilities in respect of pension and other benefit liabilities due beyond the year of account. This aspect of the Pension Fund's financial position is specifically covered by the actuarial valuation and report by the Fund's actuary in the following notes.

Critical Judgements

The Code requires that the judgements that management have made in applying the Fund's accounting policies should be disclosed to assist the understanding of users of the accounts, and aid comparability. The relevant judgements are those that have the most significant effect on amounts recognised in the financial statements. Judgements made in arriving at estimates are excluded.

The Fund's accounts include estimation of future values but do not include any critical judgements.

Assumptions Made about the Future and other Major Sources of Estimation and Uncertainty

In preparing the Fund accounts, officers and advisors are required to make assumptions about the future or which 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.

The items in the Fund's accounts where there could be significant risk of material adjustment in forthcoming financial year are investment assets. However, the Fund's assets are valued with reference to the published market value of the underlying assets (see Note P20) so there is minimal likelihood of impact here.

The other area of estimation is in the actuarial assessment of the present value of the Fund's assets and liabilities. These are not included in the Net Assets Statement but disclosed in notes to the accounts with the assumptions used.

## NOTE P3 MEMBERSHIP OF THE FUND

Although the Fund is administered by the Council, it also includes the employees of certain other bodies. These are either scheduled bodies (required by statute to be members of the Fund) or admitted bodies (admitted to the Fund by agreement).

The scheduled and admitted bodies act as employers in the same way as the Council and all are responsible for making deductions from their employees and paying these and their own employer's contributions to the Fund on a regular basis. The Fund makes pension and other benefit payments directly to Fund members.

Membership details as at 31 March are summarised in the following table:

| FUND MEMBERSHIP | 31 March 2014 Contributors | Members with Deferred Benefits | Pensioners and Dependents | Total Members | 31 March 2013 Total Members |
|---|---|---|---|---|---|
| **Admitted Bodies:** | | | | | |
| Association of District Councils * | 0 | 2 | 19 | 21 | 21 |
| Hampton School | 36 | 25 | 25 | 86 | 88 |
| Notting Hill Housing Trust | 1 | 8 | 12 | 21 | 20 |
| St. Mary's College | 154 | 112 | 105 | 371 | 371 |
| SW Middlesex Crematorium Board | 12 | 11 | 19 | 42 | 41 |
| Richmond CAB * | 0 | 0 | 1 | 1 | 1 |
| Housing Organisations Mobility & Exchange Services * | 0 | 9 | 4 | 13 | 13 |
| Richmond Council for Voluntary Services* | 0 | 3 | 5 | 8 | 8 |
| Richmond upon Thames Music Trust | 8 | 1 | 3 | 12 | 11 |
| Christ's Community Management Body * | 0 | 2 | 0 | 2 | 2 |
| Institute of Revenues Rating & Valuation | 10 | 17 | 8 | 35 | 35 |
| Project for Children with Special Needs * | 0 | 2 | 2 | 4 | 4 |
| Museum of Richmond * | 0 | 1 | 1 | 2 | 2 |
| Richmond Housing Partnership | 15 | 29 | 24 | 68 | 69 |
| Twining Enterprises * | 0 | 8 | 5 | 13 | 13 |
| Mears Building Contractors Ltd | 1 | 5 | 6 | 12 | 12 |
| Scout Solutions * | 0 | 15 | 8 | 23 | 23 |
| Veolia (formerly Cleanaway) | 32 | 14 | 16 | 62 | 63 |
| Nviro | 6 | 3 | 0 | 9 | 9 |
| Remploy # | 1 | 1 | 0 | 2 | 0 |
| **Total Admitted Bodies** | **276** | **268** | **263** | **807** | **806** |
| **Scheduled Bodies:** | | | | | |
| Academies Enterprise Trust | 39 | 8 | 6 | 53 | 44 |
| Learning Schools Trust | 85 | 36 | 5 | 126 | 102 |
| Richmond Magistrates' Court * | 0 | 14 | 10 | 24 | 24 |
| Richmond upon Thames College | 163 | 259 | 168 | 590 | 573 |
| Richmond Adult & Community College | 76 | 160 | 57 | 293 | 254 |
| Grey Court School | 49 | 11 | 1 | 61 | 46 |
| Orleans Park School | 48 | 7 | 2 | 57 | 47 |
| Teddington School | 48 | 17 | 1 | 66 | 56 |
| Waldegrave Trust | 77 | 11 | 1 | 89 | 55 |
| St Mary's Hampton # | 2 | 0 | 0 | 2 | 0 |
| Thomson House School # | 8 | 0 | 0 | 8 | 0 |
| **Total Scheduled Bodies** | **595** | **523** | **251** | **1,369** | **1,201** |
| **The Council** | **2,464** | **3,635** | **2,895** | **8,994** | **8,773** |
| **TOTAL MEMBERSHIP** | **3,335** | **4,426** | **3,409** | **11,170** | **10,780** |

*Note admitted bodies marked * had no contributing members in 2013/14 and paid no contributions to the Fund in that year.) Employers marked # commenced during 2013/14 and had no members as at 31 March 2013.*

## NOTE P4 BASIS OF ACTUARIAL VALUATION

The latest actuarial valuation of the Fund was completed as at 31 March 2013. The actuarial method used to determine the contribution rate required to meet liabilities accruing in the future is known as the Projected Unit Method. The principal financial assumptions adopted in the valuation were as follows:

| | |
|---|---|
| **Investment Return** | |
| Composite | 4.6% |
| **Increases in Liabilities** | |
| Salary increases | 3.3% |
| Pension increases | 2.5% |

The market value of the scheme's assets at the date of valuation in March 2013 is shown in the following table.

| | Valuation as at 31 March 2013 | |
|---|---|---|
| **ASSET CATEGORY** | **£000** | **%** |
| UK Equities | 147,641 | 29 |
| UK Fixed Interest Gilts | 29,651 | 6 |
| UK Corporate Bonds | 49,265 | 10 |
| UK Index Linked Gilts | 0 | 0 |
| Overseas Equities | 185,764 | 37 |
| Overseas Bonds | 0 | 0 |
| Property | 40,289 | 8 |
| Alternatives (DGF) | 48,355 | 9 |
| Cash & Net Current Assets | 3,089 | 1 |
| **Total Net Assets at Valuation Date** | **504,054** | 100 |

## NOTE P5 ACTUARIAL VALUATION – RESULTS

The results of the last actuarial valuation undertaken as at 31 March 2013 will be summarised in the Actuarial Statement included in the Fund's 2013/14 Annual Report. Employers' contributions are set taking into account the results of the valuation and the Funding Strategy for the Fund, also included in the Annual Report. The key elements in this process are:

**Level of Funding**

The results of the 31 March 2013 valuation indicated that the actuarial value of the available assets of £504.1m (see table above) were sufficient to cover 83.1% of the accrued liabilities to that date.

**Funding Policy**

The Council is required to set employers' contributions rates to the Fund such as to ensure that the Fund is sufficient to meet 100% of its liabilities.

In accordance with the Funding Strategy, employers' contributions to the Fund are being made up over a period of up to 20 years (depending on the actuarial assessment of each employer), to bring the funding level up to a fully solvent position. Additional contributions have been set on an employer-specific basis to achieve this objective.

## NOTE P6 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 IAS19 rather than the assumptions and methodology used for funding purposes.

In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2014, using a valuation methodology that is consistent with IAS19. Although all the financial assumptions used in this exercise have been updated to the reporting date, the principal difference of basis between this and the 2013 triennial "funding valuation" is that the discount rate under IAS19 is based on the 20 year gilt yield plus credit spread (compared to a scheme-specific "risk asset" based rate in the funding valuation). This resulted in a discount rate of 4.5% being used in the IAS19 assessment (compared to 6.1% in the funding valuation).

Other key assumptions employed by the actuary in the calculation are shown below. The estimated impact of the change of assumptions to 31 March 2014 is to decrease the actuarial present value by £9m.

**Financial**

| Year Ended | 31 March 2014 % p.a. | 31 March 2013 % p.a. |
|---|---|---|
| Inflation/Pensions Increase Rate | 2.8 | 2.8 |
| Salary Increase Rate | 3.6 | 5.1* |
| Discount Rate | 4.3 | 4.5 |

* Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

**Longevity**

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Continuous Mortality Investigation (CMI) 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

| | Males | | Females | |
|---|---|---|---|---|
| | **2013/14** | **2012/13** | **2013/14** | **2012/13** |
| Current Pensioners | 22.2 years | 20.1 years | 24.4 years | 22.9 years |
| Future Pensioners* | 24.3 years | 22.0 years | 26.9 years | 24.8 years |

* Future pensioners are assumed to be currently aged 45.

The assumptions have changed since the previous IAS26 disclosure for the Fund.

**Commutation Assumption**

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2014 (along with a prior-year comparator) was:-

| Year Ended | 31 March 2014 £m | 31 March 2013 £m |
|---|---|---|
| Present Value of Promised Retirement Benefits | 704 | 707 |

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. This liability at 31 March 2014 is estimated to comprise £252m in respect of employee members, £177m in respect of deferred pensioners and £275m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. The actuary has not made any allowance for unfunded benefits.

## NOTE P7 CONTRIBUTIONS AND BENEFITS

The following tables analyse contributions and benefits received and paid by the Fund by reference to the different scheme employers:

**Contributions**

| | 2013/14 | | | 2012/13 | | |
|---|---|---|---|---|---|---|
| **Contributions** | **Employers £000** | **Members £000** | **Total £000** | **Employers £000** | **Members £000** | **Total £000** |
| Administering Authority (The Council) | 14,244 | 3,508 | 17,752 | 14,039 | 3,568 | 17,607 |
| Scheduled Bodies | 2,795 | 749 | 3,544 | 2,508 | 664 | 3,172 |
| Admitted Bodies | 2,039 | 524 | 2,563 | 2,209 | 552 | 2,761 |
| **Total Contributions** | **19,078** | **4,781** | **23,859** | **18,756** | **4,784** | **23,540** |

**Benefits**

| Benefits | 2013/14 £000 | 2012/13 £000 |
|---|---|---|
| **Pensions** | | |
| Administering Authority (The Council) | 14,793 | 14,067 |
| Scheduled Bodies | 770 | 573 |
| Admitted Bodies | 1,708 | 1,588 |
| **Total Benefits** | **17,271** | **16,228** |
| **Lump Sum Retirement Benefits** | | |
| Administering Authority (The Council) | 2,326 | 2,474 |
| Scheduled Bodies | 518 | 467 |
| Admitted Bodies | 277 | 370 |
| **Total Benefits** | **3,121** | **3,311** |
| **Lump Sum Death Benefits** | | |
| Administering Authority (The Council) | 106 | 214 |
| Scheduled Bodies | 15 | 141 |
| Admitted Bodies | 146 | 107 |
| **Total Benefits** | **267** | **462** |

## NOTE P8 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

During 2013/14, the Fund paid no bulk transfers and 36 individual transfer values with an aggregate value of £0.954m. This compares to in 2012/13, when the Fund paid one bulk transfer of £3.374m to The Royal Borough of Kingston-upon-Thames in respect of the HR staff transferred to that authority under a “shared service” arrangement. In addition to this sum, 43 individual transfer values with an aggregate value of £2.544m were paid.

## NOTE P9 ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Council is required to offer the facility for Additional Voluntary Contributions (AVCs). These contributions are voluntary and are paid over to the AVC provider for investment on behalf of the members concerned. In accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831), these transactions are not included in the Fund Account or the Net Assets Statement, but details are given in the following table:

| | 31 March 2014 | | 31 March 2013 | |
|---|---|---|---|---|
| | £000 | No. of Members | £000 | No. of Members |
| **Value of Investments** | | | | |
| Clerical Medical | 1,276 | 91 | 1,371 | 98 |
| Equitable Life | 711 | 106 | 735 | 116 |
| **Total** | **1,987** | **197** | **2,106** | **214** |
| **Contributions received from members in year** | **75** | | **83** | |

## NOTE P10 ANALYSIS OF ADMINISTRATION COSTS

The following table provides details of the administrative costs of the Fund.

| Administration Costs | 2013/14 £000 | 2012/13 £000 |
|---|---|---|
| Administration and processing | 288 | 282 |
| Actuarial fees | 126 | 87 |
| Audit fees | 18 | 19 |
| Communications with Fund members | 26 | 26 |
| Other (incl. fees received) | 5 | 6 |
| **Total Administration Costs** | **463** | **420** |

The audit fee payable to the external auditors Grant Thornton is £21,000. The Fund has received a rebate of £2,874 from the Audit Commission.

## NOTE P11 INVESTMENT PRINCIPLES

Local authority pension schemes are required to publish a Statement of Investment Principles (SIP) and to include disclosure of the extent of compliance with the investment principles issued by the government. The Fund's SIP is included in its Annual Report, published later in 2014, in which the Pension Fund accounts will be included.

## NOTE P12 RECONCILIATION OF MOVEMENT IN INVESTMENTS

The following tables reconcile the movements in the Fund's investment assets in the year

**(i) By Manager**

| Manager | Value as at 1 April 2013 £000 | Purchases £000 | Sale proceeds £000 | Profit on Disposal £000 | Change in Market Value £000 | Value as at 31 March 2014 £000 |
|---|---|---|---|---|---|---|
| Baillie Gifford | 48,355 | 27,028 | | | 906 | 76,289 |
| Legal & General | 241,891 | | (16,000) | 7,182 | 7,305 | 240,378 |
| Henderson | 188,478 | 14,161 | (19,775) | 5,104 | 1,623 | 189,591 |
| Schroders | 18,921 | 872 | | | 1,665 | 21,458 |
| LAMIT (property) | 3,320 | | | | 291 | 3,611 |
| | **500,965** | **42,061** | **(35,775)** | **12,286** | **11,790** | **531,327** |
| Cash deposits | 2,862 | | | | | 4,969 |
| **Total assets invested** | **503,827** | | | | | **536,296** |
| Net Current Assets | 227 | | | | | 1,101 |
| **Total Net Assets** | **504,054** | | | | | **537,397** |

| Manager | Value as at 1 April 2012 £000 | Purchases £000 | Sale proceeds £000 | Profit on Disposal £000 | Change in Market Value £000 | Value as at 31 March 2013 £000 |
|---|---|---|---|---|---|---|
| Baillie Gifford | 0 | 45,003 | | | 3,352 | 48,355 |
| Legal & General | 209,876 | | | | 32,015 | 241,891 |
| Henderson | 209,152 | 16,437 | (55,705) | 5,616 | 12,978 | 188,478 |
| Schroders | 18,410 | 947 | | | (436) | 18,921 |
| LAMIT (property) | 3,384 | | | | (64) | 3,320 |
| | **440,822** | **62,387** | **(55,705)** | **5,616** | **47,845** | **500,965** |
| Cash deposits | 3,302 | | | | | 2,862 |
| **Total assets invested** | **444,124** | | | | | **503,827** |
| Net Current Assets | 383 | | | | | 227 |
| **Total Net Assets** | **444,507** | | | | | **504,054** |

In 2012/13 the Fund made an initial investment in the Baillie Gifford Diversified Growth Fund (DGF) representing 10% of the total Fund value. This investment, representing £45m in value, was funded by an equivalent reduction in UK equities (managed by Henderson). In 2013/14, the investment in the DGF was increased by a further 5% of the total Fund value (£26m) again funded from UK equity disposals (managed by L&G). In addition, the value of Global Emerging Markets equities managed by Henderson (approximately £10m) was realised and transferred to L&G. All other transactions shown above were carried out to re-balance to existing benchmark weightings or to re-investment income.

**(ii) By Asset Category**

| Asset Category | Value as at 1 April 2013 £000 | Purchases £000 | Sale proceeds £000 | Profit on Disposal £000 | Change in Market Value £000 | Value as at 31 March 2014 £000 |
|---|---|---|---|---|---|---|
| Unit Trusts - Property | 40,289 | 5,872 | | | 3,526 | 49,687 |
| Unit Trusts - Other | 85,733 | 3,438 | (3,243) | 2,154 | (400) | 87,682 |
| Unitised Insurance Policies | 284,685 | 22,028 | (16,000) | 7,182 | 7,560 | 305,455 |
| OEICs | 90,258 | 10,723 | (16,532) | 2,950 | 1,104 | 88,503 |
| | **500,965** | **42,061** | **(35,775)** | **12,286** | **11,790** | **531,327** |
| Cash deposits | 2,862 | | | | | 4,969 |
| **Total assets invested** | **503,827** | | | | | **536,296** |
| Net Current Assets | 227 | | | | | 1,101 |
| **Total Net Assets** | **504,054** | | | | | **537,397** |

| Asset Category | Value as at 1 April 2012 £000 | Purchases £000 | Sale proceeds £000 | Profit on Disposal £000 | Change in Market Value £000 | Value as at 31 March 2013 £000 |
|---|---|---|---|---|---|---|
| Unit Trusts - Property | 39,260 | 1,447 | | | (418) | 40,289 |
| Unit Trusts - Other | 119,693 | 4,257 | (49,468) | 4,655 | 6,596 | 85,733 |
| Unitised Insurance Policies | 204,447 | 45,003 | | | 35,235 | 284,685 |
| OEICs | 77,422 | 11,680 | (6,237) | 961 | 6,432 | 90,258 |
| | **440,822** | **62,387** | **(55,705)** | **5,616** | **47,845** | **500,965** |
| Cash deposits | 3,302 | | | | | 2,862 |
| **Total assets invested** | **444,124** | | | | | **503,827** |
| Net Current Assets | 383 | | | | | 227 |
| **Total Net Assets** | **444,507** | | | | | **504,054** |

## NOTE P13 INVESTMENT TRANSACTION COSTS

Transaction costs are included in the costs of purchases and sale proceeds and include costs charged directly to the Fund, such as commission, stamp duty and other fees.

The Fund is now invested predominantly in pooled vehicles in which there are no direct transaction costs – these being reflected in the bid/offer prices for units. The only exceptions were in 2012/13 when purchases of secondary property units through Schroders resulted in direct transaction costs of £1k.

## NOTE P14 INFORMATION ON ASSETS UNDER MANAGEMENT

### Summary of investment assets under management

| Type of Asset | Baillie Gifford £000 | L&G £000 | Schroders £000 | Henderson £000 | Total £000 |
|---|---|---|---|---|---|
| | 31 March 2014 | | | | |
| UK Investments – Listed | 76,289 | 132,703 | 21,458 | 106,020 | 336,470 |
| Overseas Investments – Listed | 0 | 107,675 | 0 | 83,571 | 191,246 |
| Cash | 0 | 0 | 104 | 580 | 684 |
| **Total Under Management** | **76,289** | **240,378** | **21,562** | **190,171** | **528,400** |
| Percentage of funds | 14% | 46% | 4% | 36% | 100% |
| Directly held UK investments (LAMIT) | | | | | 3,611 |
| Cash (interest bearing deposits) | | | | | 4,285 |
| Other investment balances - debtors and creditors | | | | | 170 |
| **Total investment assets** | | | | | **536,466** |
| Other net current assets | | | | | 931 |
| **Total Net Assets** | | | | | **537,397** |
| **Analysis of all investments:** | | | | | |
| Total UK Investments (includes directly held LAMIT investment) | | | | | 340,081 |
| Total Overseas Investments | | | | | 191,246 |
| Cash and deposits | | | | | 4,969 |
| Other investment balances - debtors and creditors | | | | | 170 |
| **Total invested** | | | | | **536,466** |

| Type of Asset | Baillie Gifford £000 | L&G £000 | Schroders £000 | Henderson £000 | Total £000 |
|---|---|---|---|---|---|
| | 31 March 2013 | | | | |
| UK Investments – Listed | 48,355 | 147,571 | 18,921 | 97,035 | 311,882 |
| Overseas Investments – Listed | 0 | 94,320 | 0 | 91,443 | 185,763 |
| Cash | 0 | 0 | 109 | 151 | 260 |
| **Total Under Management** | **48,355** | **241,891** | **19,030** | **188,629** | **497,905** |
| Percentage of funds | 10% | 48% | 4% | 38% | 100% |
| Directly held UK investments (LAMIT) | | | | | 3,320 |
| Cash (interest bearing deposits) | | | | | 2,602 |
| Other investment balances - debtors and creditors | | | | | 170 |
| **Total investment assets** | | | | | **503,997** |
| Other net current assets | | | | | 57 |
| **Total Net Assets** | | | | | **504,054** |
| **Analysis of all investments:** | | | | | |
| Total UK Investments (includes directly held LAMIT investment) | | | | | 315,202 |
| Total Overseas Investments | | | | | 185,763 |
| Cash and deposits | | | | | 2,862 |
| Other investment balances - debtors and creditors | | | | | 170 |
| **Total invested** | | | | | **503,997** |

## NOTE P15 STATUS OF INVESTMENTS UNDER MANAGEMENT

This note provides details of the investments held by each manager at 31 March. It gives details of each of the pooled vehicles used by each manager and the percentage that each investment represents of the total of Fund. All fund managers are incorporated and registered in the UK with the exception of Henderson, which is incorporated and registered in Jersey.

The types of pooled vehicles are shown by the following abbreviations:

| | |
|---|---|
| AUT | Authorised Unit Trust |
| PUT | Property Unit Trust |
| UUT | Unauthorised Unit Trust |
| OEIC | Open Ended Investment Company |

### Status of individual investments under management

The three managers with responsibility for the Fund's investments during the relevant period are shown below.

**Henderson Global Investors** Investments are managed by five separate entities and each of these invests in a number of pooled vehicles:

| | Value of Assets Under Investment | | | |
|---|---|---|---|---|
| | 31 March 2014 | | 31 March 2013 | |
| | £000 | % of Fund | £000 | % of Fund |
| **Pooled Investments** | | | | |
| Henderson Investment Funds Limited | | | | |
| UK Equity Enhanced Trust 'Z' (AUT) | 46,797 | 9% | 44,295 | 9% |
| Exempt North American Enhanced Equity 'Z' (UUT) | 40,885 | 8% | 41,437 | 8% |
| | **87,682** | **17%** | **85,732** | **17%** |
| Henderson Strategic Investment Funds | | | | |
| European Enhanced Equity Fund 'Z' (OEIC) | 27,598 | 5% | 24,737 | 5% |
| Japan Enhanced Equity 'I' (OEIC) | 8,829 | 2% | 9,211 | 2% |
| Asia Pacific Ex Japan Enhanced Equity Fund 'I' (OEIC) | 6,259 | 1% | 6,221 | 1% |
| | **42,686** | **8%** | **40,169** | **8%** |
| Henderson Global Funds | | | | |
| Emerging Markets Fund 'I' (OEIC) | 0 | 0 | 9,837 | 2% |
| | **0** | **0** | **9,837** | **2%** |
| Henderson UK & Europe Funds | | | | |
| Henderson UK Gilt Fund 'I' (OEIC) | 16,227 | 3% | 14,330 | 3% |
| Henderson All Stock Credit 'I' (OEIC) | 29,589 | 6% | 25,921 | 5% |
| | **45,816** | **9%** | **40,251** | **8%** |
| Henderson Property Management (Jersey) Limited | | | | |
| UK Property Fund Units (PUT) | 13,407 | 2% | 12,489 | 3% |
| | **13,407** | **2%** | **12,489** | **3%** |
| **Total invested** | **189,591** | **36%** | **188,478** | **38%** |
| Cash | 580 | 0% | 151 | 0% |
| **Total all Henderson Funds** | **190,171** | **36%** | **188,629** | **38%** |

**Legal and General** Investments managed by Legal and General Investment Management Ltd. These are held in two unitised insurance policies providing passive management across the benchmark portfolio allocation.

| | Value of Assets Under Investment | | | |
|---|---|---|---|---|
| | 31 March 2014 | | 31 March 2013 | |
| **Pooled Investments** | £000 | % of Fund | £000 | % of Fund |
| Legal and General Assurance (Pensions Management) Limited | | | | |
| Policy Number 35334-2/000 / 01 (Insurance Policy) | 120,189 | 22% | 120,946 | 24% |
| Policy Number 35336-7/000 / 01 (Insurance Policy) | 120,189 | 22% | 120,945 | 24% |
| **Total invested** | **240,378** | **44%** | **241,891** | **48%** |

**Schroders** Schroder Investment Management Ltd managed pooled property on an active basis.

| | Value of Assets Under Investment | | | |
|---|---|---|---|---|
| | 31 March 2014 | | 31 March 2013 | |
| | £000 | % of Fund | £000 | % of Fund |
| **Pooled Investments** | | | | |
| Schroder Property Investment Management Limited | | | | |
| Schroder Exempt Property Unit Trust (PUT) | 21,458 | 4% | 18,921 | 4% |
| **Total invested** | **21,458** | **4%** | **18,921** | **4%** |
| Cash | 104 | 0% | 109 | 0% |
| **Total all Schroders Funds** | **21,562** | **4%** | **19,030** | **4%** |

**Baillie Gifford** Investments comprising a "Diversified Growth Fund" are managed by Baillie Gifford & Co, held in an insurance policy.

| | Value of Assets Under Investment | | | |
|---|---|---|---|---|
| | 31 March 2014 | | 31 March 2013 | |
| **Pooled Investments** | £000 | % of Fund | £000 | % of Fund |
| Baillie Gifford Life Limited Diversified Growth Fund "P Class" (Insurance Policy) | 76,289 | 14% | 48,355 | 10% |
| **Total invested** | **76,289** | **14%** | **48,355** | **10%** |

## NOTE P16 VALUATION OF FUNDS UNDER MANAGEMENT

The Code requires investments to be valued at their Fair Value basis. Where there is an active market for a particular investment, the bid price is usually the appropriate quoted price to represent the fair value of that investment. The following paragraphs describe the valuation basis used. Also noted is a categorisation of the Fund's investments according to the "fair value hierarchy" described in Statement of Financial Accounting Standards (FAS) 157.

Henderson Global Investors ("HGI") (excluding property) (Level 1)

The equity and bond investments managed by HGI are represented at mid-value less a percentage "liquidation fee" (now termed a "swing rate") issued by the manager, broadly reflecting the "mid-to-bid" margin for the relevant asset class. The closing prices (and "swing rates") issued by HGI are not quoted on any independent pricing services (such as Bloomberg), although mid-day prices for the majority of the HGI pooled vehicles held by the Fund are quoted on such sources.

L&G (excluding property) (Level 1)

Investments with L&G are held via two insurance policies. Under this arrangement, which is the conventional form of UK passive fund management, the surrender value of the policy is directly linked to underlying units in L&G's index-tracking funds, held (and maintained) in proportion to the policy holder's required asset distribution. The policy holder has no title to or direct beneficial ownership of either the units or underlying physical securities, which are the property of L&G. The policy values have been shown in the accounts in accordance with the bid values of the reference units issued by L&G, representing the effective surrender value of the policy. The unit prices are not quoted on any independent pricing services.

Property Investments (including Henderson L&G and Schroders) (Level 2)

All the Fund's unitised property investments are represented at the latest available bid value issued by the funds according to their respective pricing conventions, and these prices are quoted on independent pricing services.

Baillie Gifford (Level 2)

The Baillie Gifford Diversified Growth Fund is "single priced" at "offer" level, although swing rates representing the margins "offer-to-mid" and "mid-to-bid" (based on daily funds flows) are issued by the manager. As noted above, under the insurance structure, the surrender value of the policy is directly linked to underlying units while the policy holder has no title to or direct beneficial ownership of either the units or the underlying assets. For consistency with the reporting of the Fund's investments generally, the offer price adjusted to the bid level of the reference units is shown in the accounts as representing the effective surrender value of the policy. The unit prices are not quoted on any independent pricing services.

## NOTE P17 RESTRICTIONS AFFECTING THE REALISATION OF INVESTMENTS

There were no formal restrictions affecting the ability of the Fund to realise its investments at their carrying value at year-end. However, in common with most, if not all property-related pooled vehicles, it is likely that a delay would arise in the event of the Fund realising its holdings in any of the property investments, if actual disposals were required within the relevant pooled vehicle.

## NOTE P18 INFORMATION ON ASSETS DIRECTLY HELD

In addition to funds under the management of fund managers, the Fund directly holds 1,485,701 units in the Local Authorities Property Fund (LAPF). This is a property unit trust to which the trustee is the Local Authorities Mutual Investment Trust (LAMIT), responsible for the appointment of the property manager, CCLA Investment Management Limited. In common with the Fund's other property assets, this investment is regarded as "Level 2" under FAS 157.

| | 31 March 2014 | | 31 March 2013 | |
|---|---|---|---|---|
| | £000 | % of Fund | £000 | % of Fund |
| LAMIT Local Authorities Property Fund (PUT) | 3,611 | 1% | 3,320 | 1% |

There were no purchases or sales in these units by the Fund during 2013/14 or 2012/13. The fund assets are valued by surveyors appointed by the trustee managers of the trust and the units are carried in the Balance Sheet at bid price, reflecting their fair value.

There were no restrictions affecting the ability of the Fund to realise its investments at their carrying value at year-end.

## NOTE P19 ANALYSIS OF INVESTMENT MANAGEMENT COSTS

This table shows the fees due to each manager for the relevant financial year. Management fees are calculated as a percentage of assets under management, and so will vary with the market value of investments.

| | 2013/14 £000 | 2012/13 £000 |
|---|---|---|
| Investment management expenses: | | |
| Investment managers' fees | 1,183 | 966 |
| Custodian Fees | 5 | 5 |
| Investment advisor's fees | 35 | 30 |
| Performance Measurement Fees | 17 | 15 |
| | **1,240** | **1,016** |

## NOTE P20 FINANCIAL INSTRUMENTS

## NOTE P20a CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

| | Designated as fair value through P/L | | Loans and receivables | | Financial Liabilities at Amortised Cost | |
|---|---|---|---|---|---|---|
| | 31 March 2014 £000 | 31 March 2013 £000 | 31 March 2014 £000 | 31 March 2013 £000 | 31 March 2014 £000 | 31 March 2013 £000 |
| **Financial Assets** | | | | | | |
| Unit Trusts – Property | 49,687 | 40,289 | 0 | 0 | 0 | 0 |
| Unit Trusts – Other | 87,682 | 85,733 | 0 | 0 | 0 | 0 |
| Unitised Insurance Policies | 305,455 | 284,685 | 0 | 0 | 0 | 0 |
| Open Ended Investment Companies (OEICS) | 88,503 | 90,258 | 0 | 0 | 0 | 0 |
| Cash | 0 | 0 | 4,969 | 2,862 | 0 | 0 |
| Debtors | 0 | 0 | 2,115 | 1,507 | 0 | 0 |
| **Total** | **531,327** | **500,965** | **7,084** | **4,369** | **0** | **0** |
| **Financial Liabilities** | | | | | | |
| Creditors | 0 | 0 | 0 | 0 | 1,014 | 1,280 |
| **Total** | **0** | **0** | **0** | **0** | **1,014** | **1,280** |

## NOTE P20b NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The only financial instruments which incurred a gain or loss in year were the Fund's investments which are valued at fair value with through the Fund Account.

| Financial Assets | 31 March 2014 £000 | 31 March 2013 £000 |
|---|---|---|
| Fair value through profit and loss | 24,076 | 53,461 |

## NOTE P20c FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

All of the Fund's investments at 31 March 2014 and 31 March 2013 had a carrying value that was identical to the fair value (i.e. where relevant, all investments were "marked to market" on a continuous basis). Changes in market value have been recognised in the Fund Account for the relevant year.

## NOTE P20d VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The Fund's non-cash investments are made via pooled investments, and the Fund does not directly own any of the underlying assets. The valuation of these instruments is derived from valuation techniques using inputs based significantly on observable market data (e.g. the values of the underlying assets in the pooled vehicle).

## NOTE P21 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund invests in three principal asset classes, equities, bonds and property, each of which is held primarily with a view to their long-term return characteristics.
In a long-term context, three principal categories of investment-related risk are identified.

Benchmark: the risk that the chosen benchmark will give rise to asset value fluctuations that are largely uncorrelated with fluctuations in liabilities.

Portfolio: the risk that the Fund performs poorly relative to the chosen benchmark.

Operational: the risk of fraud and breaches of regulatory constraints.

In current terminology, benchmark and portfolio risk are collectively referred to as market risk and typically analysed in terms of constituent elements such as price, interest rate and currency risk. Given the nature (and relative simplicity) of the Fund's investment structure, however, it is still considered appropriate to comment in this area principally in terms of benchmark (strategic) risk and portfolio (implementation) risk, whilst acknowledging the constituent elements referred noted above.

The Fund accepts and acknowledges a significant degree of benchmark risk entailed by its 62.5% equity weighting. In determining the Fund's asset allocation, the following considerations were taken into account:-

(i) the long-term investment horizon of the Fund;

(ii) the lower cost of pension provision associated with anticipated long-term equity returns;

(iii) the potential of real assets (such as equities and property) to match the effect of future increases in pension liabilities arising from inflation and pay growth.

It is recognised that in adopting a benchmark in which equities are the dominant asset class, the Fund is exposed to significant volatility, both in the short-term and in terms of longer-term potential outcome. This volatility encompasses both the absolute value of the investment fund and its value relative to the liabilities of the Fund.

From analysis provided by the Fund's independent performance measurers, WM, based on data as at 31 March 2014 it is recognised that Fund's benchmark has an expected annual volatility (exclusive of currency risk) of just over 8%. (In this context, volatility represents one standard deviation i.e. the range within which approximately two-thirds of annual outcomes will fall. This is not, therefore, the most likely outcome but rather a relative measure of volatility.) In monetary value terms, based on the Fund's market value at 31 March 2014, the expected price volatility represented around £45m. The tables below detail the expected volatility of the fund's investments (by asset class), in % and monetary terms.

Value as at 31 March 2014 :

| Asset type | Value as at 31 March 2014 | Percent-age Change | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK Equities | 125,335 | 12.4% | 140,839 | 109,831 |
| Overseas Equities | 191,246 | 11.9% | 213,909 | 168,583 |
| UK Government Bonds | 33,281 | 5.5% | 35,115 | 31,447 |
| UK Corporate Bonds | 55,489 | 5.4% | 58,468 | 52,509 |
| Cash | 4,969 | 0.0% | 4,970 | 4,968 |
| Property | 49,687 | 1.8% | 50,556 | 48,817 |
| Alternatives (DGF) | 76,289 | 4.5% | 79,722 | 72,856 |
| Total Assets Invested* | 536,296 | 8.4% | 581,237 | 491,354 |

For comparison, the value as at 31 March 2013 was :

| Asset type | Value as at 31 March 2013 | Percent-age Change | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000 | % | £000 | £000 |
| UK Equities | 147,641 | 13.1% | 166,997 | 128,286 |
| Overseas Equities | 185,764 | 12.8% | 209,504 | 162,023 |
| UK Government Bonds | 29,651 | 5.5% | 31,282 | 28,020 |
| UK Corporate Bonds | 49,265 | 4.8% | 51,604 | 46,925 |
| Cash | 2,862 | 0.0% | 2,862 | 2,862 |
| Property | 40,289 | 1.3% | 40,808 | 39,769 |
| Alternatives (DGF) | 48,355 | 4.5% | 50,531 | 46,179 |
| Total Assets Invested* | 503,827 | 9.1% | 549,574 | 458,079 |

* The % change for Total Assets includes the impact of correlation across asset classes and is therefore different to the sum of the individual cash variances shown for each asset class.

Portfolio risk is controlled via the adoption of asset allocation ranges and the explicit monitoring of quarterly performance relative to the benchmark return. In “investment style” terms, the Fund seeks to mitigate the potential for variance to benchmark indices by managing the majority of its assets (and all equity investments) on either a fully passive or “enhanced index” basis (the latter targets 75bps index outperformance with an emphasis on low tracking error relative to conventional active management). At 31 March 2014, around 53% of fund assets were managed on a fully passive basis, 14% within “enhanced index” vehicles and 33% (comprising property, cash and approximately half of the Fund’s bond investments) on an “active” basis.

Operational risk is controlled primarily by the audit and compliance functions maintained by the fund managers, supervised by the Council’s Internal Audit and Risk Management section. The Council relies primarily on the annual AAF 01/06 (or SAS 70) reporting framework on fund managers’ internal controls as evidence of their risk management mechanisms, but recognises that this is provided to clients for information purposes only by the reporting auditor.

Liquidity Risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund has a 1% target benchmark allocation to cash and immediate access to all balances held. In the event of it being required, the Fund has overdraft facilities and an ability to borrow funds on a short-term basis from the Administering Authority (subject to the relevant provisions of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009). In general, the Fund’s pooled investment assets have good liquidity, based on daily, weekly or monthly dealing. In exceptional market circumstances, liquidations in the Fund’s pooled property investments can be suspended (at the managers’ discretion), but this is not considered to materially impact the Fund’s overall liquidity.

The Fund currently remains cash-flow positive in its regular dealings with members and plans in advance for exceptional funds outflows e.g. bulk transfers. This situation is unlikely to change in the short term. However, it is possible that changes to the structure of the Council (as single largest employer) could impact this position. The Fund’s liquidity is reviewed regularly and officers will ensure policies were in place to ensure liquidity if monitoring suggests there is a risk of this position changing.

Interest Rate Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund’s direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset type | Value as at 31 March 2014 | Value as at 31 March 2013 |
|---|---|---|
| | £000 | £000 |
| UK Government Bonds | 33,281 | 29,651 |
| UK Corporate Bonds | 55,489 | 49,265 |
| Cash and Cash Equivalents | 4,969 | 2,862 |
| Total | 93,739 | 81,778 |

Credit Risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge and obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for the carrying value of the Fund's financial assets and liabilities. The Fund's benchmark cash allocation is invested under a Treasury Management Policy adopted by the Pension Fund Committee in February 2011 which reflects the Council's own Policy and Strategy (subject to their being a separate maximum £5m counterparty limit for any cash investment.). The Fund's maximum exposure to credit risk as conventionally understood is detailed in the above table. The Fund's investments in corporate bonds are in two pooled vehicles predominantly comprising investment-grade securities. At 31 March 2014, around 97% of the Fund's total corporate bond investments (by value) were at grade BBB or higher. The distribution of the Fund's credit exposure by manager is shown in the tables below.

| Credit Rating | % as at 31 March 2014 | % as at 31 March 2013 |
|---|---|---|
| Henderson Global Investors | | |
| AAA | 11.3 | 23.0 |
| AA | 11.5 | 8.4 |
| A | 32.1 | 37.0 |
| BBB | 38.3 | 29.9 |
| BB | 3.9 | 0.0 |
| B | 0.4 | 0.0 |
| Other | 2.5 | 1.7 |
| Legal & General | | |
| AAA | 19.0 | 23.7 |
| AA | 16.9 | 13.7 |
| A | 32.0 | 34.4 |
| BBB | 32.1 | 28.2 |

Other risks: the Fund recognises and accepts currency risk (i.e. additional volatility to base currency) associated with the 34.5% of Fund assets denominated in currencies other than sterling. Additional WM analysis (again based on data as at the reporting date) indicates that the non-sterling element of the portfolio has an expected annual volatility of around 5% (£10m in value terms), or around 2% in terms of the Fund as a whole (the same figure as for the previous year).

## NOTE P22 MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Pension Fund is a separate entity from the Council with its own Fund Account and Net Assets Statement. The following material transactions took place between the Council and the Pension Fund:

| | 2013/14 £000 | 2012/13 £000 |
|---|---|---|
| **Income:** | | |
| Pension Contributions from the Council (employer's contributions) | (14,244) | (14,039) |
| Pension Contributions from employees (deductions paid over) | (3,508) | (3,568) |
| **Total Income** | **(17,752)** | **(17,607)** |
| **Expenditure:** | | |
| Indirect support costs provided by the Council | **288** | **282** |

Additionally, the Council's Director of Finance & Corporate Services, Mark Maidment, acts in the capacity of Treasurer to the South West Middlesex Crematorium Board (SWMCB), one of the

Fund's admitted employers. In 2013/14, SWMCB paid over employer's contributions of £64k and employees' contributions of £17k to the Fund.

Of the five Councillors who sat on the Pension Fund Committee in 2013/14, 2 were members of the LGPS (under the provisions permitting elected members' allowances to be pensionable) during the reporting period; however, as of 25 May 2014, Councillor membership of the LGPS within this authority ceased completely, in accordance with the provisions of section 26 of The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

Management Remuneration
Mark Maidment, Director of Finance & Corporate Services, is employed by the Council as administering authority to the Fund and performs a similar management function for both the Council and the Fund, attending the Pension Fund Committee and exercising the most senior level of control delegated by that body. He is included within the scope of Note 33 in the Council's main Statement of Accounts covering Officers' Remuneration. It is not possible accurately to apportion the element of that remuneration that relates to Pension Fund duties carried out.

## NOTE P23 CONTINGENT ASSETS AND LIABILITIES

Apart from future pension and benefit liabilities, the Pension Fund had no contingent assets or liabilities as at 31 March 2014.

## NOTE P24 EVENTS AFTER THE REPORTING DATE

The value of the Fund's investment assets has increased by £14.1m (2.6%) from 31 March to 31 July 2014.

From 1 April 2014, the LGPS became a CARE scheme for the purposes of pension entitlements accrued from that date (subject to limited transitional arrangements for those approaching retirement). Associated with this was a change in the annual accrual rate from 1/60 of final salary to 1/49 of actual pay, revalued by CPI. Other benefit entitlements also changed with the introduction of the new scheme.

The accounts for the Pension Fund are authorised for issue on the date that the Statement of Responsibilities for these accounts was signed.

## STATEMENT OF RESPONSIBILITIES

### Responsibilities of the Council

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance and Corporate Services;
- Manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets;
- Approve the Council's Accounts, including those of the Pension Fund.

### Responsibilities of the Director of Finance and Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Accounts, including those of the Pension Fund, in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in United Kingdom (the Code).

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

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

The Director of Finance and Corporate Services has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities;
- Ensured the Pension Fund Accounts give a true and fair view of the financial transactions during the year ended 31st March 2014, and the amount and disposition of the Fund's assets and liabilities as at 31st March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### Certificate

I certify that the Accounts of the Pension Fund give a true and fair view of the financial transactions of London Borough of Richmond upon Thames Pension Fund during the year ended 31st March 2014, and the amount and disposition of the Fund's assets and liabilities as at 31st March 2014.

**Mark Maidment**
**Director of Finance and Corporate Services**
**3rd September 2014**

## CERTIFICATE OF APPROVAL

These financial statements were approved by the Pension Fund Committee on 3rd September 2014.

**Councillor Geoff Acton**
**Chairman, Pension Fund Committee**
**3rd September 2014**

**Date authorised for issue:** This statement of accounts is authorised for issue on 3rd September 2014, and any events up to this date are reflected in the note on events after the balance sheet date – see Note P24.

## INDEPENDENT AUDITOR'S REPORT IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT

### Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Richmond upon Thames for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Richmond upon Thames in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Services Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Emily Hill
Associated Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
London NW1 2EP

September 2014

# GLOSSARY OF TERMS

Active: describes an investment approach designed to add value (often referred to as “alpha”) relative to a specified benchmark index.

Annualised: a formula-derived way of expressing a series of disparate, consecutive annual returns as single (annual) return yielding the same aggregate return if applied to the entire period. Allows series of variable annual returns to be easily compared.

Asset Allocation: [1] strategic asset allocation is the mix of equities, bonds, property (and potentially other asset classes) deemed to be appropriate to the Fund’s return objective, investment horizon and risk appetite, comprising the Fund’s investment benchmark (definition 1); [2] tactical asset allocation is the short-term, discretionary movement away from an asset’s central benchmark weighting (usually within defined limits), designed to add value based on a prediction of (short-terms) relative returns.

Asset Ranges: parameters limiting the maximum permitted divergence from the central benchmark asset weightings.

Benchmark: [1] the % allocation of the investment fund to different asset types; [2] the index used as a proxy or comparator for the performance of the asset type e.g. FTSE All-Share; [3] the quantitative performance of either the composite benchmark or individual components. Generally, although the term is used interchangeably in the above contexts, it essentially implies the Fund’s long-term or strategic asset allocation, set by reference to factors such as the Fund’s liability profile, funding level, risk appetite and capacity to absorb volatility.

Bond: a fixed interest security issued either by a sovereign government or a company (a "corporate" bond), whose value is broadly related to the prevailing interest rate for the maturity period and (especially in the case of corporate bonds) the perceived credit-worthiness of the issuer.

Custodian: the party providing safekeeping and servicing of the investment assets of the Fund. Functions typically include: physical or electronic custody of securities; holding cash; processing settlement instructions; receiving income; reclaiming tax; processing voting instructions and corporate actions. Historically, custody was usually provided by (or via) a fund manager, but is now more commonly obtained as a separate service. The fund manager and custodian will establish reporting lines between themselves so that data required for carrying out instructions and maintaining records can be exchanged. Where custody is obtained separately, funds will typically employ a single “global” custodian for all the Fund’s assets. The use of an independent custodian is generally helpful when changing fund managers, as “physical transfer” of assets is not (necessarily) required.

Derivative: a generic term applied to an instrument whose value is referenced to a specific index, stock or rate etc.

Equity: a security conferring ownership of a company (and usually voting rights) whose price is broadly related to the market’s perception of company's underlying value.

Forward Currency Contract: an agreement to buy or sell currency at a future date at a price specified at the inception of the contract (used to protect against potential currency-related losses when holding non-sterling investment assets).

AAF 01/06 Report (or SAS 70 Report): an annual report on the efficacy of internal control procedures issued by "investment custodians" (which includes fund managers for this purpose). The report is produced for the directors of the investment custodian by an appointed auditor, for the use of the investment custodian's clients (and the clients' auditors). (The terms under which the report is issued usually seek to limit the reporting firm's liability to third parties using the report.) The principal purpose of the report is to serve in lieu of individual client audits of managers' internal controls, and the inevitable duplication thereby entailed.

Fund Manager (also Asset / Investment Manager): directly responsible for managing the investment assets of the Fund. At its narrowest definition, fund management covers only "front office" functions such as stock selection and execution, but "back office" functions such as portfolio administration and accounting, client reporting, compliance and settlement, and potentially also custody services may be provided (usually by a third party) as part of a fund management contract.

Funding Strategy Statement: a document statutorily required to be published (and updated) by LGPS Administering Authorities setting out the Fund's approach to meeting its long-term liabilities, encompassing policies with regard to both investment strategy and contributions.

Index-Linked: linked to the RPI (Retail Price Index).

Investment Horizon: the period over which an investor expects / requires and particular investment strategy to deliver its expected return. Generally, a longer investment horizon disposes an investor toward less liquid and / or more volatile asset classes.

Investment Strategy: the general term for the whole approach of a fund toward investment matters (although by implication broadly its long-term approach), encompassing its strategic asset allocation and implementation in terms of manager structure.

Investment Management Agreement ("IMA"): the term commonly used to describe a fund management contract. May also cover the provision of related services where these are provided. Typically consists of a set of generic terms and conditions (often "industry standard"), preceded by a set of client-specific provisions.

LAMIT: the Local Authorities' Mutual Investment Trust is the trustee body to the Local Authorities' Property Fund ("LAPF"), a balanced Property Unit Trust invested in exclusively by local authorities. The LAPF is managed by CCLA Investment Management Limited.

LBRUT: an abbreviation for 'London Borough of Richmond Upon Thames' that is used as an alternative to the term 'Council'.

Liquidity: [1] cash; [2] a measure of the ease with which an investment can be bought or sold, especially the extent to which market price may be impacted by a given volume of transactions.

LGPS Investment Regulations: formerly based on SI 1998 No. 1831 (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998) (as amended), now based on SI 2009 No. 3093 (The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009), the statutory regulations covering the permitted investments of LGPS funds.

Myners' Report: a report commissioned by the Treasury (and published in 2001) to examine perceived weaknesses in the practice of institutional investment in the UK. Now updated represented (in an LGPS context) by the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”.

Passive (also Index and Index-Tracking): a non-discretionary form of asset management designed to replicate in portfolio terms the composition of a specified index and thereby obtain a return very close to that of the index itself.

Peer Group: in benchmark context, refers to the practice of constructing a benchmark from the collective returns and asset allocations of a group of similar funds. The WM Local Authority Universe is an example of a peer group benchmark. The practice of using a peer group benchmark as a fund’s official benchmark (as opposed to a secondary comparator) is now far less common than it once was, with fund-specific (or customised) benchmarks being much more common.

Pooled Investments (also Pooled Vehicles): collective investment schemes such as authorised unit trusts, Open Ended Investment Companies (“OEICs”) and Pension Fund Pooling Vehicles (“PFPVs”), whereby a unitised, pro-rata holding in a pool of assets under uniform management is held by the client. Pooled vehicles are generally used where they provide efficiency advantages in obtaining exposure to a diverse range of underlying assets.

Pooled Multi-Asset: this term is used to describe a pooled investment vehicle itself including multiple asset classes, often (but not exclusively) those defined as “alternative” e.g. commodities, infrastructure. An example of such the investment held by the Fund with Baillie Gifford & Co, although this particular vehicle is described by the manager as a “diversified growth fund”.

Opportunity Cost: the cost of foregoing a potential alternative course of action.

Performance Objective: generally, the degree of outperformance of a specified benchmark (over a given period) required of an active investment approach.

Risk-free: a comparative term, usually denoting the return available from the lowest risk investments such as cash and government bonds.

Segregated: the direct holding of a security by its owner, with no intermediation i.e. the default alternative to “pooled”.

Stock Selection: the element of relative return derived from holding stocks in weightings divergent from that of benchmark index.

Transaction Costs: costs incurred in trading securities which, other things being equal, detract from the return obtained by the Fund. These can be “explicit” e.g. brokerage, stamp duty, levies etc or “implicit” e.g. the movement in the price of a stock (especially if relatively illiquid) effected by the transaction(s).

Trustee: an individual (or body) with fiduciary responsibility for a Pension Fund. Does not apply within the LGPS (which is a statutory fund) but “trustee” is used in many contexts interchangeably to denote those with oversight of LGPS funds e.g. elected members.

Value: a particular active investment style focussing of the “fundamental value” of a security and seeking above all to avoid overpaying relative to this. Tends to place less emphasis than many other approaches on “macro” factors unrelated to the stock itself.

Volatility: the propensity of a stock, index or similar to fluctuate in value.

# ALTERNATIVE FORMATS

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44 York Street
Twickenham
Middlesex
TW1 3BZ

**Nese keni veshtersi per te kuptuar kete botim, ju lutemi ejani ne recepcionin ne adresen e shenuar me poshte ku ne mund te organizojme perkthime nepermjet telefonit.**

এই প্রকাশনার অর্থ বুঝতে পারায় যদি আপনার কোন সমস্যা হয়, নিচে দেওয়া ঠিকানায় রিসেপ্‌শন-এ চলে আসুন যেখানে আমরা আপনাকে টেলিফোনে দোভাষীর সেবা প্রদানের ব্যবস্থা করতে পারবো।

إذا كانت لديك صعوبة في فهم هذا المنشور، فنرجو زيارة الإستقبال في العنوان المعطى أدناه حيث بإمكاننا أن نرتب لخدمة ترجمة شفوية هاتفية.

**اگر در فهمیدن این نشریه مشکل دارید، لطفا به میز پذیرش در آدرس قید شده در زیر رجوع فرمایید تا سرویس ترجمه تلفنی برایتان فراهم آورده شود.**

જો તમને આ પુસ્તિકાની વિગતો સમજવામાં મુશ્કેલી પડતી હોય તો, કૃપયા નીચે જણાવેલ સ્થળના રિસેપ્શન પર આવો, જ્યાં અમે ટેલિફોન પર ગુજરાતીમાં ઇન્ટરપ્રિટીંગ સેવાની ગોઠવણ કરી આપીશું.

ਜੇਕਰ ਤੁਹਾਨੂੰ ਇਸ ਪਰਚੇ ਨੂੰ ਸਮਝਣ ਵਿਚ ਮੁਸ਼ਕਲ ਪੇਸ਼ ਆਉਂਦੀ ਹੈ ਤਾਂ ਹੇਠਾਂ ਦਿੱਤੇ ਗਏ ਪਤੇ ਉੱਪਰ ਰਿਸੈਪਸ਼ਨ 'ਤੇ ਆਓ ਜਿੱਥੇ ਅਸੀਂ ਟੈਲੀਫ਼ੋਨ ਤੇ ਗੱਲਬਾਤ ਕਰਨ ਲਈ ਇੰਟਰਪ੍ਰਿਟਰ ਦਾ ਪ੍ਰਬੰਧ ਕਰ ਸਕਦੇ ਹਾਂ।

اگر آپ کو اِس اشاعت کو سمجھنے میں کوئی مشکل ہے تو، براہِ کرم نیچے دیئے ہوئے ایڈریس کے استقبالیے پر جا کر ملیئے، جہاں ہم آپ کیلئے ٹیلیفون انٹرپریٹینگ سروس (ٹیلیفون پر ترجمانی کی سروس) کا انتظام کر سکتے ہیں۔