

Pensions Sub-Committee

Agenda

Wednesday 25 November 2015
7.00 pm
Committee Room 3 - Hammersmith Town Hall

MEMBERSHIP

Administration:	Opposition
Councillor Iain Cassidy (Chair) Councillor PJ Murphy Councillor Guy Vincent	Councillor Michael Adam Councillor Nicholas Botterill

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http://www.lbhf.gov.uk/Directory/Council_and_Democracy

Members of the public are welcome to attend. A loop system for hearing impairment is provided, along with disabled access to the building.

Date Issued: 17 November 2015

Pensions Sub-Committee Agenda

25 November 2015

<u>Item</u>		<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING		1 - 8
	(a) To approve as an accurate record and the Chair to sign the minutes of the meeting held on 9 September 2015.	
	(b) To note the outstanding actions.	
2. APOLOGIES FOR ABSENCE		
3. DECLARATIONS OF INTEREST		
	If a Committee member has any prejudicial or personal interest in a particular item they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.	
	At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken unless a dispensation has been obtained from the Standards Committee.	
	Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.	
4. PENSION FUND QUARTERLY UPDATE PACK		9 - 80
	This report presents the Pension Fund quarterly update pack for the quarter ending 30 September 2015.	
5. PENSIONS BOARD AND TRAINING UPDATE		81 - 88
	This report presents an update on the recently established Pensions Board.	
6. PENSION FUND LONG TERM CASHFLOW		89 - 93
	The Fund's short term cashflow requirements are monitored on a quarterly basis to ensure there is sufficient cash to meet all benefit payments. This report looks further ahead and forecasts cashflows to 2020.	

- 7. SCHEME ADVISORY BOARD KEY PERFORMANCE INDICATORS** 94 - 105
- This report presents an update on the Scheme Advisory Board, which has developed a number of key performance indicators to enable it to identify any LGPS Funds causing concern.
- 8. DATE OF THE NEXT MEETING**
- The next meeting of the Pensions Sub-Committee will take place on 16 March 2016.
- 9. EXCLUSION OF THE PUBLIC AND PRESS**
- The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.
- 10. EXEMPT MINUTES OF THE PREVIOUS MEETING** 106 - 110
- To approve as an accurate record and the Chair to sign the minutes of the exempt discussion at the meeting held on 9 September 2015.
- 11. PASSIVE EQUITY INVESTMENT** 111 - 132
- This report presents an update on the passive equity investments.
- 12. INVESTMENT STRATEGY** 133 - 157
- The Sub-Committee is asked for its views on the next steps of the Pension Fund Investment Strategy.

London Borough of Hammersmith & Fulham

Pensions Sub- Committee Minutes



Wednesday 9 September 2015

PRESENT

Committee members: Councillors Michael Adam, Iain Cassidy (Chair), PJ Murphy and Guy Vincent.

Officers: David Hodgkinson (Assistant City Treasurer), Ibrahim Ibrahim (Assistant Committee Coordinator), Neil Sellstrom (Interim Head for Pensions Shared Service) and Nicola Webb (Pension Fund Officer).

External: Kevin Humpherson (Deloitte) and Alistair Sutherland (Deloitte).

15. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the minutes of the meeting held on 24 June 2015 were agreed as a correct record and signed by the Chair.

16. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Nicholas Botterill.

Apologies for lateness were received from Councillors Michael Adam and Guy Vincent.

17. DECLARATIONS OF INTEREST

There were no declarations of interest.

18. PENSION FUND QUARTERLY UPDATE REPORT

The Committee received an update on the Pension Fund for the quarter ending 30 June 2015.

Barnet Waddingham Quarterly Update Report

Nicola Webb (Pension Fund Officer) drew Members attention to page 44; appendix 3 of the report. The report showed an increasing employer

contribution rate and an increase to the funding level. The Fund Actuary confirmed that this was attributed to the following:

- Since the last triennial valuation in 2013, the assets have grown more quickly than the liabilities and so the funding level improved from 83% to 87%.
- Reduction in the indicative deficit funding element of the employer contribution rate from 8.3% to 7.8% at 30 June 2015.
- Reduction in the discount rate to 5.5% leading to an increase in the indicative employer contribution rate required to fund future benefits.

Nicola Webb confirmed that the Fund Actuary would be revisiting the Fund's contribution rate as part of a detailed analysis as at 31 March 2016. However, Members still shared concerns of a further increase to the employer contribution rate in light of a reduction in the discount rate. In response, Neil Sellstrom agreed to request a detailed explanation from the Fund Actuary.

ACTION: Neil Sellstrom, Interim Head of Pension Shared Services

Cashflow Monitoring: April 2015 to June 2015

Nicola Webb drew Members attention to page 45; appendix 4 of the report, which set out the cashflow monitoring. The forecast showed that that the Fund was forecast to be overdrawn by November 2015 without additional monies. It was proposed that £5m be transferred from the £30m held in the LGIM Sterling Liquidity Fund to cover the overdraft. It was reported that officers would present a proposal to deal with the long-term cash flow position for the next meeting of the Sub-Committee in November 2015.

ACTION: Nicola Webb, Pension Fund Officer

Pension Fund Risk Register

Nicola Webb drew Members attention to page 47; appendix 5 of the report, which showed the risk register. It was noted that there had been three changes to the register since the previous quarter regarding operational governance and administration. It was additionally noted that the Pensions Board held its first meeting prior to the statutory deadline on 30 July 2015.

In light of the Council's transition to BT Managed Services, Members were concerned that risk item number 18 on page 55; appendix 5 of the report, was described as a medium risk. In addition, there was similar concern regarding risk number 23 on page 57; appendix 5 of the report as this was rated as a 'very low' risk. Nicola Webb agreed to refer these concerns to Hitesh Jolapara (Director for Finance) and Debbie Morris (Bi-Borough Director for HR).

ACTION: Nicola Webb, Pension Fund Officer

Budget Announcement: Future Consultation

Neil Sellstrom (Interim Head of Pension Shared Services) drew Members attention to page 59; appendix 7 of the report. The Department for Communities and Local Government (DCLG) were preparing a Consultation, which would be issued by November 2015 that would seek proposals from LGPS Funds to reduce costs, without impacting on investment returns. It was noted that the Government welcomed moves to participate in national frameworks for procurement as well as participation in the London Collective Investment Vehicle (CIV).

RESOLVED –

THAT, £5m is withdrawn from the LGIM Sterling Liquidity Fund and paid into the Pension Fund current account to cover pension payments.

19. PENSION FUND ANNUAL REPORT AND ACCOUNTS

Nicola Webb introduced the report as set out on pages 60 – 62 of the report. The Local Government Pension Scheme regulations require the Pension Fund to prepare and publish an annual report by 1 December every year. It was reported that CIPFA had used new guidance when preparing the management expenses as set out on page 98; appendix 1 of the report. However, Members requested a 'like for like' comparison to be included as part of the management expenses section of the annual report.

ACTION: Nicola Webb, Pension Fund Officer

RESOLVED –

(a) THAT, the Pension Fund Annual Report 2014/15 be approved, subject to final audit sign-off.

(b) THAT, the Pension Fund Accounts for 2014/15 be noted, pending approval at the Audit, Pensions and Standards Committee on 15 September 2015.

20. PENSION BOARD UPDATE

Nicola Webb provided Members an update following the establishment and first meeting of the Pension Board on 30 July 2015. Nicola Webb drew Members attention to page 122 of the report, which showed the Board membership. It was noted that a joint meeting of the Pensions Sub-Committee and Pensions Board had been arranged for 16 September 2015 to discuss how they wanted to work together and to discuss their training needs

RESOLVED –

THAT, the report be noted.

21. LONDON CIV UPDATE

Neil Sellstrom provided Members an update on the London CIV. It was reported that the London CIV was in the final stages of obtaining regulatory approval before it was able to be operational and take investments and that a further £25,000 contribution was required to fund this set up. It was additionally reported that a capital sum of £150,000 per London Borough was required to comply with regulatory requirements. This would be treated as share capital and therefore an investment, rather than a cost.

Members queried the level of return expected on the £150,000 although it was understood that a return on the investment was unlikely. In addition, Members queried whether or not the Fund would be able to request the money back in the future if it was to withdraw from the London CIV. Neil Sellstrom agreed to discuss this in further detail with Hugh Grover (Chief Executive, London CIV) and then provide an update to Members.

ACTION: Neil Sellstrom, Interim Head of Pension Shared Services

RESOLVED –

(a) THAT, the Sub-Committee approve the payment of £150,000 to the London CIV in respect of a contribution towards the regulatory capital, which represents the purchase of 150,000 class B shares.

(b) THAT, the Sub-Committee agreed to make a further contribution of £25,000 to the establishment of the London CIV.

22. DATE OF THE NEXT MEETING

25 November 2015

23. EXCLUSION OF THE PUBLIC AND PRESS

The Chair requested for any members of the public and press to leave the meeting room, as all the public reports had been heard and the Committee were then moving onto exempt items.

RESOLVED –

THAT, under section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined by paragraph 3 of Schedule 12A of the said Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

24. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT, the exempt minutes of the meeting held on 24 June 2015 were agreed as a correct record and signed by the Chair.

25. APPOINTMENT OF PENSION FUND ACTUARY

RESOLVED –

THAT, the Sub-Committee approved the recommendations contained within the report.

26. INFRASTRUCTURE INVESTMENT UPDATE

RESOLVED –

THAT, the report be noted.

27. PENSION FUND ABSOLUTE RETURN BONDS INVESTMENT

RESOLVED –

THAT, the Sub-Committee approved the recommendations contained within the report.

28. INVESTMENT STRATEGY NEXT STEPS

RESOLVED –

(a) THAT, the Sub-Committee approved the recommendations contained within the report.

(b) THAT, the Sub-Committee approved the recommendations contained within the report.

(c) THAT, the Sub-Committee approved the recommendations contained within the report.

Meeting started: 7:10pm

Meeting ended: 9:40pm

Chair

Contact officer: Ibrahim Ibrahim
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Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

Pensions Sub-Committee – 2015/16 Action Tracker


Meeting	Item and Minute number	Action	Lead Officer	Completion Status
Outstanding Actions from 2014/15 Action Tracker				
17 March 2015	Pension Fund Quarterly Update Pack (15)	Debbie Morris to prepare a draft agenda for the Pensions Annual General Meeting.	Debbie Morris	No
2015/16 Action Tracker				
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to propose a strategy to resolve the expected negative cash flow position in Q3.	Nicola Webb	Yes
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to raise Members concerns with Debbie Morris regarding the Council's transition to SCC in respect of the data transfer and pensions payroll. In response, Debbie Morris agreed to provide a written update to the Sub-Committee.	Debbie Morris	Yes
24 June 2015	Pension Fund Quarterly Update Pack (5)	Nicola Webb to seek clarification from the Fund Actuary regarding suggestions that a higher contribution rate would be required.	Nicola Webb	Yes
24 June 2015	Knowledge and Skills Policy (7)	Nicola Webb to provide a detailed knowledge and skills self-assessment form for Members	Nicola Webb	Yes
24 June 2015	Knowledge and Skills Policy (7)	Nicola Webb to arrange a joint meeting of Members from the Pensions Sub-Committee and Pensions Board.	Nicola Webb	Yes
24 June 2015	Investment Strategy Next Steps (14)	David Hodgkinson to contact Manchester City Council to identify options and implications to local fund investments.	David Hodgkinson	Yes

Pensions Sub-Committee – 2015/16 Action Tracker

24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report explaining each asset classes and how they fit into the overall structure of the fund.	Neil Sellstrom	Yes
24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report providing an explanation and comparison of potential options covering traditional passive, enhanced indexation and smart beta along with the products and providers available.	Neil Sellstrom	Yes
24 June 2015	Investment Strategy Next Steps (14)	Members to meet with Fund Managers prior to the next meeting.	Neil Sellstrom	Yes
24 June 2015	Investment Strategy Next Steps (14)	Investment Adviser to prepare a report providing an explanation of diversified asset allocation and diversified growth funds.	Neil Sellstrom	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	It was understood that a higher contribution rate would be required in the future and that the Fund Actuary would provide further clarification.	Neil Sellstrom	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	Nicola Webb to propose a strategy to resolve the long term cashflow position.	Nicola Webb	Yes
9 September 2015	Pension Fund Quarterly Update Report (18)	Members were concerned that risk item number 18 and 23 were described as a 'medium' and 'very low' risk respectively. Nicola Webb agreed to refer these concerns to Hitesh Jolapara (Director for Finance) and Debbie Morris (Bi-Borough Director for HR).	Hitesh Jolapara and Debbie Morris	Yes
9 September 2015	Pension Fund Annual Report and Accounts (19)	Members requested a 'like for like' comparison to be included as part of the management expenses section of the annual report.	Nicola Webb	Yes

Pensions Sub-Committee – 2015/16 Action Tracker

9 September 2015	London CIV Update (21)	Neil Sellstrom to confirm whether or not the Fund would be able to request money back in the future if it was to withdraw from the London CIV.	Neil Sellstrom	Yes
9 September 2015	Investment Strategy Next Steps (28)	Members to meet with passive fund managers from week commencing 28 September 2015.	Nicola Webb	Yes
9 September 2015	Investment Strategy Next Steps (28)	Members to meet with Fund Managers prior to the next meeting.	Neil Sellstrom	Yes

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS SUB-COMMITTEE</p> <p>25th November 2015</p>	
<p>PENSION FUND QUARTERLY UPDATE PACK</p>	
<p>Report of the Strategic Director for Financial Corporate Services</p>	
<p>Open Report</p>	
<p>Classification: For Information</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Hitesh Jolapara, Strategic Director for Financial Corporate Services</p>	
<p>Report Author: Nicola Webb, Pension Fund Officer</p>	<p>Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report is the Pension Fund quarterly update pack for the quarter ended 30th September 2015. The scorecard in Appendix 1 provides a high level view of key pensions issues with more detail provided in the remaining appendices.

2. RECOMMENDATIONS

- 2.1. That the report is noted.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. At the first meeting of the Pensions sub-committee in January 2015, a proposal for a Pension Fund Quarterly Update Pack was agreed. This report and associated appendices make up the pack for the quarter ended 30th September 2015. It is designed to provide sub-committee members

with a high level view of key pensions issues in the scorecard (see Appendix 1) with more detailed information in the remaining appendices.

5. PROPOSAL AND ISSUES

- 5.1. There are no administration performance indicators available this quarter. Surrey County Council took over the administration from Capita on 1st September 2015 and have been given a 3 month “settling in” period. Therefore no indicators will be available until January 2016.
- 5.2. Appendix 2 provides information about the Fund’s investments and performance. Alistair Sutherland from Deloitte will be attending the meeting to present this report.
- 5.3. The trade date for the transition from GSAM to Insight was 30th September 2015 and it settled 3 days later. The total value of the proceeds from the sale of the GSAM portfolio invested in the Insight Bonds Plus fund was £64,780,000.
- 5.4. Appendix 3 is the funding level update at 30th September 2015 prepared by the Fund Actuary, Graeme Muir of Barnett Waddingham. This shows that the deficit has increased since the last report mainly as a result of a fall in the value of the Fund’s assets.
- 5.5. The report also shows an increase in the theoretical employer contribution payable (any actual change in the employer contribution would only follow a full triennial valuation). The reason for this is a fall in the discount rate over the period since the last valuation. The discount rate is calculated with reference to dividend yields and the expected growth in them and as market expectations of both have fallen since 2013, so the discount rate has fallen. The next full triennial valuation of the Fund will take place as at 31st March 2016.
- 5.6. The actual cashflow for the period July to September 2015 and the forecast up to March 2016 is shown in Appendix 4. An analysis of the differences between the actuals and the forecast for the quarter is also shown. As discussed at the last meeting, work has been undertaken to develop a longer term cashflow forecast for the Fund and this is reported elsewhere on this agenda.
- 5.7. The risk register has been reviewed by officers and is attached as Appendix 5. The rationale for the changes is set out on the first page of Appendix 5.
- 5.8. A summary of the voting undertaken by the investment managers running segregated equity portfolios forms Appendix 6.
- 5.9. Although there have been no new consultations published in the quarter, Appendix 7a provides some further information about the expected consultation on pooling of LGPS investments, which has been provided by the Local Government Association. Appendix 7b summarises information about the implementation of European directive – Markets in Financial Instruments Directive II (MiFID II). The possible implications of this

directive have also been recognised as a new risk in the risk register in Appendix 5.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1 Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11. RISK MANAGEMENT

11.1. The Pension Fund risk register is attached in Appendix 5.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: Scorecard at 30th September 2015

Appendix 2: Deloitte quarterly report for quarter ended 30th September 2015

Appendix 3: Barnett Waddingham quarterly report at 30th September 2015

Appendix 4: Cashflow monitoring

Appendix 5: Pension Fund Risk Register

Appendix 6: Pension Fund Voting Summary

Appendix 7: Pooling of investments

Appendix 7: MiFID II briefing

Appendix 1: Scorecard at 30th September 2015

HAMMERSMITH AND FULHAM PENSION FUND
QUARTERLY MONITORING

	Dec 14	Mar 15	Jun 15	Sept 15	Comment/ Report Ref if applicable
INVESTMENTS					
Value (£m)	831.1	865.0	856.0	829.3	Deloitte report Appendix 2
% return quarter	5.9%	4.6%	-1.1%	-3.0%	
% return 1 year	11.3%	15.1%	11.6%	6.4%	
LIABILITIES					
Value (£m)	945.9	995.4	1,021.0	1,010.1	Barnett Waddingham report Appendix 3
Deficit (£m)	118.9	126.4	136.2	156.7	
Funding Level	87%	87%	87%	84%	
MEMBERSHIP					
Active members	4,014	4,024	4,010	3,948	N/A
Deferred beneficiaries	5,943	5,957	5,962	5,944	
Pensioners	4,287	4,288	4,305	4,518	
Employers	30	33	33	35	
ADMINISTRATION					
Overall targets met by Capita excluding backlog	93.4%	94.2%	95.0%	not available	N/A
Overall targets met by Capita including backlog	56.6%	69.4%	73.8%	not available	
CASHFLOW					
Cash balance	£3.51m	£4.49m	£8.65m	£4.87m	Appendix 4
Variance from forecast	0	+£1.67m	+£1.46m	+£0.9m	
RISK					
No. of new risks	None	3	0	2	Appendix 5
No. of ratings changed	None	2	3	1	
VOTING					
No. of resolutions voted on by fund managers	334	374	2,626	700	Appendix 6
LGPS REGULATIONS					
New consultations	One	None	None	None*	Appendix 7
New sets of regulations	None	None	None	None	

**Appendix 7a and 7b give details about future consultations.*



London Borough of Hammersmith &
Fulham Pension Fund
Investment Performance Report
to 30 September 2015 – Executive Summary

Deloitte Total Reward and Benefits Limited
November 2015

The background of the page features a close-up photograph of a file folder. The folder is yellow with a white label that has the word "INVESTMENTS" written on it in black, bold, capital letters. The folder is part of a larger set of folders, with other folders in shades of orange and red visible in the background. Overlaid on the image are several concentric white circles of varying sizes, creating a circular pattern that frames the central text.

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1 Market Background

Three and twelve months to 30 September 2015

UK equities delivered a negative return over the 3 months to 30 September 2015 (FTSE All Share Index: -5.7%). Markets were volatile over the third quarter amid concerns about slowing Chinese economic growth with corresponding extreme bouts of volatility in Chinese stocks markets and uncertainty over US interest rate rises.

Mid and small cap companies outperformed the largest UK firms over the third quarter, with the FTSE 250 and FTSE Small Cap indices returning -4.2% and -3.4% respectively. At the sector level, Consumer Goods was the strongest performing sector (4.2%), in stark contrast to the poorest performing sector over the quarter, Basic Materials (-27.9%), which was particularly impacted by the fears over an economic slowdown in China and the corresponding effect on commodity prices

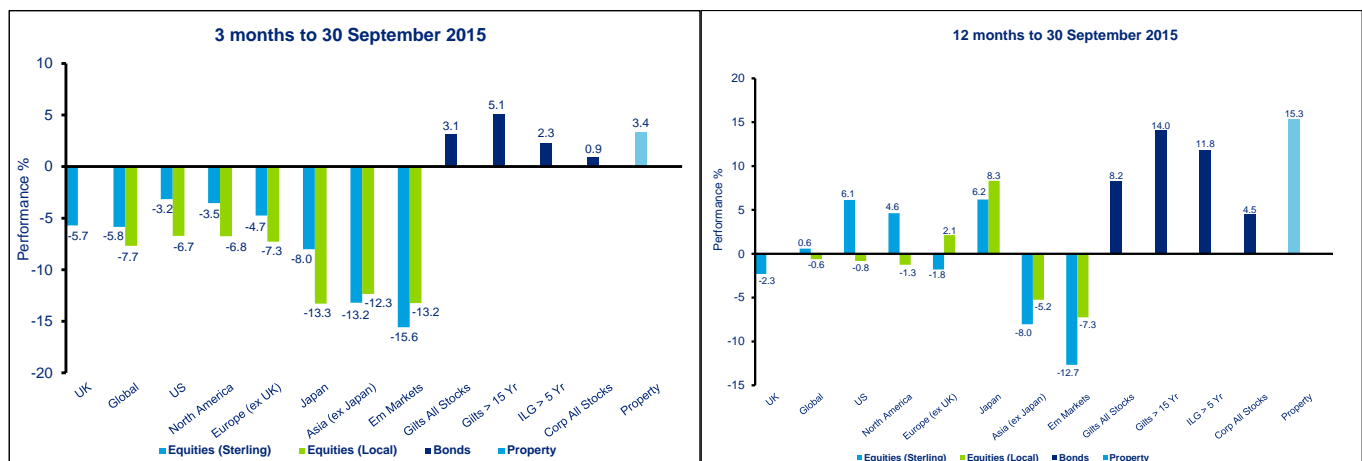
Global equity markets underperformed the UK in both local currency terms (-7.7%) and marginally underperformed the UK in sterling terms (-5.8%) as sterling depreciated against the dollar, euro and yen. As such, currency hedging was detrimental to sterling investors over the quarter. At the regional level, the US offered the highest return of -3.2% in sterling terms and -6.7% in local currency terms. Emerging markets were the poorest performing sector over the quarter, returning -15.6% in sterling terms and -13.2% in local currency terms.

UK nominal gilts delivered positive returns over the third quarter as yields fell across all maturities, with the All Stocks Gilt Index returning 3.1%. Real yields on UK index-linked gilts also fell over the period, with the Over 5 Year Index-linked Gilt Index returning 2.3%. Corporate bonds also delivered positive returns over the quarter, with the iBoxx All Stocks Non Gilt Index returning 0.9%. Returns lagged gilts as credit spreads widened.

Over the 12 months to 30 September 2015, the FTSE All Share Index returned -2.3%. At the sector level, in a continuing trend, Technology delivered the highest return (14.9%) whilst Basic Materials was the poorest performing sector (-31.5%). Global equity markets outperformed the UK in both sterling and local currency terms respectively, with the FTSE All World Index returning 0.6% and -0.6% respectively.

UK nominal gilts delivered positive returns over the year to 30 September 2015 as gilt yields fell across all but the shortest maturities. The All Stocks Gilt Index returned 8.2% over the 12 month period and the Over 15 Year Gilt Index returned 14.0%. Real yields also fell over the year, with Over 5 year Index-linked Gilt Index returning 11.8%. Corporate bond returns were positive, with the iBoxx All Stocks Non Gilt Index returning 4.5% over the 12 months to 30 September 2015, again lagging gilts as credit spreads widened.

The UK property market performed strongly over both periods, returning 3.4% over the quarter and 15.3% over the year to 30 September 2015.



2 Performance Overview

Breakdown of Fund Performance by Manager as at 30 September 2015						
Fund	Manager	3 month	1 year	2 year	3 year	5 year
UK Equity Mandate						
	Majedie					
FTSE All Share		-6.8	2.2	5.4	13.6	11.6
Difference		-5.7	-2.3	1.8	7.2	6.7
		-1.1	4.5	3.6	6.3	4.9
Overseas Equity Mandate						
	MFS					
MSCI AC World Growth (ex UK)		-4.4	6.1	7.4	11.0	9.9
Difference		-5.2	4.9	8.4	11.3	9.4
		0.9	1.3	-1.0	-0.2	0.5
Dynamic Asset Allocation Mandates						
	Ruffer					
3 Month Sterling LIBOR + 4% p.a		-4.5	4.5	3.8	7.0	5.1
Difference		1.1	4.6	4.6	4.6	4.7
		-5.6	-0.1	-0.7	2.4	0.4
Matching Fund						
	Goldman Sachs					
3 Month Sterling LIBOR + 2% p.a		-0.2	-1.7	0.3	1.5	1.6
Difference		0.6	2.6	2.6	2.6	2.7
		-0.8	-4.3	-2.3	-1.1	-1.0
Private Equity						
	Invesco					
	Unicapital	10.8	26.9	28.7	21.7	19.8
		6.3	6.8	3.5	5.8	6.4
Secure Income						
	Partners Group MAC					
3 Month Sterling LIBOR + 4% p.a		1.7	n/a	n/a	n/a	n/a
Difference		1.1	n/a	n/a	n/a	n/a
		0.5	n/a	n/a	n/a	n/a
	Oak Hill Advisors					
3 Month Sterling LIBOR + 4% p.a		-4.5	n/a	n/a	n/a	n/a
Difference		1.1	n/a	n/a	n/a	n/a
		-5.7	n/a	n/a	n/a	n/a
	Partners Group Direct Infrastructure					
3 Month Sterling LIBOR + 8% p.a		n/a*	n/a	n/a	n/a	n/a
Difference		n/a	n/a	n/a	n/a	n/a
		n/a	n/a	n/a	n/a	n/a
Inflation Protection						
	M&G					
RPI + 2.5% p.a.		2.6	n/a	n/a	n/a	n/a
Difference		0.9	n/a	n/a	n/a	n/a
		1.7	n/a	n/a	n/a	n/a
	Standard Life					
FT British Government All Stocks Index +2.0%		1.8	n/a	n/a	n/a	n/a
Difference		3.6	n/a	n/a	n/a	n/a
		-1.9	n/a	n/a	n/a	n/a
Total Fund		-3.1	6.0	7.1	10.4	8.9
Benchmark*		-1.8	3.4	5.3	7.2	7.5
Difference		-1.3	2.6	1.8	3.2	1.4

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.

(*) The Total Assets benchmark is the weighted average performance of the target asset allocation. Partners Group's Infrastructure mandate was funded mid-quarter therefore quarter returns are not available.

3 Total Fund

Investment Performance to 30 September 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	-3.0	6.4	7.6	10.8	9.3
Net of fees ⁽¹⁾	-3.1	6.0	7.1	10.4	8.9
Benchmark ⁽²⁾	-1.8	3.4	5.3	7.2	7.5
Net performance relative to fixed benchmark	-1.3	2.6	1.8	3.2	1.4

Source: Northern Trust. Relative performance may not sum due to rounding.

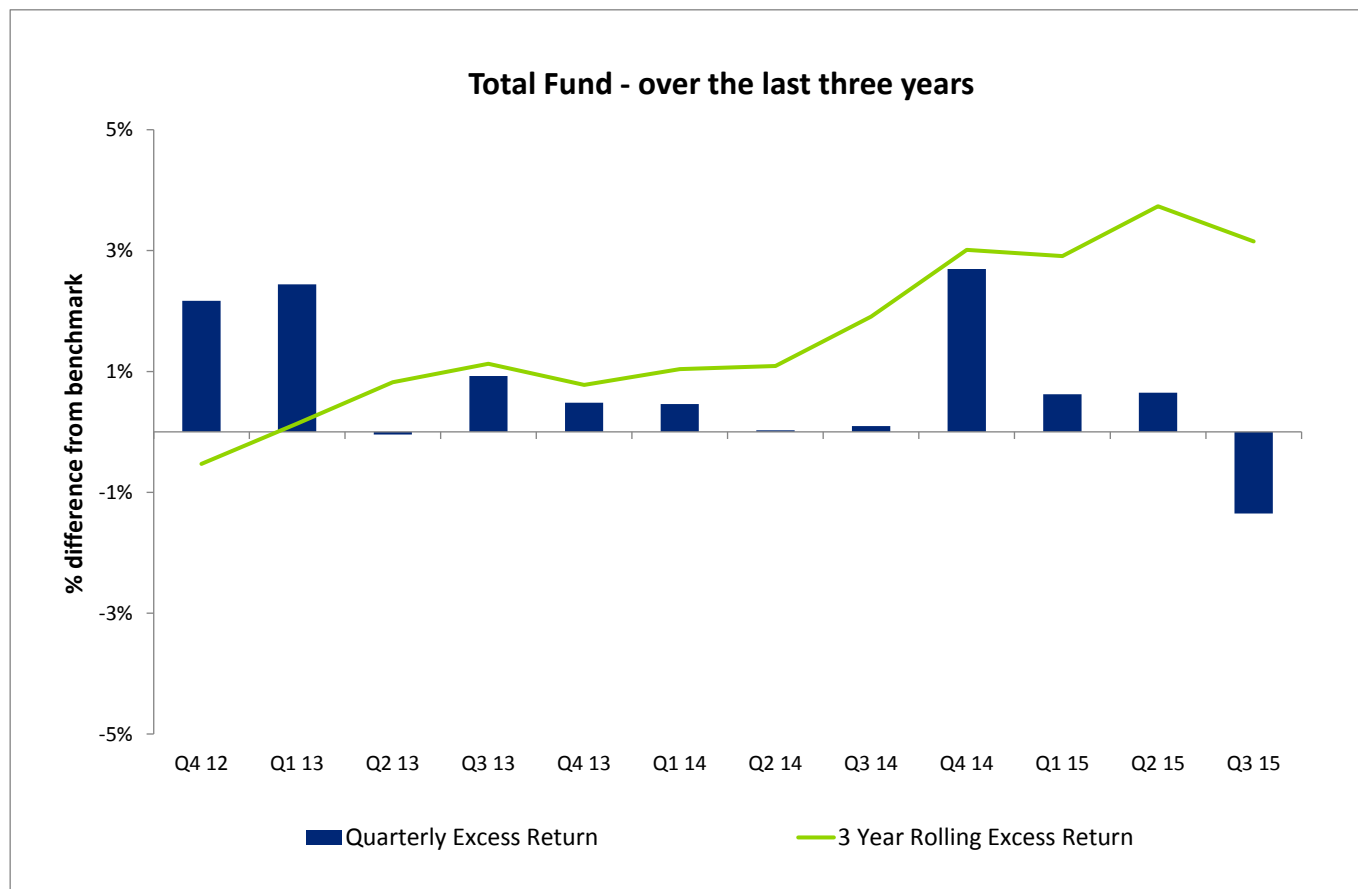
(1) Estimated by Deloitte

(2) Average weighted benchmark

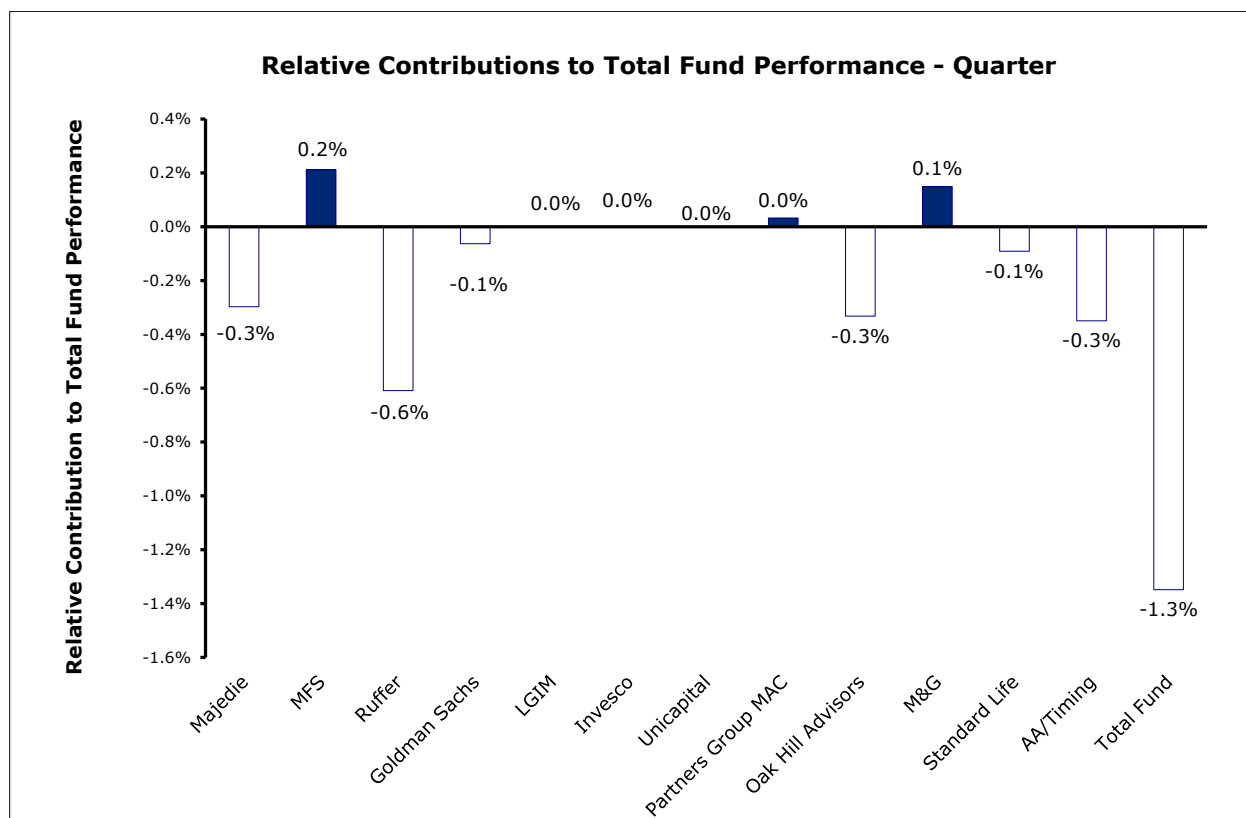
Over the quarter, the Total Fund underperformed its fixed weighted benchmark by -1.3% on a net of fees basis.

Over the one and three year period to 30 September 2015 the Fund has outperformed its benchmark by 2.6 % and 3.2% per annum respectively net of fees.

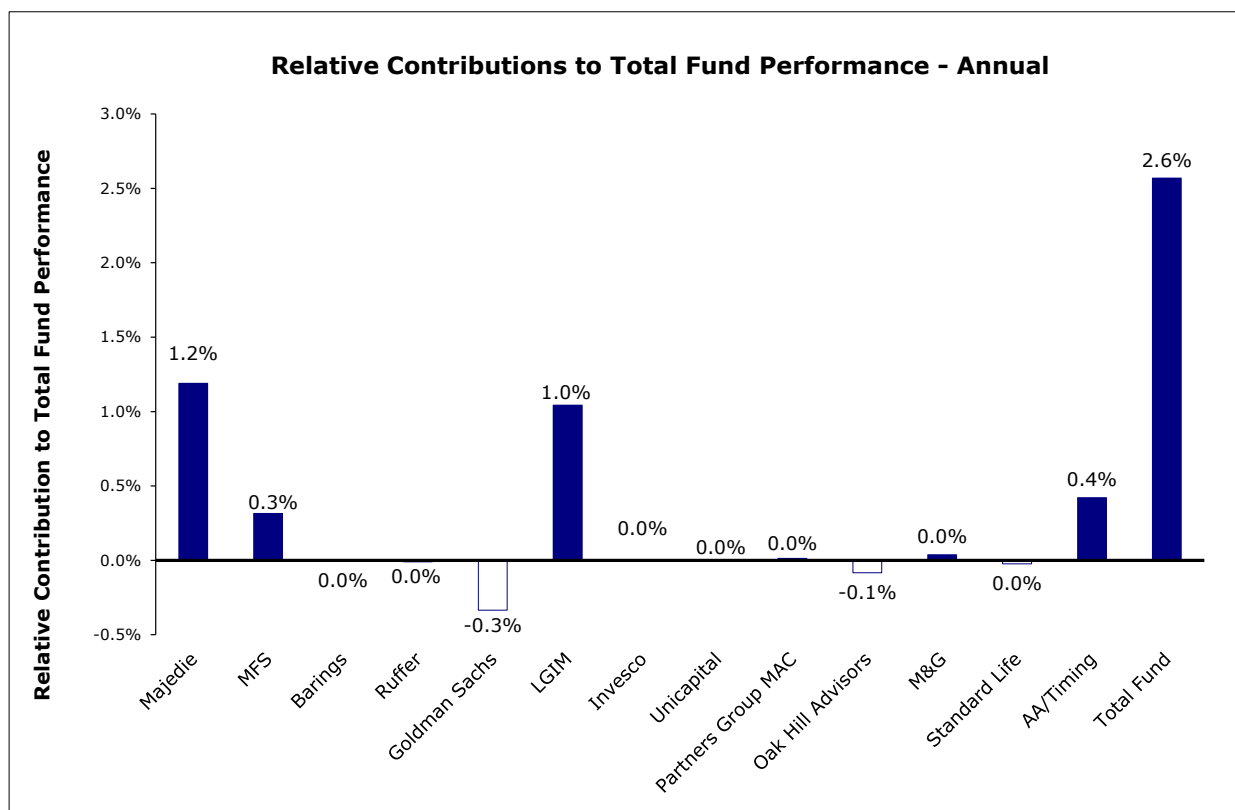
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 30 September 2015, highlighting the strong relative returns over the last couple of years – much of which can be attributed to the outperformance achieved by Majedie.



Attribution of Net Performance to 30 September 2015



On a net performance basis, the Fund underperformed the composite benchmark by -1.3% over the third quarter of 2015, with negative contributions from Ruffer, Majedie, Oak Hill and Standard Life. The Fund's overweight position to equities also detracted from performance versus the fixed weight benchmark.



Over the year the Fund outperformed the composite benchmark by 2.6%, with Majedie and LGIM driving the longer term outperformance. Being overweight to equities has also benefited the Fund.

Asset Allocation

The table below shows the assets held by manager as at 30 September 2015 alongside the Target Benchmark Allocation.

Actual Asset Allocation						
Manager	Asset Class	30 Jun 2015 (£m)	30 Sep 2015 (£m)	30 Jun 2015 (%)	30 Sep 2015 (%)	Benchmark Allocation (%)
Majedie	UK Equity (Active)	227.8	212.6	26.6	25.6	22.5
MFS	Overseas Equity (Passive)	211.4	202.4	24.7	24.4	22.5
	Total Equity	439.3	415.0	51.3	50.0	45.0
LGIM	Liquidity Fund	0.0	28.2	0.0	3.4	0.0
Ruffer	Absolute Return	92.4	88.4	10.8	10.7	10.0
	Sub –total	92.4	116.5	10.8	14.1	10.0
Goldman Sachs	Absolute Return Bond	64.8	64.8	7.6	7.8	10.0
LGIM	Matching	30.0	0.0	3.5	0.0	0.0
	Total Matching	94.9	64.8	11.1	7.8	10.0
Invesco	Private Equity	6.0	6.2	0.7	0.7	0.0
Unicapital	Private Equity	4.1	3.8	0.5	0.5	0.0
	Total Private Equity	10.1	10.0	1.2	1.2	0.0
Partners Group	Multi Asset Credit	50.4	51.3	5.9	6.2	7.5
Oak Hill Advisors	Diversified Credit Strategy	50.1	47.9	5.9	5.8	7.5
Partners Group	Direct Infrastructure	0.0	2.0	0.0	0.2	5.0
	Secure Income	100.5	101.3	11.7	12.2	20.0
M&G	Inflation Opportunities	76.8	78.9	9.0	9.5	10.0
Standard Life	Long Lease Property	42.0	42.8	4.9	5.2	5.0
	Total Inflation Protection	118.9	121.7	13.9	14.7	15.0
	Total	856.0	829.3	100.0	100.0	100.0

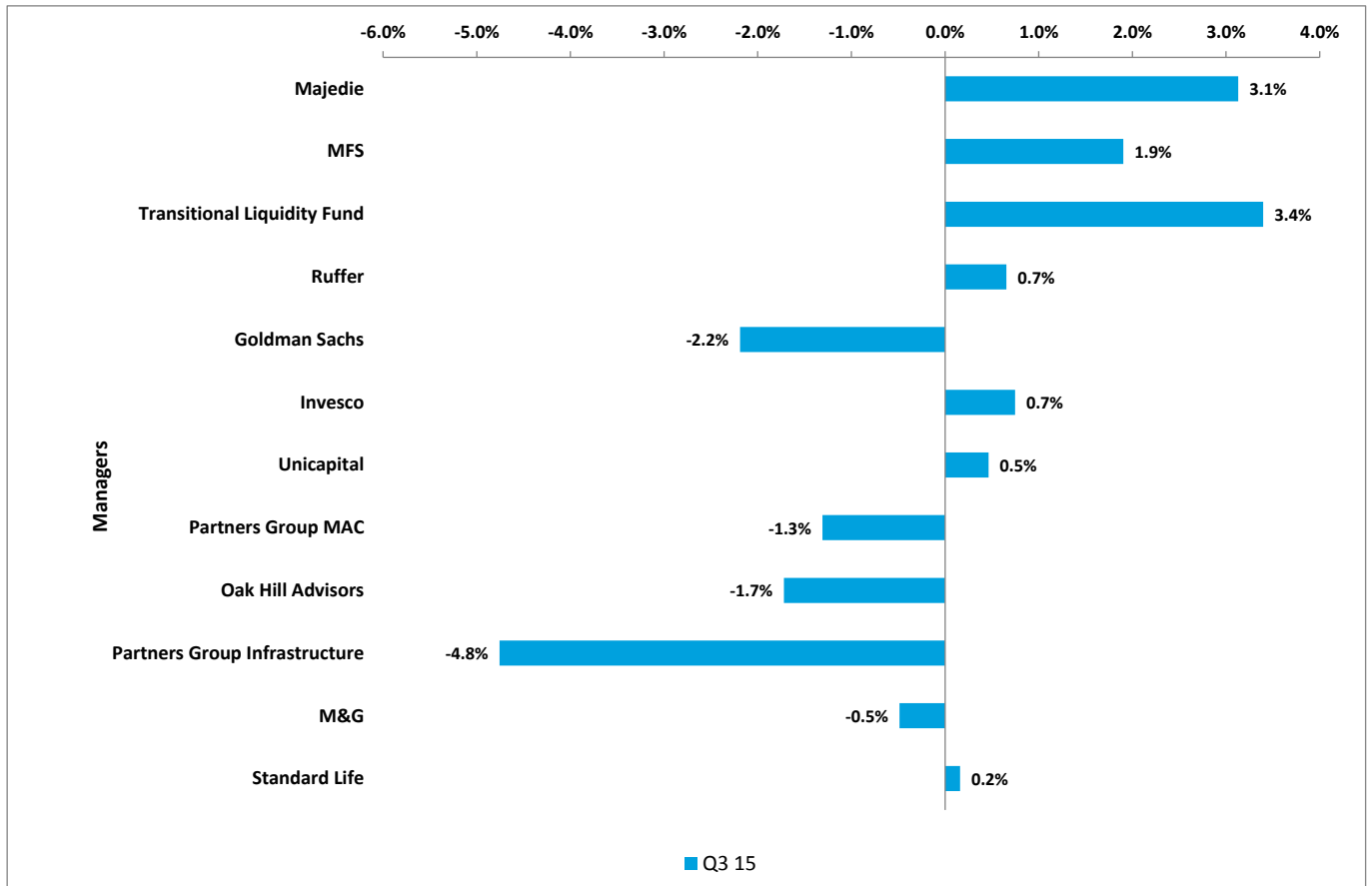
Source: Northern Trust (Custodian) and have not been independently verified

Figures may not sum to total due to rounding

During the quarter, the Sub-Committee reviewed GSAM's appointment and agreed to meet with other investment organisations that offered comparable strategies. From this meeting, the Sub-Committee agreed to disinvest its holdings with GSAM and invest the proceeds in the Insight Bonds Plus Fund. This happened on the last dealing date of September.

Following quarter end, the Sub-Committee met with two passive equity providers and agreed to replace the MFS mandate with a passively managed product managed by LGIM. Deloitte has been working closely with LGIM and MFS to ensure an efficient and cost effective transition. The target date for the transition is 17 November 2015. Deloitte will provide a note to the Sub-Committee in December outlining the transition and costs, once the information is available from the managers.

The asset allocation chart below shows the relative underweight and overweight positions of the Fund against the revised allocations proposed in the strategy review.



4 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
MFS	Overseas Equity	Departures of either of the lead portfolio managers Indications of a change to the process or investment philosophy	2
Ruffer	Absolute Return	Departure of either of the co-portfolio managers from the business Any significant change in ownership structure	n/a
LGIM	Matching Bonds	Departures of senior members of the LDI investment team	1
Partners Group	Multi Asset Credit	Significant changes to the investment team responsible for the Fund *Note the mandate is subject to a 7 year lock-up period	1
	Direct Infrastructure	Significant changes to the investment team responsible for the Fund. *Note the mandate is subject to a 10 year lock-up period	
Oak Hill Partners	Diversified Credit Strategy	Significant changes to the investment team responsible for the Fund. Significant changes to the liquidity of underlying holdings within the Fund.	1
M&G	Inflation Opportunities	If the Fund's portfolio manager Gary Parker was to leave the business or cease to be actively involved in the Fund, this would trigger a review of the Fund. Failure to find suitable investments within the initial two year funding period.	1
Standard Life	Long Lease Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over. A build up within the Fund of holdings with remaining lease lengths around 10 years.	1

Majedie

Business

The UK Equity Fund is closed but Majedie has seen steady growth in its Global Equity and Focus Funds.

Majedie is having ongoing discussions with the London CIV regarding its products, specifically the UK Equity Strategy, which 3 of the London Boroughs invest in. Majedie is open to making the Fund available through this platform, assuming terms can be agreed which will benefit its current London LGPS investors.

Personnel

There were 4 new joiners over the quarter but the team managing the UK Equity Fund remains unchanged.

Deloitte view – We continue to rate Majedie positively for its UK equity capabilities.

MFS

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

Deloitte View: The performance of the Fund's strategy has been disappointing over the long term. Given this, it was agreed to replace this mandate with a passively managed product from Legal and General.

Ruffer

There were no changes to the team or process over the quarter. Ruffer continues to hold around 36% of the fund in inflation linked bonds.

Deloitte view – The Ruffer product is distinctive within the universe of diversified growth managers with the manager willing to take contrarian, long term positions drawing on the expertise of external funds.

LGIM

As at 30 June 2015, Legal & General Investment Management (“Legal & General”) had total assets under management of c. £507bn.

In September, LGIM announced that Chad Rakvin would succeed Ali Toutouchi as Global Head of Index Funds. Rakvin, who will report to Aaron Meder, Head of Investment at LGIM, joined LGIM's team in Chicago as Head of US Index Funds in 2013 and takes the new UK-based role following the retirement of Toutouchi earlier this year. Toutouchi will continue to be associated with LGIM after his retirement in a strategic and advisory capacity.

Deloitte view – We rate LGIM positively for its passive and LDI capabilities.

Partners Group

Multi Asset Credit

The net asset value of the MAC Fund was £268.4m as at 30 September 2015. Partners Group has allocated all of the Fund's commitments to deals and expects to be fully invested by the end of the year. The Fund is now in its 2 year reinvestment period which means Partners Group may replace assets if it finds more attractive opportunities or if an existing asset is refinanced or repaid early.

The successor program, the Multi-Asset Credit 2015, had its first close during the third quarter with £200m committed. The next close is targeted for January 2016 and there are a number of investors at various stages of legal due diligence. The target size for the Fund is £300m. Partners Group intends to launch the Multi-Asset Credit 2016 Fund in summer 2016 and already has one investor who has shown interest.

Direct Infrastructure

The Direct Infrastructure 2015 product held its first close in August and has already called capital to fund two investments. Of the Fund's €55m commitment, €2.2m has been drawn. Partners Group continues to see an attractive pipeline of potential investments for this product.

Personnel

There were no changes to the teams managing the Multi Asset Credit Fund or PG Direct Infrastructure Fund during the third quarter of 2015.

Deloitte View - We continue to rate Partners Group for its private market and infrastructure capabilities.

Oak Hill Advisors – Diversified Credit Strategy (DCS)

The total capital which Oak Hill Advisors (“OHA”) manages increased by approximately \$300m over the quarter (total AuM \$27.3bn). Total AuM in the DCS Fund was \$3.2bn as at 30 September 2015, with \$2.1bn in the pooled vehicle).

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

Deloitte view – We continue to rate Oak Hill Advisors for its fixed income and high yield capabilities.

M&G – Inflation Opportunities Fund

The Inflation Opportunities Fund is now fully drawn-down and no further clients are waiting to come into the fund. The total AuM in the fund is £430m.

There have been two additions to the client service team over the quarter. A member of the Direct Lending Team has left and has been replaced by a recruit from RBS – the Direct Lending team often help out the analysis of private corporate side opportunities.

Deloitte view – We continue to rate M&G for its investment capabilities.

Standard Life – Long Lease Property

The Long Lease Property fund’s assets under management increased slightly to £1.6bn over the third quarter following positive performance. There were no investor in/out flows over the period and there is currently no investment queue.

Richard Marshall, the Head of Secure Real Estate, is relocating from Edinburgh to London for personal reasons. There have been no other significant joiners or leavers over the quarter.

Deloitte View: We continue to rate SLI positively for its long lease capabilities.

5 Majedie – UK Equity

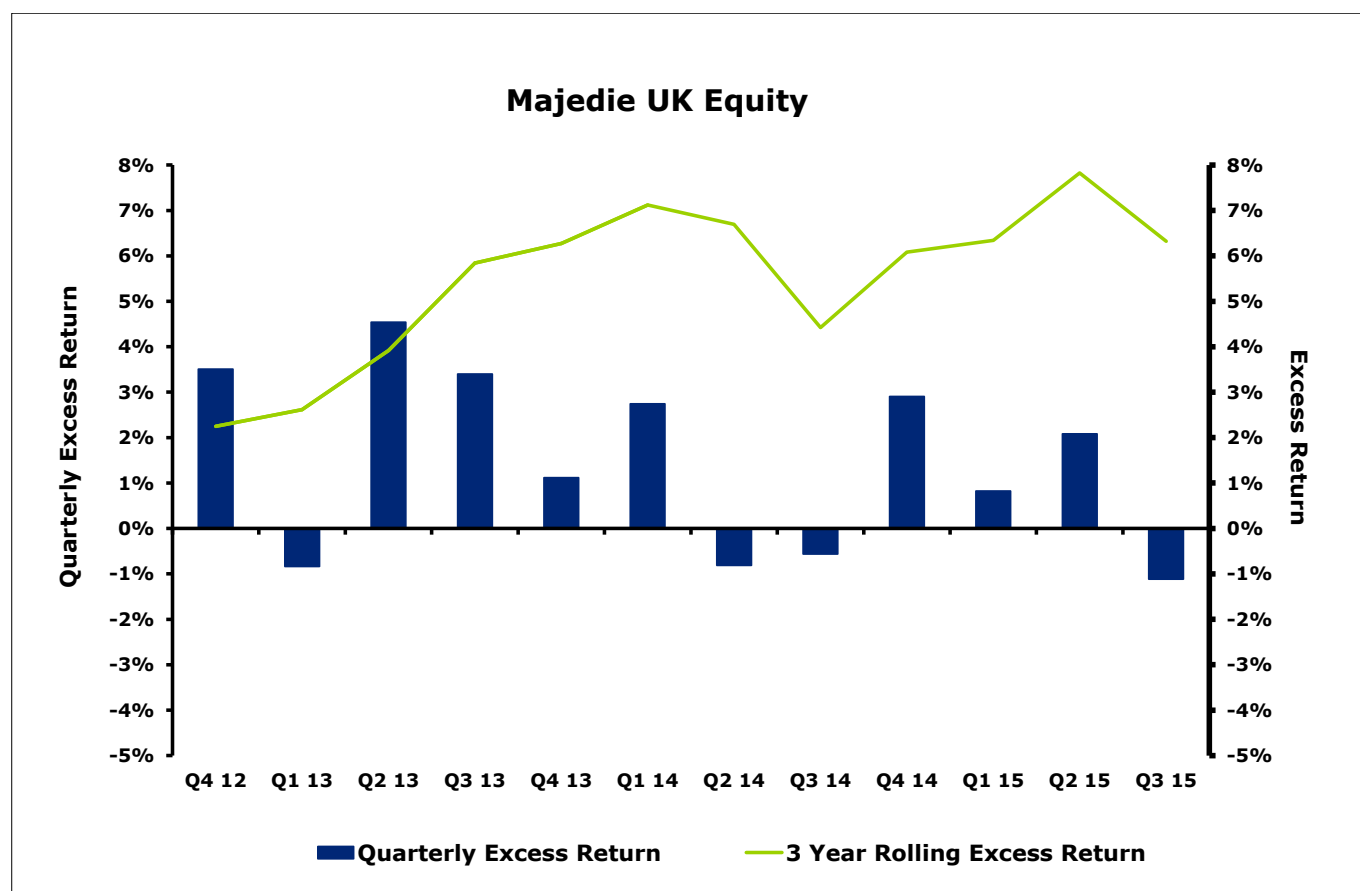
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund (no more than 30%), the UK Focus Fund and a holding in Majedie's long/short equity fund, Tortoise (no more than 10%).

UK equity – Investment Performance to 30 September 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) ⁽¹⁾	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	-6.7	2.6	5.8	13.9	12.0
Net of fees ⁽¹⁾	-6.8	2.2	5.4	13.6	11.6
Benchmark	-5.7	-2.3	1.8	7.2	6.7
Target	-5.2	-0.3	3.8	9.2	8.7
Net performance relative to Benchmark	-1.1	4.5	3.6	6.3	4.9

Source: Northern Trust

(1) Estimated by Deloitte



The UK Equity fund performed negatively over the quarter, underperforming the FTSE All Share by 1.0% as the fund lost out from not owning tobacco stocks. The fund returned -6.7% in absolute terms. The Tortoise fund also had a poor quarter, returning -3.7%. However, Majedie remains ahead of the benchmark and target over the three years to 30 September 2015 by 6.3% p.a. and 4.3% p.a. respectively.

6 MFS – Overseas Equity

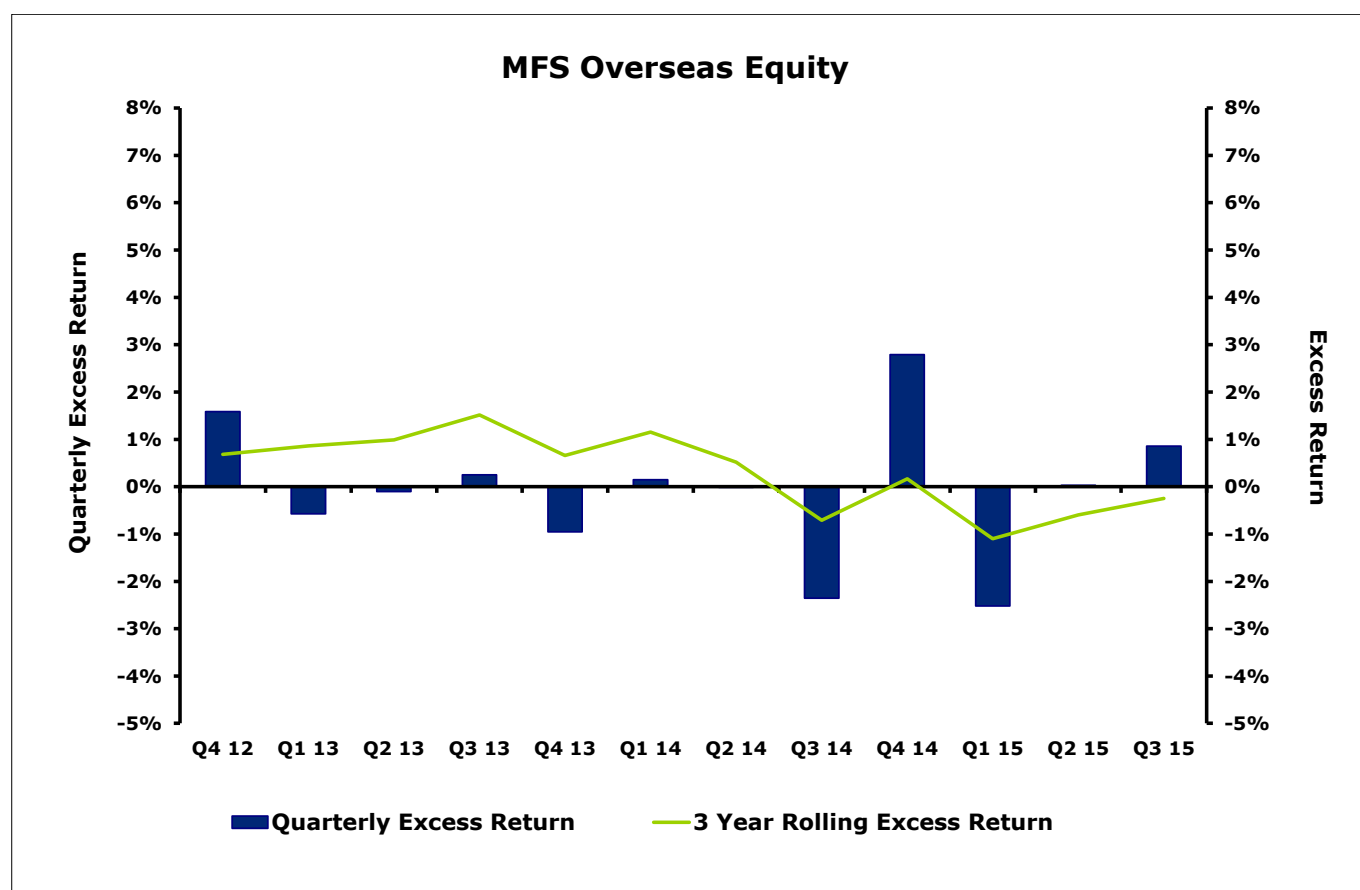
MFS was appointed to manage an overseas equity portfolio with the objective of delivering 2% outperformance on MSCI AC World Growth Ex UK Index benchmark over rolling three year period. The manager is remunerated on a tiered fixed fee based on the value of assets.

Overseas Equity – Investment Performance to 30 September 2015

	Last Quarter (%)	One Year (%)	Two Years ⁽¹⁾ (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
MFS – Gross of fees	-4.3	6.6	7.8	11.5	10.3
Net of fees ⁽¹⁾	-4.4	6.1	7.4	11.0	9.9
Benchmark	-5.2	4.9	8.4	11.3	9.4
Target	-4.7	6.9	10.4	13.3	11.4
Net performance relative to Benchmark	0.9	1.3	-1.0	-0.2	0.5

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Over the quarter, the fund outperformed the benchmark by 0.9%, returning -4.4% net of fees.

Following quarter end, the Sub-Committee met with two passive equity providers and agreed to replace the MFS mandate with a passively managed product with LGIM. Deloitte has been working closely with LGIM and MFS to ensure an efficient and cost effective transition.

7 Ruffer – Absolute Return

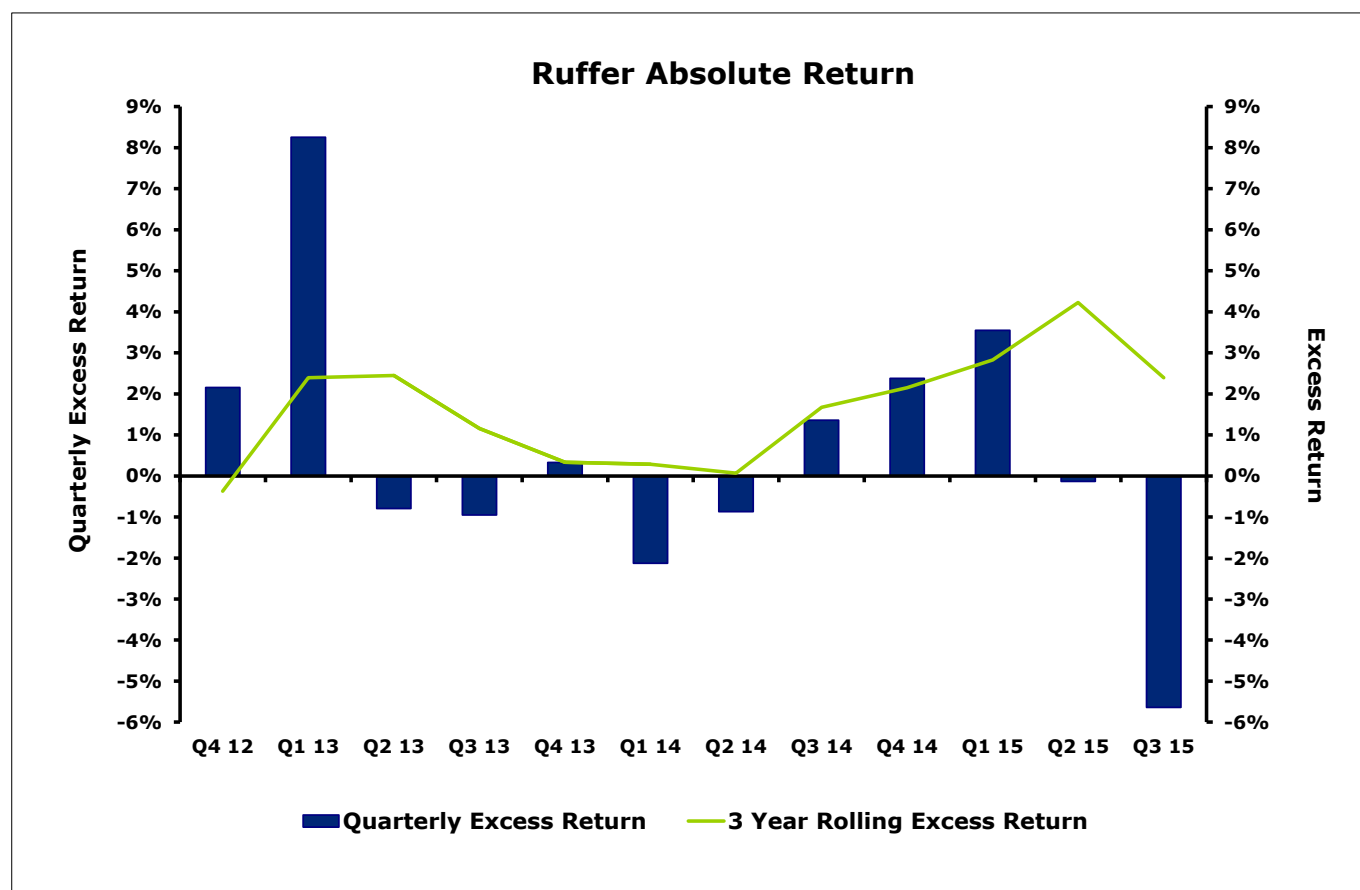
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

Dynamic Asset Allocation - Investment Performance to 30 September 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) ⁽¹⁾	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	-4.3	5.3	4.6	7.8	5.9
Net of fees ⁽¹⁾	-4.5	4.5	3.8	7.0	5.1
Benchmark	1.1	4.6	4.6	4.6	4.7
Target	1.1	4.6	4.6	4.6	4.7
Net performance relative to Benchmark	-5.6	-0.1	-0.7	2.4	0.4

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Ruffer underperformed its target by 5.6% over the quarter, net of fees and is now marginally behind target over the one year period to 30 September 2015 by 0.1%, net of fees. The return for the quarter was one of the largest drawdowns that Ruffer has experienced over the last 12 years. However, Ruffer has outperformed its target over the longer three and five year periods by 2.4% p.a. and 0.4%p.a. respectively.

The fund suffered from its Japanese equity holdings (18% of the fund) which detracted -2.3% to the overall returns, with growth concerns in China coming to a head over the quarter. The new Illiquid Multi Strategies vehicle, which was added earlier this year, delivered a positive contribution as its investments in credit default swaps benefited as spreads widened to reflect risks in those markets.

8 Goldman Sachs – Absolute Return Bonds

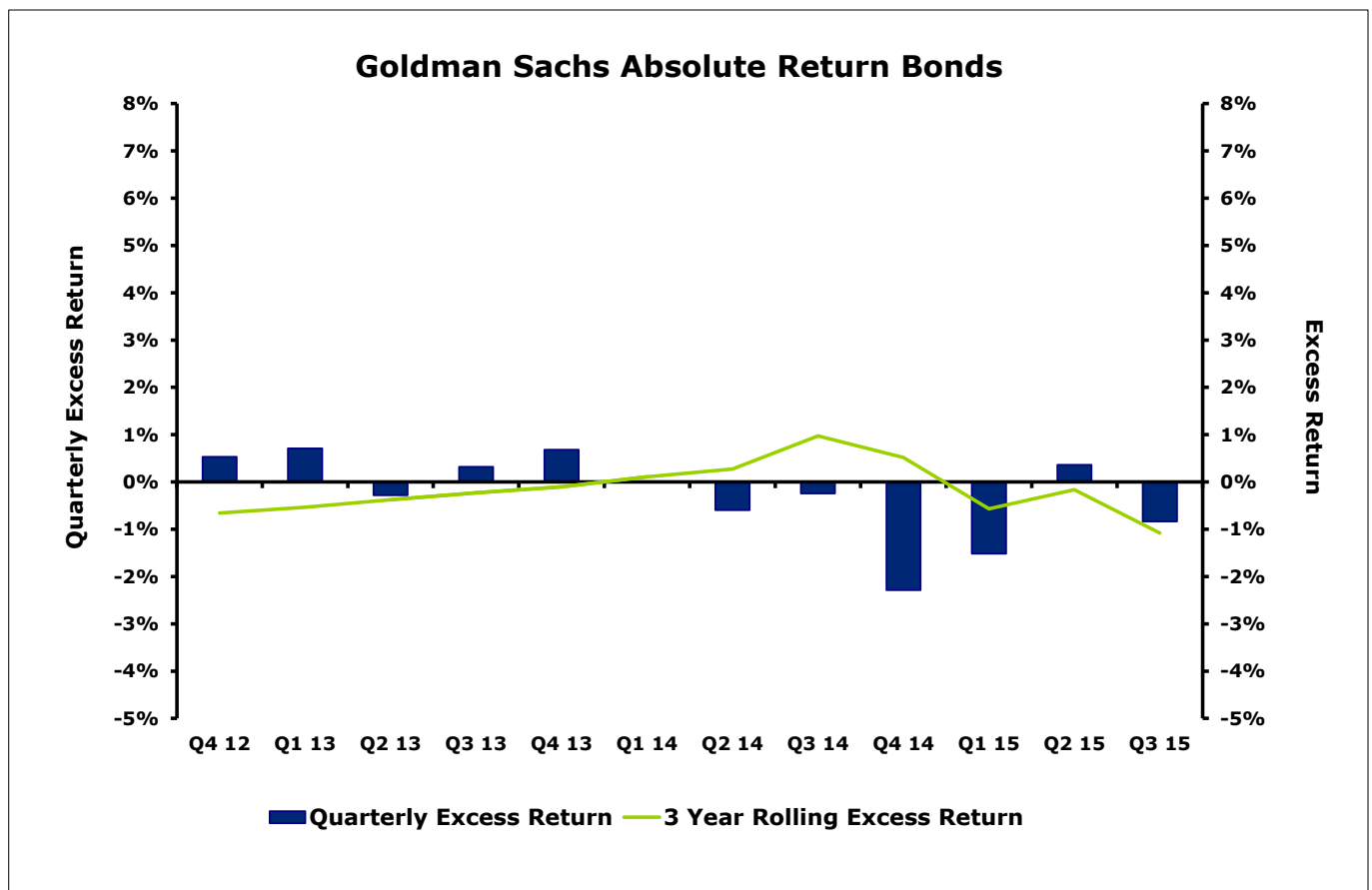
Goldman Sachs was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

Absolute Return - Investment Performance to 30 September 2015

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Goldman Sachs – Gross of fees	-0.1	-1.3	0.7	1.9	2.1
Net of fees ⁽¹⁾	-0.2	-1.7	0.3	1.5	1.6
Benchmark	0.6	2.6	2.6	2.6	2.7
Target	0.6	2.6	2.6	2.6	2.7
Net Performance relative to Benchmark	-0.8	-4.3	-2.3	-1.1	-1.0

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Goldman Sachs underperformed its target over the quarter to 30 September 2015 by 0.8%, net of fees. The Fund remains behind its target over the longer one, three and five year periods by -4.3%, -1.1% p.a. and -1.0% p.a., net of fees.

During the quarter, the Sub-Committee agreed to disinvest its holdings with GSAM and invest the proceeds in the Insight's Bonds Plus Fund. The transfer was effected on the last dealing date of September.

9 Partners Group – Multi Asset Credit

Partners Group was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

Multi Asset Credit - Investment Performance to 30 September 2015

The Fund outperformed its benchmark by 0.5% over the quarter, net of fees, returning 1.7% in absolute terms.

Asset Allocation

The table below shows details of the Fund's five largest holdings based on net asset value as at 30 September 2015.

Investment	Description	Type of Debt	Tranche	Maturity Date	Target IRR (%)	NAV (£m)	% of NAV
Nob Hill Square	Retail shopping centre in Hong Kong.	Real Estate	First Lien	2 Apr 2020	6.1	14.9	5.6%
Cote Bistro	UK restaurant chain offering value for money French cuisine.	Corporate	First Lien	14 July 2022	6.2	12.5	4.7%
Advanced Computer Software	UK software developer.	Corporate	First Lien	20 Mar 2022	8.1	12.2	4.5%
AS Adventure	Large European specialist multi-brand outdoor retail group.	Corporate	First Lien	28 Apr 2022	6.4	11.8	4.4%
Motor Fuel Group	Independent fuel stations operator in the UK.	Corporate	First Lien	15 July 2022	6.2	11.3	4.2%

Partners Group added 4 new investments to the Fund over the third quarter of 2015, bringing the total number of assets to 42 as at 30 September 2015. The new investments included three corporate debt deals and one real estate investment. A brief summary of two new investments can be found below:

Motor Fuel Group – Corporate Debt

A leading fuel stations operator in the UK. Partners Group provided a senior secured loan which pays interest of LIBOR (subject to a 1% floor) + 5% and is expected to achieve a gross IRR of 6.7%. Partners Group believes the company is an attractive borrower because as well as receiving income from the forecourt franchise, Motor Fuel Group owns the land on which the fuel stations are built. In addition, Partners Group estimates that almost all of the company's debt is secured by the value of the real estate.

Project Silk – Real Estate Debt

Project Silk is mezzanine debt for a portfolio of 17 Holiday Inn hotels across the south of the UK. The loan pays interest of LIBOR + 6.5% and has a target IRR of 8.2%. Partners Group also received an upfront fee of 0.75% for arranging the deal. Partners Group was attracted to the deal because the hotels are under new management and there is potential to improve revenues however cash already generated from the real estate is sufficient to cover the interest payments 2.6 times.

10 Oak Hill Advisors – Diversified Credit Strategies Fund

Oak Hill Advisors was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

Multi Asset Credit - Investment Performance to 30 September 2015

	Last Quarter (%)	Year to date (%)	2014 (%)	2013 (%)
OHA – Gross of fees	-4.4	0.2	3.7	8.7
Net of fees ⁽¹⁾	-4.5	-0.3	2.6	7.7
Benchmark	1.1	3.3	4.5	4.5
Target	1.1	3.3	4.5	4.5
Net Performance relative to Benchmark	-5.7	-3.6	1.9	3.2

Source: Northern Trust and Oak Hill Advisors. Relative performance may not tie due to rounding.

Note: Historic performance out with 'Last Quarter' shown for illustrative purposes only. This was sourced from Oak Hill. The Fund has not been invested for longer periods.

Over the quarter the DCS fund delivered -4.5% net of fees, underperforming its target by 5.6%.

The fund suffered from its exposure to pharmaceuticals, in particular Valiant. This security traded down 23% following the company's price gouging of drugs as well as a subsequent subpoena and additional allegations of fraud. This is a core issuer for Oak Hill and makes up 2.0 - 2.5% of the fund, which contributed -0.13% to overall performance.

The Fund's exposure to the energy sector has decreased considerably over the past two years and is now at c. 6%, down from c. 8% last quarter. Cash in the fund remains at high levels (c. 9%). Oak Hill stress this is a defensive play as well as a move to position themselves with more flexibility to be able to act quickly, as and when suitable opportunities arise in the market.

11 Partners Group – Direct Infrastructure

Partners Group was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

Direct Infrastructure - Investment Performance to 30 September 2015

The product held its first close in August 2015 and has already called capital to fund two investments; Fermaca and Japan Solar. Of the Fund's €55m commitment, €2.2m has been drawn.

Partners Group continues to see an attractive pipeline of potential investments for this product.

Information on the two investments in the product is given below.

Fermaca

Fermaca is a leading gas infrastructure operator, which develops, constructs, owns and operates pipelines and other related energy assets in Mexico. Fermaca's customers include Mexico's state-owned electric utility and other large natural energy companies and the bulk of its capacity is contracted under long-term agreements, providing the business with stable and predictable cash flows. The company currently owns two operating natural gas pipelines, including Tarahumara pipeline (TP), which is strategically located between the US-Mexico border and northern Mexico. Since Partners Group's investment in Fermaca, the company has also secured the rights to two additional projects; the El Encino – La Laguna (EELL) and Roadrunner (RR) pipeline. Both pipelines will connect to TP and create an integrated gas transportation system upon completion. This will allow Fermaca to further consolidate its market-leading position in transporting natural gas from the US to the northern and central regions of Mexico.

Japan Solar General Partner

Japan Solar General Partner is a Japanese solar platform that funds the construction and operation of utility-scale solar plants across the country with its partner, Nippon Renewable Energy, one of the largest independent solar utility businesses in Japan. Japan Solar's projects benefit from long-term power purchase agreements with feed-in tariffs that were introduced by the Japanese government to encourage investment in the renewable energy sector. As of 20 June 2015, Japan Solar's platform comprised 21 secured projects with total power-generation capacity of about 400MW, among which two are operational.

12 M&G – Inflation Opportunities

M&G was appointed to manage an inflation opportunities mandate with the aim of outperforming the RPI benchmark by 2.5% p.a. The manager has an annual management fee which is calculated based on the underlying assets.

Investment Performance to 30 September 2015

Over the third quarter of 2015, the fund returned 2.6% net of fees, outperforming the target by 1.7%.

At the end of September the fund comprised of 73% ILG, 26% long lease property and 1% ground rents. The fund has made a further commitment of £20.4m to long lease property, expecting half of this to be drawn down in October. The fund has also made a commitment of £65m to Income Strips via the Secured Lease Income Fund (internal M&G fund) with c. £50m expected to be drawn in December if investment in a large asset in the leisure sector is finalised.

The Fund has a maximum of 2 years to source and invest in suitable long term assets which provide sufficient risk, return and diversification characteristics. M&G is seeing certain assets being purchased at inflated prices driven by investors' needs to get 'money on the ground' quicker. M&G remains true to the fund's philosophy of sourcing the right assets at the right time. M&G's medium term expected asset allocation views has not changed.

The management fees charged by the fund are dependent on the underlying assets. Therefore while M&G is sourcing assets and has the majority invested in ILG's, clients are charged based on the assets currently in the portfolio and not based on a medium term expected portfolio. The current weighted average management fee is 28bps. Once the portfolio is fully invested we would expect to see this move towards 37bps.

13 Standard Life Investments – Long Lease Property

Standard Life Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

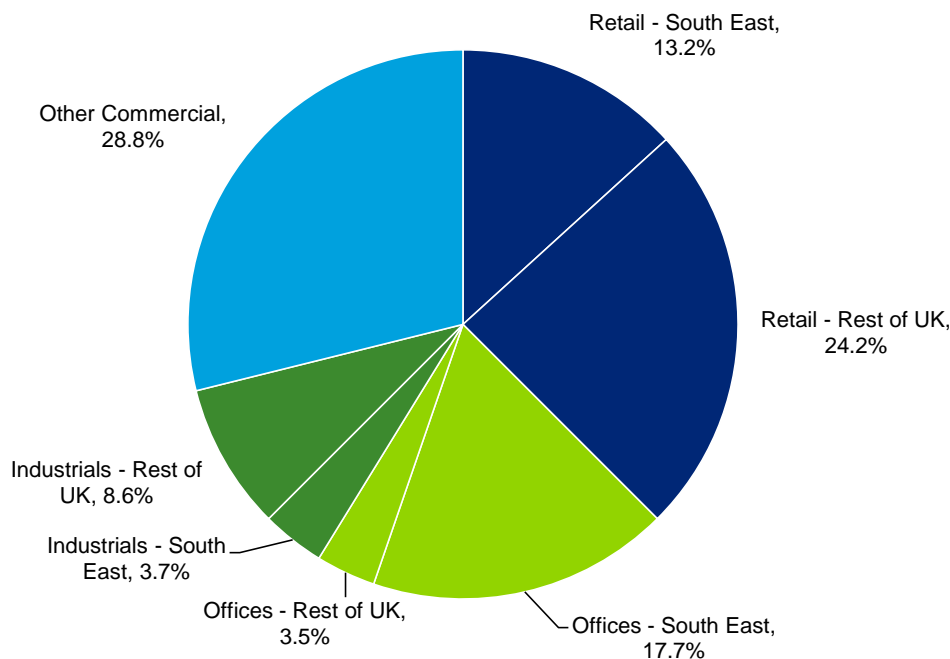
Long Lease Property - Investment Performance to 30 September 2015

Over the quarter the strategy returned 1.8%, underperforming the benchmark of the FTSE Gilt All Stocks Index +2% p.a. by 1.9%. This takes the 12 month performance to 8.4%, underperforming the target by 2.0%. (This is for illustrative purposes only. The Fund has only been invested since April 2015.)

We would not expect a long lease property fund to keep pace with a gilts based benchmark in such extreme low yielding environments. In absolute terms, the fund has performed in line with our expectations.

Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 September 2015 is shown in the graph below.



When compared to an IPD benchmark, the Fund remains underweight in the office sector (21.2% compared to 29.8%) and remains underweight the industrial sector (12.3% compared to 18.4%).

The Fund continues to be significantly overweight in the “Other” sector (28.8% compared to 9.2%) as a result of its holdings in a range of car parks, student accommodation, hotels, medical centres and law courts, as well as its indirect holding in the Standard Life Investments Commercial Ground Rent Fund.

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Property/Location	Total Rent £m p.a.	% Net Income
Tesco Stores Limited	Various	7.8	10.9
Premier Inn Limited	Fountainbridge	5.1	7.1
Sainsbury's Supermarkets	Various	4.8	6.8
Asda Stores Limited	Various	4.4	6.2
University of Salford	Peel Park Campus	3.7	5.2
Save the Children Fund	Various	3.5	4.9
WM Morrisons Supermarkets	1 St Johns Lane, London	3.5	4.9
Marstons PLC	Various	3.4	4.7
Glasgow City Council	Various	3.1	4.4
Travis Perkins (Properties)	Various	3.0	4.2
Total		42.3	59.4

The top 10 tenants contribute 59.4% of the total net income into the Fund. Supermarkets continue to dominate the Fund, with Tesco, Sainsbury's, Asda and Morrison's contributing 28.8% to the Fund's total net rental income.

The Fund's average unexpired lease term has increased slightly over the quarter to 26.2 years.

The proportion of the Fund invested in assets with fixed, part-fixed, CPI or RPI-linked rental increases rose from 89.9% to 90.4% over the third quarter of 2015.

Portfolio Holdings

During the quarter the fund completed a 45 year £7.5m lease on a 104 room student accommodation facility in Salford.

The fund undertook a £30m development with Poundland on the M6, with a 20 year lease and a running yield of 5.1%.

The fund is also currently considering a possible future investment in a 30 year hotel lease.

Appendix 1 – Fund and Manager Benchmarks

The table in this Appendix details the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	22.5%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
MFS*	Overseas Equity	22.5%	MSCI AC World Growth Ex UK index	31/08/05
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
Goldman Sachs**	Absolute Return Bonds	10.0%	3 Month Sterling LIBOR +2% p.a.	31/03/03
LGIM	LDI Bonds	0.0%	Track the performance of a leveraged mixture of inflation-linked government bonds	11/01/12
Invesco	Private Equity	0.0%	n/a	30/09/09
Unicapital	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	01/05/15
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling LIBOR +8% p.a.	31/08/2015
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Standard Life Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	100.0%		

*MFS are to be replaced by LGIM

*GSAM are to be replaced by Insight

Note, for the benchmark performance calculation, we assume a 10% allocation to Partners Group MAC and Oak Hill Advisors MAC, and 0% allocation to Partners Group Infrastructure. This will be re-weighted as the Infrastructure Fund is drawn down.

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 - Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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London Borough of Hammersmith and Fulham Pension Fund

Funding Update Report
as at 30 September 2015

Graeme D Muir FFA
Barnett Waddingham LLP

9 November 2015

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1. Introduction

- 1.1. We have carried out a quarterly monitoring assessment of the London Borough of Hammersmith and Fulham Pension Fund (the Fund) as at 30 September 2015. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

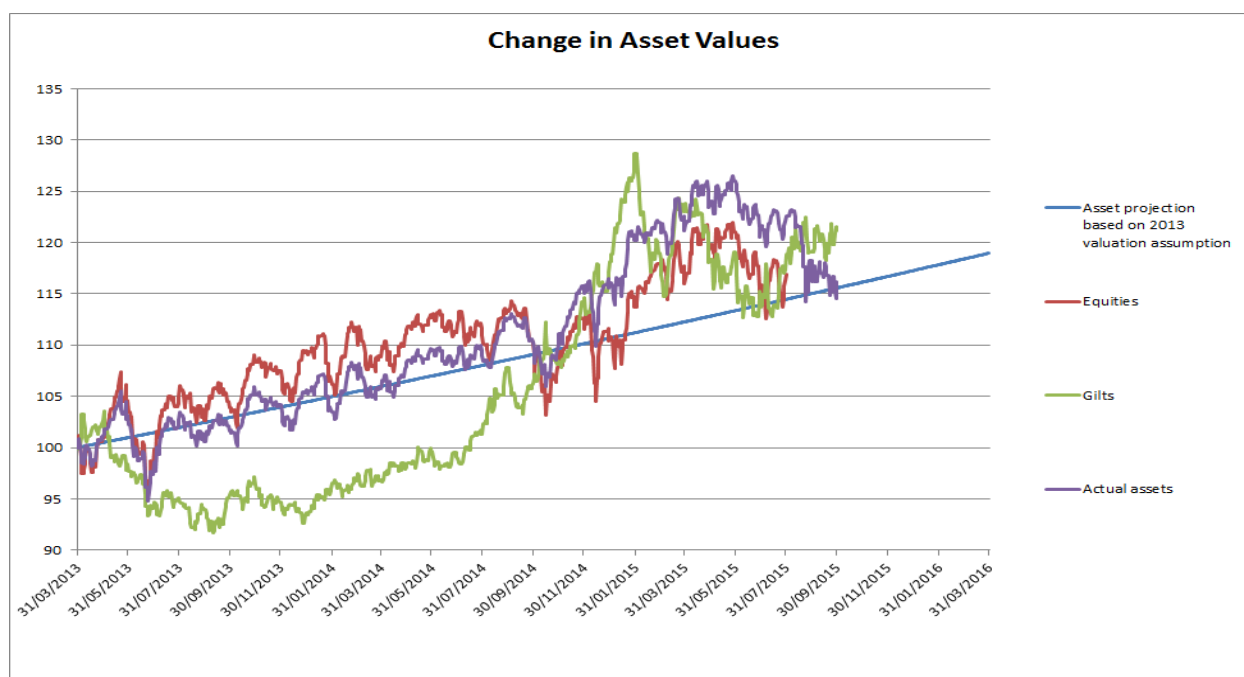
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the London Borough of Hammersmith and Fulham Pension Fund as at 30 September 2015 is as follows:

Assets (market value)	30 Sep 2015		30 Jun 2015		31 Mar 2013	
	£000s	%	£000s	%	£000s	%
Absolute return	67,512	8.1%	72,157	8.4%	191,468	26.4%
Commodities	3,058	0.4%	3,590	0.4%	4,615	0.6%
Hedge funds	0	0.0%	0	0.0%	101,396	14.0%
UK and overseas equities	460,742	55.5%	484,199	56.1%	390,299	53.9%
Inflation Opportunities Fund	78,905	9.5%	76,847	8.9%	0	0.0%
Property	44,434	5.3%	42,007	4.9%	0	0.0%
Gilts	34,166	4.1%	60,680	7.0%	23,755	3.3%
Cash and accruals	42,803	5.2%	23,225	2.7%	12,553	1.7%
Multi Asset Credit Funds	99,274	11.9%	100,520	11.6%	0	0.0%
Total assets	830,894	100%	863,225	100%	724,086	100%

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2015 is estimated to be -3.6%. The return achieved since the previous valuation is estimated to be 16.2% (which is equivalent to 6.2% p.a.).

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 30 September 2015 in market value terms is very close (in fact slightly more) than where it was projected to be at the previous valuation.

3. Changes in market conditions – market yields and discount rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	30 Sep 2015		30 Jun 2015		31 Mar 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases	2.69%	-	2.68%	-	2.74%	-
Salary increases	4.49%	1.80%	4.48%	1.80%	4.54%	1.80%
Discount rate	5.64%	2.95%	5.56%	2.88%	5.96%	3.22%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is lower than at the 2013 valuation, increasing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 30 September 2015 is 84.5% and the average required employer contribution would be 24.1% of payroll assuming the deficit is to be paid by 2035;
- this compares with the reported (smoothed) funding level of 82.9% and average required employer contribution of 21.9% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 30 September 2015 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2035, without the employers paying deficit contributions, would be 6.5% p.a.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.



Graeme D Muir FFA
Partner

Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Valuation date	Assets £000s	Liabilities £000s	Surplus/Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2013	715,915	863,421	(147,506)	83%	13.6%	8.3%	21.9%	6.0%	6.8%
30 Apr 2013	723,791	867,688	(143,897)	83%	13.6%	8.1%	21.7%	6.0%	6.8%
31 May 2013	728,946	868,509	(139,564)	84%	13.6%	7.8%	21.4%	6.0%	6.8%
30 Jun 2013	731,739	867,699	(135,960)	84%	13.5%	7.7%	21.1%	6.0%	6.8%
31 Jul 2013	735,705	868,567	(132,861)	85%	13.4%	7.5%	20.9%	6.1%	6.8%
31 Aug 2013	737,087	868,857	(131,770)	85%	13.3%	7.5%	20.8%	6.1%	6.9%
30 Sep 2013	741,569	872,754	(131,185)	85%	13.3%	7.4%	20.8%	6.1%	6.9%
31 Oct 2013	746,859	877,215	(130,356)	85%	13.4%	7.4%	20.8%	6.1%	6.8%
30 Nov 2013	750,901	877,319	(126,419)	86%	13.3%	7.2%	20.5%	6.1%	6.8%
31 Dec 2013	755,725	881,184	(125,459)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
31 Jan 2014	760,194	884,185	(123,991)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
28 Feb 2014	763,200	887,025	(123,825)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
31 Mar 2014	767,141	891,546	(124,405)	86%	13.4%	7.1%	20.5%	6.1%	6.8%
30 Apr 2014	774,710	898,649	(123,939)	86%	13.4%	7.3%	20.7%	6.0%	6.8%
31 May 2014	777,240	903,109	(125,869)	86%	13.5%	7.4%	20.9%	6.0%	6.8%
30 Jun 2014	779,486	910,536	(131,049)	86%	13.6%	7.7%	21.4%	6.0%	6.7%
31 Jul 2014	786,787	919,151	(132,364)	86%	13.7%	8.0%	21.6%	5.9%	6.7%
31 Aug 2014	790,518	923,582	(133,064)	86%	13.7%	8.0%	21.7%	5.9%	6.7%
30 Sep 2014	793,688	927,324	(133,636)	86%	13.7%	8.1%	21.8%	5.9%	6.6%
31 Oct 2014	809,074	936,788	(127,714)	86%	13.9%	7.7%	21.6%	5.8%	6.5%
30 Nov 2014	820,047	942,490	(122,443)	87%	14.0%	7.4%	21.4%	5.7%	6.4%
31 Dec 2014	826,997	949,981	(122,983)	87%	14.0%	7.2%	21.2%	5.7%	6.4%
31 Jan 2015	855,764	980,516	(124,752)	87%	14.8%	7.1%	22.0%	5.5%	6.1%
28 Feb 2015	864,770	991,732	(126,962)	87%	15.1%	7.2%	22.3%	5.4%	6.1%
31 Mar 2015	870,515	993,332	(122,817)	88%	15.0%	7.0%	22.0%	5.5%	6.1%
30 Apr 2015	878,102	994,164	(116,062)	88%	14.9%	6.7%	21.6%	5.5%	6.2%
31 May 2015	881,346	993,323	(111,977)	89%	14.8%	6.5%	21.3%	5.6%	6.2%
30 Jun 2015	873,687	1,011,062	(137,376)	86%	15.2%	7.9%	23.1%	5.6%	6.3%
31 Jul 2015	865,694	1,007,723	(142,028)	86%	15.0%	8.3%	23.3%	5.6%	6.4%
31 Aug 2015	859,726	1,006,673	(146,947)	85%	14.9%	8.6%	23.5%	5.6%	6.5%
30 Sep 2015	853,435	1,010,123	(156,688)	84%	14.9%	9.2%	24.1%	5.6%	6.5%

Appendix 4: CASHFLOW MONITORING: July 2015 to September 2015

Cashflow actuals and forecast for period April 2015 to March 2016

	Apr15 £000	May15 £000	Jun15 £000	Jul15 £000	Aug15 £000	Sep15 £000	Oct15 £000	Nov15 £000	Dec15 £000	Jan16 £000	Feb16 £000	Mar16 £000
	Actual	Actual	Actual	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast
Balance b/f	4,486	2,415	8,013	8,658	7,347	6,175	4,871	3,716	5,966	4,811	3,656	1,851
Contributions	322	8,358	3,521	1,973	1,870	1,875	1,850	1,850	1,850	1,850	1,850	1,850
Pensions	-2,392	-2,410	-2,401	-2,403	-2,418	-2,376	-2,430	-2,430	-2,430	-2,430	-2,430	-2,430
Lump Sums	-1	-334	-410	-501	-1,390	-69	-450	-450	-450	-450	-450	-450
Net TVs in/(out)	0	0	298	-2	15	-145	-75	-75	-75	-75	-75	-75
Expenses	1	-17	-363	-378	-298	-589	-50	-2,000	-50	-50	-700	-700
Net cash in/(out) in month	-2,071	5,598	645	-1,311	-2,221	-1,304	-1,155	-3,105	-1,155	-1,155	-1,805	-1,805
Withdrawals from Fund Managers	0	0	0	0	1,049*	0	0	5,355**	0	0	0	1,000
Balance c/f	2,415	8,013	8,658	7,347	6,175	4,871	3,716	5,966	4,811	3,656	1,851	1,046

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*Distributions from the private equity managers Invesco and Unigestion. ** £5m from LGIM as agreed by cttee in Sept 2015; balance from private equity.

Cashflow actuals compared to forecast in July 2015 to September 2015 quarter

	July 2015		August 2015		September 2015		Jul to Sep 2015
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000	Actual £000	Variance £000
Contributions	1,800	1,973	1,800	1,870	1,800	1,875	318
Pensions	-2,450	-2,403	-2,450	-2,418	-2,450	-2,376	153
Lump Sums	-500	-501	-1,250	-1,390	-450	-69	240
Net TVs in/(out)	0	-2	-370	15	-75	-145	313
Expenses	-380	-378	-500	-298	-300	-589	-85
Withdrawals from Fund Managers	0	0	1,000	1,049	0	0	49
Totals	-1,530	-1,311	-1,770	-1,172	-1,475	-1,304	988

Notes on variances in quarter:




- Lump sums and net transfers in/(out) account for £553k of the variance – these cashflows are variable and difficult to predict accurately.
- The variances on contributions and pensions are the result of over –providing in the forecast – adjustments to the forecasts in both areas have been made for the remainder of 2015/16.




Appendix 5: Pension Fund risk register, November 2015




Changes to the risk register since previous quarter




Type	Ref	Risk	Rationale
New risk	9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	There is a risk that the Fund is unable to opt up to professional status and therefore has to exit from some of the investments it holds incurring costs. Although lobbying is continuing nationally to ensure a smooth transition to MiFID II, there is still a risk.
Increase impact score	19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	The risk has been increased to "High" to reflect the on-going issues with the reconciliation work due to be delivered regularly by BT. The longer this continues in the run up to year end puts the delivery of a clean external audit of the Pension Fund accounts at risk.
Remove from register	N/A	OPERATIONAL: ADMINISTRATION The switch from Capita to Surrey County Council results in a disruption to the service or a loss of data leading to poor performance and complaints.	This risk has been removed from the register because the transfer to Surrey County Council took place relatively smoothly and as planned on the revised date of 1 September 2015.
New risk	24	OPERATIONAL: ADMINISTRATION The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.	This new risk has been added to reflect issues that have been identified by Surrey County Council from 1 September 2015 with the quality and accuracy of data inherited from Capita.



Pension Fund risk register, November 2015



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	3	Low 6 	Director for Finance	Nov 2015
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	3	Low 9 	Director for Finance	Nov 2015
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review. 	2	5	Low 10 	Director for Finance	Nov 2015



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	4	3	Medium 12 	Director for Finance	Nov 2015
5	STRATEGIC: FUNDING There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. 	2	1	Very Low 2 	Director for Finance	Nov 2015
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	4	2	Low 8 	Director for Finance	Nov 2015



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly. 	2	3	Low 6 	Director for Finance	Nov 2015
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. 	3	4	Medium 12 	Director for Finance and Bi-borough Director of HR	Nov 2015
9	STRATEGIC: REGULATION Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs.	<ul style="list-style-type: none"> Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of this developing issue. 	4	3	Medium 12 	Director for Finance	Nov 2015



Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
10	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. 	2	2	Very Low 4 	Director for Finance	Nov 2015
11	OPERATIONAL: GOVERNANCE Sub-committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> External professional advice is sought where required Knowledge and skills policy in place 	3	3	Low 9 	Director for Finance	Nov 2015
12	OPERATIONAL: GOVERNANCE Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	<ul style="list-style-type: none"> Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions teams provides resilience and sharing of knowledge. 	3	3	Low 9 	Director for Finance and Bi-borough Director of HR	Nov 2015


Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
13	OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Sub-committee and officers scrutinise and challenge advice provided. 	2	2	Very Low 4 	Director of Finance	Nov 2015
14	OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. 	3	2	Low 6 	Director of Finance and Bi-borough Director of HR	Nov 2015


Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> Review “budgets” at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. 	3	2	Low 6 	Director for Finance and Bi-borough Director of HR	Nov 2015
16	OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 	2	3	Low 6 	Director for Finance and Bi-borough Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	<p>OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> • Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. There are currently some challenges with the standard controls and therefore the regular reconciliation processes. Mitigating controls and checks have been put in place to address this. • Periodic internal audits of Pensions Finance and HR teams. 	4	2	<p>Low 8</p> 	Director for Finance and Bi-borough Director of HR	Nov 2015
18	<p>OPERATIONAL: ADMINISTRATION Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.</p>	<ul style="list-style-type: none"> • Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	3	1	<p>Very Low 3</p> 	Director for Finance and Bi-borough Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	OPERATIONAL: ADMINISTRATION Failure of financial system leading to lump sum payments to scheme members and supplier payments (to fund managers and advisers) not being made and Fund accounting not being possible.	<ul style="list-style-type: none"> Contract in place with BT to provide service enabling smooth processing of payments. Officers are tracking payments through the system to ensure scheme members and suppliers receive them. Officers undertaking additional reconciliation work to verify accounting transactions. 	4	4	High 16 	Director for Finance	Nov 2015
20	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> Pensioner payroll system is subject to daily software backups and off-site duplication of records. Disaster recovery procedures allow for pensioner payrolls to be run from alternative sites if required. 	1	5	Very Low 5 	Bi-borough Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> • SCC's Altair system allows for all pensioner benefits to be automatically calculated by the administration system. • Pensioner benefits are double-checked by another team member in SCC before being released. • Spot checks are undertaken by the Client Team for accuracy. 	2	3	Low 6 	Bi-borough Director of HR	Nov 2015
22	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> • Pensioner administration system Altair is subject to daily software backups and off-site duplication of records. • Disaster recovery procedures allow for Altair to be run from an alternative site if required. Payments can be made from other UK sites other than SCC's HQ. 	1	5	Very Low 5 	Bi-borough Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
23	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<ul style="list-style-type: none"> • SCC's pension teams are highly skilled and knowledgeable in the area of LGPS administration. • The work is split across multiple officers to ensure skills are fully developed so that there is no single point of failure. • Team members received regular training on LGPS and on changes or enhancements to the pension administration system. • There are regular monthly meetings with the Client Manager to review performance. 	2	3	<p>Low</p> <p>6</p> 	Bi-borough Director of HR	Nov 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
24	<p>OPERATIONAL: ADMINISTRATION The quality of scheme member data inherited from Capita does not meet the comprehensiveness and level of accuracy required for Surrey County Council to correctly administer the LGPS to scheme members.</p>	<ul style="list-style-type: none"> A meeting with the actuary is planned for November 2015 to review the data requirements for the 2016 triennial review and this will be used to guide priorities in terms of filling any gaps that exist with the data. A log of known data issues is being kept and a plan to address these will be developed before Christmas 2015, aligned to the outcome of the meeting with the actuary planned for November 2015. Shortfalls in the range or quality of inherited data are being raised with Capita to determine the cause and identify what measures can be put in place to rectify the deficiency. 	3	5	<p>Medium</p> <p>15</p> 	Bi-borough Director of HR	Nov 2015

Appendix 6: Pension Fund Voting Summary: July to September 2015

The investment managers managing the Fund's assets on a segregated basis are able to report on how they have voted the Fund's specific holdings at AGMs and EGMs of companies the Fund is invested in. The majority of the Fund's equities are managed on a segregated basis by Majedie, MFS and Ruffer. Majedie and Ruffer also hold small portions of the Fund's monies in pooled funds, where votes are cast on behalf of the pooled fund as a whole.

The investment managers all use the services of Institutional Shareholder Services (ISS) who are a leading provider of corporate governance research and provide advice to its clients about voting in line with corporate governance principles.

The table below provides information about the votes cast in respect of the segregated assets during the quarter July to September 2015. This includes the number of occasions the managers voted against management recommendations and ISS recommendations.

	Majedie	MFS	Ruffer
No. of meetings	54	6	10
No. of resolutions	617	34	49
Votes not in line with management	19	9	0
Votes not in line with ISS	35	0	1

To Chairs of Pension Committees

Wednesday, 3 November 2015

Dear Colleague

Local Government Pension Scheme - Pooling of investments

I know that you will be aware that in the summer budget the government announced that it would seek to work with local government to pool the investments of the LGPS in order to implement fee savings without any detriment to returns.

The Secretary of State wrote to me on 10th July outlining the background to the announcement and setting a challenge to the sector to come forward with proposals to meet the objectives of government.

Since then the LGA both directly and through its representation on the LGPS Advisory Board has sought to provide a voice for and support to its members in this task. In particular we have been clear to government that issues around cost, timing, transition, effective asset allocation and political accountability back to local funds must be very carefully considered. We have also arranged a number of opportunities for representatives of the sector to meet with and question government those officials tasked with implementing the policy.

The latest of these, a session for chairs of LGPS pension committees, took place on Friday 16th October. Over a third of LGPS funds attended as well as officials from both DCLG and HM Treasury and the meeting provided the opportunity to both hear about the timeline and objectives as well as participate in a lively debate.

A briefing note is attached to this letter giving the latest position and how the LGA continue to provide your fund with an input to and support for this process.

Cllr Roger Phillips is the LGA lead on this matter and would be happy to discuss any issues, ideas or views you may have.

Yours sincerely



Lord Porter of Spalding CBE
Chairman

LGA Briefing: Pooled investments

This briefing sets out the policy clarification emerging since the Summer Budget announcement on pooling investments in the LGPS.

Background

1. On 7th July the chancellor made two announcements (one via the red book, the other in the speech) that will have an impact on the LGPS.
2. The first, and of more immediate concern, was the announcement of a consultation on legislation for delivering savings via the use of pooled investment vehicles for LGPS fund assets.
3. The document which accompanies the budget and is published immediately the chancellor sits down (the red book) contains the detail of the major announcements made in the chancellor's speech to the House together with those announcements which for whatever reason were not included in the speech.
4. The red book contains at page 78 the following section
2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.
5. This briefing sets out the clarification on policy which has emerged since the Summer Budget announcement on pooled investments. It includes the key messages which are now becoming clear; a brief note of the meetings held on the subject; and a description of the options for pooling currently under discussion.

Key messages

6. Since the budget announcement the following key messages have emerged in discussion with DCLG/HMT officials:
 - a) Proposals for pooling will need to be assessed against criteria to be set by government. The budget statement is potentially misleading in that the consultation on the criteria is happening now not in the autumn.
 - b) Criteria are likely to be around size (£30b has been used as an illustrative example), cost and governance. However there will be no specific savings target in the cost criterion. A fourth criterion on infrastructure is expected to be added following the chancellor's speech to the Conservative party conference on 5th October.
 - c) This additional criterion is not expected to be prescriptive but will aim to provide an environment in which cost effective infrastructure investment opportunities may be better accessed by the LGPS.
 - d) We expect the criteria will likely be published in November alongside a consultation on:
 - new investment regulations (with the removal of any limits or restrictions which would prevent pooling); and
 - 'back stop' legislation which will apply if any fund is not invested via a vehicle/s which meet the criteria;
 - e) Thoughts about pooling models and options should be underway now with a view to proposals on a direction of travel (likely pools and which funds will be in them) going to ministers early next year. Further and more, detailed proposals would then be expected later in 2016.
 - f) Announcement by government on the way forward likely in Spring 2016.

- g) Asset allocation is to be left at the local level, but as yet there is no guidance on the exact nature of this allocation (e.g. at the class or sub class level?).
- h) Government has no fixed ideas on the structure of pools (CIV, CIF, joint procurement etc.) that decision is being left to the sector.
- i) Government has no fixed ideas on type of pools (regional, multi asset or single asset) again, that decision is with the sector. However it has expressed a preference for a 'simple' solution.
- j) Government is alive to the transitional issues for example illiquid vehicles that cannot be unwound in the short term without significant financial penalties. It is also aware of the time that structures such as the London CIV have taken to set up. However it will probably expect pooled vehicles to be in place in this parliament even if all assets will not be ready to be moved within that timeframe.
- k) There may be a place for a proportion of the assets to remain under direct local control in certain circumstances. However any such exemptions would probably be for prescribed investments and will be small.

Meetings

- 7. A number of recent meetings have taken place on this subject organised both by the LGA, in response to a request from DCLG to facilitate discussions with stakeholders, and the Scheme Advisory Board (SAB).
- 8. LGA organised a fund officers/DCLG/HMT meeting on the 17th August, followed up with a further meeting on the 7th September, to encourage thinking around the criteria and possible models. The key outputs of these meetings were that funds:

- Remain unconvinced that there are any intrinsic benefits of scale especially for in house teams with already low costs.
 - Do not see CIVs as the only method of pooling.
 - Interpret 'asset allocation' in a number of different ways.
 - Can see some benefits to pooling in some asset classes but would want to retain some local discretion.
 - Anticipate reduced fees especially for alternatives, provided pools are well governed.
9. The LGA also organised an investment managers DCLG/HMT meeting on 24th August to solicit the views of the industry. The key outputs of this meeting were that managers:
- Were less concerned about the background structure of any pool and more concerned on the need for it to present itself as one client.
 - Would encourage as much decision making as possible be placed within the pools in order to achieve the greatest savings.
 - That pools if structured correctly could provide the 'sticky mandates' necessary to remove unnecessary churn.
10. The SAB held an open invitation session on 21st August for all funds. There were over 60 attendees (the vast majority officers) representing 45 funds. A copy of the Q&A from this session is attached as **ANNEX 1**.
11. LGA held a meeting for chairs of pension committees on 16th October. A number of issues were raised mainly around timing of proposals, the need to obtain political agreement, the potential exemptions and the potential for competing pools. The issue of co-ordination in order to ensure that all funds are involved in the proposals was also raised.

Potential models

12. Making an assumption that around £30b is the target for multi asset pools, with perhaps a smaller number for single asset pools which could be

evidenced to operate better at the national level; then a number of potential options for pooling emerge:- PLEASE NOT LGA are not supporting, proposing or seeking to achieve any of these options and the following are listed for information only

- Six or seven¹ regional multi asset pools
- Six or seven national multi asset pools - funds could join pools with similar investment strategies or methodologies (e.g. in-house)
- Four or five multi asset pools (regional or national) with a single national framework for passive
- Four or five multi asset pools with a national pool for a single asset class (e.g. infrastructure)
- Four or five multi asset pools with a single national framework for passive and a national pool for a single asset class
- Three or four multi asset pools with single national framework for passive, a national pool for a single asset class (e.g. infrastructure) and a single pool for fixed liabilities (e.g. a pensioner pool)

13. For pools themselves there are a number of different potential structures which are under consideration these being:

- Joint procurement (e.g. the passive framework)
- Joint vehicles (e.g. the LPFA/GMPF infrastructure pool)
- Combined vehicles (e.g. the London CIV and Lancs/LPFA models)
- Delegated functions (e.g. section 101(5) committee with lead authority)

14. For the latter two a degree of in-house management is being considered either to replicate what is already there or to build extra capacity.

15. In order for funds to be able to compare a number of the options a group of LGPS funds are working with Hymans Robertson to undertake an analysis of

¹ Depending on the participation of Welsh funds in cross border pools or one Welsh pool.

options with a view to assessing how each performs against the following criteria:

- Size - are the multi asset pools sufficient to meet the assumed government criteria of £30b, are the other vehicles optimally sized for their class or method?
- Costs - what are the estimated gross savings for each option?
- Governance - how do each of the models provide political structures and behaviours that encourage best practice outcomes (e.g. long term investment)?
- Local political direction - who is working with who already, where are the obvious fits?
- Central political direction - are there other policy drivers which the options best fit with (e.g. combined authorities)?
- Impact on competition - both in the manager market and between pools.
- Legislative requirements - what is needed and what would be the time frame needed?

16. The data from the above analysis will be made available to the stakeholders and in this respect the LGA's Head of Pensions will liaise with the steering group managing this work.

How LGA can help

17. The LGA pensions team can provide cross scheme data from the Scheme Annual Report to enable funds to assess the potential assets pools across England and Wales.

18. LGA can co-ordinate the process by making funds aware of the pooling projects underway and providing a central contact point for funds who are exploring their options and may wish to talk to more than one project.

19. The LGA Head of Pensions is able to attend joint or single meetings of officers and/or elected members in order to set out the background and current understanding of the process.
20. The LGA can make representation on behalf of LGPS funds back to government and/or facilitate contact with DCLG and HM Treasury officials who are leading on the process.
21. If you would like further information on how the LGA can provide support please contact:

Cllr Roger Phillips LGA lead member on pensions:

rjphillips@herefordshire.gov.uk

Jeff Houston Head of Pensions:

jeff.houston@local.gov.uk

October 2015

ANNEX 1

Questions received for 21st August Pooled Investment Event.

Q1. The current regulatory framework within which the LGPS operates makes it difficult for funds to collaborate on investments without a requirement to achieve FCA registration which entails additional cost and complexity. It should be possible to revise the Investment Regulations to allow funds to work together, within guidelines, without unnecessary regulation.

Are ministers receptive to a revision of the regulatory framework to enable funds to work together more easily? If so, will this be undertaken at the same time as the pooling consultation?

A1. Yes, as part of the package, government will consult on revising the investment regulations. It has been noted that the initiatives to be implemented in the near term, i.e. the London CIV, have needed to work through barriers in order to get the current stage. Amended investment regulations would be required to facilitate ease of implementation of investment pooling without having to establish third party companies and FCA regulation.

Q2. How do low cost internally managed LGPS schemes fit into their view for the LGPS?

A2. The intention is for all LGPS assets to be pooled, there will not be exemptions for any fund. However, the package for the LGPS is deliberately not over-prescriptive. The criteria for investment pools will include some detail on governance, size, and cost, but it will be up to LGPS funds to work together to uphold proposed investment pools against the criteria.

There is an issue of scale to address, and a need to collaborate with others with the same goals. Government can help proposals through regulatory change.

Q3. Funds are required to demonstrate cost savings, however as investment arrangements are income contracts as returns improve you pay higher fees, arguably you want to be paying more as it demonstrates you are earning more? Is "cost savings" the right question or should it be "Value for Money"?

A3. Both costs and the return on investments are important. It is recognised that i) there are industry-wide issues with investment expenses transparency, and ii) each fund will be starting from a different point. There is evidence to suggest larger pools may be more cost effective, benefitting from economies of scale. The government is

looking at a timescale longer than term of office for any cost savings to fully materialise. Without having set the criteria, questions around demonstrating cost savings against them are difficult to answer.

Q4. There has not been any work to achieve a consistent fee base or fee budget for the wider LGPS to measure against, so how is the integrity of fee saving submissions established.

A4. LGPS policy has moved on from 2013 when the call for evidence brought investment costs into focus and ignited the passive versus active debate. Since then it has been shown that LGPS Funds had managed to negotiate competitive fee bases. Fee savings are one of the reasons, but not the primary reason, for pooling investments. As above, the criteria have not been set, nor the nature of the pools; therefore submissions would need to be backed up with evidence.

Q5. How are CIV structures more likely to generate savings over shared procurement initiatives, especially as CIV's have an operating cost, governance and access challenges to overcome?

A5. The policy intention would not be met by frameworks and/or procurement initiatives alone. If the end result is that the investments of the LGPS are to be held in four or five robust CIVs, similar to the London CIV, the government would not be disappointed. CIVs, however, were not prescribed in the budget, and there are other, just as acceptable, means for investment pooling.

One of the long term detractors in performance is investment manager turnover; its extent would be reduced as a result of pooling investments. The eventual solutions would need to be considered, backed up by research and require a lead in time to implementation.

Q6. How do we ensure that our proposals are not a patchwork quilt many of which may not meet the size criteria and/or overlap with each other? Do we need a moratorium on any new initiatives while we develop proposals and will the Board be looking to compile responses into a number of cohesive options?

A6. The criteria consultation is a continuum, with the 21st August Q&A/forum forming part of the process. Grouping for pools have yet to be defined, but regional, asset, liability and philosophy bases have been discussed. The Board will have a central role in coordinating responses and analysis to support the proposals and the development of suitable proposals is a challenge for the room.

Q7. I would like to know if there are any particular plans for funds with low cost, outperforming internal investment teams.

A7. As above, the intention is for all LGPS assets to be pooled, there will not be exemptions for any fund. However, outperforming internal investment teams are well placed to work together to lead and influence the pooling proposals.

Q8. Has the option of negotiating an LGPS fee with external managers been considered without the need to pool funds? I understand that some managers are offering this already.

A8. As above, the policy intention would not be met by frameworks and/or procurement initiatives alone. A "keep doing what you're doing", "business as usual" option would not be acceptable to government.

Q9. Can it be confirmed if this issue/consultation includes Scotland or is it purely England & Wales.

A9. The consultation is for England and Wales, and the criteria setting will be carried out by DCLG. The regulations for the LGPS in Scotland are devolved, therefore Scotland is not included.

Q10. Some asset class mandates are restricted by capacity, for example, private equity. Are these sorts of asset class exempt from pooling?

A10. It is the intention that all asset classes would be included in pooling, including alternatives asset classes, property, private equity etc.

Q11. What are the timescales?

A11. Criteria should be available in the autumn, and government will expect a report on how work has moved forward by next March. A 'clear direction of travel' would be useful within the next six months. Proposals are expected to be realised within the lifetime of this parliament. It is recognised that this is a challenge – but Secretary of State has a preference for collaboration over prescription.

Q12. Will financial support be provided to help establish investment pooling infrastructure (i.e. setting up systems, processes and staff etc, not infrastructure as an asset class)?

A12. Funds will be expected to meet the costs of restructuring investments from their own budgets. As mentioned earlier, and in the knowledge that expenses will be considerable, the government is looking at a timescale longer than term of office for any cost savings to fully materialise.

The Markets in Financial Instruments Directive (MiFID II) and its impact on LGPS investments

Why be concerned?

1. It is our understanding that under MiFID II local authorities will be defaulted to retail client status - currently they are professional clients. There will be the opportunity to elect for professional client status.

What does that mean for me as an LGPS administering authority?

2. As a retail client your authority could be faced with a much reduced pool of asset managers and consultants willing to provide services, many may not deal with retail clients at all.
3. Those managers who are willing to deal with you will offer a restricted range of products and due to the extra compliance checks and reporting required for retail clients those products could cost more. First estimates are that up to 50% of LGPS assets may be affected.
4. If when the directive comes into force (January 2017) you hold assets in products outside of the scope of those available to retail clients you may find that the manager will eject you from that product resulting in a 'fire sale' of assets. This could be mitigated if FCA were to provide some form of transition period or 'grandparenting' - allowing you to retain products purchased as a professional investor for a period of time.

How can I elect for professional status?

5. The process will be similar to that in MiFID I (see ANNEX 1) although there may be some changes to the criteria. Effectively you will have to demonstrate to each manager you use that you meet the qualitative and quantitative criteria as set out below
6. The qualitative criteria - an 'adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the

transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved'

This assessment 'should be performed in relation to the person authorised to carry out transactions on its behalf.'

7. The quantitative criteria - (2 of the following 3 must be satisfied)

- the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
- the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

How long will it take for an election to be completed?

8. Depending on how the actual criteria look when published in 2016 it could be a matter of weeks. However as each manager will have to assess each of its LGPS clients this cannot be able to be done all at once. Therefore it may be that some form of managed election process across the whole of the LGPS will be needed. For example if a significant number of authorities wait until very late 2016 to elect then don't be surprised if the process is not completed by the January 2017 implementation date.
9. There is a duty on elected professional clients to keep firms informed about any change that could affect that status. Such changes could result in the process having to be repeated and depending on the nature of the change the danger that the authority could be reverted back to retail client status.

What's the timeline?

February 2015: Feedback Statement on dealing commission regime and potential changes under MiFID II

March 2015: FCA Discussion Paper and ongoing dialogue in areas where we have policy choices to make

Summer 2015: EU legislation on MiFID II implementing measures is adopted and formal approval process begins

December 2015: Consultation on implementing MiFID II requirements

Early 2016: EU legislation on MiFID II implementing measures is finalised and published

June 2016: FCA Policy Statement (rules) on implementation of MiFID II

3 January 2017: MiFID II rules come into effect for all investment firms

What should I do?

10. Make your committee aware of the issue as soon as possible.
11. Discuss the implications with your asset managers, find out if they will they still deal with you as a retail client and what assets will be affected.
12. Prepare for an assessment against the qualitative and quantitative criteria - what evidence would you put forward to back up your election for professional status? In particular assess who will be judged against the qualitative criteria and if necessary be prepared to amend your delegations appropriately.

What are LGA doing?

13. We are in discussions with the FCA, DCLG and the Investment Association (IA) to find ways to lessen the impact on LGPS authorities, in particular we are:
 - Investigating with DCLG and HMT the potential impact on pooling arrangements and in particular any impact on the potential for infrastructure investment via pools
 - Discussing the election process under MiFID II with FCA to see if there are changes that could make the process smoother for local authorities in relation to their pensions functions
 - Attempting to achieve a period of transition to avoid a forced sale of assets for those authorities who have not completed the election to professional status by January 2017

- Discussing with IA the possibility of standard documentation and process for election to professional status

LGA Pensions Team

16th October 2015

ANNEX 1

Extract from FCA New Conduct of Business Sourcebook Chapter 3 Client categorisation

ELECTIVE PROFESSIONAL CLIENTS

3.5.3

A firm may treat a client as an elective professional client if it complies with (1) and (3) and, where applicable, (2):

(1) the firm undertakes an adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (the "qualitative test");

(2) in relation to MiFID or equivalent third country business in the course of that assessment, at least two of the following criteria are satisfied:

(a) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;

(b) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;

(c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged; (the "quantitative test"); and

(3) the following procedure is followed:

(a) the client must state in writing to the firm that it wishes to be treated as a professional client either generally or in respect of a particular service or transaction or type of transaction or product;

(b) the firm must give the client a clear written warning of the protections and investor compensation rights the client may lose;

and

(c) the client must state in writing, in a separate document from the contract, that it is aware of the consequences of losing such protections.

[Note: first, second, third and fifth paragraphs of section II.1 and first paragraph of section II.2 of annex II to MiFID]

3.5.4

If the client is an entity, the qualitative test should be performed in relation to the person authorised to carry out transactions on its behalf.

[Note: fourth paragraph of section II.1 of annex II to MiFID]

3.5.5

The fitness test applied to managers and directors of entities licensed under directives in the financial field is an example of the assessment of expertise and knowledge involved in the qualitative test.

[Note: fourth paragraph of section II.1 of annex II to MiFID]

3.5.6

Before deciding to accept a request for re-categorisation as an elective professional client a firm must take all reasonable steps to ensure that the client requesting to be treated as an elective professional client satisfies the qualitative test and, where applicable, the quantitative test.

[Note: second paragraph of section II.2 of annex II to MiFID]

3.5.7

An elective professional client should not be presumed to possess market knowledge and experience comparable to a per se professional client

[Note: second paragraph of section II.1 of annex II to MiFID]

3.5.8

Professional client are responsible for keeping the firm informed about any change that could affect their current categorisation.


[Note: fourth paragraph of section II.2 of annex II to MiFID]

3.5.9

(1) If a firm becomes aware that a client no longer fulfils the initial conditions that made it eligible for categorisation as an elective professional client , the firm must take the appropriate action.

(2) Where the appropriate action involves re-categorising that client as a retail client, the firm must notify that client of its new categorisation.

[Note: fourth paragraph of section II.2 of annex II to MiFID and article 28(1) of the MiFID implementing Directive]

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS SUB-COMMITTEE</p> <p>25th November 2015</p>	
<p>PENSIONS BOARD AND TRAINING UPDATE</p>	
<p>Report of the Strategic Director for Financial Corporate Services</p>	
<p>Open Report</p>	
<p>Classification: For Information</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Hitesh Jolapara, Strategic Director for Financial Corporate Services</p>	
<p>Report Author: Nicola Webb, Pension Fund Officer</p>	<p>Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. A joint meeting of the Pensions sub-committee and the Pensions Board took place in September 2015 to agree on workloads for the future to avoid overlap as far as possible.
- 1.2. Initial training for both sub-committee and board members has been arranged for November 2015. Once these sessions have been delivered, members of both bodies will be asked to complete the knowledge and skills self-assessment form in the policy statement to enable further training needs to be identified and plans to address them to be developed.

2. RECOMMENDATIONS

- 2.1. That the report is noted.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. Following the suggestion at the sub-committee meeting in June 2015 to hold a joint meeting of sub-committee and board members, a meeting was arranged for 16th September 2015. The aim was to ensure that training is delivered jointly for members of both bodies and to avoid overlap of workloads as far as possible.
- 4.2. At the sub-committee's meeting in June 2015 a Knowledge and Skills Policy Statement was agreed for the Pension Fund to demonstrate good governance and to ensure the Fund is compliant with best practice.

5. PROPOSAL AND ISSUES

- 5.1. The joint meeting of the Pensions sub-committee and Pensions Board took place on 16th September 2015 and was attended by 3 members of the sub-committee and all the board members. The matters discussed included future workloads and training.
- 5.2. Attached at Appendix 1 is the list of items it was proposed that the board focus on in future, and at Appendix 2 are the notes of the joint meeting.
- 5.3. Two initial training sessions have been arranged for both sub-committee and board members on 12th and 30th November 2015. These sessions are being delivered by Barnett Waddingham. Once these sessions are complete, members of both the sub-committee and board will be asked to complete the self-assessment form in the Knowledge and Skills policy statement. This will enable further training needs to be identified and suitable ways of addressing them to be developed.
- 5.4. Members are also reminded to inform officers of any training they undertake outside the specific sessions arranged for members, so that a log can be maintained and summary of training reported in the annual report for 2015/16 in line with best practice.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Not applicable.

7. CONSULTATION

- 7.1 Not applicable.

8. EQUALITY IMPLICATIONS

- 8.1. Not applicable.

9. LEGAL IMPLICATIONS

- 9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: Pensions Board forward plan

Appendix 2: Notes of joint meeting of Pensions sub-committee and Pensions Board held on 16th September 2015

Appendix 1: Pension Board forward plan

The proposed areas to be covered by the Pension Board are:

1) Performance Indicators on Surrey County Council (SCC) pension administration.

- High level performance indicators on SCC performance will be reviewed by the Pensions sub-committee whilst the full detail of the performance indicators covering the range of SCC activity will be reviewed by the Pension Board. It is expected that the Pension Board will make any necessary recommendations to the Pensions Sub-Committee.

2) Communications to scheme members – key communications will be reviewed by the Pension Board to ensure these are relevant and useful to scheme members, covering:

- Hymans website content
- Annual Benefit Statement content and format
- Review of legislative or local requirements to ensure any communication issues are reviewed
- Other means of communication to scheme members

3) Compliance with regulatory and legislative requirements

- Provision of regulatory changes that have been put into effect
- Scrutiny of forthcoming regulatory or scheme changes that can affect management of the scheme
- Scrutiny of compliance with the Pensions Regulator Code of Practice

4) Fund management – scrutiny of fund management arrangements

5) Risk register – review of the risk register to identify any items of concern, and to make recommendations back to the Pensions sub-committee

6) Training needs annual review – covering:

- An annual review of the training needs of Pension Board members, in the light of the training delivered over the preceding 12 months and in the context of recent or forthcoming legislative changes.
- Development of proposals for any additional training.

7) **Annual Report to the Council** – review and finalisation of the draft Pension Board Annual Report to the Council

Forward plan timescales and content:

<p>Early Nov 2015</p>	<ul style="list-style-type: none"> • Final Performance Indicators from Capita covering period to 31st August 2015 (note that the first SCC Performance Indicators will be available for the February 2016 meeting) • Communications review, especially feedback on the new website and Annual Benefit Statements • Risk register review • Regulatory Compliance review
<p>Late Feb 2016</p>	<ul style="list-style-type: none"> • Quarterly Performance Indicators Update pack for 31st December 2015 • Communications review • Risk register review • Regulatory Compliance Review • Briefing on triennial actuarial valuation • Interim review of training received to-date (in preparation for the annual training review in May 2016)
<p>May 2016</p>	<ul style="list-style-type: none"> • Quarterly Performance Indicators Update pack for 31st March 2016 • Communications review • Risk register review • Regulatory Compliance Review • Annual report on Pension Board activities • Knowledge and Skills policy review and Training needs annual review

October 2016

- Quarterly Update pack for 30th June 2016 and 30th September 2016
- Communications review
- Risk register review
- Pension Fund Annual report and accounts
- Results of triennial actuarial valuation
- Funding Strategy Statement review

Appendix 2: Notes of Pensions sub-committee and Pensions Board Joint Meeting: 16th September 2015 at 7pm.

Attendees:

Pensions sub-committee

Cllr Iain Cassidy
Cllr PJ Murphy
Cllr Guy Vincent

Pensions Board

Cllr Ali Hashem
Cllr Rory Vaughan
Richard Gregg
Orin Miller
Eric Kersey
Neil Newton

Officers

Neil Sellstrom, Interim Head of Shared Service Pensions
Nicola Webb, Pension Fund Officer
David Coates, Interim Head of Payroll and Pensions

Actions agreed:

1) Future workloads

Agreed as set out in proposals from officers. In addition the following was requested for the Pensions Board:

- High level information about complaints to be included in updates on Surrey's performance.
- The minutes of the sub-committee's previous meeting to be an item on the Board's agendas so that they can see the decisions being made.
- Information about admitted bodies and the risk they pose to the Fund to be reported to the first meeting.

The Board also asked for the following:


- Access to Pensions sub-committee reports and minutes including exempt items.
- Risk register to be circulated to Board members.
- An area on the Pension Fund website or on the Council intranet via secure access for all relevant documents for the sub-committee and Board members to be able to access everything in one place.
- An annual meeting for scheme members to hear from the sub-committee and board and to have the opportunity to raise questions.
- The proposed KPIs which Surrey will report on to be circulated when available.

2) Timing of meetings

- It was agreed the next Board meeting would take place in mid-late February 2016. Possible dates to be circulated to obtain agreement.
- Future board meetings to be quarterly approx. 4 weeks after the sub-committee.

3) Training

- The proposed induction training was agreed to take place over 2 evenings 6.30-9pm in November 2015; if possible each session on the same day of the week. Possible dates to be circulated for agreement.

<p>London Borough of Hammersmith & Fulham</p> <p>PENSIONS SUB-COMMITTEE</p> <p>25th November 2015</p>	
<p>PENSION FUND LONG TERM CASHFLOW</p>	
<p>Report of the Strategic Director for Financial Corporate Services</p>	
<p>Open Report</p>	
<p>Classification: For Information</p> <p>Key Decision: No</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Hitesh Jolapara, Strategic Director for Financial Corporate Services</p>	
<p>Report Author: Nicola Webb, Pension Fund Officer</p>	<p>Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. The Fund's short term cashflow requirements are monitored on a quarterly basis to ensure there is sufficient cash to meet all benefit payments. This report looks further ahead and forecasts cashflows to 2020. The cash in the sterling liquidity fund is forecast to be sufficient to meet the cashflow needs, including drawdowns for the Fund's infrastructure investment, until March 2017.
- 1.2. Once the infrastructure investment is fully drawn down, there is forecast to be sufficient income coming in from the secure income assets to meet the Fund's cashflow needs on an on-going basis. There will however be an interim period between 2017 and 2021 which will need to be funded. It is proposed that the cashflow position continues to be monitored quarterly and a further report on the longer term position and a strategy to deal with that interim period is brought to the sub-committee in 12 months time.

2. RECOMMENDATIONS

- 2.1. That the report is noted.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. The payment of pensions and lump sums to pensioners have been higher than the contributions received from employees and employers for the last few years, resulting in the need to top up the Pension Fund current account at regular intervals.
- 4.2. The top ups have mainly been funded from distributions from the Fund's private equity investments and from cash held in a sterling liquidity fund at LGIM. This cash was originally the proceeds from the sale of the Barings investment in August 2014, which was then used, along with the sale of the LGIM LDI fund, to fund the investments in the Partners Multi Asset Credit, M&G Inflation Opportunities, Standard Life Long Lease Property and Oak Hill funds. The remaining balance in the LGIM LDI fund was sold for cash in July 2015 and invested in the LGIM Sterling Liquidity Fund.
- 4.3. Cashflow is monitored every quarter and reported to the sub-committee as part of the quarterly update pack along with a forecast up to the end of the current financial year.

5. PROPOSAL AND ISSUES

- 5.1. In order to inform decisions about the Fund's investment strategy, it is timely to consider the longer term forecast for the Fund's cashflow. Appendix 1 shows a month by month forecast for 2016/17 and Appendix 2 shows year by year forecasts up to 2019/20.
- 5.2. The forecasts show that it is expected that pension benefit payments and expenses will exceed contributions into the Fund by £13-14m per annum over the next few years. Therefore there is an on-going need to finance this shortfall either from investment income or the sale of assets.
- 5.3. In addition to the pension and contribution cashflows, the Fund is committed to drawdowns for the Partners Group Infrastructure fund and is also expecting distributions from this fund, the private equity funds and the Partners' Multi Asset Credit fund. The managers have provided their best estimates of these cashflows and these have been built into the forecast. The net impact of these flows varies across the years, but in total the net requirement from 2016/17 to 2019/20 is £12.3m.
- 5.4. The balance of cash in the Sterling Liquidity fund at the time of writing is £23.2m and it is expected that this balance will be sufficient to fund the cash requirements for the remainder of 2015/16 and the whole of 2016/17. The investment adviser has advised that the income from the secure income assets will be sufficient to meet the Fund's cashflow requirement once the infrastructure investment is fully drawn down in 2021.
- 5.5. It is therefore proposed to continue to monitor the cashflow position over the next 12 months through the quarterly updates. A further report on the longer term position will be brought to the sub-committee in 12 months time to consider the forecast then and put in a strategy for the period 2017 to 2021.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1 Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: Cashflow Forecast: April 2016 to March 2017

Appendix 2: Cashflow Forecast: April 2017 to March 2020

Appendix 1: CASHFLOW FORECAST: April 2016 to March 2017

	Apr16 £000	May16 £000	Jun16 £000	Jul16 £000	Aug16 £000	Sep16 £000	Oct16 £000	Nov16 £000	Dec16 £000	Jan17 £000	Feb17 £000	Mar17 £000	TOTAL £000
Balance b/f curr	1,046	6,271	4,616	3,411	2,156	5,501	3,046	6,791	3,636	2,431	6,176	4,521	
Contributions	8,300	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	1,820	28,320
Pensions	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-2,500	-30,000
Lump Sums	-450	-450	-450	-450	-450	-450	-450	-450	-450	-450	-450	-450	-5,400
Net TVs in/(out)	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-900
Expenses	-50	-450	-50	-50	-450	-50	-50	-1,950	-50	-50	-450	-500	-4,150
Net cash in/(out) in month	5,225	-1,655	-1,255	-1,255	-1,655	-1,255	-1,255	-3,155	1,255	-1,255	-1,655	-1,705	-12,730
Net distributions	0	0	50	0	0	-1,200	0	0	50	0	0	-1,200	-2,300
Tran from Liq Fd	0	0	0	0	5,000	0	5,000	0	0	5,000	0	0	15,000
Balance c/f curr	6,271	4,616	3,411	2,156	5,501	3,046	6,791	3,636	2,431	6,176	4,521	1,616	
Balance in Liq Fd	21,000	21,000	21,000	21,000	16,000	16,000	11,000	11,000	11,000	6,000	6,000	6,000	
Net distributions detail													
Private Eqty dist	0	0	800	0	0	800	0	0	800	0	0	800	3,200
PG MAC dist	0	0	1,250	0	0	0	0	0	1,250	0	0	0	2,500
PG Infra drawdn	0	0	-2,000	0	0	-2,000	0	0	-2,000	0	0	-2,000	-8,000


Assumptions:

- Contributions increase by 1% in line with expected pay increase.
- Council pay deficit contribution in lump sum in April in line with previous years.
- Pensions increase by 2%.
- Lump sums in line with average in 2014 and 2015.
- Net Transfer values out in line with 2015/16 forecast.
- Expenses increase by 10% reflecting market value increases affecting fund manager fees, but recognising reduction from move to passive equities. Assume performance fee payable in November as in previous years.

Appendix 2: CASHFLOW FORECAST: April 2017 to March 2020

	2017/18 £000	2018/19 £000	2019/20 £000
Balance b/f current account	1,616	-9,094	-29,574
Contributions	28,600	28,900	29,200
Pensions	-30,600	-31,200	-31,800
Lump Sums	-5,450	-5,500	-5,550
Net TVs in/(out)	-900	-900	-900
Expenses	-4,360	-4,580	-4,800
Net cash in/(out) in month	-12,710	-13,280	-13,850
Net distributions –see below for detail	-4,000	-7,200	1,200
Transfer from Liquidity Fund	6,000	0	0
Balance c/f current account	-9,094	-29,574	-42,224
Balance in Liquidity Fund	0	0	0
Net distributions detail			
Private Equity distributions	2,700	1,100	700
Partners Group MAC distributions	2,500	2,500	2,500
Partners Group Infrastructure drawdowns	-10,000	-12,000	-6,000
Partners Group Infrastructure distributions	800	1,200	4,000
Total cash requirement in year	9,094	20,480	12,650

Agenda Item 7

 <p>h&f hammersmith & fulham</p>	London Borough of Hammersmith & Fulham PENSIONS SUB-COMMITTEE 25 th November 2015
SCHEME ADVISORY BOARD KEY PERFORMANCE INDICATORS	
Report of the Strategic Director for Financial Corporate Services	
Open Report	
Classification: For Information	
Key Decision: No	
Wards Affected: All	
Accountable Executive Director: Hitesh Jolapara, Strategic Director for Financial Corporate Services	
Report Author: Nicola Webb, Pension Fund Officer	Contact Details: Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The Scheme Advisory Board has developed a number of key performance indicators to enable it to identify any LGPS Funds causing concern. Completion of the indicators is voluntary this year as the process of collecting the information is still at a pilot stage. Officers have completed the indicators and will report back on the summary of the national picture when it is published in 2016, along with any actions required to improve the performance of the Hammersmith and Fulham Fund.

2. RECOMMENDATIONS

- 2.1. That the report is noted.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. As part of its work over the last two years the LGPS Scheme Advisory Board (in shadow for prior to April 2015) has sought to improve the quality and comparability of data associated with the LGPS following criticism from the Hutton Commission Final Report in 2012. This has involved work to consolidate the 89 separate Annual Reports into a single scheme document, published on the Board's website.
- 4.2. There has also been considerable discussion around the ability to identify and compare the financial health of individual LGPS Funds. This led to the establishment of a working party which was tasked with creating a range of meaningful performance indicators to show those funds who were in a stronger or weaker position. This assessment is not necessarily a reflection of the current governance and administration arrangements but will highlight where improvements are required following decisions made over a number of years.

5. PROPOSAL AND ISSUES

- 5.1. Attached at Appendix 1 is the Guidance issued by Scheme Advisory Board which sets out the rationale for the exercise and explains the range of KPI's to be completed by each Fund. These are split into 4 core KPI's and 14 supplementary KPI's where the core KPI's are classed as "alarm bells" to identify under-performing funds.
- 5.2. Officers have completed the KPI proforma attached at Appendix 2 based upon data as at 31st March 2015 and a review of the current position of the Fund in respect of these indicators.
- 5.3. As explained in the Guidance this is a voluntary exercise and should be viewed as a self-assessment tool to identify areas for improvement. The exercise itself is considered to be a pilot and feedback has been requested which officers of the Fund will provide to enhance the relevance of some of the indicators.
- 5.4. A summary of all responses is expected in early 2016 and those funds identified with significant issues are likely to be contacted directly regarding establishing an action plan to make the necessary improvements. The published summary will reported back to the sub-committee and will be used to determine if there are actions which should be undertaken to ensure the Hammersmith and Fulham Fund is operating in line within best practice in the light of the resources available to it.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Not applicable.

7. CONSULTATION

7.1 Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: Scheme Advisory Board – Guidance for LGPS funds on the 2015 benchmarking exercise

Appendix 2: Primary Key Performance Indicators – completed for London Borough of Hammersmith & Fulham Pension Fund

Appendix 3: Secondary Key Performance Indicators – completed for London Borough of Hammersmith & Fulham Pension Fund

Guidance for LGPS funds on the 2015 benchmarking exercise

Strategic context

The Secretariat to the LGPS Scheme Advisory Board (SAB) would like your help to undertake a national exercise of a suite of LGPS pension fund key performance indicators (KPIs).

By taking part in this exercise it is an opportunity for your fund to:

- 1) Assess your fund against the examples of best practice and concern
- 2) Inform us how much effort/time/cost doing the exercise consumed
- 3) Provide feedback to the SAB on the KPIs before their implementation in 2016

The SAB have agreed that individual LGPS fund performance should be assessed in aggregate using the following 5 key themes:

- 4) Fund governance, management, administration, accountability and transparency
- 5) Funding level, contributions, deficit reduction, and ability to meet pension liabilities
- 6) Asset management strategy, stewardship, and investment returns
- 7) Pension benefits, administration, member service, and communications
- 8) Independent external review and assurance.

The SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of “under-performing” funds, and concurrently seeking to raise the level of performance of “average” funds to that of the “highest performing” funds.

The SAB has agreed it is not seeking to develop an LGPS fund league table or multi-tier categorisation system to rank or group all LGPS funds relative performance, because such rankings might be misinterpreted by scheme members and other parties.

The SAB have identified 4 core KPIs (“alarm bells or trip wires”) to identify under-performing funds, and 14 supplementary (“health”) KPIs that can be used to identify where potential management problems lie and improvements could be made.

The 4 core KPIs are in relation to risk management, funding levels and contributions, deficit recovery, and required investment returns. **Table 1** presents the suite of 18 KPIs and **Proforma 1** for the examples of best practice for high performing funds and examples of concern.

The suite of KPIs were developed during 2014 by the SAB Scheme Reporting Working Group that comprises of LGPS fund staff and bodies including some LGPS funds, the NAPF, CIPFA, and the ACA LGPS Sub-Group.

Scheme Advisory Board

The Working Group has devised KPIs that:

1) can be considered in aggregate as well as individually, and the examples of high performance which are set high to encourage funds to aspire to best practice and excellence,

2) use existing information that each LGPS fund should already have access to, for example in your 31st March 2015 Annual Report and audited financial statements, fund website, from your fund administrator, actuary, 31st March 2013 triennial valuation, asset custodian, investment performance measurer, and internal or external auditors,

3) can be used to assess and benchmark funds and the whole scheme and over time via repeating the national exercise in future.

The SAB have agreed that they plan to use these KPIs (as improved, clarified or amended by the exercise) to formally assess and benchmark the health of LGPS pension funds as part of the 2016 triennial valuation of the LGPS.

By undertaking such analyses it will enable the SAB to be proactive in encouraging best practice, continuous improvement, and raising standards within the LGPS.

Administering authorities are strongly encouraged to share the KPIs and their assessment and scoring with their Local Pension Board.

Following such a local and national performance review process it might be appropriate for any “outliers” and/or any “under-performing” fund(s) to be either:

1) supported with technical advice and help from adjacent/higher performing LGPS funds or external advisors/consultants; and/or in extremis

2) be placed on watch and possible recommendation to the Secretary of State for intervention and/or remedial action.

However, well before this, the SAB considers the KPIs should be used by individual LGPS funds to develop balanced “score-cards” to undertake an assessment of a fund’s current level of performance (and thus sustainability) against the level of high performing funds. Local Pension Boards may use the indicators as a ‘sense check’ or ‘self-audit’ tool.

Please note your response to this exercise will be seen by the SAB Secretariat and the SAB. The individual fund results from the 2015 exercise are not intended to be made public. However, in future years, individual fund results may be.

LGPS fund actions

The Secretariat would like you to self-assess your fund’s performance relative to the examples proposed for high performing funds and the examples of concern (see Table 1 attached).

The intention is that the key sources of information for assessing your funds achievement of the KPIs should come from:

Scheme Advisory Board Secretariat

Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E liam.robson@local.gov.uk or elaine.english@local.gov.uk W www.lgpsboard.org

Scheme Advisory Board

- 1) your fund annual report and audited financial accounts for financial year ending 31st March 2015 and other supporting information published on your fund website or hard copy documents relating to the FY 2014/15,
- 2) fund membership/administrative data and any benchmarking data from your internal/external pension benefits administrator for FY 2014/15,
- 3) fund investment performance information and benchmarking data provided by asset custodian and performance measurer for FY 2014/15,
- 4) actuarial data from your 31st March 2013 statutory valuation and any benchmarking reports produced by LGPS actuaries (e.g. Hymans Robertson) (and if available your updated actuarial position to 31st March 2015),
- 5) your internal audit or external audit reports for FY 2014/15,
- 6) your DCLG LGPS SF3 return for FY 2014/2015.

The Secretariat has communicated with the actuarial firms in the LGPS ACA Sub-Group to help facilitate your actuaries' help to provide you with your 2013 triennial valuation figures for KPI's 2, 3, and 4.

For each KPI, please assess, provide the main source of your evidence (e.g. see page 21 of our 2015 Annual Report or see the Governance section of our fund website) with an e-link and indicate your fund's status in terms of a score for **each** of the examples of best practice or examples of concern on the attached **Proforma 1**.

Please provide explanatory notes you feel would clarify your assessment and scoring for this exercise.

The Secretariat would welcome your feedback on how much effort and time and any costs were consumed to respond to this exercise. We would also welcome general feedback on the KPIs and the examples of best practice and examples of concern, and any suggestions for their clarification, refinement, and improvement, or any better or alternative KPIs.

Please use and return Proforma 1 and your feedback on the KPI exercise by 31st October 2015.

The SAB Secretariat will consider the results of the exercise during December 2015. The SAB will review the outcome of the exercise in early 2016 and will recommend to DCLG the KPIs are considered to be included in LGPS regulations/scheme guidance and/or as part of 31st March 2016 valuation process. They will then be issued in April 2016 and from December 2016 used as tool to assess and support funds accordingly.

Your help and support is most appreciated. If you have any queries about this exercise or the Indicators (Table 1 or Proforma 1) please contact Liam Robson (liam.robson@local.gov.uk). If any national clarifications are needed they will be issued as soon as possible to all LGPS funds.

Issued by the SAB Secretariat, 4th September 2015.

Scheme Advisory Board

Table 1

No	Theme	G/P	Key Indicator	Technical owner of the KPI
1	Gov	G	Risk management (covering all pension fund activities)	CIPFA as the KPIs is based on the CIPFA LGPS risk management guidelines.
2	Fund	P	Funding level and contributions	SSAB and ACA LGPS Sub-Group
3	Fund	P	Deficit recovery	SSAB and ACA LGPS Sub-Group
4	Asset	P	Required investment returns	SSAB and ACA LGPS Sub-Group in consultation with WM as required
5	Gov	G	Pensions Committee and Pensions Board members competence	CIPFA because the KPI is based on adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework
6	Gov	G	Administering authority staff accountability, leadership, experience, and training	CIPFA because the KPIs is based on the adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework.
7	Gov	G	Statutory governance standards and principles (as per DCLG, SSAB guidance, and TPR codes)	DCLG, SSAB and tPR as the creators of the statutory or best practice governance standards, principles and guidance
8	Gov	G	Quality and accessibility of information and statutory statements/strategies/policies (Governance, FSS, SIP, comms, admin authority and employer discretions policies)	DCLG as the authors of the guidance on the production of LGPS statutory strategy and policy statements
9	Asset	G	a) Compliance with Investment Governance Principles (ie Myners principles) and b) voluntary adoption of UK Stewardship Code and UNPRI	SSAB Secretariat in consultation with IGC, FRC, and PRI
10	Asset	P	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds.	WM (State Street) or other investment performance measurer
11	Asset	G	Annual report(s) and audited financial statements	DCLG in terms of legal requirements plus CIPFA in terms of LGPS financial reporting and accounting guidance
12	Pens	G	Scheme membership data	tPR Code of Practice 14 and standards and guidance for common and conditional data
13	Pens	G	Pension queries, pension payments, and annual benefit statements	DCLG in terms of legal requirements and tPR code 14 and best practice guidance.
14	Pens	P	Cost efficient administration and overall VFM fund management	CIPFA in terms of defining LGPS administrative costs.
15	Pens	P	Handling of formal complaints and IDRPCs	DCLG as the KPI is based on their LGPS IDRPC guidance (it needs updating)
16	Ind	G	Fraud prevention	National Fraud Initiative standards
17	Ind	P	Internal and external audit	Auditing Practices Board standards
18	Ind	P	Quality assurance	ISO/BSI quality standards, and or Crystal Mark or Plain English recognition or other recognised e-publishing standards or external awards

Scheme Advisory Board

Table 1 cont.

Theme	Abbreviation
Fund governance , management, administration, transparency, and accountability	Gov
Funding level, contributions, deficit reduction and ability to meet pension liabilities	Fund
Asset management strategy, stewardship, and investment returns	Asset
Pension benefits, member services, and communications	Pens
Independent external review and assurance	Ind

Key indicator type	Abbreviation
Governance (some degree of subjectivity in assessment)	G
Performance (more objective assessment)	P

Local Government Pension Scheme
Scheme Advisory Board

Explanatory notes

The majority of the KPIs are intended to be self-explanatory and have been piloted as such. However, below are some explanatory notes for some of them. Please contact Liam Robson (liam.robson@local.gov.uk) if you have any questions.

No.	Key Indicator	Explanatory definitions and notes
2	Funding level and contributions	<p>Funding level calculated at last triennial valuation (on consistent HMT SCAPE financial assumptions) compared to the actual proportion of the fund's deficit (calculated on the above consistent HMT assumptions) being paid off annually. Actual contributions paid (sourced from annual accounts) as compared with expected total contributions (sourced from last 2 triennial valuations). Net inward cashflows (excluding investment income) as a proportion % pa of fund assets. Use to monitor if negative cash flow is close to or above say 3% of total assets. Above this should be sufficient income from assets to supplement contributions to meet benefit payments without having to sell assets. Not sign of poor performance but risk should be carefully managed.</p>
3	Implied deficit recovery period	<p>Implied deficit recovery period (derived using figures under indicator 2) reducing each triennial valuation. This metric is not the deficit spreading period used to set contributions. It is the estimated number of years required to repay each fund's deficit assuming a) current levels of contributions continue and b) the liabilities targeted for full funding are measured on like for like HMT assumptions (not each funds valuation assumptions). Also the contributions assumed in the calculation (and other metrics like required future investment return) should be the actual total contribution income expected into a fund based on actual payroll information from each employer at the valuation date and the rates of contribution certified at the valuation. The estimate of aggregate contributions for a fund is not the same as the "common rate" in the valuation report.</p>
4	Investment returns compared to the funds required future investment return	<p>The fund's required future investment return (calculated as the return needed to repay its deficit over a specified standard period (say 20 years) using common financial assumptions (HMT SCAPE) for the value of the fund liabilities to be met</p>

Scheme Advisory Board

		<p>over that period and assuming the rates of contributions certified at the last valuation). All returns post 1 April 2014 must be quoted net of fees. The required future investment return should also be compared with the estimated future return being targeted by a fund's investment strategy calculated on a consistent agreed basis.</p>
10	Investment returns and costs compared to other LGPS funds	<p>Historic investment returns (over 1, 3 and 5 year) (and 10 years and longer periods if available) as compared with other LGPS funds from external service provider. Going forward all figures post 1 April 2014 should be net of fees and preferably all investment returns on an agreed and consistent risk adjusted basis. Care will be needed to compare the absolute level of returns between funds because each fund has different asset allocations. Need to use a metric that takes account of performance and/or risk and/or sub-divide funds into high, medium, low growth asset allocation and make comparisons within these categories (not across categories). The required future investment return should also be compared with the estimated future return being targeted by a fund's investment strategy calculated on a consistent agreed basis. Total investment costs should be as per the financial accounts as % of total assets under management. This may need a specialist external service input to do analysis and reporting on a consistent and transparent basis and to enable benchmarking.</p>

APPENDIX 2 - SCHEME ADVISORY BOARD PRIMARY KEY PERFORMANCE INDICATORS

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing fund	Fund score	Evidence and comments	Links
1	Risk management	<p>No or only a partial and/or an unclear risk register with no or poorly specified or un-implemented mitigation actions over time leading to increased fund risk. No evidence of a risk register being</p> <p>a) prioritised</p> <p>b) annually reviewed by Pensions Committee</p> <p>c) annually reviewed by internal audit or external audit</p> <p>d) used to reduce high risks</p> <p>e) available for public scrutiny.</p> <p>Self score -1 point for each one</p>	<p>Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with prioritisation, robust mitigation actions, defined deadlines, with action tracking to completion. Evidence and e-links to demonstrate</p> <p>a) risks prioritised on a RAG red, amber, green or by a scoring methodology</p> <p>b) completed actions signed off by Pensions Committee after at least annual update,</p> <p>c) annual review by internal audit and external audit</p> <p>d) <3 priority/"red" risks</p> <p>e) public disclosure of a summary version published on fund website or in fund annual report.</p> <p>Self score +1 point for each one</p>	<p>1</p> <p>0</p> <p>1</p> <p>1</p> <p>0</p>	<p>Risk register in place - implemented January 2015. Link to meeting reports - Item 7 appendix 2</p> <p>Register reviewed quarterly by committee. Link to meeting reports - Item 15 Appendix 5</p> <p>Reviewed by internal and external audit in 2015</p> <p>No red risks at 31 March 2015. Link to meeting reports - Item 15 Appendix 5</p> <p>As per links above - the register is available in public cttee reports on Council's website. No summary version produced.</p>	<p>http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mcpage=ieListDocuments.aspx%26amp%3BCld%3D512%26amp%3BMld%3D3947%26amp%3BVer%3D4</p> <p>http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mcpage=ieListDocuments.aspx%26amp%3BCld%3D512%26amp%3BMld%3D4087%26amp%3BVer%3D4</p> <p>http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mcpage=ieListDocuments.aspx%26amp%3BCld%3D512%26amp%3BMld%3D4087%26amp%3BVer%3D4</p>
2	Funding level and contributions (see explanatory notes)	<p>a) Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations on a standardised like for like basis.</p> <p>b) No or minimal employer funding risk assessment and monitoring and not reported to Pensions Committee</p> <p>c) Total actual contributions and actual received in last 6 years less than that assumed and certified in last 2 triennial valuations.</p> <p>d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sale of assets.</p> <p>Self score -1 for each one</p>	<p>Evidence and e-links to demonstrate</p> <p>a) Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations on a standardised like for like basis. Funding % 91 to >100 =score +5</p> <p>80-90 =+4 70-79 =+3 60-69 = +2 <59 = +1</p> <p>b) Employer funding risk assessment and monitoring reports to Pension Committee. Net inward cashflow forecasts meeting planned income or significantly exceeding benefit outgoings.</p> <p>c) Total actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations.</p> <p>d) Net inward cash flow significantly exceeds benefit out-goings</p> <p>Self score a) as above and rest +1 for each one</p>	<p>4</p> <p>0</p> <p>-1</p> <p>0</p>	<p>Funding level 2013 - 80% on standardised basis 83% as reported to Fund; 74% in 2010; 70% in 2007</p> <p>Report to committee in September 2014 on risk of employers. Link to meeting reports - Item 59</p> <p>Over last six years, employer contributions were £4.9m less than assumed in valuation due to falling payroll</p> <p>Cashflow monitored quarterly by committee and managed closely to avoid any unplanned sales of assets. Link to meeting reports Item 15 Appendix 4</p>	<p>http://www.lbhf.gov.uk/Images/Actuarial%20Valuation%202013_tcm21-187569_tcm21-196717.pdf</p> <p>http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mcpage=ieListDocuments.aspx%26amp%3BCld%3D338%26amp%3BMld%3D3719%26amp%3BVer%3D4</p> <p>http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mcpage=ieListDocuments.aspx%26amp%3BCld%3D512%26amp%3BMld%3D4087%26amp%3BVer%3D4</p>
3	Deficit recovery (see explanatory notes)	<p>a) No or opaque deficit recovery plan.</p> <p>b) Lengthening implied deficit recovery period (for contributions)</p> <p>c) Implied deficit recovery periods >25 years for last 3 valuations.</p> <p>Self score -1 point for each</p>	<p>Evidence and e-links to demonstrate :</p> <p>a) Transparent deficit recovery plan for tax raising and non-tax raising bodies.</p> <p>b) Implied deficit recovery reducing each triennial valuation.</p> <p>c) Implied deficit recovery period in line <15 years for last 3 valuations</p> <p>Self score +1 point for each one</p>	<p>1</p> <p>1</p> <p>0</p>	<p>See Funding Strategy Statement</p> <p>Reduced from 25 years in 2010 to 22 years in 2013 - see actuarial report</p> <p>As above - deficit recovery period never above 25 years</p>	<p>http://www.lbhf.gov.uk/Images/Funding%20Strategy%20Statement%202014_tcm21-187570.pdf</p> <p>http://www.lbhf.gov.uk/Images/Actuarial%20Valuation%202013_tcm21-187569_tcm21-196717.pdf</p>
4	Investment returns (see explanatory notes)	<p>a) Required future investment return (calculated on standardised and prudently consistent basis) not aligned to the investment strategy target return, so lower likelihood of the fund achieving its funding strategy.</p> <p>b) Actual investment returns consistently undershoot actuarially required returns</p> <p>Self score -1 point for each one</p>	<p>Evidence and e-links to demonstrate :</p> <p>a) Required future fund investment return (calc by actuary) are consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.</p> <p>b) Actual investment returns consistently exceed actuarially required returns</p> <p>Self score +1 point for each one</p>	<p>1</p> <p>1</p>	<p>Rate of return expected from investment strategy in line with actuarial assumptions - see Statement of Investment Principles</p> <p>Five year annualised return to 31 March 2015: 13.0% - see link.</p> <p>Ten year annualised return 9.9% - consistently higher than actuary rates of 6.7% at 2010 valuation and 6.0% at 2013</p>	<p>http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%202015_tcm21-174597.pdf</p> <p>http://democracy.lbhf.gov.uk/documents/s65942/ITEM%205.1%20Pension%20Fund%20Quarterly%20Update%20Appendix%202%20Investment%20report%20Deloitte.pdf</p>

APPENDIX 3 - SCHEME ADVISORY BOARD SECONDARY KEY PERFORMANCE INDICATORS

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing funds	Fund score	Evidence and comments	Links
5	Pensions Committee and Pensions Board members competence	Appointees unclear of statutory role and unable to clearly articulate the funds funding and investment objectives. No evidence of a) different scheme employer types and no or minimal scheme member representation. b) No training needs analysis, or training strategy, or training log or use of CIPFA LGPS training framework. c) No training record disclosures d) Self assessment Self score core -1 point for each	Appointees understand their statutory role and are able to clearly articulate the funds funding and investment objectives Evidence and e-links to demonstrate a) representation from different scheme employer types (scheduled and admitted) and member types (actives, deferred and pensioners). b) annual training plan recorded against the CIPFA knowledge and understanding framework. c) annual training records disclosed in Annual Report d) annual self-assessment of training undertaken and identification of future needs. Self score +1 point for each one	0 0 -1 -1	Only one scheduled body on Board and three pensioners - no member or other employer representation on committee Knowledge and Skills Policy agreed in June 2015 None in place by 31 March 2015 None in place by 31 March 2015	http://democracy.lbhf.gov.uk/documents/s65949/ITEM%207%20Knowledge%20and%20Skills%20Policy.pdf
6	Administering authority staff accountability, leadership, experience, and training	a) No or only part time Head of Fund and or only part time officers b) No or little induction or on-going training provision or experience recorded on the adoption of CIPFA LGPS knowledge and understanding framework. Self score -1 for each one	Evidence and e-links to demonstrate a) Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience. b) staff undertake regular CIPFA LGPS TKU or other CPD training recorded across all LGPS skills (governance, benefits administration, funding, investments, and comms) Self score +1 point for each one	0 0	Shared Head of Fund across three tri-borough funds Training undertaken through attendance at various seminars	
7	Statutory governance standards and principles (as per DCLG guidance and TPR codes)	Several key areas of non-compliance with a) DCLG LGPS statutory guidance b) TPR guidance and codes and reasons why not explained. c) No, little or poor key decision taking records and no or poor self, or scheme employers, or scheme members assessment of overall fund effectiveness. Self score -1 for each one	Evidence and e-links to demonstrate a) Full compliance with DCLG LGPS statutory guidance b) Full compliance with TPR guidance and codes for public sector pension schemes c) Meet or exceed other LGPS best practice on recording all key decision taking and annual self, scheme employers, scheme member assessment of overall effectiveness. Self score +1 for each one	0 0 0	Representation only area of non-compliance. Partially compliant - Board papers show conflict of interest, training and code of conduct policies in place. Committee Decisions clearly recorded - no assessments of effectiveness.	http://www.lbhf.gov.uk/Images/Governance%20Compliance%20Statement%20FINAL%202015_tcm21-198669.pdf http://democracy.lbhf.gov.uk/documents/q4523/Public%20reports%20pack%2030th-Jul-2015%2019.00%20Pensions%20Board.pdf?T=10 http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Committee_reports_minutes_and_agendas/Committee_Archive/homepage.asp?mpage=ieListMeetings.aspx?2&page%3BC1r%3D512%26amp%3BYear%3D0
8	Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies)	a) Statutory publications not all in place or published on fund website or updated in accordance with regulatory requirements and due timelines. b) Fund and employers discretions not published c) Do not seek to meet any recognised 'Plain English' or e-publishing standards Self score -1 for each one	Evidence and e-links to demonstrate a) Statutory publications all in place and published on fund website and updated in accordance with regulatory requirements and due timelines. b) Fund and employer discretions published c) Meet 'Plain English' and or other recognised e-publishing standards. Self score +1 for each one	1 1 -1	Statutory publications published. Do not seek to meet plain english standards	http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Statement_of_accounts/68526_Statement_of_accounts.asp#0
9	a) Adoption and report compliance with Investment Governance Principles (IGP) (was Myners Principles) and voluntary adoption/signatory to FRC Stewardship Code and UNPRI	No or un-explained non-compliance and/or non-support of a) IGP b) UK Stewardship Code c) UN PRI Self score -1 for each	Evidence and e-links to demonstrate a) 100% compliance with IGP b) adoption and public reporting of compliance against the FRC UK Stewardship Code c) external managers or fund are PRI signatories Self score +1 for each	0 -1 0	Compliant with all except assessment of own effectiveness None All except two fund managers are signatories	http://www.lbhf.gov.uk/Images/Statement%20of%20Investment%20Principles%202015_tcm21-174597.pdf http://www.unpri.org/signatories/signatories/#investment_managers
10	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds. (See explanatory notes)	a) overall fund investment returns (net of fees) for last 1, 3, 5 years bottom two quintiles Score -3 and -5 points b) Retain fund managers under-performing their mandates for 2 triennial valuation cycles. Score -1 point c) Fund does not benchmark its fund manager and total investment costs relative to other LGPS funds. Score -1 point	Evidence and e-links to a) overall fund investment return (net of fees) for last 1, 3, 5 years a) Top quintile score +5 points b) Next two quintiles score +3 and 0 points respectively b) >75% of fund mandates deliver over rolling 3 year performance periods. Score +1 point c) Fund benchmarks its fund manager and total investment costs Score +1	3 0 -1	Only recently re-joined WM, so based on 2014-15 only - 26th percentile Two mandates making up 33% of assets underperformed over 3 years to 31 March 2015. Replaced in 2015 Do not benchmark against other LGPS funds	http://democracy.lbhf.gov.uk/documents/s65942/ITEM%205.1%20Pension%20Fund%20Quarterly%20Update%20Appendix%202%20Investment%20Report%20Deloitte.pdf
11	Annual report and audited financial statements	a) Do not fully meet some regulatory requirements or CIPFA LGPS guidance b) Not published in Admin Authority Accounts by 1 st October. c) Published on SAB website after 1 st November Self score -1 for each one	Evidence and e-links to demonstrate a) Meet all regulatory and CIPFA best practice guidance b) Publish in Administering Authority accounts by 1 st October c) Publish fund report and accounts of SAB website before 1 st November. Self score +1 for each one	0 1 1	Meet all regulatory requirements plus most of CIPFA best practice but not all re administration due to issues with provider Pension Fund Accounts published in Administering Authority accounts within timescale On website	http://www.lbhf.gov.uk/Images/Pension%20Fund%20Annual%20Report%202014-15_tcm21-198670.pdf http://www.lbhf.gov.uk/Images/LBHF%20Audited%20and%20Signed%20SOA%202014%2030%2009%2015_tcm21-198658.pdf http://www.lpsboard.org/index.php/fund-annual-reports-2015
12	Scheme membership data	a) Common data does not meet TPR standards b) Conditional data do not meet the TPR standards. No plans in place to rectify this. Self score -1 for each	Evidence and e-links to demonstrate a) >99% common data meets TPR quality and due date standards b) >95% of conditional data meets TPR quality and due date standards. Plans in place to improve this. Self score +1 for each one	0 0		
13	Pension queries, pension payments, and Annual Benefit Statements	a) No or poor website with no scheme member or employer access. b) ABS do not meet regulatory requirements or due timelines for issuance. Self score -1 for each	Evidence and e-links to demonstrate a) Good website with interactive scheme member and employer access. b) ABS meet or exceed regulatory standards and due timelines for issuance. Self score +1 for each	-1 0		
14	Cost efficient administration and overall VFM fund management	a) In bottom quartile with high total admin cost pa per member (based CIPFA or other benchmark tool). b) Not in any national or regional frameworks for any externally procured services or collective investments. Self score -1 for each	Evidence and e-links to demonstrate a) In top quartile with low total admin cost pa per fund member (based CIPFA or other benchmark tool calculated on a consistent and transparent basis). b) Lead and/or actively participates in collaborative working and collective LGPS procurement, shared services or CIVs Self score +1 for each	0 1	Council is a CIV shareholder. Investment Consultancy national LGPS framework used in 2013, custody in 2014.	
15	Handling of formal complaints and IDRPCs	a) Any Pensions Ombudsman determinations (and any appeals) fines were against the actions of the fund (ie not employer). Score -1	Evidence and e-links to demonstrate a) No Stage 2 IDRPCs and no Pensions Ombudsman findings against the fund actions in last 3 years. Score +1	0		
16	Fraud prevention	No or minimal systems/programme or plan or mechanisms in place to a) Prevent fraud b) Detect fraud c) detect pension over-payments due to unreported deaths Self score -1 for each one	Evidence and e-links to demonstrate a) Fraud prevention programme in place. b) Use external monthly, quarterly/annual mortality screening services, and c) participate in bi-annual National Fraud Initiative. Self score +1 for each one	1 1 1		
17	Internal and external audit	a) No annual internal audit or qualified internal and external audit opinions b) Urgent management action recommended on high/serious risks. c) Only moderate or low level of assurance and a number of high priority action recommended Self score -1 for each	Evidence and e-links to demonstrate a) Unqualified annual internal reports with no or only low priority management actions b) Unqualified and annual external audit with no or only low priority management recommendations. c) Full or substantial assurance against all key audit areas with no high risk recommendations. Self score +1 for each	0 1 1	One medium priority action in last internal audit report Unqualified external audit report with no recommendations. Unqualified external audit report with no recommendations.	http://democracy.lbhf.gov.uk/documents/s69146/Appendix%202%20-%20LBHF%20ISA%20260%202014-15.pdf
18	Quality assurance	No evidence of a) quality management system b) external reviewed publications c) externally approved website accessibility d) any awards. Self score -1 for each one	Evidence and e-links to demonstrate a) Fund has formal quality management external certification b) Crystal Mark for plain English for publications/forms c) externally approved website accessibility d) pensions & investment recognition award(s) Self score +1 for each one	-1 -1 -1 -1	No crystal mark for plain english No external approval for website No awards received	

Agenda Item 10

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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