London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Agenda

Tuesday 26 November 2019 at 7.00 pm
Meeting Room 1 (2nd Floor) - Shortlands

MEMBERSHIP

Administration	Opposition
Councillor Iain Cassidy Councillor Rebecca Harvey Councillor PJ Murphy	Councillor Matt Thorley
Co-optee	
Michael Adam	

Shortlands

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Hammersmith

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Members of the public are welcome to attend and the building has disabled access.

Date Issued: 18 November 2019

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee
Agenda

If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the 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 disclosable pecuniary interest or other significant 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.

Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.

Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit and Pensions Committee.

Any discussion on the contents of an exempt appendix will require the Committee to pass the proposed resolution at the end of the agenda to exclude members of the public and press from the proceedings for that discussion.

This report has appendices that contain information exempt within the meaning of Schedule 12A to the Local Government Act 1972 and are not for publication. The appendices have been circulated to the committee members only.

Any discussion on the contents of an exempt appendix will require the Committee to pass the proposed resolution at the end of the agenda to exclude members of the public and press from the proceedings for that discussion.

This report has an appendix that contains information exempt within the meaning of Schedule 12A to the Local Government Act 1972 and is not for publication. The appendix has been circulated to the committee members only.

Any discussion on the contents of an exempt appendix will require the Committee to pass the proposed resolution at the end of the agenda to exclude members of the public and press from the proceedings for that discussion.

14. ANY OTHER BUSINESS

LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION

Proposed resolution:

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.

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Thursday 12 September 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), PJ Murphy, Rebecca Harvey and Matt Thorley

Co-opted members: Michael Adam

Officers: Matt Hopson (Strategic Investment Manager), Timothy Mpofu (Pension Fund Manager) and Amrita Gill (Committee Co-ordinator)

Guests: Kevin Humpherson (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –
THAT, the minutes of the meeting held on 9 July 2019 were approved and signed by the chair

2. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Rebecca Harvey.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. QUARTERLY UPDATE PACK

Kevin Humpherson, Deloitte noted that in July 2019, Avia wrote to all investors to inform them that the Aviva Infrastructure Income Fund's (AIIF) Net Asset Value (NAV) would be restated dating back to 30 September 2018. Meetings had been arranged with Aviva to ascertain the issue. They were currently in a long-standing dispute with a construction counterparty regrading construction delays and cost overruns. As this was an ongoing legal dispute, Aviva were limited as to what information they could provide. Deloitte confirmed that they would continue to monitor developments regarding this issue and provide updates accordingly. Additionally, it was noted that Deloitte continued to rate Aviva Investors positively for its infrastructure capabilities.

Whilst this use had an impact on investors in terms of NAV performance, there had been no impact on the actual or expected distributions from AIIF.

Members said that they were disappointed that Aviva didn't raise these concerns at the last Sub-Committee meeting. They felt that this questioned Aviva's governance arrangements and the potential impact this would have on the fund's overall performance.

Timothy Mpofu, Pension Fund Manager, referring to the fund's Environment, Social & Governance (ESG) appendix provided a summary of how the fund was performing in line with its Carbon friendly targets. Subject to the Sub-Committee's approval this would be included as part of the quarterly update pack going forward.

Councillor PJ Murphy requested a review of the funds carbon heavy portfolios. In response Matt Hopson said that a breakdown could be provided to the Sub-Committee. However, the Carbon Friendly investment value would increase from 41% to approximately 53% once the removal Majedie's UK Equity strategy from the fund's portfolio had been completed.

Members were happy for this to be included as an appendix as part of the quarterly update pack. The Chair asked whether the Council had adequate resources to keep this information up to date. In response Matt Hopson explained that officers would refresh this document on a quarterly basis and the more convoluted information would be refreshed annually.

RESOLVED -
THAT, the Sub-Committee noted the contents of this report.

5. LCIV PENSIONS RECHARGE & GUARANTEE AGREEMENT

Matt Hopson, Strategic Investment Manager provided an update on the London Collective Investment Vehicle's (LCIV) pensions recharge and guarantee of liability, currently held by the City of London Corporation as the Local Government Pensions Scheme (LGPS) Administering Authority for the LCIV as an external employer.

Members were updated on the key requirements and technical aspects of the Pensions Recharge and Liability Guarantee. The London Local Authorities requested an independent review of the LGPS pension provision, as well as the possibility of closing the LGPS to new members or lowering the current cap. Furthermore, the Board undertook a remuneration review relating to LCIV staff salaries and LGPS pension provision, requiring shareholder views by 16 September 2019 at its October meeting. The Boards view was that change was required and that keeping the LGPS for existing staff and closing it to new hires was the most appropriate solution. The remuneration policy also needed to be updated to ensure that it provided a framework which was competitive enough to meet its objectives of recruiting, retaining and developing the talented staff required to deliver LCIV's future plans.

Matt Hopson explained that whilst the board was minded perusing the option of closing the scheme to new entrants, it was keen to hear the views of wider stakeholders before taking a final decision. The questions for the consultation were set out in Appendix 3 and these would be considered from each London Local Authority before a decision was made at the October meeting. It was highlighted that the options for the pension scheme and the resolution for this issue would depend on all shareholders signing the Liability Guarantee Agreement. Signatures of the guarantee by all 32 shareholders was critical regardless of the nature of the final decision.

The Sub-Committee agreed that, subject to the LCIV Board agreeing the recommendations to close the scheme to new entrants, they would sign the Pension Recharge and Guarantee agreement.

RESOLVED -
THAT, the Sub-Committee considered the contents of this report with a view to sign the Pensions Recharge and Guarantee of Liability Agreement.

6. INVESTMENT STRATEGY UPDATE

Matt Hopson, Strategic Investment Manager provided an update and noted that the Pension Fund was currently carrying significant excess cash of around of around £30m. The cash was currently not contributing significantly to overall fund returns, some of it should be invested in a return seeking asset class. The Fund was currently underweight in the LCIV Buy and Maintain Bond portfolio, making this asset class the most appropriate place to invest £20m of the excess cash. In addition, the reasons for this recommendation were outlined by officers.

Matt Hopson explained that the allocation for the current Partners Group Multi Asset Credit (MAC) strategy also needed to be considered. Officers said that they would arrange a meeting for the Sub-Committee to meet with potential operators ahead of the next Pensions Fund Sub-Committee in November, with a view to appointing a new manager at the November meeting.

Members commented that they were happy to proceed with the above proposals, including the allocation of £20m in the LCIV Buy and Maintain Bond portfolio. In addition, they were keen for officers to explore alternative opportunities for the current MAC strategy allocation, prior to the next Pensions Fund Sub-Committee.

Matt Hooper, Strategic Investment Manager noted that Ruffer would be invited to the next Pension Fund Sub-Committee to provide a presentation and update the Sub-Committee of their current performance. Furthermore, officers commented that a meeting would be arranged in 2020 with Oak Hill to discuss their fees and current arrangements. However, this was a long-term consideration as this fund was not currently delivering a negative performance.

Councillor PJ Murphy asked how negotiable were Ruffer on their fees. In response Matt Hopson explained that Ruffer were historically high in demand, which did not require them to negotiate on fees. Their Fees are also negotiated centrally by LCIV for all the London Boroughs invested. However, the aim of the meeting would be to provide members with the opportunity to ascertain future arrangements relating to fees with Ruffer.

Councillor PJ Murphy asked whether there was an opportunity to lend some of the Fund's excess cash to the Council for regeneration projects. In response. Matt Hopson explained that the Council would end up paying higher interest to the Pension Fund and it would be more appropriate to explore cheaper alternatives of borrowing. Therefore, this could prove to be a challenging option. There would also be a conflict of interest between the Council and the Pension Fund in terms of the Pension Fund achieving the best possible return.

RESOLVED –
THAT, the Sub-Committee approved the investment of £20m into LCIV Buy and Maintain Bond Fund.

THAT, the Sub-Committee noted the investment strategy training session and considered some of the key areas ahead of the next meeting in November 2019.

7. TRANSITION FROM LCIV UK EQUITY FUND

Matt Hopson, Strategic Investment Manager explained that on 9 July, the Pension Fund Sub-Committee approved the termination of the LCIV UK Equity Fund (managed by Majedie) and transition the assists into the Legal and general (LGIM) MSCI Low Carbon Index-Tracker Fund. To ensure that the transition contracted was implemented appropriately, the team would like to access the LGPS Norfolk Framework for the use of its transition management contract services.

Referring to page 36 of the agenda pack, Matt Hopson explained that it was much more cost effective to carry out the transition through the transition manager than to sell the assets and then reinvest them. However, the Pension Fund was not currently signed up to the framework. To join the framework the fund would need to sign the framework agreement.

The framework agreement had been reviewed by Eversheds Sutherland and the inhouse legal team, with some issue still to be resolved. Clauses around indemnity were brought to the Sub-Committee's attention, prior to the agreement being signed. It was noted that these risks would be highly unlikely to cause any financial loss, in terms of the Council acting negligently. In addition, the framework was well established and in use by many other Local Authority Pension Funds, with no previous instances of concerns raised.

RESOLVED -
THAT, the Sub-Committee approved the appointment of LGIM for the transition of asset process via the transition manager contract contained within the LGPS Norfolk Framework Agreement, subject to the resolving of any outstanding issues with Legal.

8. GOVERNANCE OF LGPS

Matt Hopson, Strategic Investment Manager, provided a brief overview of LGPS Good Governance Report which had been commissioned by LGPS Scheme Advisory Board (SAB). Referring to page 38, Matt Hopson noted the four governance models based on various criteria, including standards, consistency, conflict management, clarity or roles and responsibility, and cost.

The SAB had invited Hymans Robertson to assist in taking forward the next stage of the good governance project. Two working groups would be established to define good governance outcomes and options for the independent assessment of outcomes, including mechanisms to improve the delivery of those outcomes. An options report would be ready for consideration in November 2019. Any proposals agreed by the SAB following the November 2019 meeting would be subject to further consultation with funds, before being put to Ministry of Housing, Communities & Local Government (MHCLG) Therefore, the Council would need to respond to the consultation, however no immediate action needed to be taken at this stage.

RESOLVED -
THAT, the Sub-Committee noted the contents of the report.

9. GLOBAL CUSTODIAN CONTRACT EXTENSION

Matt Hopson, Strategic Investment Manager provided an overview and noted that the Pension Fund custody contract with Northern Trust was due to expire on 30 September 2019. Due to the changing nature of the LGPS, Northern Trust remained the only realistic appointment for London Local Authority LGPS pension schemes. Therefore, officers recommended that the contract be extended for an additional two years up to the period end 30 September 2021 with an estimated annual cost of £32k per annum.

RESOLVED –
THAT, the Sub-Committee approved the appointment of the global custodian, Northern Trust to the LBHF Pension Fund for an additional two years, subject to a review in 2021.

10. 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.

11. QUARTERLY UPDATE PACK

The exempt elements of this item were noted**.**

12. LCIV PENSIONS RECHARGE & GUARANTEE AGREEMENT

The exempt elements of this item were noted.

Meeting started: 7:00pm
Meeting ended: 8:30pm

Chair ....

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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.

London Borough of Hammersmith & Fulham

Report to: **Pensions Sub Committee**

Date: 26/11/2019

Subject: **Authorisation to approve Admitted bodies into the LBHF Pension Fund**

Report of: Chief Executive – Kim Smith

Summary

Employees who are subject to the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) must remain eligible for the public service pension scheme that they were a member of or eligible for membership of before their TUPE transfer.

Within the context of the Local Government Pension Scheme (LGPS) Regulations, if the new employer is not the Council then it is required by law to apply for 'Admitted Body Status' (ABS) into the Council's LGPS.

Obtaining ABS involves the new employer being party to an agreement (known as an Admission Agreement) with the LBHF pension fund to pay pension contributions and to comply with all other employer responsibilities in respect of the transferring employees who remain eligible for and actively participate in the LGPS.

In addition, under the Local Government Pension Regulations 2013 the Administering Authority can exercise discretion when making death grant and early/ill health retirement payment of benefit decisions.

Authority to approve ABS status for a new employer and to make discretionary decisions on behalf of the LBHF pension fund was previously delegated to the position of the Director of Corporate Services.

The holder of the Director of Corporate Services post left LBHF employment on the 31st May 2019, so as an interim arrangement the Chief Executive has been giving the necessary approvals to approve ABS status to a new employer and the Assistant Director People and Talent has been making the discretionary decisions.

This report seeks formal approval for the delegated authority for both the approval to grant ABS status, and to make discretionary decisions, to be given to the position of Assistant Director People and Talent, which is a senior manager position in Human Resources currently held by Dawn Aunger.

Recommendation

That delegated authority be given to the position of Assistant Director People and Talent to approve 'Admitted Body Status' to a new employer and to make discretionary decisions relating to making death grant and early/ill health retirement payment on behalf of the LBHF Pension Fund.

Wards Affected: None

H&F Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	Ensuring that authority to approve is set at the most appropriate level of the organisation.

Financial Impact

None.

Legal Implications

The Legal implications are contained within the body of the report.

Implications drafted by Rhian Davies, Assistant Director of Legal and Democratic Services

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Contact Officer(s):

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Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Proposals and Analysis of Options

This report seeks to return the authority to approve Admitted body status and to make discretionary decisions back to the most appropriate level within the organisation.

Equality Implications

None.

Risk Management Implications

None.

Other Implications

None.

Consultation

None.

List of Appendices:

None.

Agenda Item 5

London Borough of Hammersmith & Fulham

Report to: **Pension Fund Sub-Committee.**

Date: 26/11/2019

Subject: **Pensions Regulator report into the Governance and Administration of Public Sector pensions**

Report of: Assistant Director People and Talent

Summary

In September 2019 the Pensions Regulator (TPR) issued a report which followed their survey carried out between October 2018 and July 2019 into the Governance and Administration of Public Sector pensions.

The aim of the survey was to understand scheme managers' approaches to a number of key risks. As part of the report the Pensions Regulator fed back on good practice and suggested improvements that could be made.

The report was not designed to be a comprehensive evaluation of funds operations and was not intended to replace audit requirements, nor was it to be considered as regulatory assurance or an endorsement of the fund by TPR.

The TPR findings and recommendations have been compared to the current governance standards within the LBHF Local Government Pension Scheme (LGPS) fund and conclusions and recommendations have been made.

Recommendations

1. That the Board notes this report and approves the actions detailed in Appendix 1.

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	Continuing to provide assurance regarding the governance of the LGPS thereby encouraging employees to join and/or remain members of the scheme.
• Being ruthlessly financially efficient	To review and assess governance and efficiency of the LGPS, recommending and making changes where necessary.
• Taking pride in H&F	Ensuring a high standard of governance of the LGPS that continues to underpin the retention and recruitment of employees.

Financial Impact

None

Legal Implications

None

Contact Officer(s):

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Background Papers Used in Preparing This Report
None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1. This report proposes alignment between the current governance standards of the LGPS to those detailed within TPR report issued in September 2018.

1.2. There have been no other recent reviews of public sector pensions governance standards therefore no other options are available for consideration.

2. Reasons for Decision

2.1. The Pensions Sub-committee need to be satisfied that the governance of the LGPS is suitable to manage identified risks.

3. Equality Implications

3.1. *None*

4. Risk Management Implications

4.1. This report seeks to further enhance the governance of the LGPS and reduce the risk of loss as far as practicable.

5. Other Implications

5.1 None

6. Consultation

6.1. None

List of Appendices:

Appendix 1:. Governance and administration risks in public service pension schemes comparison report

TPR Findings | TPR Recommendations | LBHF Fund Controls in place and/or actions required as at 5th November 2019 | RAG Rating

TPR Findings	**TPR Recommendations**	**LBHF Fund Controls in place and/or actions required as at 5th November 2019**	**RAG Rating**
Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete. Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods. They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.	• Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate. • The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found. • Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.	• The Scheme Manager (Maria Bailey) monitors the level of accuracy and consistency within the pensions data. Discussions are currently ongoing with the Pensions Administrators Surrey County Council (SCC) regarding the creation of a revised Data Improvement Plan following the data recently being produced for the valuation of the fund. • The revised Data Improvement Plan will be shared with the Pensions Board and the Pensions Sub Committee once agreed with the Pensions Administrator. • Regular monitoring reports will be provided to the Pension Board and the Pensions Sub Committee • A Pension Administration Strategy is already in place which details the rights and obligations of all parties to the fund.	Green
There were a range of approaches to	• A risk register should be in place and	• A fund risk register is in place and reported to the	Amber

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating
identifying, monitoring and mitigating risks to the funds we engaged with. Some funds had detailed risk management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks. We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role. Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls	cover all potential risk areas. It should be regularly reviewed by the pension board. • The scheme manager should take a holistic view to risks and understand how they are connected. • The pension board should have good oversight of the risks and review these at each pension board meeting. • Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels. • The scheme manager should ensure all processes are documented and reviewed on a regular basis. • Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate	Pensions Board and the Pensions Sub Committee by the Tri-Borough Investment Team. • To supplement the fund's risk register, the Pension Administrators are creating a risk register focussed solely on Pension Administration risks. This will be shared with the Pensions Board and the Pensions Sub Committee regularly. • The fund's risk register is shared with the Pension Board but not at every meeting. **Action:** Fund's Risk Register to be included in future agendas and the Pension Administration Risk Register to be shared when available. • Some but not all of the fund's controls and processes are recorded. **Action:** A review of the documentation status of the controls and processes to be included in future HR work plans. **Action:** The borough Governance Team to consider the provision of action logs.	
Better performing scheme managers have a close relationship with their administrator,	• Scheme managers must agree targets and have a strong	• The arrangements with the Pension Administrator (Surrey County Council) are covered by a section	Green

TPR Findings	TPR Recommendations	LBHF Fund Controls in place and/or actions required as at 5th November 2019	RAG Rating
whether they use a third-party provider or an internal team. In these instances, robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done. Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members. There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund	understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should the agreed standards not be met. • Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator. • It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided. • Scheme managers should hold regular meetings with their service providers to monitor performance.	101 delegation agreement that includes agreed KPIs covering the most important areas of service delivery. • The KPIs are monitored monthly by HR and reported to the Pensions Board at every meeting. • The section 101 delegation agreement is ongoing and has a 12 month notice period on either side. • A Pensions Administrator manager has previously attended the Pensions Board and the Pensions Sub Committee. **Action:** The Pensions Board and the Pensions Sub Committee to consider the future requirement for the Pensions Administrators to attend meetings. • The scheme manager attends quarterly meetings with the Pensions Administrators.	
Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they	• There should be a clear internal policy on how to handle complaints, including escalation to suitable senior	• The Fund has an IDRP policy in place which is communicated via the Pensions web site.	Green

receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries. Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers. Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like is not known this will affect its ability to put things right	members of staff. • People entitled to use the IDRP should be given clear information about how it operates. • This information should be easily available, e.g. on the fund website. • The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house. • Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.	• Details of entitlements and appeals procedures are contained with the IDRP policy. • Numbers of complaints are reported along with the KPIs by the Pensions Administrators and reviewed at the Quarterly Liaison meetings where changes are agreed as necessary to processes to prevent a reoccurrence.	
A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non-technical staff to check readability and whether it is comprehensive. Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not	• Information sent to members should be clear, precise and free from jargon. • There should be senior oversight of communications sent to members and prospective members. • It is often helpful for scheme managers to measure the effectiveness of their communication with savers, e.g. measuring website traffic and running surveys.	• The Head of Retained Pensions (LBHF and RBKC) and HR Management Information signs off significant communications with scheme members. Each are reviewed for effectiveness, clarity and accuracy prior to being sent. **Action:** The scheme manager and the Pensions Administrators to continue to review how to measure the effectiveness of the communications with scheme members, Non-members, Admitted Bodies and Schools.	Green

knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.			
Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board. We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding. The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.	• The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance. • Individual pension board member training and training needs should be assessed and clearly recorded. • The pension board should meet an appropriate number of times a year, at least quarterly. • Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager. • Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs. • Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund. • The chairs of the pension board and	• A training needs analysis for Pension Board members and the Pensions Sub Committee has previously been carried out by Tri-Borough Investment Team. • Training has periodically been offered to members of the Pensions Board and the Pensions Sub Committee. **Action:** The Pension Board and the Pensions Sub Committee to consider when a review of the training needs should be carried out next. • The training records of the Pension Board and the Pensions Sub Committee members is held by the Tri-Borough Investment Team. • In 2018 the terms of office of the employee representatives of the Pension Board came to an end and the positions were advertised by the Scheme Manager and appointments made by the Director of Human Resources. • The Chair of the Pension Board attends the Pensions Sub Committee meetings as required.	Amber

	pension committee should consider attending each other's meetings to observe as this leads to better transparency. • Pension board members should be fully engaged and challenge parties where appropriate.		
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems. Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk. Most scheme managers seek security from employers to mitigate the risk of a failure to	• Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus. • Employer solvency should be considered on an ongoing basis and not just at the time of each valuation. • Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier. • Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations. • Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as	• Employer and employee contributions from all payroll providers are monitored monthly by the scheme manager and appropriate action taken promptly where inaccuracies or omissions are identified. • All service providers to whom ex-Council employees have been TUPE transferred must become an Admitted Body to the scheme (unless they can demonstrate to the satisfaction of the Actuary that a comparable pension scheme is available to those who have been transferred). • With support and advice from the Councils Legal Advisors (Eversheds) an Admission Agreement is signed under seal by all the major stakeholders detailing the responsibilities of all parties. • It is the policy of the borough that all Admitted Bodies purchase a bond and have it in place to mitigate any loss to the fund in the event that the Admitted Body cannot fulfil its financial liabilities to the pension fund. • The bond is required to be taken out by the Admitted Body with a recognised financial institution to the value calculated by the pension fund Actuary (Barnett Waddingham).	Green

pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of security types, generally those with larger funds. Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.	charges, bonds and guarantees. • Scheme manages should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security. • Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets. • Where security is in place, Scheme Managers should have a policy on when the security should be triggered		
Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority. Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did not appear on the risk register before our engagement with the scheme manager. Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in place to test the	• Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register. • Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks. • Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's	• The pension administration software system is covered by Surrey County Council's annual disaster recovery and penetration cyber security controls. This is also underpinned by requirements in the section 101 delegation agreement. We are satisfied that these controls are sufficiently robust and comprehensive to provide the required level of assurance as proposed by the Regulator.	Green

effectiveness of both cyber security and resilience methods.	requirements are met. • Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data		
Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures. Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity. Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.	• Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud. • A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment. • A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver. • Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence. • When paper records are being used they should be held securely to prevent the risk of loss or mis-appropriation.	• The Scheme Manager has an agreed process in place with the Pensions Administrator that they use a 3rd party to confirm the ongoing identity and validity of pensioners living outside the UK. • A separation of responsibility exists for the payment of lump sums to members of the fund. Calculations are carried by the Pensions Administrator, input by the scheme manager and approved by the Director of Human Resources. • All potential or actual frauds are reported to the Borough's audit services for investigation and recommendation.	Green

Agenda Item 6

London Borough of Hammersmith & Fulham

Report to: **Pension Fund Sub-Committee.**

Date: 26/11/2019

Subject: Local Government Pension Scheme (LGPS) Administration Performance Update Report

Report of: Assistant Director People and Talent

Summary

The day to day administration of the LBHF LGPS is delegated to Surrey County Council (SCC) under a Section 101 agreement effective from 1st September 2015.

The Section 101 agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards, these are monitored by the Bi-Borough Pensions and LBHF Human Resources teams.

This report provides an update of performance against the agreed KPIs. deliverables.

Recommendations

That the Pensions Fund Sub Committee notes the contents of this report.

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	Continuing to provide assurance regarding the governance of the LGPS thereby encouraging employees to join and/or remain members of the scheme.
• Being ruthlessly financially efficient	To review and assess governance and efficiency of the LGPS, recommending and making changes where necessary.
• Taking pride in H&F	Ensuring a high standard of governance of the LGPS that continues to underpin the retention and recruitment of employees.

Financial Impact

None

Legal Implications

None

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Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis.

1.1. SCC's performance against the agreed KPIs is shown in Appendix 1 it covers the monthly performance from September 2018 to September 2019.

1.2. In addition to the KPIs, an agreed priority of the pensions administration service is that SCC would focus resources on the resolution of queries at the first point of contact carried via a dedicated help desk.

1.3. The aim is to resolve matters and enhance the user experience by providing a speedy reply to routine queries.

1.4. As a result, in September 2019 of the 644 personal contacts were made by employees in the LBHF LGPS to the SCC help desk. Of these 86% (567) were resolved at the first point of contact.

1.5. Typically, those not resolved at the first point of contact are the more complex queries that are sent on to the specialist teams to resolve and then become subject to the agreed KPIs.

1.6. Challenges to the overall resolution of cases tend to result from when SCC are required to collect information from other organisations such as previous employers. In this instance it is only the SCC performance that is recorded within the KPI and not the delays that were caused by other organisations.

1.7. Overall sixteen (16) of the seventeen (17) KPIs stand at 100%.

1.8. Monthly monitoring of all KPIs will continue.

2. Equality Implications

2.1. None

3. Risk Management Implications

3.1. None

List of Appendices:

Appendix 1: Detailed analysis of the SCC performance against the agreed KPIs over a 13-month period.

LBHF PENSION ADMINISTRATION KPIs (figures in brackets represent cases processed out of target as part of the total number given before it)

Description	Target Time	This mth -v- last mth	Sept 19 score	Sept 19 cases	Aug 19 score	Aug 19 cases	July 19 score	July 19 cases	June 19 score	June 19 cases	May 19 score	May 19 cases	Apr 19 score	Apr 19 cases	Mar 19 Score	Mar 19 Cases	Feb 19 Score	Feb 19 Cases	Jan 19 Score	Jan 19 Cases	Dec 18 Score	Dec 18 Cases	Nov 18 Score	Nov 18 Cases	Oct 18 Score	Oct 18 Cases	Sep 18 Score	Sep 18 Cases
Pension Administration																												
Death Benefits Write to dependant and provide relevant claim form	5 days	n/c	100%	13	100%	15	92%	12 (1)	100%	3	100%	11	100%	9	100%	3	100%	1	100%	3	100%	4	100%	6	100%	4	100%	16
Set up any dependants benefits and confirm payments due	10 days	n/c	100%	18	92%	13(1)	100%	10	100%	2	92%	13 (1)	100%	11	100%	3	100%	1	100%	4	67%	3	100%	3	100%	1	94%	19
Retirements New retirement benefits processed for payment following receipt of claim forms	7 days	10%	90%	10(1)	100%	5	100%	9	100%	5	94%	16 (1)	100%	5	100%	11	100%	2	100%	0	100%	4	100%	3	100%	0	89%	10
Deferred retirement benefits processed for payment following receipt of claim forms	7 days	n/c	100%	13	100%	25	100%	22	100%	1	91%	22 (2)	92%	12 (1)	80%	20 (6)	100%	11	92%	13	80%	20	100%	19	64%	15	95%	40
Refunds of Contributions Refund paid following receipt of claim form	10 days	n/c	100%	5	100%	6	100%	6	N/A	0	100%	4	100%	2	100%	1	100%	3	100%	3	100%	6	100%	3	100%	1	42%	30
Deferred Benefits Statements sent to member following receipt of leaver notification	20 days	n/c	100%	17	100%	21	100%	21	100%	17	92%	26 (2)	96%	27 (1)	94%	17 (1)	100%	20	100%	22	85%	13	93%	15	100%	7	58%	91
Estimates Early Retirement requests from employer	10 days	n/c	100%	7	100%	6	100%	14	N/A	0	100%	16	100%	3	100%	7	100%	3	67%	3	100%	4	50%	6	100%	0	90%	11
Projections Requests from employees	10 days	n/c	100%	13	100%	42	98%	52(1)	100%	19	94%	32 (2)	97%	37 (1)	83%	6 (1)	86%	7 (1)	100%	4	100%	1	25%	7	100%	1	89%	21
New Joiners New starters processed	30 days	n/c	100%	40	100%	94	100%	36	100%	244	100%	1	100%	13	100%	3	100%	9	100%	122	100%	0	100%	11	100%	39	100%	23
Transfers In Quote estimate to scheme member (includes interfunds)	20 days	n/c	100%	7	100%	24	100%	10	N/A	0	100%	4	100%	11	100%	4	100%	7	100%	3	83%	6	100%	7	100%	0	36%	36
Transfers-in payments processed	20 days	n/c	100%	2	100%	1	100%	1	N/A	0	100%	1	100%	3	100%	0	100%	3	100%	1	100%	2	100%	1	100%	0	100%	1
Transfers Out transfers-out quotations processed (includes interfunds)	20 days	5%	100%	17	95%	20(1)	100%	15	100%	0	100%	11	63%	8 (3)	57%	7 (3)	100%	10	100%	11	83%	6	86%	8	75%	5	71%	40
Transfers out payments processed	20 days	8%	100%	5	92%	12(1)	100%	13	100%	0	100%	3	100%	6	71%	7 (2)	100%	11	100%	10	100%	0	100%	0	100%	2	100%	2
Helpdesk Queries First Point Fix	No set target	-	86%	567	89%	519	93%	495	88%	435	90%	483	90%	509	89%	447	88%	354	88%	497	89%	348	73%	457	88%	545	93%	508
Monthly Pensioner Payroll																												
Full reconciliation of payroll and ledger report provided to Borough	Last day of month	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
Issue of monthly payslips	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
RTI file submitted to HMRC	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-
BACS File submitted for payment	3 days before pay day	n/c	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-	100%	-

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: Pension Fund Quarterly Update Pack

Report of: Tim Mpofu

Executive Summary

1.1 This paper provides the Pension Fund Sub-Committee with summary of the Pension Fund's:

a. Overall performance for the quarter ended 30 September 2019
b. Cashflow update and forecast
c. Assessment of risks and actions taken to mitigate these
d. Sub-Committee's strategic forward plan

Recommendations

1. The Pension Fund Sub-Committee is recommended to note this report

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Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and taxpayer.

Financial Impact

- None

Legal Implications

- None

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. LBHF Pension Fund Quarterly Update – Q1 2019/2020

1.1. This report and associated appendices make up the pack for the quarter ended 30 September 2019. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.

1.2. Appendix 2 contains the Pension Fund's report on the latest updates with regards to the integration of the environmental, social and governance (ESG) factors as part of the its investment strategy.

1.3. Appendix 3 provides information about the Pension Fund's investments and performance. For this meeting, this item has been included in the exempt agenda as it contains some sensitive information. Kevin Humpherson from Deloitte will be attending the meeting to present this report.

1.4. The Pension Fund's cashflow monitor is provided in Appendix 4. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to June 2010. An analysis of the differences between the actuals and the forecasts for the quarter is also included.

1.5. Appendix 5 contains the Pension Fund's Risk Registers which were revamped to show a more meaningful assessment of risks and the actions taken to mitigate them. These also highlight the risks that are increasing in their likelihood for enhanced monitoring by officers.

1.6. A summary of the voting undertaken by the investment managers running segregated equity portfolios forms Appendix 6. This includes LGIM and both London CIV Majedie and London CIV Ruffer funds.

1.6 Appendix 7 gives an update on the Forward Plan as at 30 June 2019

List of Appendices:

Appendix 1: Scorecard at 30 September 2019
Appendix 2: Pension Fund ESG Report
Appendix 3: Deloitte Quarterly Report for Quarter Ended 30 September 2019
Appendix 4: Cashflow Monitoring Report
Appendix 5: Pension Fund Risk Register
Appendix 6: Pension Fund Voting Summary
Appendix 7: Pensions Sub-Committee Forward Plan

Appendix 1: Scorecard at 30 September 2019

LBHF Pension Fund Quarterly Monitoring Report

	Dec 18	Mar 19	June 19	Sep 19	Comment/ Report
Value (£m)	986.6	1,037.0	1,067.3	1,098.6	Deloitte Report Gross of Fees
% return quarter	-5.7%	5.5%	3.2%	3.0%	
% return one year	-2.8%	6.3%	4.8%	5.9%	
LIABILITIES					
Value (£m)	1,057.3	1,057.3	1,057.3	1,057.3	No funding update was carried out in Q1 2019, as the assumptions have been changed ahead of the triennial valuation
Deficit (£m)	27.6	27.6	27.6	27.6	
Funding Level	97%	97%	97%	97%	
MEMBERSHIP					
Active members	4,306	4,332	4,332	3,821	
Deferred beneficiaries	5,703	6,840	6,840	7,171	
Pensioners	5,018	5,111	5,111	5,173	
Employers	61	50	50	50	
CASHFLOW					
Cash balance	£0.8m	£2.7m	£2.5m	£4.4m	Appendix 4
Variance from forecast	-£0.6m	£0.8m	£1.0m	£3.1m	
RISK					
No. of new risks	2	0	0	0	Appendix 5 – Risk Register
No. of ratings changed	0	16	0	7	
VOTING					
No. of resolutions voted on by fund managers	3,182	324	15,401	1,765	Appendix 6 – LGIM, Ruffer & Majedie
LGPS REGULATIONS					
New consultations	MHCLG Pooling	MHCLG Pooling 95K Cap	None	CMA Review	
New sets of regulations	None	None	None	None	

Fund's Environmental, Social & Governance (ESG) Report — 30 September 2019

The Hammersmith & Fulham Pension Fund is committed to achieving carbon neutrality by 2030. Carbon neutrality can be achieved by simply eliminating carbon emissions altogether or by balancing carbon emissions with carbon removal. For the pension fund, it is difficult to completely eliminate carbon emissions from the fund's investments activities whilst achieving the fund's target return. A significant proportion of global economic activity still relies heavily on activities that produce CO_2 emissions.

However, the pension fund has made some strides to limiting its contribution to activities that have a negative impact on the environment by investing all its passive equity holdings in the MSCI World Low Carbon tracker fund managed by Legal & General. The pension fund also has a 7.50% allocation to infrastructure investments, of which the majority of capital has been directed towards renewable energy projects.

The impact of fixed income investments on the fund's carbon footprint is receiving increased attention. Fixed income strategies arguably have greater significance on an organisation's attitude towards climate change due to the possibility of stranded assets in companies heavily reliant on fossil fuel revenues. If an organisation cannot access borrowing from the capital markets, its solvency is threatened. At present, the data to quantify carbon impact is very difficult to source. However, through fund manager engagement, additonal ESG disclosures can be obtained. PIMCO, the manager of the LCIV Global Bonds Fund, has been adding ESG clauses to various new bond covenants. As at 30 September 2019, the fund held 23 green bonds which made up 3.41% of the portfolio.

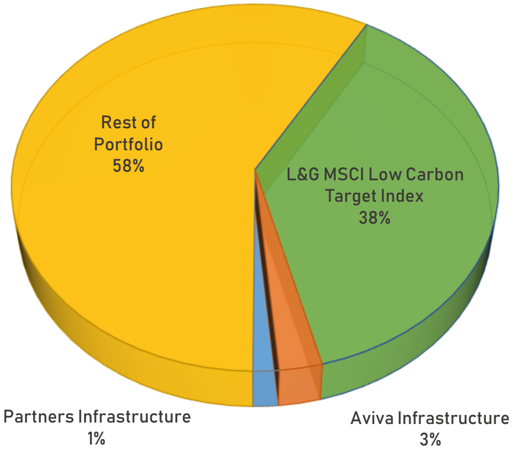
Value of Assets Invested in Carbon Friendly

Investment Fund	£000
MSCI Low Carbon	417,180
Aviva Infrastructure	28,696
Partners Infrastructure	17,411
PIMCO Green Bonds	3,028

Total Carbon Friendly Investment Value

£466mil

Investments in Carbon Friendly Investments



Carbon Savings Update

The measurement of carbon savings is still evolving within the investment industry.

- Aviva Infrastructure (£30m) invests in onshore wind farms, domestic solar installation projects and biomass utilities. The fund has an external consultant who calculates the estimated carbon savings on an annual basis.
- The fund's investment in the MSCI Low Carbon index has 57% less CO_2 output than the global benchmark. This analysis is carried out annually by the pension fund through a specialist firm.
- The pension fund's officers continue to engage with the fund managers in the development of better carbon emissions metrics and reporting.

% Carbon Friendly Investments

42%

Estimated Aviva Carbon Savings

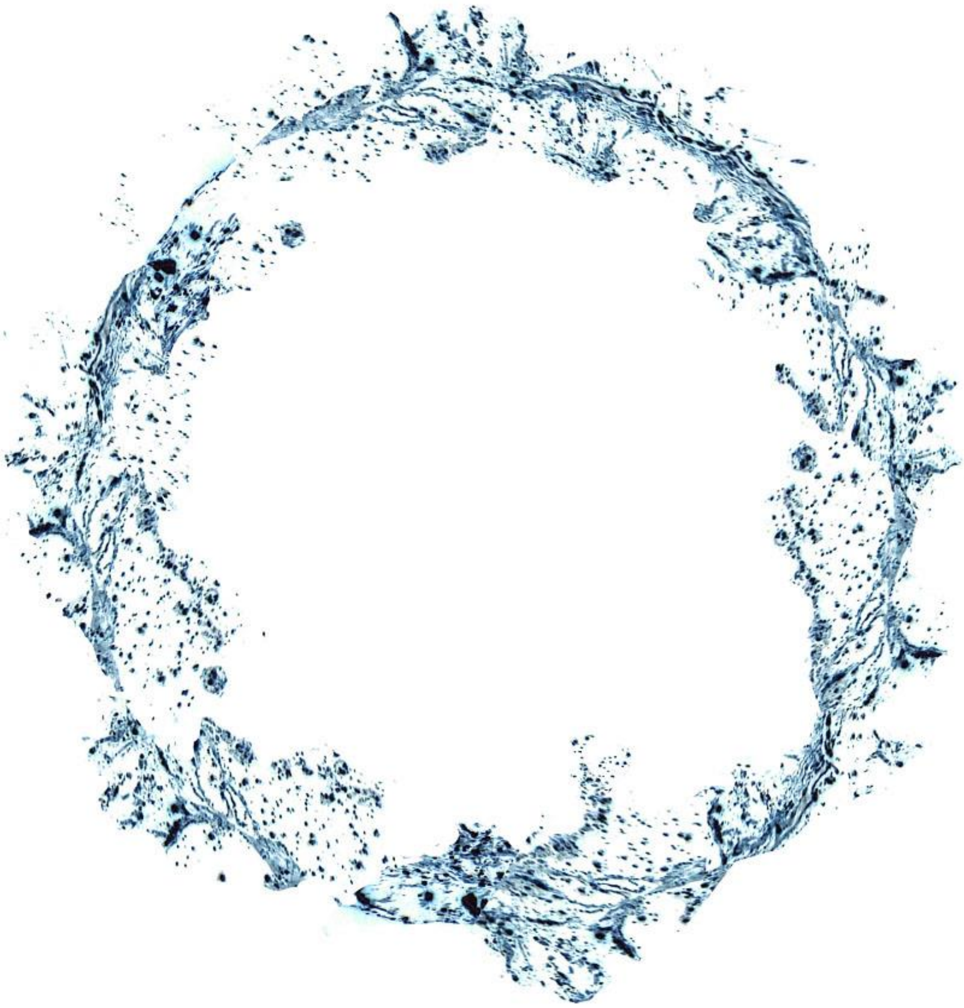
10,620 tonnes CO_2 per annum

* Equivalent to keeping 49k cars off the road each year.

Estimated MSCI Low Carbon Savings

37,750 tonnes CO_2 per annum

Deloitte.



London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 30 September 2019

Deloitte Total Reward and Benefits Limited
November 2019

Contents

1 Market Background

1.1 Three months and twelve months to 30 September 2019

After a strong first half of 2019, global equity markets delivered a small positive return in the third quarter as the Fed (which cut rates twice) and other central banks eased monetary policy against a backdrop of slowing global growth and the ongoing US-China trade dispute. Gains were shared across most developed markets, but emerging markets, which are particularly sensitive to the ongoing global trade tensions, suffered losses as a result.

UK equities made modest gains over the quarter to 30 September 2019, with the FTSE All Share Index returning 1.3%. It was confirmed that the UK economy had contracted by 0.2% over the second quarter, whilst subsequent data suggested a continued slowdown in economic activity over the third quarter. Brexit uncertainty remained high as Boris Johnson took over as Prime Minister on a pledge to leave the EU with or without a deal on 31 October. However, the lack of progress in negotiations with the EU, the UK Parliament's opposition to 'no deal', and the bill it passed to request an extension to avoid such an outcome, raised expectations that Brexit may be delayed beyond October.

The FTSE 100 Index gained 1.0% while the FTSE 250 gained 3.3%, as the FTSE 100 was weighed down by its large concentration to economically sensitive sectors such as Financials (-1.8%) and Oil & Gas (-6.6%), which suffered as investors rotated more towards defensive growth sectors such as Health Care (11.6%) and Utilities (5.1%) in response to the slowdown in global growth. Telecommunications was the best performing sector returning 13.1%, while Technology was the poorest performing sector falling 15.7% in the third quarter, having made large gains in the previous quarter.

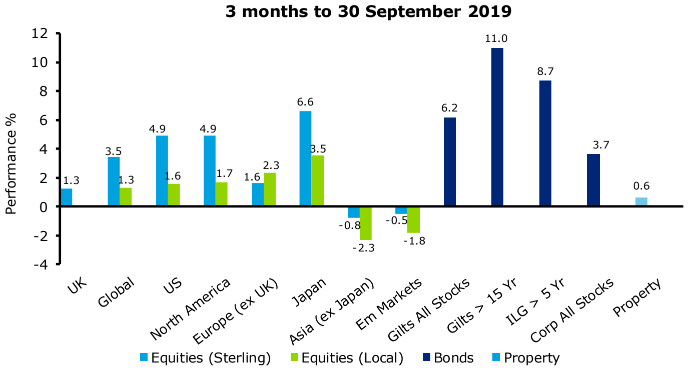
Global markets as a whole performed broadly in line with UK equities in local currency terms (1.3%) but outperformed in sterling terms (3.5%) following further sterling depreciation in an uncertain political environment. Most developed markets made positive returns in local currency terms, with Japan the best performer, returning 3.5%. However, the other Asia-Pacific (ex-Japan) markets (-2.3%) and Emerging Markets (-1.8%) suffered losses in local terms, suffering most from the trade tensions which rumbled on through the quarter.

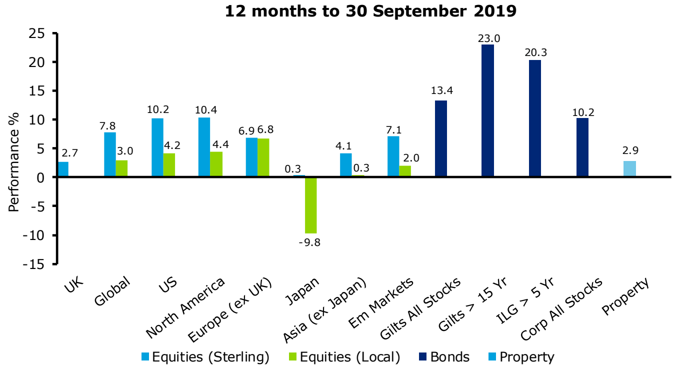
Government bond yields fell sharply over the quarter due to global growth concerns and the prospect of further rate cuts. In the UK, nominal gilt yields fell significantly across the curve, dropping c. 40-50 bps at mid to long durations, as investors downgraded their future growth expectations and fears of a 'no deal' Brexit fuelled a 'flight to quality'. The All Stocks Gilts Index delivered a positive return of 6.2% over the quarter with the Over 15 Year Index returning 11.0%. Real yields also fell sharply with the Over 5 Year Index-Linked Gilts Index delivering a return of 8.7% over the same period. Credit spreads widened over the quarter which led to underperformance of equivalent gilts. The iBoxx All Stocks Non Gilt Index returned 3.7%.

Over the 12 months to 30 September 2019, the FTSE All Share Index delivered a positive return of 2.7% as the gains made through 2019 more than offset the sharp sell-off at the end of 2018. There was a wide dispersion in returns at the sector level with Health Care the best performer, returning 16.7%, whilst Oil & Gas was the poorest performing sector falling by 11.2%. Global markets performed broadly in line with UK equities in local currency terms (3.0%) but significantly outperformed in sterling terms (7.8%) due to the depreciation of sterling over the year.

UK nominal gilts achieved strong returns over the 12 months to 30 September 2019 as nominal gilt yields fell sharply across the curve. The All Stocks Gilts Index returned 13.4% and the Over 15 Year Gilts Index returned 23.0% over the year. UK index-linked gilts delivered positive returns as real yields also fell across the curve with the Over 5 Year Index-Linked Gilts Index returning 20.3%. The iBoxx All Stocks Non Gilt Index returned 10.2% lagging gilts as credit spreads widened slightly over the year.

The MSCI UK All Property Index returned 0.6% over the 3 months to 30 September 2019 and 2.9% over the 12 months to 30 September 2019. The property market has continued to cool in light of heightened Brexit uncertainty and a slowing UK economy.





2 Performance Overview

2.1 Investment Performance to 30 September 2019

Breakdown of Fund Performance by Manager as at 30 Sep 2019		3	1	2 year	3 year	5 year
Fund	Manager	month	year	p.a.	p.a.	p.a.
Equity Mandate						
	LCIV UK Equity Fund[2]	1.0	-3.0	0.2	4.3	5.4
FTSE All Share		1.3	2.7	4.2	6.7	6.7
Difference		-0.3	-5.6	-4.0	-2.4	-1.3
	LGIM Low Carbon Mandate	4.3	n/a	n/a	n/a	n/a
MSCI World Low Carbon Target		4.3	n/a	n/a	n/a	n/a
Difference		0.0	n/a	n/a	n/a	n/a
Dynamic Asset Allocation						
	LCIV Absolute Return Fund[2]	2.9	2.0	2.1	1.2	3.9
3 Month Sterling LIBOR + 4%		1.2	4.8	4.7	4.6	4.6
Difference		1.8	-2.8	-2.6	-3.4	-0.7
Global Bonds						
	LCIV Global Bond Fund	2.4	n/a	n/a	n/a	n/a
Barclays Credit Index (Hedged)		2.4	n/a	n/a	n/a	n/a
Difference		0.1	n/a	n/a	n/a	n/a
Private Equity						
	Invesco	25.0	24.2	24.9	16.0	17.6
	Unigestion	-8.5	-6.5	-1.0	1.3	6.4
Secure Income						
	Partners Group MAC	0.2	2.5	3.0	4.1	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.7	4.6	n/a
Difference		-1.0	-2.4	-1.7	-0.5	n/a
	Oak Hill Advisors	0.4	1.6	1.3	2.5	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.7	4.6	n/a
Difference		-0.8	-3.3	-3.4	-2.1	n/a
	Partners Group Infra	2.4	12.8	7.9	2.4	n/a
	Aviva Infra Income[3]	-4.5	-1.7	n/a	n/a	n/a
Inflation *Protection*						
	M&G	6.1	12.6	9.1	7.0	n/a
RPI + 2.5% p.a.		1.1	4.9	5.3	5.7	n/a
Difference		5.0	7.7	3.8	1.3	n/a
	Aberdeen Standard	1.0	5.0	6.6	7.8	n/a
FT British Government All Stocks		6.6	15.4	8.8	5.2	n/a
Difference		-5.6	-10.5	-2.2	2.6	n/a
Total Fund		2.9	5.5	5.4	6.4	8.0
Benchmark[1]		2.6	7.9	7.7	7.9	7.5
Difference		0.4	-2.4	-2.3	-1.5	0.5

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.
[1] The Total Assets benchmark is the weighted average performance of the target asset allocation.
[2] Quarter and year performance figures estimated using London CIV quarterly reports. Longer term performance has been provided by Northern Trust. LCIV UK Equity Fund is managed by Majedie and was incepted on 18 May 2017. LCIV Absolute Return Fund is managed by Ruffer and was incepted on 21 June 2016.
[3] Performance figures provided by Aviva. Aviva Infrastructure Income Fund NAV has been restated, dating back to 30 September 2018, in respect of accounting treatment of a legal dispute.

3 Total Fund

3.1 Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	3.0	5.9	5.8	6.8	8.4
Net of fees[1]	2.9	5.5	5.4	6.4	8.0
Benchmark[2]	2.6	7.9	7.7	7.9	7.5
Net performance relative to benchmark	0.4	-2.4	-2.3	-1.5	0.5

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

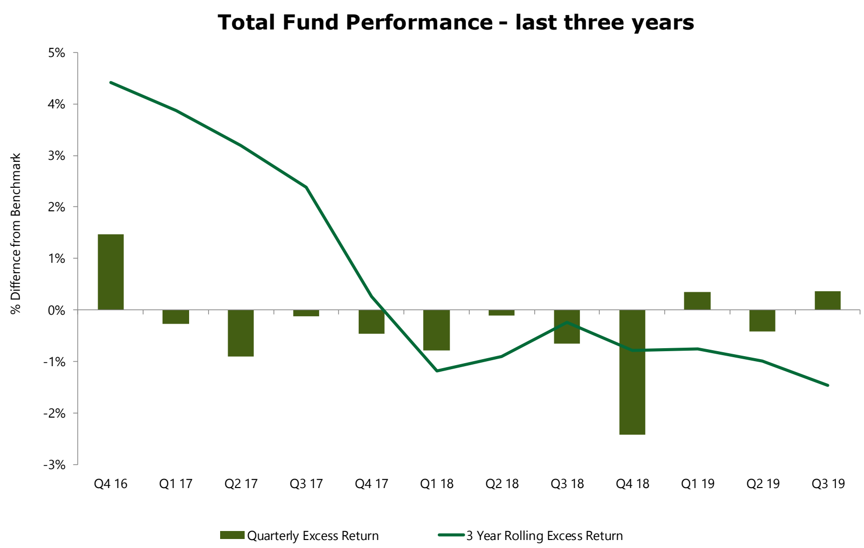
(1) Estimated by Deloitte

(2) Average weighted benchmark

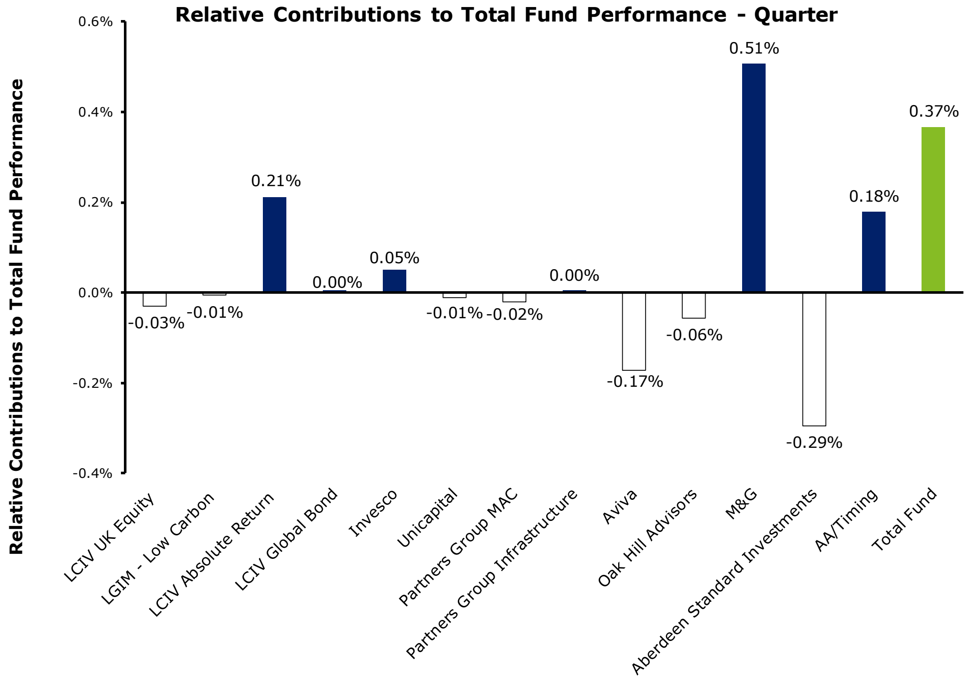
Over the quarter to 30 September 2019, the Fund delivered a return of 2.9% net of fees outperforming the fixed weight benchmark by 0.4%.

The fund returned 5.5% on a net fees basis over the year to 30 September 2019 and returned 6.4% p.a. over the three-year period to 30 September 2019; over both periods the Fund underperformed the fixed weight benchmark by 2.4% and 1.5% p.a. respectively. The fund delivered 8.0% net of fees over the five-year period, outperforming the benchmark by 0.5% p.a.

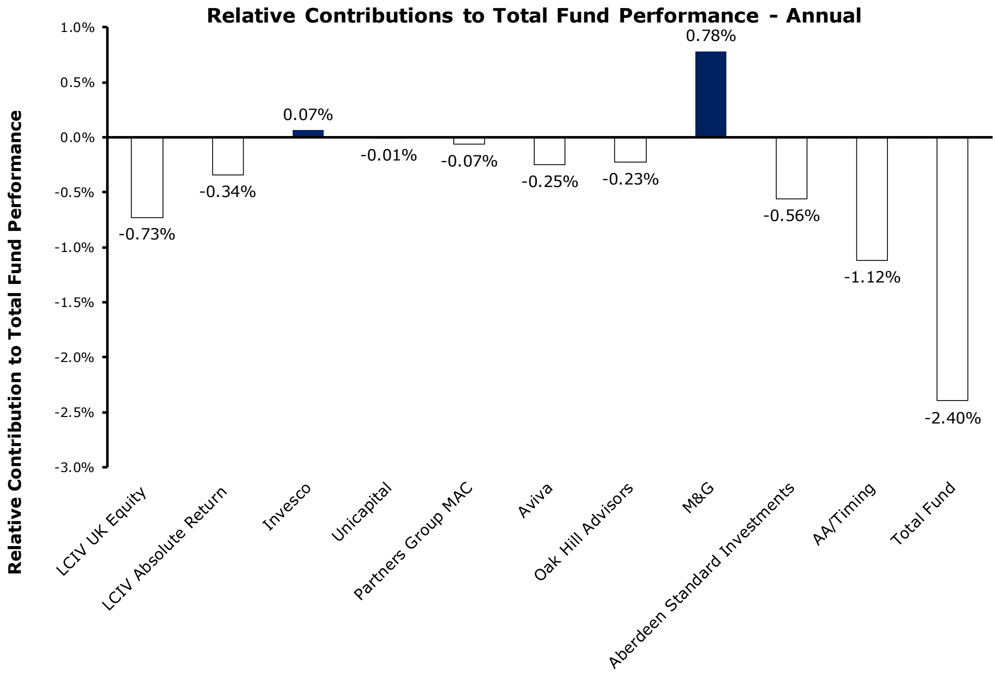
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 30 September 2019. The 3-year rolling excess return fell and remained negative over the quarter.



3.2 Attribution of Performance to 30 September 2019



The Fund's outperformance of its benchmark over the quarter was largely a result of outperformance by M&G Inflation Opportunities Fund and LCIV UK Absolute Return Fund. Additionally, the AA/Timing bar showed a positive contribution, representing the impact of the Fund being overweight to the LCIV Absolute Return during a period of positive performance in the quarter. Underperformance by Aviva and Aberdeen Standard Investments partially offset the overall outperformance.



Over the year to 30 September 2019, the Fund underperformed the composite benchmark by 2.4% net of fees. This was largely because of underperformance from the LCIV UK Equity Fund and Aberdeen Standard Investments Long Lease Property Fund, with the LCIV Absolute Return Fund, Aviva and Oak Hill Advisors also contributing. The negative contribution shown by the "AA/Timing" bar represents the impact of the Fund having an overweight Dynamic Asset Allocation holding during a period of underperformance, and includes the underperformance delivered by the Insight Bonds Plus Fund over the year prior to disinvestment.

3.3 Asset Allocation

The table below shows the value of assets held by each manager as at 30 September 2019 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 June 2019 (£m)	30 Sep 2019 (£m)	30 June 2019 (%)	30 Sep 2019 (%)	
LCIV	UK Equity (Active)	124.9	124.4	11.7	11.3	15.0
LGIM	Low Carbon Equity (passive)	400.0	417.2	37.5	38.0	30.0
	Total Equity	**525.0**	**541.6**	**49.2**	**49.3**	**45.0**
LCIV	Absolute Return	128.7	131.6	12.1	12.0	10.0
LCIV	Global Bond	87.5	88.8	8.2	8.1	10.0
	Total Dynamic Asset Allocation	**216.2**	**220.4**	**20.3**	**20.1**	**20.0**
Invesco	Private Equity	2.1	2.6	0.2	0.2	0.0
Unicapital	Private Equity	1.3	1.1	0.1	0.1	0.0
	Total Private Equity	**3.4**	**3.7**	**0.3**	**0.3**	**0.0**
Partners Group	Multi Asset Credit	22.0	22.1	2.1	2.0	5.0
Oak Hill Advisors	Diversified Credit Strategy	74.5	74.9	7.0	6.8	7.5
Partners Group	Direct Infrastructure	20.3	23.5	1.9	2.1	5.0
Aviva	Infrastructure Income	29.6	28.7	2.8	2.6	2.5
	Secure Income	**146.4**	**149.2**	**13.7**	**13.6**	**20.0**
M&G	Inflation Opportunities	108.9	115.6	10.2	10.5	10.0
Aberdeen Standard Investments	Long Lease Property	56.4	57.0	5.3	5.2	5.0
	Total Inflation Protection	**165.3**	**172.6**	**15.5**	**15.7**	**15.0**
LGIM	Liquidity Fund	11.1	11.1	1.0	1.0	0.0
	Total	**1,067.3**	**1,098.6**	**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

At the end of the third quarter of 2019, the Fund was 4.3% overweight to equities with the secure income allocation underweight by 6.4%. This is a result of the Partners Group Multi Asset Credit Fund continuing to distribute funds back to investors and the Partners Group Direct Infrastructure Fund being in the process of drawing funds into its portfolio.

During the third quarter, the decision was taken to disinvest from the LCIV UK Equity Fund. The allocation is to be transferred to the LGIM World Low Carbon Equity Portfolio in the interim. As at the end of the third quarter of 2019, the Fund was yet to complete this transition.

3.4 Yield Analysis as at 30 September 2019

The following table shows the running yield on the Fund's investments:

Manager	Asset Class	Yield as at 30 Sep 2019
LCIV	UK Equity	4.10%
LGIM	Low Carbon Equity	N/A[1]
LCIV	Absolute Return	1.44%
LCIV	Global Bond	3.52%
Partners Group	Multi-Asset Credit	3.58%[2]
Oak Hill Advisors	Diversified Credit Strategy	6.80%
Aviva Investors	Infrastructure	7.90%[2]
M&G	Inflation Opportunities	2.46%[2]
Aberdeen Standard Investments	Long Lease Property	4.10%
	Total	**2.13%**

[1]The LGIM MSCI World Low Carbon Target Index Fund is not currently eligible for NDIP payments and so there is no yield available for the fund.
[2]Represents yield to 30 June 2019.

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	LCIV 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	2
LGIM	Low Carbon Equity	Major deviation from the benchmark return Significant loss of assets under management	1
Ruffer	LCIV Absolute Return	Departure of either of the co-portfolio managers from the business Any significant change in ownership structure	1
PIMCO	LCIV Global Bond	A significant increase or decrease to the assets under management Significant changes to the investment team responsible for the Fund	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	1
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
Aviva Investors	Infrastructure Income	Significant changes to the investment team responsible for 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
Aberdeen Standard Investments	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

4.1 London CIV

Business

As at 30 September 2019, the London CIV had assets under management of £8,823m within the 14 sub-funds, an increase of £30m over the quarter. The total assets under oversight, including passive investments held outside the CIV platform, increased by £0.4bn over the quarter to £19.5bn.

Following quarter end, Ares Management Limited communicated to the London CIV that the plans to launch a Liquid Loans and a Private Debt product were to be withdrawn. This decision was made due to the lack of commitments to the products and the length of time taken to implement the strategies.

Given the demand for the strategies currently, the London CIV will look to open discussions with the London Boroughs on their current requirements and see if there is sufficient demand for similar asset classes.

Personnel

At the end of the quarter, the London CIV announced that Mark Thompson had resigned from his role as Chief Investment Officer. Mark was appointed during the second quarter of 2019 and had started the role in September. The decision by Mark was made after concluded that he believed he was not ready to return to a full time and demanding role.

The London CIV has stated that they understand the decision taken by Mark and are currently in the process of identifying an interim and permanent replacement for the role of Chief Investment Officer. The London CIV are also looking into the prospect of recruiting an additional person to lead on ESG work in advance of this appointment.

Deloitte view – It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders. We are continuing to monitor developments on the business side as well as the new fund launches.

4.2 Majedie

Business

As at 30 September, Majedie had total assets under management of £10.8bn, a further decrease of £0.8bn over the quarter.

Personnel

During the quarter, it was announced that Majedie were in the process of hiring John King from AXA. John will join as the Lead Manager on the Majedie UK Smaller Companies part of the UK Equity Fund.

Deloitte view – We have recently removed Majedie's UK Equity strategy from our rated manager list following a run of poor performance. As such, going forward, we will not be recommending the Majedie UK Equity strategy to clients.

4.3 LGIM

Business

As at 30 June 2019, Legal & General Investment Management ("LGIM") had total assets under management ("AuM") of £1,135bn, an increase of £30bn since 31 December 2018.

During the third quarter, LGIM launched a number of new funds in both the fixed income and equity index sustainable investing space. Within fixed income, LGIM launched a short dated corporate bond index fund alongside an ESG focused emerging market government bond index fund. Within sustainable investment, LGIM continued to add to the new equity "Future World" fund range. The new funds launched included regional index funds which track a range of ESG focused alternative indices.

Personnel

As mentioned in the previous quarter, LGIM (UK) CEO Michelle Scrimgeour was appointed in July 2019 and has come in to replace outgoing Mark Zinkula who retired from the business in August. Michelle joined from Columbia Threadneedle where she held the role of CEO with responsibility for the EMEA (Europe, Middle East and Africa) region. Michelle has over 30 years' experience at asset management firms and before Threadneedle she was Chief Risk Officer at M&G Investments.

At the Index Team level, there were three new joiners during the third quarter of 2019. Anupe Dhanday joined as a Portfolio Manager, Aude Martin as an Investment Specialist and Fhambren olde Scheper as an Equity Fund Manager.

Deloitte View - We continue to rate Legal & General positively for its passive and LDI capabilities.

4.4 Ruffer

Business

As at 30 September 2019 Ruffer had assets under management of £20.4bn, a decrease of £0.3bn over the past three months.

Personnel

There were no significant team or personnel changes over the third quarter of 2019.

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

4.5 PIMCO

Business

PIMCO held $1.9tn in assets under management as at 30 September 2019. The LCIV Global Bond Fund had assets under management of £273.6m at the end of the third quarter of 2019.

Personnel
There were no significant team or personal changes to the Global Bond Fund over the quarter.

During September, PIMCO announced that Nick Granger would be joining the group as Managing Director and Portfolio Manager for Quantitative Analytics. Nick will join in the first quarter of 2020, with his focus on increasing the use of quantitative strategies within the firm's portfolios and will lead the quantitative team.

Deloitte View – We continue to rate PIMCO highly for its global bond capabilities.

4.6 Partners Group

Business – Partners Group
As at 30 June 2019, Partners Group had total assets under management of €79.8bn.

Business - Multi Asset Credit
The net asset value of the Partners Group MAC Fund as at 30 September 2019 was £112m, with no change over the quarter as there were no further distributions. The investment period for the 2014 MAC vintage finished at the end of July 2017, and the Fund continues to make distributions back to investors.

Business - Direct Infrastructure
Total commitment value as at 30 September 2019 was c. €1,081m.

As at 30 September 2019 the Fund was c. 47.8% drawn down, with 74.7% of the total Direct Infrastructure Fund's portfolio committed to investment opportunities at the end of quarter.

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

4.7 Oak Hill Advisors – Diversified Credit Strategy (DCS)

Business
As at 1 July 2019, Oak Hill Advisors assets under management was $35.0bn, an increase of c. $0.7bn since 1 May 2019.

The net asset value of the Diversified Credit Strategy as at 30 September 2019 was $3.7bn, a decrease of $0.2bn following approximately $155m of net outflows during the quarter.

Personnel
There were no significant team or personnel changes over the third quarter of 2019.

Deloitte view – We are comfortable with how the strategy is being managed and the level of risk within the strategy.

4.8 Aviva Investors

Business
As at 30 September 2019, the Aviva Investors Infrastructure Fund had a total subscription value of £1,252m, with £74m of investor commitments made over the quarter. The undrawn amount as at 30 September was £214.8m.

During the quarter, Aviva provided an update on the Fund's structure that had been discussed earlier in the year at the Investment Advisory Committee.

The Fund was initially established to attract UK based investors, however, over the last year a large increase in international investment has been seen. In order to continue to grow the Fund and take advantage of this new growth the Fund will create an additional feeder fund. The feeder fund will take the form of a Scottish Limited Partnership. It is expected that the majority of changes should not impact current investors, who hold units in the Funds Jersey Unit Trust. Any proposed changes to align the two funds will be in favour of existing investors, with any changes that require investor consent to be communicated going forward. Aviva will also provide a further paper with further details of the proposed changes.

During October, Aviva announced that a review of the fee structure of the Infrastructure Income Fund had been finalised, with fees for new business to be increased going forward. Aviva has attributed the increase to the addition of new resource to the team which in turn has delivered higher returns. The fee structure will be based on aggregate assets under management of the client as follows:

Aggregate Assets Under Management	Annual Management Charge (Charge on NAV)
<£100m	0.85%
>£100m	0.75%

Aviva has stated that existing clients will be unaffected by these charges on current investments, with any additional investments charged at the new higher fee rate. Additionally, the 50bps AMC share class will no longer available to new investors.

During the second quarter of 2019, Aviva informed investors of a restatement of the Infrastructure Funds NAV, following a legal dispute with a construction counterparty in relation to the costs and delays involved with three energy from waste assets. As the legal process is currently being undertaken Aviva are not able to give a further update until the matter is settled.

Personnel
During the quarter, Co-Manager of the Infrastructure Income Fund Sarah Wall announced her resignation following a period of long term illness. During this time Barry Fowler, Managing Director of Alternative Income, had covered for Sarah and will continue to do so whilst Aviva look for alternative arrangements.

Deloitte View - We continue to rate Aviva Investors positively for its infrastructure capabilities. The changes to the fee structure that occurred over the quarter will have an impact on future investments to the Infrastructure Fund, however, current investments such as those by London Borough of Hammersmith and Fulham Pension Fund will not be impacted.

4.9 M&G – Inflation Opportunities Fund

Business
As at 30 September, M&G's Inflation Opportunities V Fund held total assets under management of c. £552m, an increase of c. £30m over the quarter.

Personnel
There were no significant changes to the M&G Inflation Opportunities Fund at a team level over the third quarter of 2019.

Deloitte view – The strategy has a high allocation to long lease property, while we are positive on this asset class, it does create overlap with the Fund's Long Lease Property mandate with Aberdeen Standard Investments. As such, the Committee may wish to consider whether there are alternative options that could be considered for all or part of the allocation in this strategy which offer at least a degree of "inflation proofing".

4.10 Aberdeen Standard Investments – Long Lease Property

Business
At the end of the third quarter of 2019, the ASI Long Lease Property Fund held assets under management of £2.5bn. The Fund queue of investor commitments was c. £260m as at 30 September 2019, an increase of c. £44m over the quarter.

Personnel
In October, Aberdeen Standard Investments announced that Martin Gilbert would be stepping down from his current positions and retire from his roles on the boards of Standard Life Aberdeen plc., Standard Life Investments Limited and Aberdeen Asset Management PLC at the next AGM in May 2020. Martin had started with Aberdeen Asset Management over 30 years ago and currently holds the positions of Chairman at Aberdeen Standard Investments and Vice Chairman of the Standard Life Aberdeen group. Martin will continue to focus on the strengthening of current client relationships and establishing new ones, and continue to work closely with ASI's leadership team to ensure that his responsibilities are smoothly passed over and that service remains the same.

Deloitte View – We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

5 London CIV

5.1 Investment Performance to 30 September 2019

At the end of the third quarter of 2019, the assets under management within the 14 sub-funds of the London CIV was £8,823m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £0.4bn to c. £19.5bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 30 June 2019 (£m)	Total AuM as at 30 Sep 2019 (£m)	Number of London CIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	417	415	2	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	128	-	1	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,689	2,705	13	11/04/16
LCIV Global Equity	Global Equity	Newton	639	660	3	22/05/17
LCIV Global Equity Focus	Global Equity	Longview Partners	809	847	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	250	262	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	402	352	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	303	434	3	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	320	323	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	672	685	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	869	868	10	21/06/16
LCIV Real Return	Diversified growth fund	Newton	184	152	2	16/12/16
LCIV MAC	Fixed Income	CQS	842	846	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	269	274	3	30/11/18
Total			**8,793**	**8,823**		

The Sustainable Equity Fund managed by RBC added one new London borough during the quarter. No new sub-funds were launched over the quarter.

6 LCIV – UK Equity

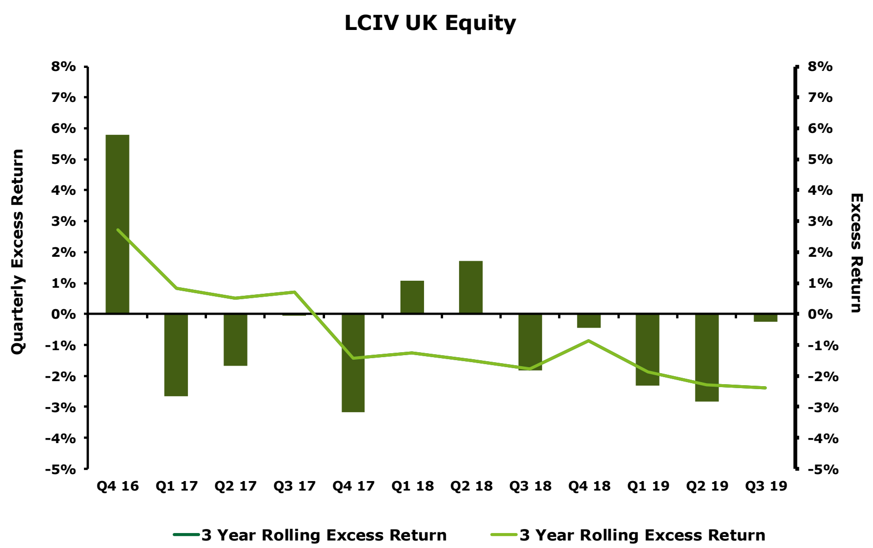
Majedie was appointed to manage an actively managed segregated UK equity portfolio, held as a sub-fund under the London CIV platform from 18 May 2017. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period is more than 1% p.a.

6.1 Active UK Equity – Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)(1)	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	1.2	-2.4	0.8	4.9	5.9
Net of fees(1)	1.0	-3.0	0.2	4.3	5.4
Benchmark	1.3	2.7	4.2	6.7	6.7
Target	1.8	4.7	6.2	8.7	8.7
Net performance relative to Benchmark	-0.3	-5.6	-4.0	-2.4	-1.3

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

(1) Estimated by Deloitte



Over the quarter to 30 September 2019, Majedie delivered an absolute return of 1.0% net of fees, underperforming its FTSE All Share benchmark by 0.3%. Majedie has performed negatively over the one-year period, returning -3.0% net of fees underperforming the benchmark by 5.6%. Over the long three-year period the Fund has underperformed its benchmark by 2.4% p.a.

The underperformance seen over the quarter was largely attributed to stock specifics, with Pearson being one of the largest detractors following poor print sales in US. Over the last few months, Majedie has continued to reduce its exposure to cyclicality in its small cap stocks, notably through the sale of small cap mining stocks.

Additionally, the Fund has a larger exposure to sterling than its comparable benchmark, with a domestic focus being taken by Majedie..

While the portfolio is aiming to be more growth oriented, it is currently weighted towards 'value' stocks.

6.2 Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 42.6% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2019	Proportion of Majedie Fund
BP	7.2%
Royal Dutch Shell	6.5%
Majedie UK Smaller Companies Sub-Fund	5.8%
Tesco	5.3%
GlaxoSmithKline	5.2%
Pearson	2.9%
Morrison Supermarkets	2.5%
Electrocomponents	2.5%
Barrick Gold	2.4%
Associated British Foods	2.3%
Total	**42.6%**

Note: The numbers in this table may not sum due to rounding.
Source: London CIV.

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 30 September 2019.

Top 5 contributors as at 30 September 2019	Contribution (bps)
GlaxoSmithKline	+0.59
Vodafone Group	+0.41
Firstgroup	+0.36
Tesco	+0.35
Barrick Gold	+0.30

Top 5 detractors as at 30 September 2019	Contribution (bps)
Royal Dutch Shell	-0.43
BP	-0.36
Pearson	-0.30
Centrica	-0.28
Anglo American	-0.22

7 Legal and General – World Low Carbon Equity

Legal and General Investment Management ("LGIM") was appointed on 18 December 2018 to manage a low carbon portfolio with the aim of replicating the performance of the MSCI World Low Carbon Target Index. The manager has an annual management fee, in addition to On Fund Costs.

7.1 World Low Carbon Equity – Investment Performance to 30 September 2019

	Last Quarter (%)
LGIM – Gross of fees	4.3
Net of fees(1)	4.3
Benchmark (MSCI World Low Carbon Target)	4.3
MSCI World Equity Index	4.0
Net Performance relative to Benchmark	0.0

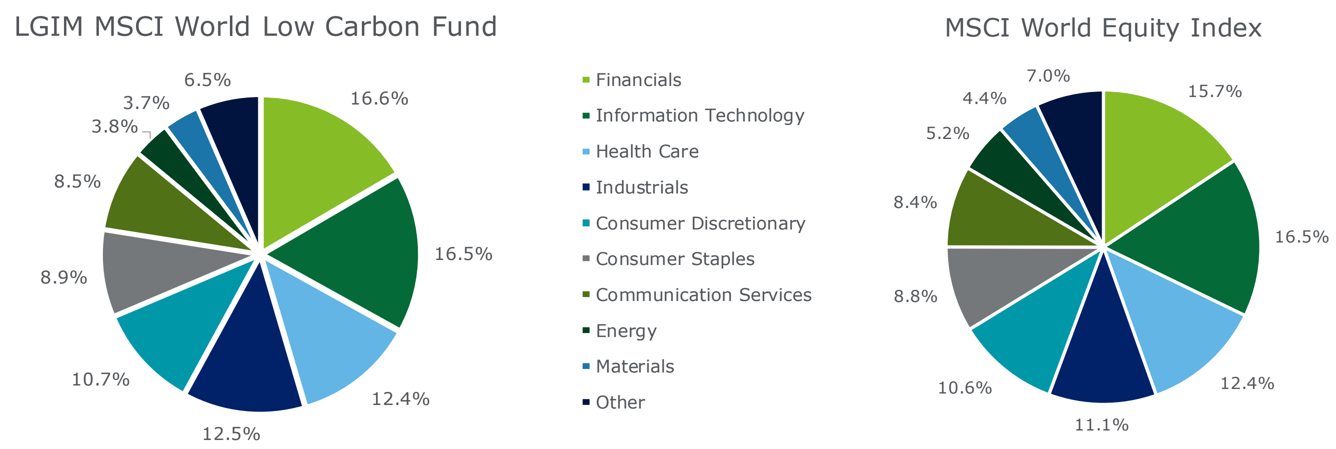
Source: LGIM and Northern Trust. Relative performance may not tie due to rounding.
(1) Estimated by Deloitte

The LGIM MSCI World Low Carbon Target Index Fund successfully tracked its MSCI World Low Carbon Target Index benchmark on a net of fees basis over the quarter to 30 September 2019.

The World Low Carbon Fund outperformed the MSCI World Equity Index by 0.3% over the third quarter of 2019.

7.2 Portfolio Sector Breakdown at 30 September 2019

The below charts compare the relative weightings of the sectors in the LGIM MSCI World Low Carbon Target Fund and the MSCI World Equity Index as at 30 September 2019.



The LGIM MSCI Low Carbon Target Fund has a larger allocation to financials and industrials than the MSCI World Equity Index, whilst the lower allocation to energy and materials represents the low carbon nature of the Fund.

8 LCIV – Absolute Return

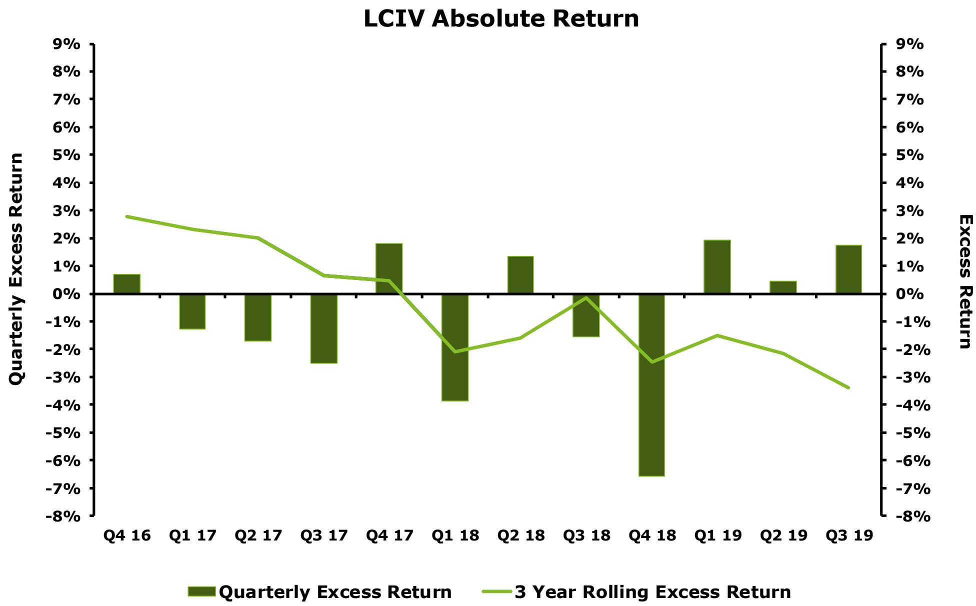
Ruffer was appointed to manage an absolute return mandate, held as a sub-fund under the London CIV platform from 21 June 2016, with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

8.1 Dynamic Asset Allocation – Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)(1)	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	3.1	2.9	2.9	2.0	4.7
Net of fees(1)	2.9	2.0	2.1	1.2	3.9
Target	1.2	4.8	4.7	4.6	4.6
Net performance relative to Target	1.8	-2.8	-2.6	-3.4	-0.7

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

(1) Estimated by Deloitte



Over the quarter to 30 September, the Absolute Return Fund outperformed its Libor +4% target by 1.8%, returning 2.9% on a net of fees basis. Over the one and three year periods to 30 September 2019, Ruffer underperformed the target by 2.8% and 3.4% p.a. respectively.

The Absolute Return Fund delivered a third consecutive positive quarter, outperforming its benchmark. This was attributed to the Fund's holdings in Japanese equity, which performed particularly well, and UK index-linked bonds values rising following a decrease in government bond yields. The performance of Ruffer during the fourth quarter of 2018 continued to prove detrimental to overall performance over the year to 30 September 2019. As noted Ruffer feels that the current positioning taken by the Fund reduces the likelihood of another quarter like that at the end of 2018.

9 LCIV – Global Bond

PIMCO was appointed on 8 May 2019 to manage a Global Bond mandate, held as a sub-fund under the London CIV platform from 30 November 2018. The aim of the Fund is to outperform the Barclays Aggregate – Credit Index Hedged (GBP) Index. The manager has a fixed fee based on the value of assets.

9.1 Global Bond – Investment Performance to 30 September 2019

	Last Quarter (%)
PIMCO – Gross of fees(1)	2.5
Net of fees(1)	2.4
Benchmark	2.4
Net Performance relative to Benchmark	0.0

Source: London CIV. Relative performance may not tie due to rounding.
(1) Estimated by Deloitte

Over the quarter to 30 September, the PIMCO Global Bond Fund returned 2.4% net of fees, tracking its Barclays Aggregate – Credit Index Hedged (GBP) Index benchmark. The Global Bond Fund’s performance was mainly attributed to credit spread tightening over the quarter.

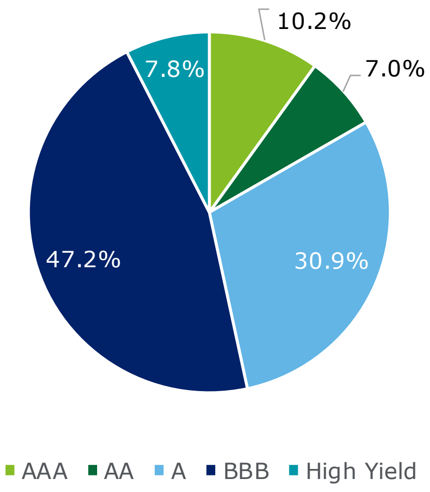
9.2 Performance Analysis

The table below summarises the Global Bond portfolio’s key characteristics as at 30 September 2019.

	30 June 2019	30 September 2019
No. of Holdings	643	591
No. of Countries	40	39
Total Volatility	2.75	3.35%
Total VaR (95%, 2 weeks)(£)	2,383,253	2,965,498
Coupon	3.68	3.64
Effective Duration	6.12	6.64
Rating	A-	A-
Yield to Maturity (%)	3.2	2.98

Source: London CIV

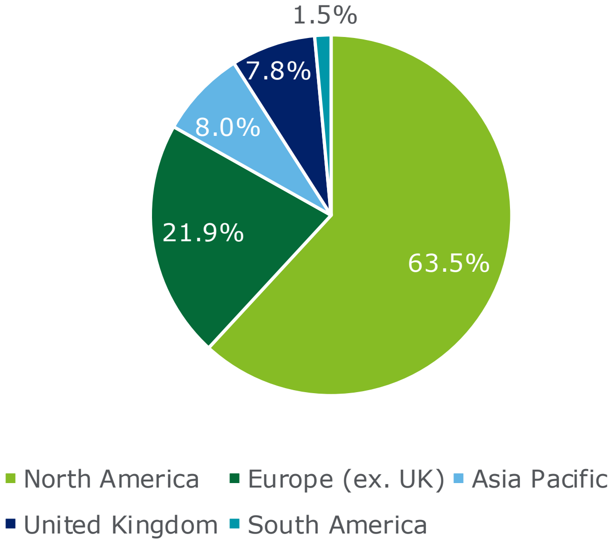
The chart below represents the split of the Global Bond portfolio by credit rating. The Fund's investment grade holdings made up c. 95.6% as at 30 September 2019, with the Fund predominately invested in BBB and A rated bonds.



Source: London CIV

Note that figures do not sum to 100% due to short holdings in cash and currency forwards.

The chart below represents the regional split of the Global Bond portfolio.



Source: London CIV

Note that figures do not sum to 100% due to short holdings in cash and currency forwards.

10 Partners Group – Multi Asset Credit

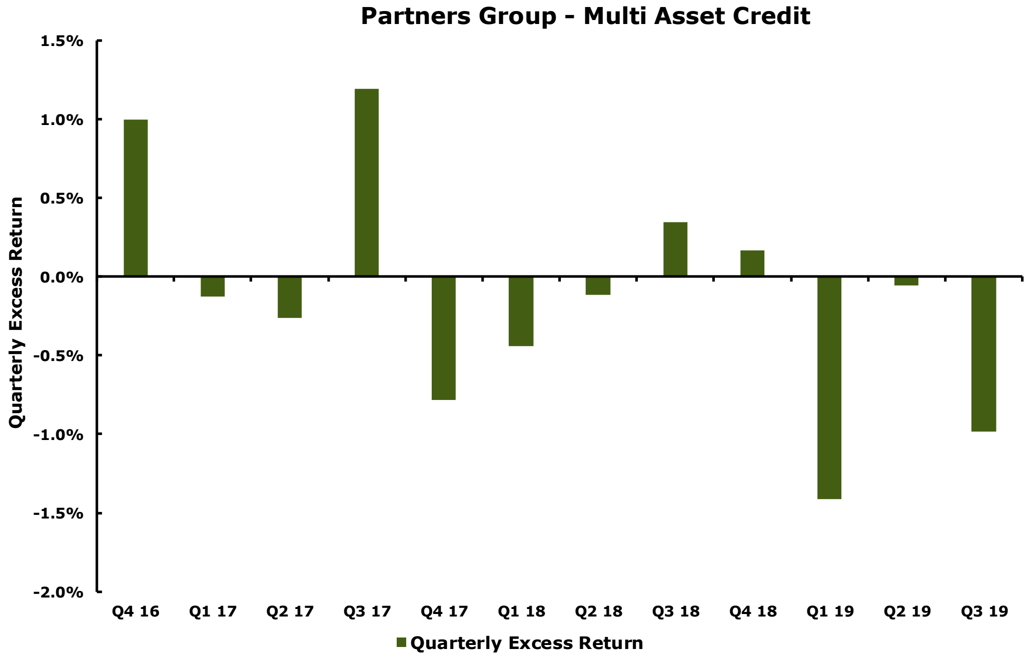
Partners Group was appointed to manage a multi asset credit mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has an annual management fee and performance fee.

10.1 Multi Asset Credit - Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
Partners Group MAC - Gross of fees	0.4	3.3	3.9	5.0
Net of fees(1)	0.2	2.5	3.0	4.1
Benchmark / Target	1.2	4.8	4.7	4.6
Net performance relative to Benchmark	-1.0	-2.4	-1.7	-0.5

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

(1) Estimated by Deloitte



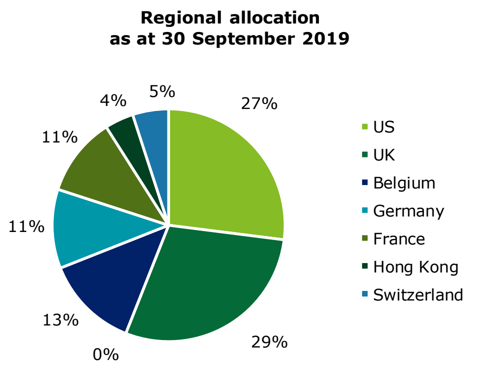
Over the quarter to 30 September 2019, the Partners Multi-Asset Credit Fund underperformed its target by 1.0%, returning 0.2% net of fees.

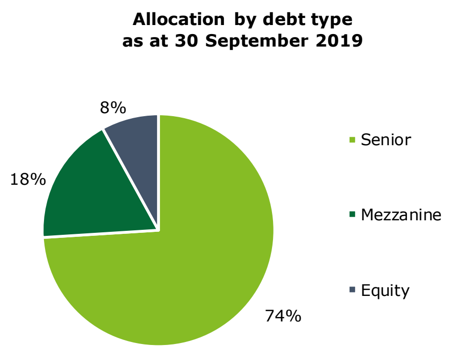
The Multi-Asset Credit Fund made no further distributions over the quarter.

The Fund underperformed its target by 2.4% over the one-year period to 30 September 2019, delivering 2.5%. Over the longer three-year period, the Fund returned 4.1% p.a. net of fees underperforming its target by 0.5%.

10.2 Asset Allocation

The charts below show the regional split of the Fund as at 30 September 2019.





Note: Based on information provided by Partners Group.

The table below shows details of the Fund's five largest holdings based on net asset value as at 30 September 2019.

Investment	Description	Type of Debt	Tranche	Maturity Date	Current IRR (%)	NAV (£m)	% of NAV
AS Adventure	Large European specialist multi-brand outdoor retail group	Corporate	First Lien	28 Apr 2022	5.6	14.2	12.8%
Affordable Care, Inc.	US dental support organisation	Corporate	Second Lien	22 April 2023	6.4	5.6	11.0%
		Corporate	Second Lien	22 April 2023	11.8	6.7	
IDEMIA	Security and identity solutions company	Corporate	Mezzanine	31 May 2027	11.8	12.1	10.9%
Cote Bistro	UK café chain	Corporate	First Lien	24 May 2024	8.3	8.6	7.8%
Springer	Scientific publishing company	Corporate	First Lien	15 Aug 2022	5.4	7.8	7.0%

Note: Information provided by Partners Group. Current IRR is net of cost and fees of the investment partner but gross of Partners Group fees. For investments with a holding period less than 12 months, the IRR is not annualised.

10.3 Fund Activity

At the end of the third quarter of 2019, the Fund has made investments in 54 companies, of which 37 have been fully realised. Two further realisations were made during the quarter.

The Fund's three year investment period ended in July 2017 and, therefore, any investments realised have subsequently been repaid to investors. As a result, the distribution rate has increased since; no further distributions were made during the quarter.

In July 2019, the Fund fully realised its debt investment in National Fostering Agency, a UK based company that aids children and young people by providing home environments. The investment made by Partners Group was made in 2016, and assisted with an acquisition of Acorn Care and Education that furthered the work that the combined entity were capable of carrying out.

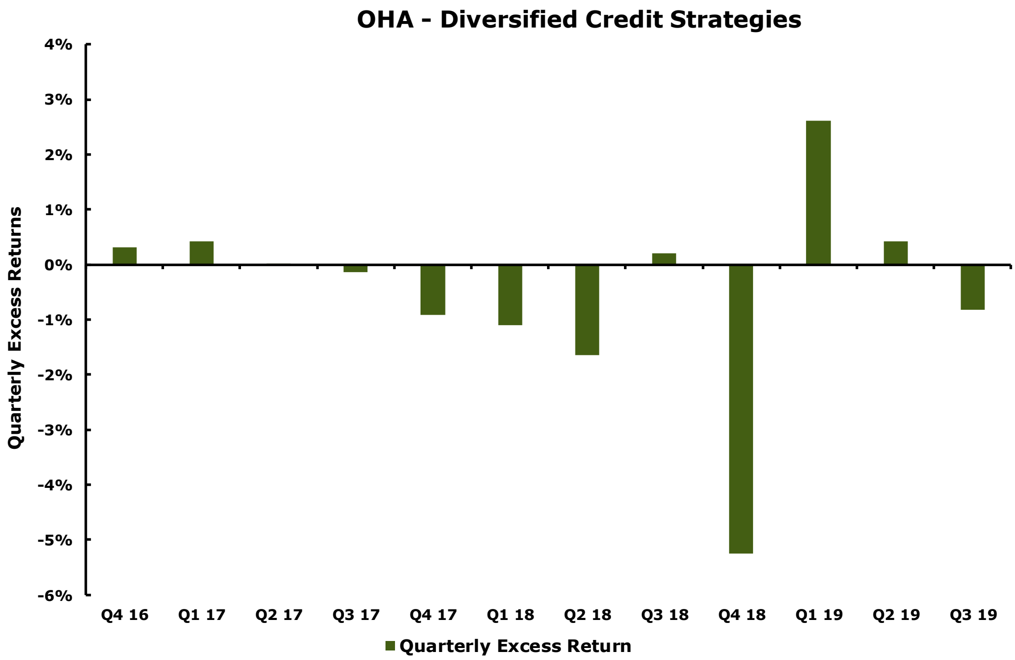
11 Oak Hill Advisors – Diversified Credit Strategies Fund

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.

11.1 Diversified Credit Strategies - Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (%)	Three Years (% p.a.)
OHA – Gross of fees	0.5	2.2	2.0	3.2
Net of fees[1]	0.4	1.6	1.3	2.5
Benchmark / Target	1.2	4.8	4.7	4.6
Net Performance relative to Benchmark	-0.8	-3.3	-3.4	-2.1

Source: Northern Trust. Relative performance may not tie due to rounding.
(1) Estimated by Deloitte



Over the quarter to 30 September 2019, the Diversified Credit Strategies Fund underperformed its target by 0.8%, returning 0.4% net of fees. The Fund also underperformed a blended benchmark of high yield and leveraged loans by 0.1% over the third quarter of 2019 on a net of fees basis. On a sector level, the Fund's absolute performance over the quarter was largely a result of positive contributions from the Services, Healthcare and Insurance sectors. The fund's allocation to the Oil and Gas sector during the quarter proved detrimental, providing the largest negative contribution.

Over the one-year and three year periods to 30 September, the Fund delivered returns of 1.6% and 2.5% p.a. on a net of fees basis. The Diversified Credit Strategies Fund underperformed its target over the two periods by 3.3% and 2.1% p.a. respectively. While the Services sector provided the greatest negative performance over 2018, since the start of 2019 this sector has provided the greatest positive attribution, along with the High Technology and Structured Finance sectors.

12 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.

12.1 Direct Infrastructure - Investment Performance to 30 September 2019

Activity

Over the quarter, the Fund committed to one new investments:

- EnfraGen, a leading developer, owner and operator of power generation assets primarily in Latin America. Enfragen provides back up power for grid stability and additionally generates power through renewable sources. Partners Group committed to the company in September 2019.

As at 30 September 2019, the total capacity of the Direct Infrastructure Fund was €1.08 billion. Of this, c. 74.7% (€0.8 billion) has been committed by investors, with 47.8% (€0.5 billion) of the total capacity drawn down.

Capital Calls and Distributions
9 September 2019

- The Fund issued its 21st capital call, drawing down an additional c. 5.6% (€60m).
- Total drawn down following this call was c. 47.8%.

Pipeline

Partners Group currently has 16 transactions in due diligence, representing investment opportunities of c. $8bn across the whole group. The opportunities are predominately within the Communication and Transportation sectors, with c.73% of the pipeline being split equally between Europe and North America.

Partners Group expects two final investments to be made by the Direct Infrastructure Fund before it reaches its full investment level.

Investments Held

The table below shows a list of the investments held by the Partners Group Direct Infrastructure Fund as at 30 September 2019.

Investment	Description	Type	Sector	Country	Commitment Date
Fermaca	Gas infrastructure operator based in Mexico.	Lead	Energy	Mexico	July 2015
Silicon Ranch	Solar platform based in US	Lead	Solar Power	USA	April 2016
Axia NetMedie	Internet and data network provider based in Canada and France	Lead	Communication	Canada & France	July 2016
Merkur Offshore	Wind farm based in German North Sea.	Lead	Wind Power	Germany	August 2016
Green Island Renewable Solar Platform	Solar power platform in Taiwan.	Lead	Solar Power	Taiwan	September 2016
High Capacity Metro Trains PPP	Delivery and maintenance of rolling stock for Australian State government.	Co-lead	Transportation	Australia	November 2016
USIC	Utility location services	Lead	Utilities	USA	August 2017
Arcanum Infrastructure	Develops and acquires infrastructure assets to supply strategic materials	Lead	Chemical Infrastructure	North America	tbc
Borssele III/IV	Wind farm based in Netherlands	Lead	Wind Power	Netherlands	tbc
Grassroots Renewable Energy Platform	Wind/solar/energy storage platform	Lead	Renewable Energy	Australia	tbc
Murra Warra Wind Farm	Onshore windfarm	Lead	Renewable Energy	Australia	tbc
Superior Pipeline Company	LNG pipeline platform	Co-lead	Energy Infrastructure	North America	tbc
Techem AG	Energy metering services provider	Lead	Infrastructure Services	Germany	tbc
Greenlink Interconnector	Subsea Power Interconnector	Lead	Energy Infrastructure	Western Europe	March 2019
CapeOmega	Midstream energy infrastructure solutions for oil and gas	Lead	Energy Infrastructure	Norway	April 2019
EnfraGen	Renewable Power Generation and back-up power provider	TBC	Renewable Energy	South America	September 2019

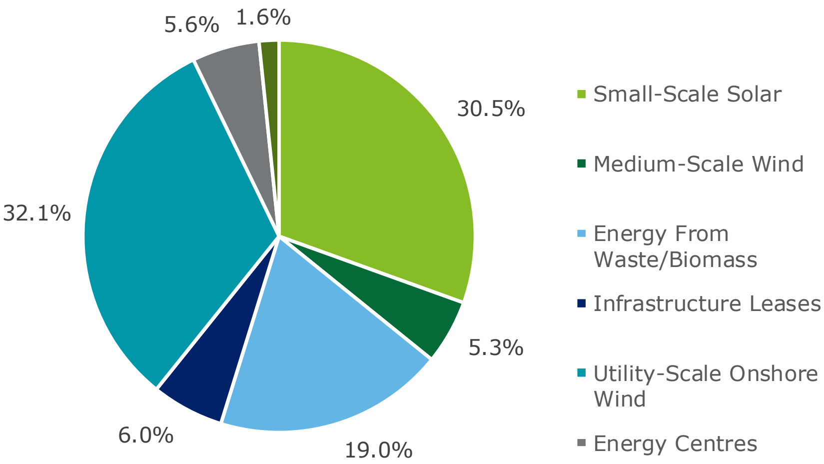
13 Aviva Investors – Infrastructure Income

Aviva Investors was appointed to manage an infrastructure income mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 6% p.a. The manager has an annual management fee and performance fee.

13.1 Infrastructure Income - Investment Performance to 30 June 2019

Sector Breakdown

The chart below shows the split of the portfolio by sector as at 30 June 2019.



Source: Aviva Investors.

Small-scale solar and utility-scale onshore wind make up c. 63% of the portfolio.

Holdings

The top 10 holdings in the Infrastructure Income Fund account for c. 61.3% of the Fund and are detailed below.

Top 10 holdings as at 30 June 2019	Asset	Proportion of Fund
Brockloch Rig Wind Farm	Utility-scale Onshore Wind	9.6%
Biomass UK No.3	Energy from Waste	6.1%
Biomass UK No.2	Energy from Waste	6.0%
Aviva Investors REaLM Infrastructure No. 4	Infrastructure Leases	6.0%
Biomass UK No.1	Energy from Waste	6.0%
HomeSun	Small-scale Solar PV	5.7%
Turncole Wind Farm	Utility-scale Onshore Wind	5.7%
Minnygap Energy	Utility-scale Onshore Wind	5.6%
Aviva Investors Energy Centres No.1	Energy Centres	5.5%
EES Operations 1	Small-scale solar PV	5.2%
Total		**61.3%**

Note: The numbers in this table may not sum due to rounding.
Source: Aviva Investors.

Pipeline

At the 30 September 2019, the Fund had undrawn commitments of £214.8m. Aviva currently has a “priority pipeline”, representing transactions which the Fund has exclusivity on, are in due diligence or are strongly positioned due to Aviva’s leading position in the relevant sector or relationship with the opportunity partner. The opportunities within the priority pipeline amount to c. £517m as at 30 September 2019.

The Aviva Infrastructure Income Fund did not complete any transactions over the quarter to 30 September 2019.

The queue for the Infrastructure Income Fund was £214.8m at 30 September, a growth of £84m over the quarter. Aviva expects this to be drawn in 6-9 months. However, since quarter-end, the queue has increased to c.£460m, where Aviva estimate they will start to draw the last investments in the queue in Q1/Q2 2021.

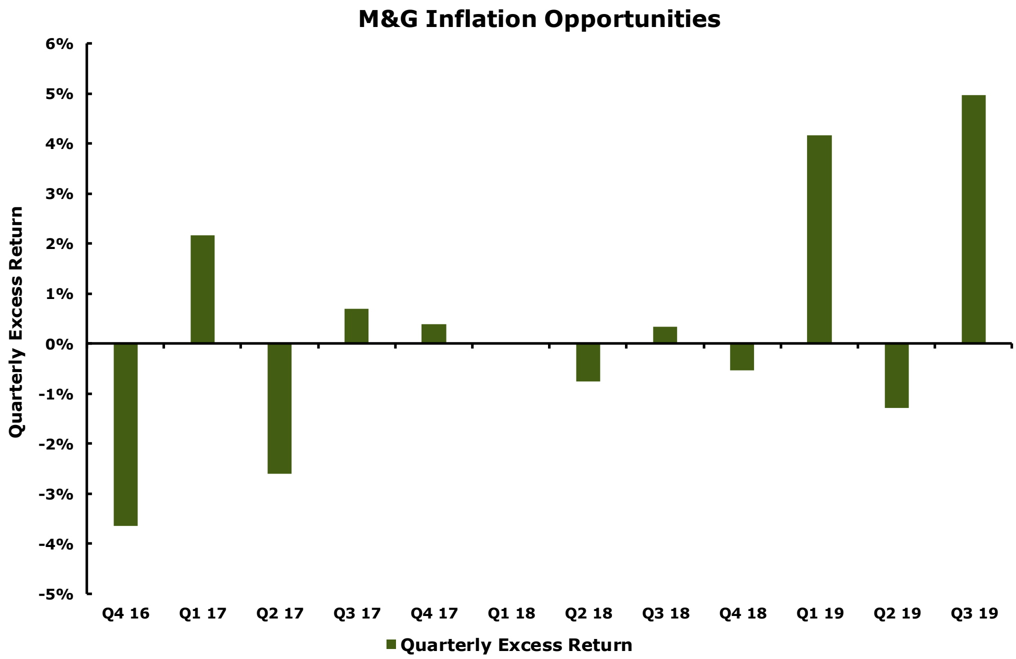
14 M&G – Inflation Opportunities

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

14.1 M&G Inflation Opportunities - Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
M&G Inflation Opportunities – Gross of fees	6.1	13.0	9.5	7.3
Net of fees(1)	6.1	12.6	9.1	7.0
Benchmark / Target	1.1	4.9	5.3	5.7
Net Performance relative to Benchmark	5.0	7.7	3.8	1.3

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



Over the third quarter of 2019, the Inflation Opportunities Fund outperformed its benchmark by 5.0%, delivering an absolute return of 6.1% net of fees.

Over the year to 30 September 2019, the Fund has returned 12.6% on a net of fees basis, outperforming the RPI benchmark by 7.7%. Over the longer three-year period the Inflation Opportunities Fund has outperformed its benchmark by 1.3% p.a., returning 7.0% p.a. net of fees.

As at 30 September 2019, the Fund's exposure to long lease property decreased to c. 37%, remaining the largest component in the portfolio. The Fund's income strips exposure decreased to 30%, whilst exposure to ground rents increased to 15%. Index-Linked gilts exposure within the portfolio also increased to c. 14%.

15 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard 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.

15.1 Long Lease Property - Investment Performance to 30 September 2019

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)
ASI Long Lease Property – Gross of fees	1.2	5.5	7.1	8.3
Net of fees[(1)]	1.0	5.0	6.6	7.8
Benchmark / Target	6.6	15.4	8.8	5.2
Net Performance relative to Benchmark	-5.6	-10.5	-2.2	2.6

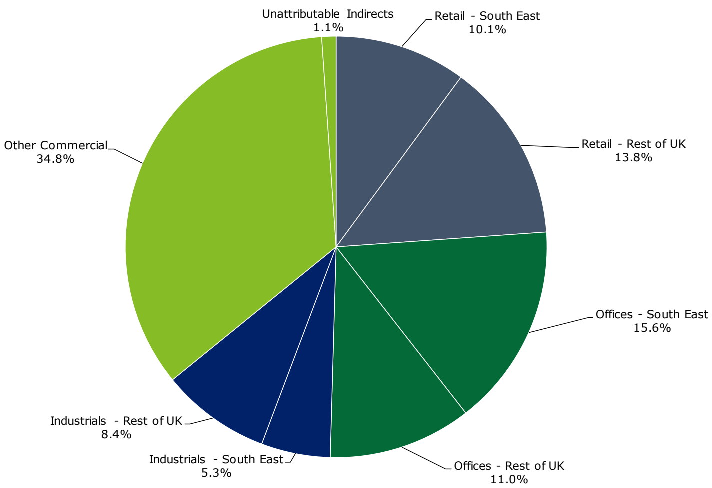
Source: Northern Trust. Relative performance may not tie due to rounding.

Over the quarter to 30 September 2019, the ASI Long Lease Property Fund delivered 1.0% net of fees, underperforming its FT British Government All Stocks Index benchmark by 5.6%.

During the quarter the Fund saw capital growth compared to wider real estate market. The Fund continues to outperform the wider real estate market as a whole, with the MSCI Monthly Real Estate Index reporting a return of 0.6% for the quarter. The Fund's performance continues to be benefiting from the stronger tenant credit quality within the portfolio, long inflation-linked leases and lack of any high street, shopping centre or retail warehouse exposure.

15.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 September 2019 is shown in the graph below.



Over the quarter to 30 September 2019, the Fund's allocation to the office sector decreased by 0.5% to 26.6%. The allocation to the retail decreased by 0.1% over the quarter to 23.9%, whilst the allocation to other commercial increased by 0.3% to 34.8% over the quarter.

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

Tenant	% Net Income
Tesco	8.1
Whitbread	6.0
Marston’s	4.8
Sainsbury’s	4.6
Asda	4.2
Salford University	3.9
QVC	3.8
Save the Children	3.7
Lloyds Bank	3.7
Park Holidays UK Limited	3.5
Total	**46.3 ***

*Total may not equal sum of values due to rounding

As at 30 September 2019, the top 10 tenants contributed 46.3% of the total net income of the Fund. Of which 16.9% of the net income came from the supermarket sector, with Tesco, Sainsbury’s and Asda continuing to make up a significant proportion of the Fund at quarter end.

The unexpired lease term decreased from 25.9 years as at 30 June 2019 to 25.7 years as at 30 September 2019. The proportion of income with fixed, CPI or RPI rental increases marginally increased to 90.8% over the quarter.

15.3 Sales and Purchases

Over the quarter, contracts were exchanged to fund a pre-let development of a 300-bedroom hotel in Glasgow. The transaction was completed off-market with a developer contractor that the Fund had worked with previously in the development of the Fund’s Premier Inn hotel in Aldgate. The pre-let has been agreed with Dalata Hotel Group Plc, with a 35-year term and five-yearly RPI linked reviews. The total consideration is around £40m, with a resulting net initial yield of 4.4%.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail 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	15.0%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
LGIM	Low Carbon Target	30.0%	MSCI World Low Carbon Target Index	18/12/18
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
PIMCO	Global Bond	10.0%	Barclays Global Aggregate – Credit Index Hedged (GBP)	09/05/19
Invesco	Private Equity	0.0%	n/a	30/09/09
Unigestion	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	5.0%	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.	31/08/15
Aviva Investors	Infrastructure Income Fund	2.5%	3 Month Sterling LIBOR +6% p.a.	23/05/18
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Aberdeen Standard Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	**100.0%**		

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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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Appendix 4 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II ("MiFID II") was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency. MiFID II Costs and Charges disclosures are performed annually and will be provided during the first quarterly report of each year. A summary over the year to 31 March 2019 can be found below:

CLIENT NAME: London Borough of Hammersmith & Fulham Pension Fund
Reporting Period: 1st April 2018- 31st March 2019
Value of Scheme as at 31st March 2019: £1,037,040,048

Aggregation of all Costs and Charges incurred during the reporting period:

Cost Category	Amount (£)	% of investment
Investment services and/or ancillary services	106,080	0.01
Third Party payments received by the Investment Firm	-	-
Investment product costs	5,326,545	0.53
Total costs and charges	**5,432,625**	**0.54**

Totals may not sum due to rounding.

Cumulative effect of costs and charges on return
The illustration below uses Reduction in Yield (RIY) methodology to show impact of the total costs you have incurred on the return of your investment. The amounts shown are the cumulative costs of investment services and products.

	Amount (£)	Percentage (%)
Cumulative effect of costs and charges on return	5,778,089	0.58

Annual performance figures sourced from Northern Trust. LCIV UK Equity Fund and LCIV Global Equity Fund performance figures estimated using London CIV quarterly reports.

Description of the illustration.
The following is an example of the cumulative effect of costs over time:
An investment portfolio with a beginning value of £998m, gaining an annual return of 10%, and subject to a fee of 0.5% per annum (calculated and paid monthly), would grow to £2,452m after 10 years.
In comparison, an investment portfolio with a beginning value of £998m, gaining an annual return of 10% but not subject to any fees would grow to £2,588m after 10 years.
The annualised returns over a 10-year period would be 10.0% (gross of fees) and 9.4% (net of fees).
Therefore the cumulative impact of costs (fees) on investment return (reduction in yield) would be 0.59% per annum.

London Borough of Hammersmith & Fulham Pension Fund
Overview of alternative asset classes

Introduction
This note has been prepared for the London Borough of Hammersmith & Fulham Pension Fund Committee ("the Committee") and includes an overview of 5 alternative asset classes selected by the Committee.

i. Direct lending
ii. Renewable infrastructure
iii. Social housing
iv. Emerging Market Debt
v. Green bonds

For each of these asset classes we will describe their main characteristics and various key considerations from the perspective of a pension scheme investor. As a general point, it is worth noting that the majority of these asset classes are illiquid in nature and hence the Committee should consider its immediate and future cashflow requirements and longer term goals before making a commitment.

Direct lending

What is it?
Direct lending funds, as the name suggests, provide loans directly to businesses requiring capital. Following the financial crisis in 2008, bank finance became increasingly difficult to obtain for small to medium sized enterprises. As lending capacity became constrained and regulation increased, these businesses saw higher rejection rates, were asked to pay increased interest rates and were more likely to be required to provide collateral. With the size of these organisations precluding them from raising finance in public debt markets, an opportunity arose for pension funds and other institutional investors to 'fill the gap' and lend directly to such businesses.

Direct lending as an asset class, also referred to as private debt, has provided investors with attractive returns in recent years. The aforementioned demand for finance, flexibility with respect of the terms governing the loan and speed of implementation have enabled direct lending funds to demand attractive rates of interest on loans and strong covenants on loans.

Other key features include:

- Underlying returns consist of an upfront fee plus ongoing interest payments, which are usually priced at Libor plus a margin (called a spread). Floating rate nature of interest payments means that unlike liquid corporate bonds, the asset offers pension scheme investors with minimal interest rate hedging;
- Loans are relatively short term in nature and early repayment is common;
- Deal origination is key with a large number of loans emanating from wider private equity transactions;
- Credit risk remains a key consideration and will vary dependent on position within the capital structure;
- An illiquid asset class where funds are structured as closed-ended vehicles.

Key considerations
Direct lending has seen a lot of interest in recent years. New players have entered the market and some existing managers have raised more capital and larger funds. While capital deployment in terms of number of deals has slowed in 2019, fund raising continues apace with $16.9bn raised across global direct lending funds in Q1 versus the $7.9bn raised in Q1 last year.

Credit risk is dependent on the position in the capital structure. We have a strong preference for Senior secured debt to provide investors with greater protection in a default event. However, we are increasingly seeing instances where asset quality is being weakened to preserve return levels. Reduced covenants on loans, higher leverage levels and a willingness to move down the credit spectrum are all tools being used by managers. Investor demand for this asset class has also resulted in 'mega-funds' being raised, which can have an impact on how strategies are managed and the sub-market from which deals are sourced.

Given the significant slowdown in deployment and the compromises being made in terms of asset quality, we would not recommend making new commitments to the asset class at this time.

Renewable infrastructure

What is it?
Infrastructure funds have of course been around for some time. As well as targeting traditional areas such as bridges, airports etc, these funds have increasingly been targeting clean-energy assets across wind, solar, hydroelectric and tidal. There has also been an increase in the number of specialist renewable energy funds.

Governments around the world have pledged to tackle climate change in an attempt to limit rises in global temperatures. 180 countries signed the Paris Agreement in 2018 which pledged to limit temperature rises to "well below" 2^{o}C above pre-industrial levels. To do this, greenhouse gas emissions must be cut significantly by 45% by 2030 and to net zero by 2050. Renewable sources will therefore be required to "fill the gap".

In the UK alone, BloombergNEF estimates that £188bn of investment is required in renewable infrastructure. With the UK now targeting net zero greenhouse emissions by 2050 (the first G7 nation to legislate for this objective), the Committee on Climate Change targets indicate that the investment required may be as high as £660bn. Regardless of the number, there is obvious demand for renewable infrastructure and private investors will play a key role in funding projects. At the same time, the cost of leading renewable technologies has decreased significantly since 2010 (for example, the cost of solar technology has fallen 85%).

Other key features:

- Predominantly illiquid, closed-ended funds;
- Reasonably long date with maturities likely to be in excess of 10 years;
- Offers contractual income at attractive yields;
- Renewable infrastructure funds will invest in a combination of development opportunities and operational assets.

Key considerations
Renewable infrastructure is obviously an ESG compliant asset. However, whilst core infrastructure funds have been investing in renewable assets over many years, and are doing so increasingly, there aren't a large number of specialist renewable funds at this stage with most strategies being relatively small in size. We expect this to change given the global community's ambitious plans to increase the proportion of power generated from renewable technologies.

Historically the bulk of returns in this sector have been driven by feed-in-tariffs, where contractual cashflows are secured by the government. However, such arrangements are almost non-existent in the current market. While it would be unlikely for any government (certainly in the UK) to remove any current standing tariff arrangements, this still creates a degree of risk. This places greater emphasis on the fundamental assessment and asset management of renewable assets.

Key to return profile will be the willingness to accept development risk. Those funds willing to invest a greater proportion of commitments in development opportunities will ultimately offer higher returns but greater default risk as well.

Large volumes of commitments are flowing into core infrastructure assets, particularly the larger funds. As a result, we prefer strategies at the small and mid-market end of the market, or where managers' specialties can gain a competitive advantage. In this regard, targeting specialist renewables funds with more understanding of the sector and greater expertise in asset origination may be preferable.

Social Housing

What is it?
It is well known that the UK housing market has become significantly less affordable in recent years. Since the turn of the century, median house prices across England have moved from c. 4x earnings to double that. While the total housing stock in England has increased by 15% in this period, the amount rented from housing associations has remained stable.

There are regulations to encourage affordable homes, especially Section 106 of the Town and Country Planning Act 1990 ("S106"). Here, larger private developments have needed to include a proportion of their properties as affordable homes. While councils may want c. 30% of homes built under this arrangement, the actual number may vary substantially from that.

This creates a large requirement for affordable housing not just for the lowest paid, but those earning median incomes or even more. Councils and Housing Associations also have difficulty in raising funds internally to pay for new housing due to their current leverage levels, so look to external sources for funding.

Investment managers are now offering investment funds which buy or build new houses, designed to be rented to those on lower incomes. Discounts to market rents vary with the universe of affordable housing segmented into the following groups:

- "Social Rent" offers tenants terms which are less than 60% of market rent;
- "Affordable Rent" charges tenants 70-80% of market rates;
- A small amount of homes are available at Key Worker Rent, designed for key public sector employees.

Across the asset class, regardless of segment, rents are typically linked to CPI.

It is important to point out that the managers typically contract with the local councils and housing associations, rather than directly with tenants.

There are several types of housing that are financed through affordable housing funds:
- New housing developments. The land is typically bought with planning permission already agreed, to remove planning risk;
- Bulk purchase of new properties. Homes are purchased directly from developers when completed. This helps developers through providing cashflow, and can be purchased at a discount to normal market rates;
- New S106 properties: homes are purchased from developers who are fulfilling their S106 requirements, again at a discount from market value;
- Sale and leaseback arrangements with existing providers. Homes may need upfront capital to upgrade them before leasing back.

Key considerations
Funds are typically closed-ended, at least initially, with terms in the region of 7 to 10 years.

Affordable housing offers contractual income, at yields in the region of 4-5% p,a. Target returns could vary between 5 and 10% net of fees, depending on the underlying strategy, the extent of inflationary increases and the potential levels of capital appreciation. Leverage may be used to enhance returns.

Fees appear higher than typical property fund investments. An example fund charges 0.75% p.a. with additional acquisition fees equal to 5% of each property's purchase price. This would be on top of investment costs which are typically quite high.

Emerging Market Debt

What is it?
Emerging market debt is a diverse and sizeable market containing a mixture of sovereign and corporate debt of differing credit quality, some of which may be $-denominated whilst other bonds will be issued in the relevant local currency. The bulk of the market can be split into 4 main segments:

i. *US $ denominated EM sovereign debt*

Has been in decline in recent years and is now the smallest segment. Diverse set of issuers (JP Morgan benchmark consists of 73 countries).

ii. *Local currency EM sovereign debt*

The largest segment. Low default risk (representative benchmark index saw no defaults between 2000 and July 2019) but exchange rate risk that can't be hedged directly.

iii. *EM corporate bonds*

Fast growing segment with around $2tn of debt in issuance currently. Despite its size, receives less research coverage compared to developed market investment grade and high yield debt.

iv. *Frontier market sovereign bonds*

US $ denominated debt by less developed nations like the Ivory Coast or Vietnam. Often fast growing economies who might be issuing first bonds having previously relied on assistance from IMF or World Bank.

Whilst emerging market debt typically offers higher yields then equivalent bonds found in developed markets, it is also more volatile. However, it is important to recognise that there exists a diverse universe of bonds in issue spread across c. 80 emerging nations and the four main segments described above. That said, good governance, strong political institutions, transparency and central bank independence are all factors which lower the risk of default.

Key considerations
Emerging market debt funds may specialise in a particular segment or provide aggregate exposure across a broad range of segments. Regardless of type, the investment manager must demonstrate sufficient knowledge and expertise of a particularly specialised market. Emerging market debt is sensitive to a vast array of factors, which can be domestic (political, regulation) or global (macroeconomic outlook, risk appetite, capital flows) in nature.

Many pension schemes allocate a significant proportion of their assets in bonds but a relatively small proportion hold emerging market debt securities. This is due, in part, to a pension scheme's need to hedge its £ interest rate exposure. However, the Committee should note that emerging market debt accounts for around 25% of the global bond market.

Emerging market debt's significance as an asset class should at least warrant its consideration as a potential investment for UK pension schemes. Many schemes have been prepared to move down the credit rating spectrum, increasing allocations to high yield. In this regard it is interesting to observe that corporate issuers of emerging market debt have not been subject to the same rise in leverage levels compared to their peers in the UK and US who have increasingly taken advantage of lower borrowing costs. In fact, compared to US high yield, corporate emerging market debt offer lower leverage, higher spreads and lower historic default rates.

When assessing the risks associated with emerging market debt investing, currency exposure is a particularly significant consideration. Sovereign debt in particular, is increasingly being issued in a country's local currency. Whilst default rates have been low, currency risk is high. The value of these bonds will be particularly sensitive to the global macroeconomic outlook, risk appetite and the corresponding trends in capital flows. This currency risk can be reduced to some extent by hedging other currencies like the Australian dollar which are cyclical in nature.

Green Bonds

What is it?
Green bonds are just the same as conventional bonds but fund projects with positive environmental or climate benefits. Bond issuers might focus on a diverse range of "green" issues including energy efficiency, pollution prevention, renewable energy, clean transport, green buildings or sustainable water management.

With increase government focus on financing sustainable growth, the green bond market has been dominated by SSA (sovereigns, supranational and agency) issuers, although the proportion of corporate issuers has been growing. More generally, the green bond market has been growing in recent years with new issuance rising from $6bn in 2013 to $168bn in 2018. Issuance in 2019 is likely to exceed 2018 levels.

A few indices are emerging, including the Bloomberg Barclays MSCI Green Bond Index. The universe of green bonds is dominated by European issuers with €-denominated bond accounting for over 70% of bonds in issue. At present, the green bonds in issuance are mainly traditional investment grade bonds with a relative lack of issuance in high yield, securitised and private debt sectors.

Key considerations
Whilst the asset class has obvious ESG and ethical credentials, the investment case, specifically the available credit spreads, are less compelling. The MSCI Green Bond Index offers 66bps over equivalent government debt, which is unsurprising given the proportion of government related issuers. Whilst spread levels exceed a similarly SSA dominated, broad market aggregate bond index, the yield on offer is lower given that the MSCI Green Bond Index is dominated by European issuers where underlying EU sovereign debt is offering negative nominal yields.

Therefore, we conclude that on spread grounds, the investment case isn't sufficiently compelling to warrant a standalone allocation to green bonds. In our view, the market remains in its infancy and further expansion of the investment universe, especially into higher yielding areas such as private loans and securitized debt markets, is required. We expect that infrastructure debt offered to "green" projects would offer a more compelling investment case at this stage.

Deloitte Total Reward and Benefits Limited

November 2019

Risk Warnings

- 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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Appendix 4: Cashflow Monitoring Position as at 30 September 2019

Pension Fund Current Account Cashflow Actuals and Forecast for period July 2019 to June 2020

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Forecast Annual Total	Forecast Monthly Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s		
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast		
Balance b/f	**2,453**	**2,522**	**840**	**4,388**	**2,288**	**2,188**	**1,488**	**1,388**	**1,288**	**2,588**	**2,488**	**2,388**	**£000s**	**£000s**
Contributions	2,267	2,261	2,251	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	**26,579**	**2,215**
Pensions	(2,896)	(2,923)	(2,878)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	(2,900)	**(34,797)**	**(2,900)**
Lump Sums	(722)	(1,067)	(176)	(200)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	(700)	**(8,265)**	**(689)**
Net TVs in/(out)	(631)	(228)	(1,272)	(200)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	**(6,632)**	**(553)**
Net Miscellaneous Expenses	51	275	(380)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	**(1,854)**	**(154)**
Net Cash Surplus/(Deficit)	**(1,931)**	**(1,682)**	**(2,456)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(2,100)**	**(24,969)**	**(2,081)**
Distributions	-	-	4,004	-	-	1,400	-	-	3,400	-	-	1,400	**11,404**	**950**
Net Cash Surplus/(Deficit) including investment income	**(1,931)**	**(1,682)**	**1,548**	**(2,100)**	**(2,100)**	**(700)**	**(2,100)**	**(2,100)**	**1,300**	**(2,100)**	**(2,100)**	**500**	**(13,565)**	**(1,130)**
Withdrawals from Custody Cash	2,000	-	2,000	-	2,000	-	2,000	2,000	-	2,000	2,000	-	**14,000**	**1,167**
Balance c/f	**2,522**	**840**	**4,388**	**2,288**	**2,188**	**1,488**	**1,388**	**1,288**	**2,588**	**2,488**	**2,388**	**2,888**	435	36

Current Account Cashflow Actuals Compared to Forecast During the July 2019 to September 2019 Quarter

	Jul-19		Aug-19		Sep-19		Jul – Sep 19
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	2,100	2,306	2,100	2,261	2,100	2,251	479
Pensions	(2,800)	(3,057)	(2,800)	(2,923)	(2,800)	(2,878)	(297)
Lump Sums	(600)	(386)	(600)	(1,067)	(600)	(176)	(165)
Net TVs in/(out)	(300)	342	(300)	(228)	(300)	(1,272)	(1,332)
Expenses	(200)	(652)	(200)	275	(200)	(380)	546
Distributions	-	-	-	-	1,300	4,004	2,704
Withdrawals from Custody Cash	2,000	2,000	2,000	-	2,000	2,000	2,000
Total	**200**	**69**	**200**	**(1,682)**	**1,600**	**3,548**	**(65)**

Notes on variances during quarter:

- In September 2019, the Pension Fund received £2.7m extra in distributable income than forecast. This was mainly due to outperformance by the funds and also the recent inclusion of the LCIV Global Bonds fund. This has now been factored in the forecasts going forward.
- This also meant that there was £2m less in cash drawdowns from the custody cash account during the quarter.
- Lump Sums and Net Transfer values are difficult to forecast on a month basis, however the forecast over the quarter is generally in line with expectations.

Pension Fund Custody Invested Cashflow Actuals and Forecast for period July 2019 to June 2020

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Forecast Annual Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
Balance b/f	**30,042**	**26,967**	**27,184**	**22,768**	**2,768**	**1,968**	**4,768**	**3,968**	**4,768**	**5,968**	**3,968**	**3,168**	**£000s**
Sale of Assets	-	-	-	-		4,000		4,000					**8,000**
Purchase of Assets	(1,277)	(3)	(2,551)	(20,000)		(1,200)		(1,200)					**(26,231)**
Net Capital Cashflows	**(3)**	**(85,003)**	**(1,629)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,231)**
Distributions	87	296	301	-	1,200	-	1,200	-	1,200	-	1,200	-	**5,484**
Interest	21	22	20										**63**
Management Expenses	-	(99)	(192)										(291)
Foreign Exchange Gains/Losses	91	1	6										**99**
Class Actions	2	-	-										**2**
Net Revenue Cashflows	**202**	**220**	**136**	**-**	**1,200**	**-**	**1,200**	**-**	**1,200**	**-**	**1,200**	**-**	**8,684**
Net Cash Surplus/(Deficit) excluding withdrawals	**(1,075)**	**217**	**(2,416)**	**(20,000)**	**1,200**	**2,800**	**1,200**	**2,800**	**1,200**	**-**	**1,200**	**-**	**(77,951)**
Withdrawals from Custody Cash	(2,000)	-	(2,000)	-	(2,000)	-	(2,000)	(2,000)	-	(2,000)	(2,000)	-	**(14,000)**
Balance c/f	**26,967**	**27,184**	**22,768**	**2,768**	**1,968**	**4,768**	**3,968**	**4,768**	**5,968**	**3,968**	**3,168**	**3,168**	**(26,874)**

Notes on Invested Cash Movements

- In September 2019, the Pension Sub-Committee agreed to invest £20m of its custody cash into the LCIV Global Bond Fund under PIMCO's management as part of its overall rebalancing exercise. The investment was completed on 16 October 2019
- During the quarter, the following amounts were distributed back to the pension fund:
  - £0.5m from the Invesco Private Equity Funds
  - £0.2m from the Unigestion Private Equity Funds
- During the quarter, £2.7m was invested as follows:
  - £2.5m capital call into the Partners Group Direct Infrastructure Fund

London Borough of Hammermsmith & Fulham Pension Fund Risk Register - Investment Risk

Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Governance	1	↔	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	3	36	TREAT - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups.	2	24	26/06/2019
Funding	2	↓	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is going down	2	22	26/06/2019
Funding	3	↓	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	TOLERATE - 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. Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rate due to uncertainty in the economic environment	2	20	26/06/2019
Funding	4	↔	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	20	26/06/2019
Investment	5	↑	Significant volatility and negative sentiment in global investment markets following disruptive politically uncertainty caused by the tradewar been the US and China	5	4	1	10	3	30	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	20	26/06/2019
Funding	6	↔	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%	5	3	2	10	3	30	TREAT- 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20	26/06/2019
Funding	7	↔	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	26/06/2019
Investment	8	↔	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m.	5	3	1	9	3	27	TREAT- 1) The Investment Management Agreements (IMAs)clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	18	26/06/2019

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Investment	9		Volatility caused by uncertainty regarding to the withdrawal of the UK from the European Union, with the likelihood of a no-deal exit increasing	4	4	1	9	3	27	TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements.	2	18	26/06/2019
Investment	10		Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	24	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	16	26/06/2019
Funding	11		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	TOLERATE - 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	26/06/2019
Governance	12		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) LCIV have recently appointed a new CEO.	2	16	26/06/2019
Operational	13		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	14	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	14	26/06/2019
Funding	14		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	TOLERATE - 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.	2	14	26/06/2019
Funding	15		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	26/06/2019

Governance	16	↑	Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	26/06/2019
Governance	17	↔	Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought	1	12	26/06/2019
Investment	18	↔	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	3	2	1	6	3	18	TREAT- 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum which engages with companies on a variety of ESG issues including climate change	2	12	26/06/2019
Governance	19	↔	Failure by the audit committee to perfom its governance, assurance and risk management duties	3	2	1	6	3	18	TREAT- 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where govermence issues are regularly tabled.	2	12	26/06/2019
Governance	20	↑	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	3	18	TREAT- 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines.	2	12	26/06/2019
Funding	21	↓	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.	5	4	2	11	2	22	TREAT - 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly distributions from some of its investments to help meet its pensions obligations.	1	11	26/06/2019
Funding	22	↔	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	26/06/2019
Financial	23	↔	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	26/06/2019
Operational	24	↔	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin (Surrey County Council) manual records are locked daily in a secure safe. 4) WCC IT data security policy adhered to.	1	11	26/06/2019

Governance	25	↔	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	TREAT - Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters.	1	**11**	26/06/2019
Funding	26	↔	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	**22**	TREAT - 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.	1	**11**	26/06/2019
Operational	27	↔	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	**15**	TREAT - 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed.	2	**10**	26/06/2019
Governance	28	↔	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	TREAT - At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	**10**	26/06/2019
Operational	29	↔	Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	26/06/2019
Governance	30	↔	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	**20**	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	**10**	26/06/2019
Investment	31	↔	Failure of global custodian or counterparty.	5	3	2	10	2	**20**	TREAT - 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.	1	**10**	26/06/2019
Operational	32	↔	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	26/06/2019
Investment	33	↔	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	**20**	TREAT - 1) Proportion of total asset allocation made up of equities, bonds, property funds and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	26/06/2019
Governance	34	↓	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.	4	3	3	10	2	**20**	TREAT - 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 team provides resilience and sharing of knowledge.	1	**10**	26/06/2019

Governance	35	↔	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	**20**	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	26/06/2019
Funding	36	↔	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	TREAT - 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.	1	**9**	26/06/2019
Governance	37	↔	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	TREAT - External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	**9**	26/06/2019
Operational	38	↓	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	3	2	4	9	2	**18**	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) The Fund currently holds investments in the MSCI Low Carbon and Aviva Renewables Infrastructure Fund ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	**9**	26/06/2019
Financial	39	↓	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	3	4	2	9	2	**18**	TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	**9**	26/06/2019
Regulation	40	↔	Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	5	2	2	9	2	**18**	TREAT - More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients.	1	**9**	26/06/2019
Governance	41	↔	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	26/06/2019
Regulation	42	↔	Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	4	2	2	8	2	**16**	TREAT - Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**8**	26/06/2019
Funding	43	↔	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	**14**	TREAT - Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	26/06/2019

Regulation	44		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	TREAT - 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.	1	**7**	26/06/2019

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London Borough of Hammersmith and Fulham Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised likelihood	Total risk score	Reviewed on
				Fund	Employers	Reputation	Total						
Admin	1		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	26/06/2019
Admin	2		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	26/06/2019
Admin	3		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	**11**	26/06/2019
Admin	4		Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams.	1	**10**	26/06/2019
Admin	5		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.	5	2	2	9	2	**18**	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	1	**9**	26/06/2019
Admin	6		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	**16**	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.	1	**8**	26/06/2019
Admin	7		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	26/06/2019
Admin	8		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	26/06/2019

Admin	9		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	TOLERATE 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	**7**	26/06/2019
Admin	10		Bank reconcilations no longer carried out by BT. Income processing from the bank has been brought in house. HCC have agreed a new process of allocating income on to the ledger, however a steep learning curve still exists leading to misallocations and delay in the clearance of the suspense account.	2	2	2	6	2	**12**	TREAT 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed process	1	**6**	26/06/2019
Admin	11		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	2	3	6	2	**12**	TOLERATE 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. Service has been excellent since this change was made.	1	**6**	26/06/2019
Admin	12		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	**12**	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	**6**	26/06/2019
Admin	13		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	26/06/2019
Admin	14		Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	2	**12**	TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	26/06/2019
Admin	15		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	**6**	26/06/2019
Admin	16		BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in December 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.	1	2	2	5	2	**10**	TREAT 1) The Bi-borough HR team are working with HCC and BT to ensure service transfer is smooth as possible. 2) 2018/19 LGPS files to be checked by the Bi-borough in June 2019.	1	**5**	26/06/2019
Admin	17		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams.	1	**5**	26/06/2019
Admin	18		Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	26/06/2019
Admin	19		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**	26/06/2019
Admin	20		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	26/06/2019
Admin	21		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	2	**8**	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	1	**4**	26/06/2019

Appendix 6: Pension Fund Voting Summary: July – September 2019

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.

LCIV Majedie voting information is as follows:

VOTING	
No. of companies	31
No. of meetings	31
No. of resolutions	479

LCIV Ruffer voting information is as follows:

VOTING	
No. of companies	7
No. of meetings	7
No. of resolutions	102

LGIM, who manage the global passive equity portfolio on behalf of the Fund, undertake extensive engagement with the companies they are invested in as well as voting. Below is a summary of the meetings they voted at during the July to September 2019 quarter.

VOTING	
No. of companies	93
No. of meetings	94
No. of resolutions	1,184

Appendix 7

Forward Plan for Pensions Sub-Committee – September 2019

Area of work	November 2019	February 2020	July 2020	September 2020
Governance	Quarterly Update Pack Pension Sub-Committee minutes Consultation updates	Quarterly Update Pack Pension Sub-Committee minutes Governance Compliance Statement review Consultation updates Responsible Investment Policy Review	Quarterly Update Pack Pension Sub-Committee minutes Responsible Investment Policy Review	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring LCIV update	Fund Manager monitoring Investment strategy statement	Fund Manager monitoring	Fund Manager monitoring
Funding	Actuarial Valuation Review	Actuarial Valuation Final Funding Strategy Statement	Actuarial Valuation Review	Actuarial Funding Level Update

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: Draft Triennial Valuation

Report of: Matt Hopson

Summary

1.1 This paper introduces the initial results of the 2019 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which are further discussed in Appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW).

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 97% from the 88% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £88m more than expected.

- The two major changes to the assumptions are a reduction in the real discount rate and a reduction in the long-term improvement in pensioner longevity. These two changes combined have led to an increase in liabilities by approximately £40m in total as a result.

Recommendations

1. The Sub-Committee is requested to note and comment on the initial actuarial results.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Being ruthlessly financially efficient	The draft triennial actuarial valuation shows a greatly improved funding level and is now almost fully funded.

Financial Impact

The initial results of the triennial actuarial valuation show an annual saving to the Council in total contributions of £2.8m per annum with effect from 1 April 2020. Contributions are set for a three-year period from that date.

Legal Implications

None

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1 The Pensions Sub-Committee note and comment on the initial actuarial findings/results.

Draft Actuarial Results

1.2 In the period from 31 March 2016 to 31 March 2019, the Pension Fund has increased its overall funding level from 88% to 97%. The main drivers for this improvement were the significant investment returns of £88m above what was assumed by the actuary in 2016.

1.3 The funding level for Hammersmith and Fulham (as a single employer) stands at 95%, improving from 84% previously.

1.4 The much improved funding level has allowed the Council to reduce its deficit recovery contributions from £8.6m to £3.8m going forward, although the ongoing primary contributions are expected to cost the Council an additional £2m per annum (net £2.8m reduction per annum).

Changes to Actuarial Assumptions

1.5 There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.

1.6 Longevity rates have shown a slight decline in improvement since 2011, which implies that mortality expectations have started to flatten out. The actuary has taken into account this trend by reducing the long-term improvement expectations from 1.50% per annum to 1.25% per annum. This small adjustment makes a substantial difference to the valuation of the liabilities, reducing the total by approximately £54m.

1.7 The real discount rate, a proxy for the real investment return, has fallen during the period 2016 to 2019, falling from 3.0% (5.4% investment return less 2.4% CPI) to 2.4% (5.0% investment return less 2.6% CPI). The discount rate has reduced for investments as BW has considered that investment returns have improved significantly in recent years and have thus factored in a higher level of prudence going forward.

1.8 As a result of the financial changes and demographic changes outlined above, the net increase to the Fund’s overall contribution rate is 1.9%, rising from 15.5% to 17.4%.

1.9 The next steps for the Pensions Sub-Committee will be to agree a Funding Strategy Statement at the 11 February 2020 Pensions Sub-Committee meeting, followed along with the final actuarial valuation report and new investment strategy statement.

2. Reasons for Decision

2.1. The final decision to agree the valuation results will be at the 11 February 2020 meeting.

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. *None*

5. Other Implications

5.1. *None*

6. Consultation

6.1. Consultation will be undertaken with all employers of the fund to discuss the impact of the valuation on overall contribution rates and to take on board any feedback reference the draft Funding Strategy Statement.

List of Appendices:

Appendix 1: LBHF March 2019 Initial Results Advice
Appendix 2: LBHF 2019 Valuation Summary and Council Results

London Borough of Hammersmith and Fulham Pension Fund

Actuarial valuation as at 31 March 2019

Initial results and proposed assumptions advice

Barry McKay FFA
Barnett Waddingham LLP

01 October 2019

Introduction

We have been asked by London Borough of Hammersmith and Fulham, the administering authority for the London Borough of Hammersmith and Fulham Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2019. The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

This report is addressed to the administering authority of the Fund. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.

In particular, the purpose of this report is to set out the background to the valuation, and summarise the proposed methods and assumptions to be used alongside the initial results on that basis.

The final assumptions will be agreed with the administering authority and will be consistent with the Fund's Funding Strategy Statement.

The last formal actuarial valuation of the Fund was carried out as at 31 March 2016 and the results of that valuation carried out by Barnett Waddingham were set out in the formal valuation report, dated 31 March 2017.

This report focuses on the whole Fund results only.

This advice is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions.

The administering authority must provide us with sufficient and up to date information relating to matters relevant to our advice. We will only be able to accept responsibility for the advice based on the information provided.

This report is provided further to the proposed methods and assumptions advice dated 21 June 2019 and discussions had with the administering authority on 10 June 2019.

This report should be considered alongside the initial results presentation that is set to take place on 3 October 2019.

Contents

Executive summary

Some of the key messages contained within this report are set out below:

Funding position
Based on the proposed assumptions set out in this report the funding position of the whole Fund has increased from 88% to 97% since the 2016 valuation

Contributions
Individual employer contributions will be communicated later in the process but the average primary rate has increased from 15.5% to 17.4% since the 2016 valuation.

Discount rate
We have used a smoothed approach to calculate the discount rate of 5.0% based on a weighted average of estimates of long-term asset returns with an allowance for prudence.

Mortality
Indicators of future levels of mortality improvements have fallen leading to an improvement in the funding position.

Salary increases
Based on evidence we have taken a view to reduce the future level of salary increases over the long term. This leads to a small improvement in the funding position.

Risks
Regulatory uncertainties including McCloud, cost cap management, Section 13 valuations and GMP equalisation have put increased pressure on the 2019 valuation results.

Proposed assumptions

Our proposed principal assumptions are set out in the table below along with a comparison of the assumptions used at the previous valuation. We confirm that in our opinion these assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Key assumptions	Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short-term	n/a	CPI to 31 March 2020
Long-term	3.6% p.a.	3.9% p.a.
Discount rate	5.0% p.a.	5.4% p.a.
Post retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Mortality multiplier	110% / 105%	120% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a

Results

The proposed assumptions are, overall, expected to give results as follows:

- The Fund's funding level has increased from 88% to 97% as at 31 March 2019, corresponding to a deficit of £35,449,000 on an ongoing funding basis.
- The primary contribution rate required to meet the cost of benefits as they are earned from year to year has increased from 15.5% p.a. to 17.4% p.a. of Pensionable Pay, at the whole Fund level.
- The Fund’s estimated funding position on the standardised basis has increased from 92% to 101%.

The total contribution rates (i.e. primary plus secondary rates) to be paid by each employer will be calculated, discussed and finalised following agreement of the assumptions to be used in the valuation.

Please note that the above represents the impact on a whole Fund level; results on an individual employer level will vary.

Methodology

We do not propose any fundamental changes to the existing approach to setting contributions. In particular, we will continue to use a smoothed approach and the discount rate will be based on a weighted average of estimates of long-term asset returns with an allowance for prudence. We have assumed that the Funding Strategy Statement (FSS) will be broadly unchanged.

We have proposed some changes or updates to some assumptions since the previous valuation, particularly around the discount rate assumption which will place a higher value on projected liabilities compared to the assumptions used at the 2016 valuation. However, some of this increase will be offset by the proposed changes to the salary increase assumption and the mortality projection model which will lead to a reduction in the value of the liabilities.

The proposed assumptions were set out in our separate advice paper dated 21 June 2019. These assumptions were based on market conditions to 7 June 2019 and were therefore subject to change. The market statistics that we have used in this report have been smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019.

Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation as follows:

- Effect of the McCloud and Sargeant cases and the cost cap on the future and historic LGPS benefits structure
- Change in timing of future actuarial valuations from a triennial cycle
- Guaranteed Minimum Pensions (GMP) equalisation

More details of these issues can be found later in this report. At this stage we have made no allowance for these issues in the proposed assumptions but as we go through the valuation process we will work closely with the administering authority to consider how to approach these issues when setting the contribution rates for employers. In particular, due to further announcements by MHCLG we will need to consider the treatment of McCloud and disclose clearly in the Funding Strategy Statement the approach taken.

Next steps

We look forward to discussing this advice with the administering authority at our meeting on 3 October 2019, following which we will prepare the individual employer valuation results allowing for any agreed changes to the proposed assumptions.

We will provide the administering authority with access to our online contribution modelling tool, *Illuminate ME*. This tool will enable the administering authority to engage with their employers where appropriate to discuss their individual contribution rates, and agree appropriate and affordable recovery plans for any deficits revealed based on their own covenant strength.

Following agreement of the final method and assumptions to be used, we will prepare our formal report on the valuation which will include a certificate setting out the primary and secondary contribution rates for all employers in the Fund for the period from 1 April 2020 to 31 March 2023. The report will be completed no later than 31 March 2020 and must be made available to members on request.

We look forward to discussing this paper with the administering authority.

Barry McKay

Barry McKay FFA
Barnett Waddingham LLP
1 October 2019

Valuation purpose

The purpose of the 2019 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023, as required under Regulation 62 of the LGPS Regulations. This three year period is currently being considered by the Ministry of Housing, Communities and Local Government (MHCLG) and there is a possibility of moving to a quadrennial valuation cycle in line with other public service schemes. This is likely to have a knock on effect on the number of years of contributions certified as part of the 2019 valuation.

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The **primary rate** for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits) expressed as a percentage of pay.
- The **secondary rate** is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery).

Regulation 62 specifies four requirements that the actuary "must have regard" to and these are detailed below:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

The third clause simply means that we should be aware of and take account of the Fund's Funding Strategy Statement (FSS). The administering authority is responsibility for drafting and maintaining this statement although we would anticipate being consulted on the drafting.

Definitions for "solvency" and "long-term cost efficiency" are included in CIPFA's FSS guidance. These can be briefly summarised as:

- ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

Asset valuation

We have been provided with a final copy of the Fund accounts for the year ending 31 March 2019 and the audited Fund accounts for the years ending 31 March 2018 and 31 March 2017.

The market asset valuation as at 31 March 2019 was £1,052,073,000, excluding members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

The purpose of smoothing the asset value is for consistency with the valuation of liabilities and to help stabilise employer contribution rates and it means that contribution rates over the next 20-30 years are not singularly dependent on the market value of assets and market conditions on one particular day.

The smoothed asset valuation as at 31 March 2019 was £1,043,467,000, based on a smoothing adjustment of 99.2%.

More details of the asset and accounts information used are set out in the Fund's annual report which is available on request from the Fund or on their website.

The following table sets out the annual Fund investment returns for the Fund over the intervaluation period as disclosed in the Fund accounts.

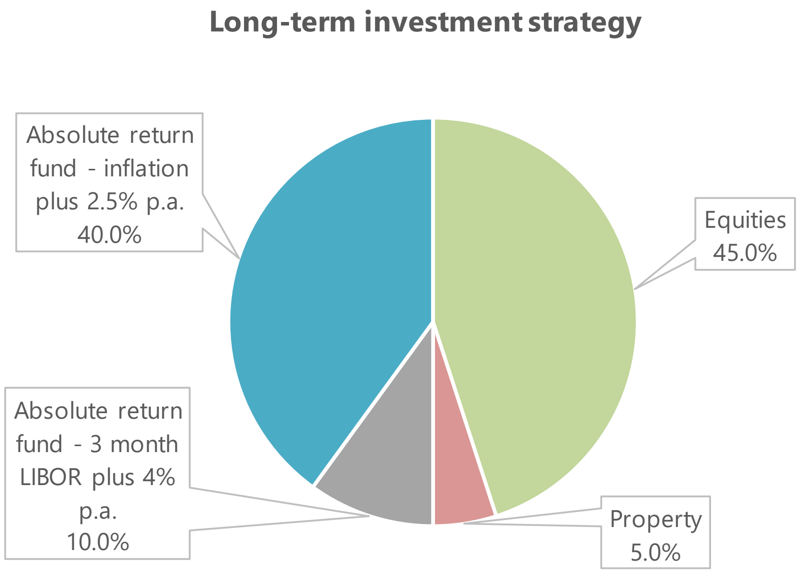
Annual Fund investment returns

Year to 31 March 2017	18.2%
Year to 31 March 2018	1.7%
Year to 31 March 2019	6.0%
Average return over intervaluation period (p.a.)	**8.4%**

Investment strategy

For the purposes of the actuarial valuation we are interested in the long-term investment strategy of the Fund. As the current asset allocation may differ from the long-term strategy, the administering authority has provided us with details of the long-term investment strategy of the Fund.

The Fund's long-term investment strategy will be set out in an Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website. A breakdown of the long-term investment strategy is set out in the chart below.



Valuation of liabilities

The value of accrued or past service benefits (allowing for future salary and pension increases) are referred to as the past service liabilities, or simply the liabilities.

Using the valuation assumptions set out in Appendix 2 we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing members. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality, early retirement and staff turnover etc.

Prudence

As part of our calculations, we have made reference to a neutral set of assumptions which are derived in a way that is not deliberately optimistic or pessimistic.

However, our proposed funding assumptions will include a margin for prudence. The prudence margin will be set with input from the administering authority to reflect their own investment strategy and risk appetite. In this report we have produced results on both the neutral and proposed funding assumptions to give the administering authority an idea of the level of prudence contained within their assumptions.

We take a view that the overall level of prudence should be reflected in the discount rate assumption for simplicity.

Past service funding level

A comparison is made of the value of the existing assets with the value of liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Primary rate

The first stage is to calculate the value of benefits accruing to existing active members in the future over a certain period. The value of benefits accruing in the period following the valuation date is then expressed as a percentage of payroll over the same period having first deducted the equivalent contribution paid by the active members. This therefore reflects the employer's share of the cost of benefits and is known as the primary contribution rate.

At individual employer level we use a one year period for all employers who still admit new employees into the Fund. For employers in the Fund who are closed to new entrants we consider the cost of future benefit accrual over a longer period, for example, the expected remaining working lifetime of existing active members, rather than just over the next twelve months.

This is the same approach as taken in the previous valuation.

Overall result and required contribution rate

Any past service surplus, if significant, can be used to offset the contribution rates payable by employers over the period following the valuation date.

If there is a material deficiency then additional contributions are required to be paid by employers over an agreed period, either as a percentage of payroll or as monetary amounts.

Proposed assumptions

The proposed assumptions and their derivation are set out in the next section.

Longevity assumptions

Our specialist longevity team carried out analysis to determine the best-estimate assumptions to be used by the Fund Actuary for the purpose of the Fund's 2019 valuation. This set out a recommended percentage rating to make to the S3 series mortality tables. We have used this report in this advice to set out the proposed longevity assumption used in the initial results and the assumptions are summarised in Appendix 2.

Proposed assumptions

To project the future payments that are expected to arise in respect of benefits accrued at the valuation date, assumptions are required for matters such as increases to benefits, how long members live, members' dependants who may be eligible for death benefits, the exercise of member options, and when members will leave active service. How the future expenses of running the scheme will be met will also need to be considered.

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances. We can consider these assumptions as:

- The statistical assumptions which generally provide estimates of the likelihood of benefits and contributions being paid. This includes the rates of mortality, early retirement and staff turnover; and
- The financial assumptions which determine the estimates of the amount of benefits and contributions payable as well as their current or present value. This includes inflation, salary increases and investment returns (also referred to as the discount rate).

The assumptions that we use as part of our approach are a combination of market-related statistics, historical averages and judgement. In addition, the base market statistics that we use are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Assets are also smoothed in a consistent way.

The smoothing mechanism is used to help with the objective of setting reasonably stable contribution rates.

We have not proposed any changes to the model adopted for the 2016 valuation or any significant changes to the assumptions used but we have proposed some changes to individual assumptions which we will set out in the relevant sections below.

We take a view that the overall level of prudence should be reflected in the discount rate assumption for simplicity, and therefore all other assumptions are a neutral estimate.

When looking at a market yield curve we generally take the 20 year point on that curve as we have estimated that 20 years is consistent with the duration of an average LGPS fund's liabilities.

In the next few sections of this report we set our advice on the proposed assumptions to be used.

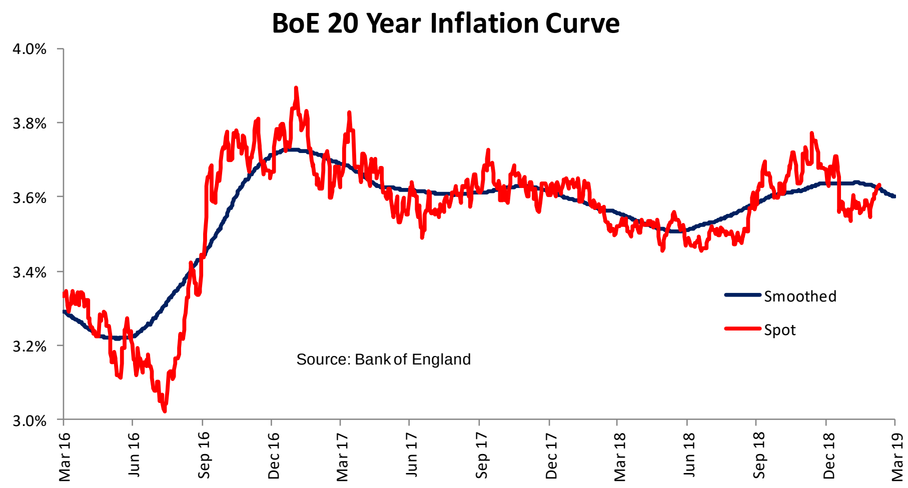
Please note that the valuation results indicate the expected cost of providing the Fund benefits based on the underlying method and assumptions; the actual cost of providing the benefits will depend on the actual experience.

Revaluation of benefits

Under the Regulations, the majority of the benefit increases are linked to inflation and the likely level of future inflation will therefore need to be considered in order to set our pension increase and revaluation assumptions.

Retail Price Index (RPI) inflation

Our starting assumption for inflation is the (smoothed) 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve which is 3.6% p.a. as at 31 March 2019.



As mentioned above, when looking at a market yield curve we take the 20 year point on that curve as we have estimated that 20 years is consistent with the duration of an average LGPS fund's liabilities. We believe that this is an appropriate approach to take for the Fund.

The same approach was taken at the previous valuation which resulted in an RPI inflation assumption of 3.3% which was based on the market-implied rate at that time.

In the 2016 valuation we made no allowance for an inflation risk premium and we do not believe that there is enough evidence to make any changes to this assumption, therefore we have not allowed for any inflation risk premium in our RPI inflation assumption.

Therefore our assumption for RPI inflation is 3.6% p.a.

Consumer Price Index (CPI) inflation

There is currently no reliable market derived measure for CPI inflation, as there are no CPI-linked government bonds.

Historically, CPI inflation has been lower on average than RPI inflation and this effect is expected to persist over the long term. The main areas of difference between the two indices are:

- The **'formula effect'** which occurs as a result of the CPI being calculated using a different statistical methodology compared to the RPI which is likely to persist over the long term;
- **Housing costs** such as council tax and mortgage interest payments, which are included in the RPI but not the CPI; and
- **Other differences in coverage** between the two indices, both in terms of constituent goods and the weightings of goods and households assessed.

At the 2016 valuation, we assumed that future CPI inflation would be 0.9% p.a. less than future RPI inflation. This difference is primarily due to the "formula effect".

Based on a decomposition by the Office for National Statistics (ONS) of recent differences between the two indices, we suggest that the formula effect is likely to contribute between 0.8% p.a. and 1.0% p.a. to the rate by which RPI inflation is expected to exceed CPI inflation over the long term.

Taking the above into account, and given the uncertainty around future constituents, we propose that a reasonable long-term assumption for CPI inflation at the valuation date is 1.0% p.a. lower than the RPI inflation assumption.

We also recently moved to this as a standard assumption for IAS19 and FRS102 pensions accounting where this assumption is required to be best estimate.

Therefore, we propose a CPI inflation assumption of 2.6% p.a.

The CPI inflation assumption used at the previous valuation was 2.4%, which was 0.9%p.a. lower than the RPI inflation assumption.

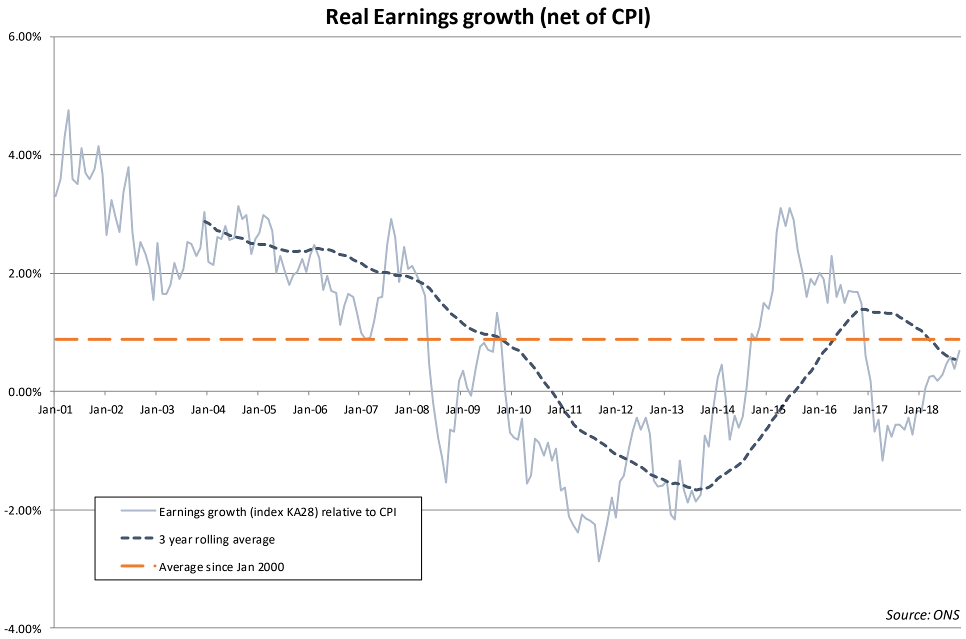
The Bank of England has a CPI target of 2.0% p.a. Effectively, we are saying that the market suggests that the Bank will, on average, not make this target and CPI inflation will average higher than the target over the next 20 years.

In the 29 October 2018 Budget, the Chancellor announced that "over time" pension increases would be in line with Consumer Prices Index Housing (CPIH). This was confirmed by a further announcement by the Chancellor on 4 September 2019 stating that the move would be made by 2030. CPIH is CPI but with housing costs (the average change in residential rents) included in the basket of goods that are measured. As housing costs often increase quicker than other goods CPIH is generally higher than CPI (but not always). All else being equal this would increase liabilities slightly. However, as Eurostat, the body which sets the statistical methodology on which CPI is based, had previously stated its intention to amend CPI to include housing costs, we had already factored this into our CPI assumption at the 2016 valuation. Eurostat have since revoked this intention but as we had already built in an allowance, the move to CPIH means that the existing difference remains appropriate and therefore we do not feel that any further adjustments are necessary at this stage.

Salary increases

While the LGPS was a final salary scheme for benefits earned prior to 1 April 2014, it is now a career average revalued earnings (CARE) scheme so that benefits earned after 1 April 2014 are increased in line with CPI inflation rather than salary increases. Therefore, the overall effect of the salary increase assumption is less than it was previously: active members' accrued final salary benefits continue to increase in line with salary increases, however, the primary rate is unaffected by the salary increase assumption. At the 2016 valuation, salary increases were assumed to be in line with CPI until 31 March 2020, and CPI plus 1.5% p.a. thereafter. The short-term assumption was set to reflect a short-term restriction in public sector pay.

The chart below shows past UK earnings growth reflected in the ONS's Average Weekly Earnings (AWE) statistics (which reflect both inflationary and promotional increases).



Earnings growth has typically been relatively volatile, especially over short time periods. It has historically been more stable in real terms although we can see from the graph above that there is still significant volatility over the last 18 years. Over the last 18 years the overall average rate has been around CPI plus 0.9%.

Recognising that there are a wide a range of potential outcomes for long-term future salary growth, we would propose that a reasonable assumption is CPI plus 1.0%. We propose that this assumption reflects both inflationary and promotional increases and therefore we would remove the salary scale assumption which previously applied in addition to the salary increase assumption. We are not proposing to have a separate assumption about short-term increases in salary. The removal of the promotional scale and the short-term overlay simplifies our overall allowance for salary increases.

Therefore, we propose a salary increase assumption of CPI plus 1.0% p.a.

Pension increases

All LGPS pension increases are linked to CPI inflation. Therefore we propose to use the CPI inflation assumption with no adjustment as a pension increase assumption. Some pension elements increase at different rates (e.g. GMP) and we allow for this in our calculations. This is the same approach taken to the previous valuation.

Discount rate assumption

The Fund's benefits will be discharged over a long period. Therefore, for comparison with the value of the assets, the liabilities should be measured in a way that allows for the future investment return expected on those assets.

In other words, the amount of each projected benefit payment should be reduced to reflect interest prior to its payment. This process is called 'discounting' and the interest (or investment return) allowed for is called the 'discount rate'. The higher the discount rate, the lower the value of the liabilities and hence the higher the Fund's funding level.

There are a number of different approaches which can be adopted in deriving the discount rate to be used, and the approach that is most appropriate will depend on the purpose of the valuation, the overall funding objectives and the risk appetite of the administering authority.

As outlined earlier in this document, we believe that the most appropriate starting point for a valuation that sets employer contribution rates is to consider the expected returns on the long-term investment strategy. We do this by grouping the various assets into broad classes, deriving an assumed return for each asset class and then working out the average based on the asset allocation between the groups.

When deriving the neutral returns for the asset classes, we will mainly be considering the return that can be achieved from passive investing. The rationale behind this is that any outperformance will then come through as "profit" rather than being anticipated in advance and there is also a practical reason which is simply that there is more information with which to make a robust assumption about future returns from passive investment across the entire asset class. The active/passive distinction is not straightforward for all asset classes but the above is the general principle.

We consider a neutral estimate of the assumed investment return for each asset class and then make an overall explicit adjustment for prudence to the discount rate assumption, which is the same as the approach taken in the 2016 valuation.

An appropriate level of prudence will depend on the risks being considered and in our review we have allowed for risks relating to volatility of asset returns and the administering authority's risk appetite.

Our starting point is the level of prudence agreed as part of the 2016 valuation.

Our approach is what could be called a "best-estimate minus" approach. While there are other approaches available (for example, setting discount rates relative to gilt yields), we believe that this approach is the most appropriate starting point for the LGPS and the Fund in particular, as it has the following characteristics:

- The Fund has a significant allocation to growth assets
- The Fund is open to new entrants
- The employers are able to absorb volatility inherent in growth assets; and
- The stability of the disclosed funding objective is an important issue.

Consistency and Section 13 considerations

The discount rate is certainly an assumption where there is justification for variance between funds due to different investment strategies or different attitudes to risk leading to different levels of prudence in the assumption.

The discount rate used to provide results to the Scheme Advisory Board (SAB) on a standardised set of assumptions has not been confirmed, but we suspect it will be equal to the "SCAPE" rate used for unfunded schemes which was recently revised from CPI plus 2.8% p.a. to CPI plus 2.4% p.a. In theory this should have no impact on the discount rates used in the funded LGPS. However, the lower

SCAPE rate is likely to have some bearing on the assumptions used by the Government Actuary's Department (GAD) for carrying out the Section 13 analysis for the 2019 valuation (i.e. they are likely to use lower discount rates in their analysis) and so it is arguably another factor to consider when choosing a discount rate for the funding valuation.

The risk of course is that that making significant changes to the discount rate assumption might lead to an unduly pessimistic discount rate which can cause issues for individual employers through contributions becoming unaffordable and so an appropriate balance needs to be found.

Asset types

For the purposes of this document we have considered the Fund's long-term investment strategy. We propose grouping the assets into the following types which we believe allows for sufficient flexibility and accuracy:

- Equities
- Property
- Absolute return i.e. Cash plus
- Absolute return i.e. Inflation plus

Where the assets do not have a widely-published objective market-based indicator of future returns, then we consider the characteristics and benchmark of each fund's investment in these asset classes to derive an assumption that we believe is appropriate and this is usually based on building up from the returns derived for simpler asset classes.

Our proposed neutral returns for these asset classes are set out below. We are aiming to propose consistent derivation methods between funds to help with the consistency objective but we are happy to consider changes to these, particularly if they can be locally justified.

Equities

Model

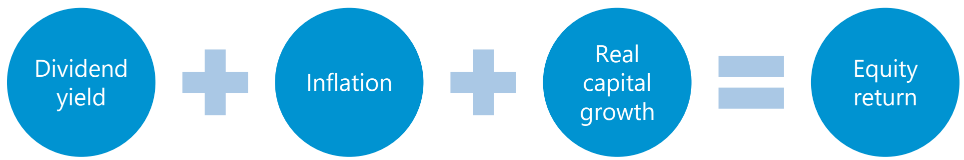
Unlike the previous asset classes, there is no direct market indicator of future equity returns and so some degree of judgement is required.

Given the extra risk and volatility from investing in equities compared to most other asset classes, it is reasonable to assume that long-term expected returns for equities will be higher than the other asset classes.

When setting this assumption, we take a cashflow-based approach and consider the return on a portfolio of equities as being equal to the dividends paid on these shares plus the growth in the value of the shares.

We also assume that the growth in the value of the equities will, over the long-term, be in excess of and linked to inflation i.e. if we assume that prices are going to increase at a faster/slower rate, we assume that there will be a corresponding change to equity values.

This means that our assumption is:



Finally, we compare the equity return assumption suggested by this model to other asset returns and to independent forecasts.

Region

We understand that the Fund's equity holdings are predominantly global. Ideally, the model would therefore incorporate global factors (appropriately weighted between the different markets and allowing for any currency hedging).

Previously we effectively used the UK model as a proxy for global equities and this gave similar long-term returns at 31 March 2016. However, the proportion of corporate earnings paid as dividends in the FTSE All-Share is currently at its highest level since 1993 and so we are concerned that this might be overstating longer-term dividend streams. Therefore, as discussed below, we propose to use global indicators. In our opinion, this should give a more appropriate view for the Fund's future equity performance.

We are conscious of the current and potential volatility in UK markets due to Brexit and as a result, we will be carrying out further regular reviews to check whether we believe that the model is still appropriate for future use or whether any adjustments are needed. This will be for the purpose of monitoring funding levels and future valuations rather than directly affecting the 2019 valuation.

Dividend yield

One of the effects of including the dividend yield in the equity return assumption is when equity values fall (so that the asset value falls) the dividend yield increases so the overall equity return and discount rate assumptions increase. Effectively, we assume that at least some of the fall in the asset value will be recovered in future i.e. the value of the assets that we need now to pay the accrued benefits (the liabilities) in future also falls. This also works the other way too (i.e. if there is an asset bubble, future assumed returns fall under our model) so this approach gives some automatic stabilisation when there are market shocks. This does mean that in the current climate where equity values have recently fallen, our equity return model gives higher assumptions than might be obtained from other models.

When the dividend yield increases in this way, it triggers a review whereby we consider whether under current market conditions we believe our model is still sufficiently robust, i.e. does it still give long-term assumptions that we are comfortable with and that are reasonable for the purposes of setting employers' contribution rates. As discussed above, we are concerned the dividend yield on the FTSE-All Share may be overstating longer-term dividend streams.

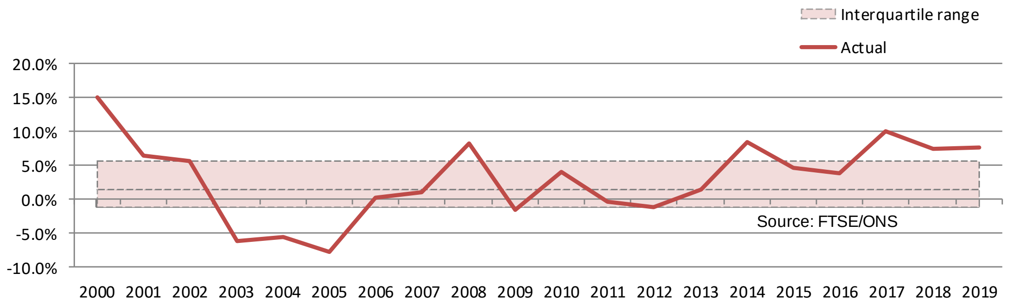
Therefore, as discussed above, we propose to use the FTSE All-World dividend yield which in our opinion should give a more balanced view of longer-term dividend streams, particularly given the Fund is predominantly invested in global equities. We believe this provides a long-term assumption for equity returns that are reasonable for setting employers' contribution rates.

Real capital growth

The other building blocks for determining the equity assumption are the real capital growth assumption. At the last valuation, this was 1.2% for the neutral assessment of the real capital growth in relation to CPI i.e. the equity assumption was equal to the dividend yield plus the CPI assumption plus 1.2%.

As we have used a global dividend yield and a UK inflation assumption, it follows that our real capital growth assumption is global capital growth in relation to UK inflation. The next chart shows the capital growth from global equities based on the FTSE All-World index, relative to CPI, since the turn of the century, together with the inter-quartile range (i.e. the range of observations that account for 50% of all observations around the median).

Global equity returns from capital growth only, net of CPI - Rolling 5 Year Averages (% p.a.)



As we can see, equity capital returns are very volatile. The median value, observing the data since 2000, was around 1.5% p.a. above CPI, although there have been prolonged periods when the returns have been significantly different.

We believe therefore that a suitable neutral assumption for the capital growth assumption (in relation to CPI) is 1.5% p.a.

Equity assumption

Using the 2016 model, updated for known market conditions and changes in the RPI/CPI gap, would give an illustrative neutral equity assumption of 8.1% p.a. (derived below).

Dividend yield = 4.3% + Inflation = 2.6% + Real capital growth = 1.2% = Equity return = 8.1%

Updating the dividend yield to be based on the FTSE All-World index and a global real capital growth assumption of 1.5% p.a. would give a neutral equity assumption of 6.7% p.a. at 31 March 2019 (derived below).

Dividend yield = 2.6% + Inflation = 2.6% + Real capital growth = 1.5% = Equity return = 6.7%

As a comparison, this equates to an assumption equal to the gilt yield plus 5.0% p.a. While this could be argued as being high in relation to gilt yields (which in theory is the risk-free rate of return available), current gilt yields are low in a historical context and there are arguments that the underlying risk-free rate of return is understated by the current long-term gilt yield.

Property

Property would intuitively be expected to give long-term returns somewhere between those on gilts and equities (probably closer to equities). Further, the ability to review rents might mean there is some inflation linkage. At the 2016 valuation we derived the neutral assumption for property to be the CPI assumption plus 3.5% p.a.

We would propose to maintain this assumption at the 2019 assumption, which would lead to a neutral property assumption of 3.7% p.a.

Cash

The Fund always needs to hold cash in order to pay benefits although it might also hold it for tactical reasons. Previously we used the smoothed Merrill Lynch 20 year London Inter-bank Offered Rate (LIBOR) swap curve point. It can be argued that 20 year time horizon is too long for short-term holdings in cash. In addition, LIBOR is to be discontinued by the FRC from 2021 and Sterling Overnight Interbank Average Rate (SONIA) will replace it as the reference rate for swap transactions.

We would propose to use the current Bank of England base rate of 0.75% p.a. for simplicity.

Absolute return/others

For those assets held in absolute or total return funds we have assumed a return based on the benchmark targeted by these funds.

Based on information provided to us by the administering authority, we understand the Fund's long-term investment strategy includes investments in funds targeting CPI Inflation plus 3.5% and 3 month LIBOR plus 4%.

Our proposed long-term return on absolute return funds is therefore 6.1% p.a. and 4.8% p.a., respectively.

Expenses

To allow for administration, oversight and governance expenses at the 31 March 2016 valuation we included an overall deduction of 0.2% in the discount rate (as the average of the three preceding years expenses as a percentage of the whole Fund asset value). To allow for (passive) investment management expenses, we included a further deduction of 0.1% in the discount rate. In practice, this figure might be higher due to the use of active management but the aim is to more than cover these additional expenses by achieving excess returns.

The administration, oversight and governance expenses accounted for 0.1% of the whole Fund asset value in 2016/17, 0.1% of the whole Fund asset value in 2017/18 and 0.1% of the whole Fund asset value in 2018/19. We therefore propose to maintain our expenses assumption at 0.2%.

Therefore our total expenses allowance would be a deduction of 0.2% to the discount rate.

Allowance for prudence

Based on the methodology described above, the derivation of the above investment return assumptions would result in a neutral estimate – in other words assumptions that produce returns that are not overly pessimistic or optimistic.

Where there is greater uncertainty in a particular assumption, such as the discount rate (i.e. investment return assumption) the recommended assumption should include a margin for prudence. We feel that it is appropriate to include a prudence margin into the discount rate assumption to reflect this uncertainty.

Ultimately, the adjustment to allow for prudence is a subjective one, having considered:

- Views on the ability of employers to pay more later if required (the employer covenant)
- Attitude to risk and risk appetite of the administering authority
- Levels of volatility in the assumed asset returns
- Consistency of the prudence margin with the previous valuation

The discount rate in real terms should also be considered in light of the SAB standardised comparative basis and estimate of the Section 13 basis that will be set by GAD.

The prudence allowance adopted at the 2016 valuation was 0.7% p.a.

A higher level of prudence places less reliance on investment return. More prudent assumptions would usually lead to higher contributions, at least initially, and then if assets delivered good returns, any deficit could either be funded over a shorter period or contributions could decrease.

We propose to reduce the current margin for prudence to 0.5% p.a. as this results in a suitably prudent nominal long term return of 5.0% p.a.

For the purposes of these illustrative assumptions, we have considered a prudence allowance of 0.5% p.a.

Combining returns

The principle behind setting the discount rate is that it reflects the actual investment strategy of the Fund so that we take the above base assumptions and combine them to get an overall discount rate. In doing this we can consider the current asset allocation or an allocation that reflects the long-term strategy. It is usually our preference to reflect the long-term strategy, where known.

We have requested information from the administering authority on the long-term investment strategy of the Fund and this is set out below, alongside the broad grouping that each asset class has been allocated to.

Asset class	Benchmark
Equities	45.0%
Property	5.0%
Absolute return fund - 3 month LIBOR plus 4% p.a.	40.0%
Absolute return fund - inflation plus 2.5%	10.0%

Therefore our discount rate assumption is calculated as follows:

Asset class	2019 allocation	Neutral assumption (p.a.)
Equities	45.0%	6.7%
Property	5.0%	3.7%
Absolute return fund - 3 month LIBOR plus 4% p.a.	40.0%	4.8%
Absolute return fund - inflation plus 2.5% p.a.	10.0%	6.1%
Less expenses		0.2%
Neutral return		**5.5%**
Less prudence adj.		0.5%
Prudent discount rate assumption		**5.0%**
Relative to CPI		**2.4%**

At 31 March 2016, the discount rate used was 5.4% p.a. (CPI + 3.0%). We have then re-assessed the discount rate as part of this paper and our proposed assumption is 5.0% p.a. (CPI + 2.4%). This is lower due to a higher assumed gap between RPI and CPI, and a switch to global indicators for the future equity assumption.

We can also compare this discount rate to the "SCAPE" rate used for unfunded schemes which is likely to have some bearing on the discount rate used by GAD for carrying out the Section 13 analysis for the 2019 valuation. At the 2016 valuation, the discount rate was equal to CPI plus 3.0% p.a., which compared to a SCAPE rate of CPI plus 3.0% p.a. (which was subsequently reduced to CPI plus 2.8%). Although the discount rate was higher than the SCAPE rate at the time, GAD did not flag the Fund for having too high a discount rate which means that the discount rate was within acceptable bounds in GAD's analysis.

The SCAPE rate is now CPI plus 2.4% p.a. and we can reasonably expect that this will lead to a reduction in the acceptable discount rate bounds within GAD's analysis. Our proposal matches the SCAPE rate and we therefore believe that this is sensible to reduce the probability that the Fund will be flagged within GAD's Section 13 analysis for the 2019 valuation.

Mortality assumption

Post-retirement mortality

The key demographic assumption required for determining the pension liabilities is the post-retirement mortality assumption.

The Fund should review their post-retirement mortality assumptions at each valuation, taking into account all available evidence, to ensure they remain appropriate for the Fund.

There are two aspects to consider in determining appropriate post-retirement mortality assumptions:

- choosing an appropriate mortality assumption applicable today taking into account characteristics of the Fund members; and
- making an appropriate allowance for moirtality to improve in future.

The administering authority has asked Barnett Waddingham's Longevity team to do an analysis of their Fund's membership.

Using the results of the analysis we set out in the table below our recommended assumptions for the mortality base tables to be used and we include the 2016 assumptions for comparison:

Post-retirement mortality base tables	Proposed assumption	Previous assumption
Post-retirement mortality: member		
	Male / Female	Male / Female
Base table	S3PA	S2PA
Multiplier	110% / 105%	120% / 85%
Post-retirement mortality: dependant		
	Male / Female	Male / Female
Base table	S3DMA / S3DFA	S2PA
Multiplier	70% / 85%	120% / 85%

Mortality improvements

The terms 'mortality improvement' and 'rate of improvement' both refer to the amount by which the probability of death decreases for a particular age group from one year to the next. The average rate of mortality improvement in the UK over the last century has been around 1.25% pa. This rate accelerated rapidly during the 1980s and 1990s, and the average rate which applied over the period 2000 to 2011 was 2.4% p.a. before falling to 0.5% p.a. for males and 0.1% p.a. for females over the period 2011 to 2017.

However, it should be noted that the mortality improvements for members of self-administered pension schemes have been higher than those of the general population over the period from 2008 by just over 1% p.a. on average and we comment on this further below.

Model

At the previous valuation, allowance was made for mortality to improve in future using a model developed by the CMI. This allows for recent improvements based on actual observed trends before converging to a long-term rate of improvement over a period of around 40 years. At the 2016 valuation we used the CMI 2015 projections model. The model is updated annually by the CMI to take into account the latest available data.

The CMI_2018 model was released on 7 March 2019. The latest version continues the post-2011 trend of low improvements and subsequent falls in projected life expectancies – in particular, there were nil improvements in mortality over 2018.

The model has two elements which users can amend to vary how recent improvements are assumed to converge to the chosen long-term trend. We have included further discussion on both of these elements below.

The first variable element is the **smoothing parameter** to the model, which allows the user to adjust how much credibility is placed on the most recent mortality data, which in recent years has shown lower improvement rates than previously. All else being equal a lower smoothing parameter will therefore lead to lower life expectancies and liability values as this places more weight on recent data. However, following the release of CMI 2018 there have been reports of slightly better mortality improvements in more recent data so we propose to increase the smoothing parameter to put less weight on the lower improvements reported in CMI 2018. The CMI published a default value of 7 and we propose a value of 7.5 is adopted for the valuation.

The second variable element is the **initial addition to mortality improvements parameter** which allows the user to define the extent to which recent improvements observed in the general population will be representative of recent experience of the Fund. The CMI model is based on data for the whole of the England and Wales population (rather than pension scheme data which is the case for the S3 series base tables). The CMI have published some analysis of how recent mortality improvements in the general England and Wales population have varied by socio-economic status. This has shown that while there has been a slowdown in improvements across the whole population, this has mainly been experienced by lower socio-economic groups and the higher socio-economic groups have not been affected as strongly. In particular, the improvements in the SAPS population between 2008 and 2016 have been just over 1% p.a. higher than for the general population, possibly reflecting that pension scheme members tend to come from higher socio-economic groups on average.

The Barnett Waddingham Longevity team have carried out an analysis of the improvements observed over our LGPS client base. On the basis of this analysis, we propose a parameter of 0.5%. More detail on the reasoning for this change can be found in the longevity analysis report but in general a higher initial addition parameter will increase the value of the liabilities.

We therefore, currently, plan to adopt the 2018 version of the CMI model with the adjustment to the smoothing parameter and initial addition as mentioned above.

Long-term rate of mortality improvements

As well as choosing to use the CMI model, we need to specify the long-term rate of mortality improvement. The Fund used a long-term improvement of 1.5% p.a. at the 2016 valuation, as did most LGPS funds.

This is a particularly subjective assumption as it is asking users to make a judgement about what mortality improvements rates may be far into the future. It depends on factors such as improvements in medical technology and societal behaviours so it crosses a range of disciplines. The average rate of mortality improvement in the UK over the last thirty years has been around 2% and although, as discussed earlier, there is evidence that this has been slowing down over recent years this is less pronounced for members of pension schemes.

From survey information from the Pensions Regulator, we understand around 70% of private sector pension schemes adopt an assumption of 1.5% p.a. Most private sector pension schemes include an allowance for prudence in their long-term rate of mortality improvement assumption and therefore there is an argument that a best estimate assumption would be lower than this. As we aim to include prudence in the discount rate only, **we propose to decrease the long-term rate of improvement used in the model to 1.25% p.a.**

Sensitivity of the mortality assumption

To help understand the sensitivity of the results to the change in mortality assumption we have set out in the table below some illustrative average life expectancies on a number of bases in order to illustrative the effect of changing both the base table adjustment and the improvement model. We have set out life expectancies at 65 for males and females who are 65 now, and 65 in 20 years' time (i.e. age 45 now):

Life expectancy at age 65 (in years)	Proposed assumption	Previous assumption with updated base table	Previous assumption
Male currently aged 65	21.7	22.2	24.6
Female currently aged 65	24.3	25.0	26.2
Male currently aged 45	23.1	24.4	26.9
Female currently aged 45	25.8	27.2	28.5

As we can see, the change in the mortality projection assumption approximately represents a drop in projected life expectancies (from age 65) of around 3% for current 65 year olds and 6% for current 45 year olds (i.e. a very significant drop, reflecting recent data). The impact of this will be to reduce the value placed on the liabilities. However, it should be noted that the impact varies across the ages.

Other statistical assumptions

We also need to consider the retirement age assumptions as well as pre-retirement assumptions such as withdrawals and transfers out. As previously mentioned, we propose to incorporate all margins for prudence in our financial assumptions and therefore the assumptions detailed in this section will be used in both our neutral and funding basis proposals.

Retirement ages

Members can be subject to multiple retirement age regimes in the LGPS. At the last valuation, we assumed that members would retire at the average age that their various tranches of benefit are payable from. For example, if a member has a large amount of pension payable from age 60, it is likely to be financially advantageous for them to take their benefits closer to age 60 than to age 65 or later. However, if most of their benefit is payable from their State Pension Age and they only have a small amount of pension available without reduction at earlier ages, they are likely to retire later.

We have performed an analysis of retirement patterns using data covering the two years to 31 March 2018 for the LGPS funds that we advise (where data was made available). Over all the funds that we analysed and the Fund specifically, the analysis revealed that the assumption was not materially different to the actual experience of retiring members.

Therefore, for the 2016 valuation, we propose an assumption that members retire at the average of each tranche retirement age, weighted by pension, which is the same method assumed in 2016.

Transfer out decrement

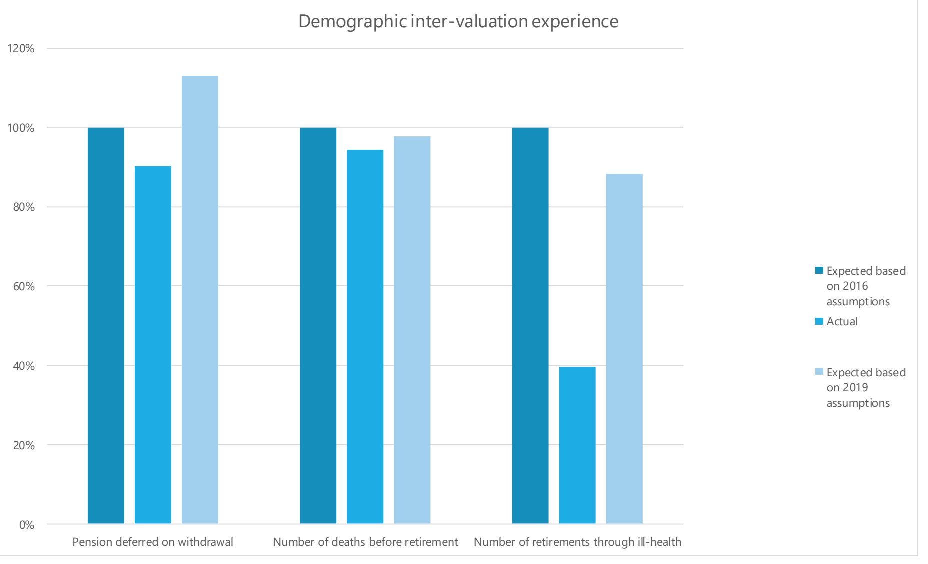
At the 2016 valuation, there was no allowance for transfers out in the funding basis.

However, the discount rate used for calculating transfer values in the public sector has now decreased to CPI plus 2.4% p.a., which was much lower than at the time of the initial analysis. Therefore, this leads to higher transfer values (both in and out), which in turn, may also lead to more transfer values out and so it is sensible to re-consider for the 2019 valuation. We have carried out an analysis of transfer out experience over our Funds and noted that current levels of transfers out are low and so we believe it is reasonable **to continue to assume no transfers out of the Fund**, particularly given the extra complexity adding a transfer out decrement into the basis would bring.

Pre-retirement decrements (withdrawals, ill-health retirement, death before retiremenet and salary scales)

At the 2016 valuation, we used assumptions that were equal to those assumed by GAD when they carried out their 2013 valuation of the LGPS for "dry-run" Section 13 purposes. The rationale for these was generally that it was in line with the most recent study of national LGPS experience that they had carried out.

GAD has since updated the experience analysis and tables used as part of their 2016 valuation of the LGPS for cost management purposes (currently draft at the time of writing). We have conducted analysis on withdrawals, ill-health retirements and death in service using data provided by our funds for the two years to 31 March 2018 (where that data is was available) and we have compared the actual experience with that assumed by the assumptions adopted at the 2016 valuation, and by the updated GAD assumptions.



We have no concerns about the goodness-of-fit for the withdrawal and death before retirement assumptions. The ill-health experience is discussed in the following section.

Ill-health experience

From the analysis we carried out, it appears recent ill-health experience has been significantly less than both GAD assumptions (around 60% less retirements than were assumed based on the 2016 assumptions and around 50% less retirements than assumed based on the updated assumptions).

GAD's own analysis of the overall LGPS experience in the three year period to 31 March 2016 also suggests a drop in numbers of ill-health retirements compared to the assumptions used for their 2013 valuation of the LGPS. GAD's updated assumption takes into account the six years of experience from 2010 to 2016 (and therefore recent experience is smoothed out with earlier data).

We believe it would be appropriate to allow for 50% fewer retirements than the GAD assumption in the funding basis. We have provided some sensitivity analysis which allows for GAD's assumption in full.

Salary scale

As discussed in the "Salary Increase" section, we propose to remove our salary scale assumption and include promotional increases within our general salary increase assumption.

Death before retirement

As part of their analysis, the BW specialist longevity team have also reviewed the mortality experience of the Fund before retirement and how it compared to the GAD table. They suggest a rating of 100% (males) and 102% (females) of the GAD tables. We propose rounding this to 100% in our initial results.

Therefore, we plan to adopt the updated GAD assumptions used as part of their 2016 valuation of the LGPS for cost management purposes, with the exception of the salary scale assumption, which we propose to remove (incorporating promotional increases within the general salary increase assumption), and the ill-health incidence, where we propose to reduce GAD's assumption by 50%.

50:50 membership

Some active members may elect to reduce their accrual rate in return for paying lower contributions. Actual take-up of this has been very low (initial analysis of our funds' data suggests around 0.5% of active members). We are aware of the working being undertaken by SAB to encourage take up of membership in the 50:50 scheme but at the moment we do not consider there to be enough evidence to change our assumption from that used in 2016.

We will assume that members will continue to participate in their current section and this is the same assumption that was used in 2016.

Commutation

At the 2016 valuation, we assumed that members would, on average, exchange pension to get 50% of the maximum available cash on retirement.

We have performed an analysis using the data for the two years to 31 March 2018 for the LGPS funds that we advise (where data was made available). **The analysis suggested that 50% continues to be an appropriate assumption for the LGPS funds we advise** and the Fund experience was not materially different. We will revisit this analysis later in the year when we have data from more funds available.

Family statistics

At the 2016 valuation, we assumed that 75% of males and 70% of females have an eligible dependant at retirement or earlier death. This was based on ONS projections to 2023 (published as at 2014). The ONS published a snapshot of population data in 2017 for married or cohabiting partners and this appears broadly in line with the assumption made at the 2016 valuation so **we propose to maintain this for the 2019 valuation.**

Age difference of spouse

This assumption tends to be relatively insignificant from a financial perspective and we suggest the existing assumption that husbands are, on average, three years older than their partners is maintained.

Allowance for discretionary benefits

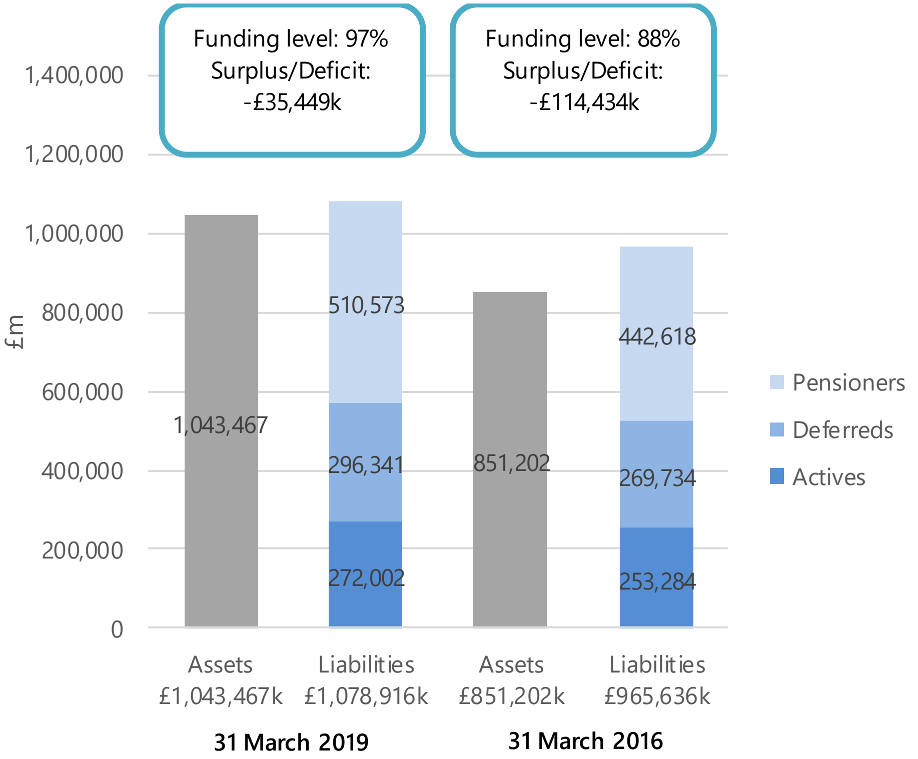
Employers in the Fund are able to award certain discretionary benefits to their employees including unreduced early retirements. We are not aware of any previous practice or existing policy regarding the granting of discretionary benefits and therefore we propose to make no allowance for discretionary benefits to be awarded. This is the same assumption as in the previous valuation.

2019 estimated funding position

There was a deficit of £35,449,000 in the Fund at the valuation date, corresponding to a funding level of 97%.

Shortfall between assets and liabilities

Using the proposed assumptions the results of the valuation are set out in the table below. We have included the funding position at the previous valuation for comparison:



Previous valuation

The previous valuation was carried out as at 31 March 2016 by Graeme Muir. The results are summarised in the valuation report dated 31 March 2017 and revealed a deficit of £114,434,000.

The contributions payable by each employer were set out in the valuation report dated 31 March 2017. These contribution rates differ for each employer from the rate above as they are based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

The method and assumptions used for the previous valuation are set out in the Funding Strategy Statement and the final valuation report dated 31 March 2017.

Results on other bases

We set out valuation results on the neutral basis, the standardised basis and the minimum risk basis in Appendix 3 .

Reconciliation to the previous valuation

The results of the previous valuation are summarised in the report dated 31 March 2016 and show a funding level of 88% corresponding to a deficit of £114,434,000. The change in the funding position over the intervaluation period will mainly depend on the answers to the following three questions:

- What were **asset returns** for the intervaluation period to 31 March 2019?
- How have the **key assumptions** changed over the intervaluation period?
- How has actual **experience compared** to the assumptions made at the previous valuation?

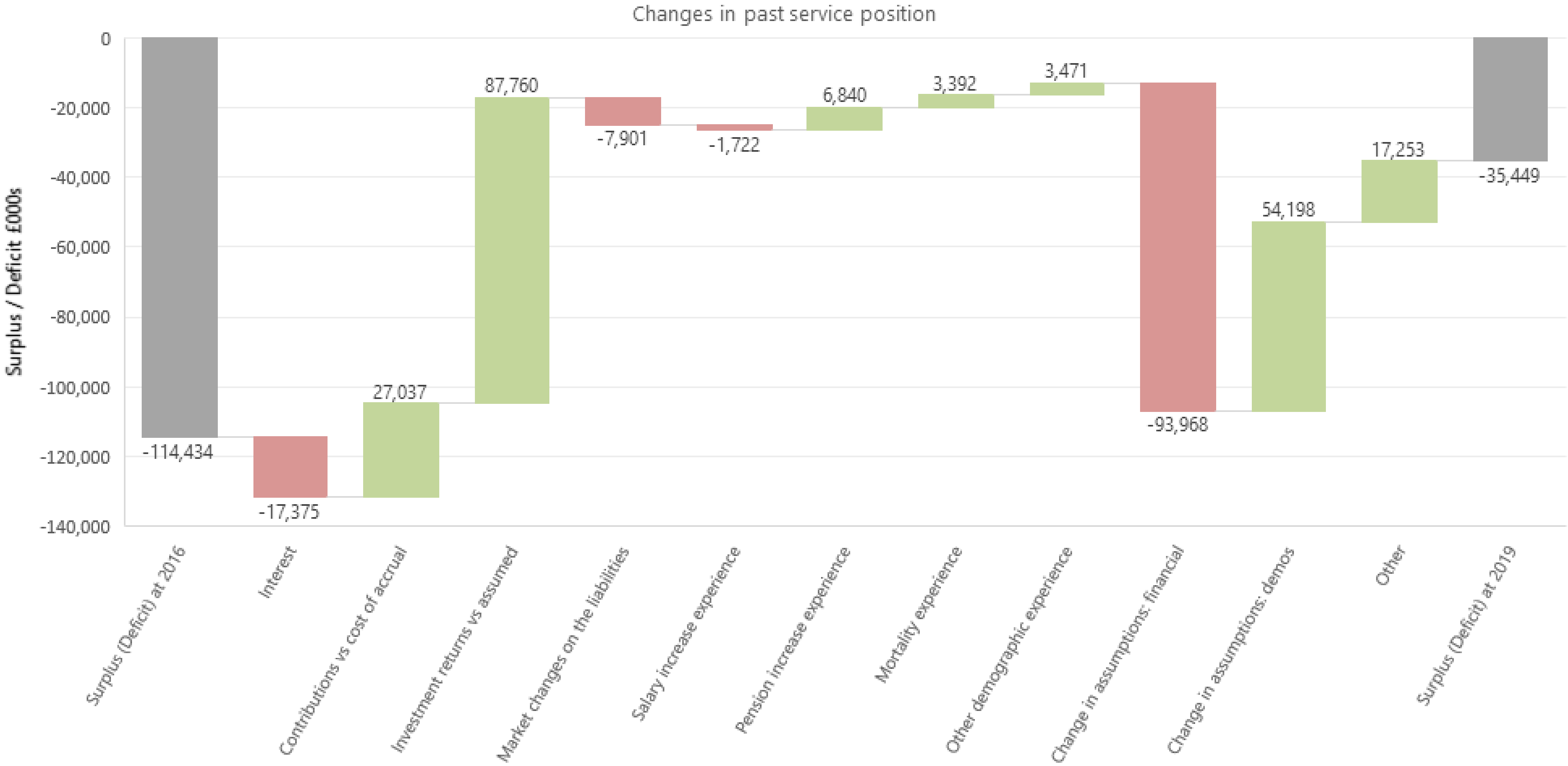
The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.

Experience

- Investment returns have been strong since 2016 leading to a profit of £87.8m. The Fund has returned over 8.4% p.a. compared to the assumed return of 5.4% p.a. over the three year period. Please note that the assumed return is a long-term assumption.
- Contributions paid were higher than the cost of benefits accrued as the employers made deficit contributions resulting in a profit of £27.0m.
- Salary increases were greater than assumed with some offset from pension increases being less than assumed resulting in a loss of £1.7m. The overall impact of other demographic experience was neutral.
- The "Other" item is mainly a result of ongoing transfers to and from the Fund that have not been settled as yet as well as improvements in the membership data quality since 2016.

Assumptions

- A review of the approach when setting the financial assumptions combined with the change in market conditions resulting in an increase in the liabilities of £86.1m
- Updating the mortality assumptions to allow for a fall in future life expectancies resulting in a decrease in the liabilities of £54.2m


Changes in past service position
Surplus / Deficit £000s
0
-20,000
-40,000
-60,000
-80,000
-100,000
-120,000
-140,000
-114,434
-17,375
27,037
87,760
-7,901
-1,722
6,840
3,392
3,471
-93,968
54,198
17,253
-35,449
Surplus (Deficit) at 2016
Interest
Contributions vs cost of accrual
Investment returns vs assumed
Market changes on the liabilities
Salary increase experience
Pension increase experience
Mortality experience
Other demographic experience
Change in assumptions: financial
Change in assumptions: demos
Other
Surplus (Deficit) at 2019

Contribution rates

The total contribution rate payable by employers consists of two elements: the primary rate and the secondary rate.

We are not able to give an indication of the secondary contributions payable by each employer at this stage as these depend on the funding strategy, assumptions and employer flexibilities that are yet to be agreed.

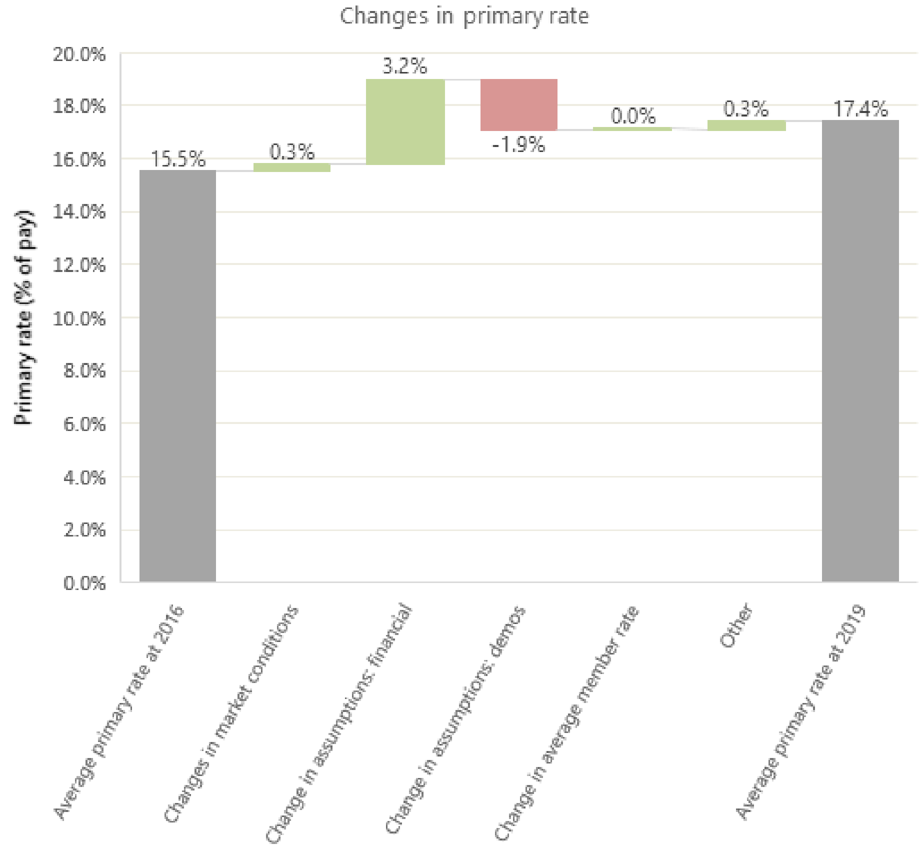
Primary rate

Using the proposed assumptions the resulting average primary rate across the whole Fund is set out in the table below after allowing for member contributions.

Primary rate	Proposed basis 31 March 2019 % of payroll p.a.	Previous valuation 31 March 2016 % of payroll p.a.
Average total future service rate	24.4%	22.5%
Less average member rate	-7.0%	-7.0%
Fund primary rate	**17.4%**	**15.5%**

Expenses are dealt with in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

This compares to the average primary rate of 15.5% of Pensionable Pay as calculated in the 2016 valuation. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Contributions should be set to restore the funding positions to 100% over an agreed "recovery period".

At 31 March 2016 there was a deficit in the Fund and the secondary contributions were agreed with individual employers in order to restore the Fund to a funding position of 100% by 31 March 2038. Please note that the recovery period for individual employers varied across the Fund.

As noted earlier, we are not able to give an indication of the secondary contributions payable by each employer at this stage as these depend on the funding strategy, assumptions and employer flexibilities that are yet to be agreed.

Although it depends on the final assumptions adopted, there is likely to be a shortfall between the value of the assets and the assumed cost of providing the benefits for some of the participating employers in the Fund. The change in an individual employer's funding position will be based on their own membership and experience unless they are in a pooled arrangement with other employers.

The administering authority will need to agree recovery periods with these employers to address these shortfalls. There are a number of issues for the administering authority to consider when agreeing recovery periods with individual employers including strength of employer covenant and affordability as well as considering external pressures as a result of the Section 13 report.

Following agreement of the funding assumptions, the administering authority will have access to the online employer rate modeler, *Illuminate ME*, to demonstrate different recovery periods for all employers before these are agreed with us as the Fund Actuary.

Section 13

It is important to consider the possible results of the Section 13 report when setting a recovery plan as this is the area where the report can flag that a Fund has not met the requirements to secure solvency of the pension fund.

It is almost certain that we will not know the assumptions and tests that GAD will use for Section 13 purposes at 2019 , but we do not think that it is likely that it will be more prudent than the Scheme Advisory Board's standardised basis.

We understand that GAD are particularly keen to see recovery periods reducing from one valuation to the next, where possible.

Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the chart below and the corresponding risks are described in Appendix 4.

The figures in the table are shown relative to the deficit of £35,449,000 and funding level of 97% on the proposed funding basis. The data labels on each bar show the absolute change in deficit.

Sensitivity analysis - Past service funding position

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	£000	£000	£000	£000	£000	£000	£000
Smoothed asset value	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467	1,043,467
Total past service liabilities	1,078,916	1,095,516	1,086,383	1,085,114	1,087,419	1,091,034	1,082,298
Surplus (Deficit)	**-35,449**	**-52,049**	**-42,916**	**-41,647**	**-43,952**	**-47,567**	**-38,831**
Funding level	97%	95%	96%	96%	96%	96%	96%

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below.

The figures in the table are shown relative to the primary rate of 17.4% of Pensionable Pay on the proposed funding basis.

Sensitivity analysis - Primary rate

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay
Total future service rate	24.4%	24.9%	24.6%	24.5%	24.6%	24.6%	25.1%
less employee contribution rate	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%
Total primary rate	**17.4%**	**17.9%**	**17.6%**	**17.5%**	**17.6%**	**17.6%**	**18.1%**

Next steps

Funding discussions and alternative results

This document has been provided as background information to the triennial valuation of the Fund and detailed information regarding the funding model and the assumptions proposed along with the initial results on the proposed basis.

The approach to the assumptions and the initial results will then be discussed with the Fund and a set of proposed assumptions will be agreed.

Risks

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund can be found in Appendix 4.

Employer covenant review

The Fund has previously undertaken an objective assessment of the participating employers' financial positions and their ability to meet the required contribution rates (the "employer covenant"). This may be updated and the results used to influence the recovery period used for the participating employers.

Funding Strategy Statement

Once agreed, the assumptions used for the valuation must be documented in a revised Funding Strategy Statement to be agreed between the Fund Actuary and the administering authority. We will help the Fund to prepare the Funding Strategy Statement following discussion of the initial results between the Fund and the employers and using the latest guidance issued by CIPFA.

Rates and Adjustments Certificate

Employers each pay their own primary contribution rate to Fund to cover the cost of benefit accrual. Where an employer has a shortfall between the value of assets and assumed cost of providing the accrued benefits (a deficit), the administering authority will set a recovery plan, in consultation with the employer, to address this shortfall through a secondary contribution. Employers in surplus may also have a secondary rate adjustment.

The contributions payable in respect of benefit accrual and any deficit contributions under the recovery plan must be set out in a Rates and Adjustments Certificate issued in accordance with Regulation 62 of the Regulations. In this certificate no allowance will be made for additional costs arising which need to be met by additional contributions by the employer such as non-ill health early retirements.

Before it becomes effective, we must certify that the Rates and Adjustments Certificate is sufficient to ensure that the funding target is met and a funding level of 100% of liabilities in maintained by the end of the recovery period. For this purpose, the certificate should be based on the position at the valuation date.

Once the final assumptions are agreed we propose to use our online employer rate modeler, *Illuminate ME* to provide illustrations of alternative recovery scenarios to help the administering authority agree appropriate recovery plans with the participating employers.

Final valuation report and certificate of contributions

Following agreement of the final assumptions and the contributions to be paid, we will prepare a formal report on the valuation which will include a certificate setting out the contribution rates for all employers in the Fund for the period from 1 April 2020 to 31 March 2023. The report will be completed by 31 March 2020 and must be made available to members on request.

Barry McKay

Barry McKay FFA
Partner
Barnett Waddingham LLP

Appendix 1 Summary of membership data and benefits

Membership data

The membership data has been provided to us by the administering authority on behalf of the Fund's administrators. We have relied on information supplied by the administering authority being accurate. A summary of the membership data is included below and data from the previous valuation is also shown for comparison.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. Any missing or inconsistent data has been estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. The 2019 average ages are weighted by liability calculated on the proposed funding basis, while the 2016 average ages are unweighted.

Active members

	31 March 2019			31 March 2016		
	Number	Pensionable pay £000s	Average age	Number	Pensionable pay £000s	Average age
Males	1,206	41,695	55	1,351	40,889	48
Females	2,424	57,423	54	2,597	52,762	47
Total	3,630	99,118	55	3,948	93,650	47

Deferred members (including undecided)

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,589	7,928	54	2,491	7,403	49
Females	5,184	10,392	53	4,484	8,982	48
Total	7,773	18,320	53	6,975	16,384	48

Pensioner and dependant members

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,094	18,072	68	2,164	16,884	70
Females	2,901	16,000	68	2,367	12,680	71
Total	4,995	34,071	68	4,531	29,563	71

Benefits

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Allowance for GMP equalisation

On 26 October 2018 the judgement was published for the Lloyd's Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc & Ors on how their Guaranteed Minimum Pensions (GMPs) should be equalised. However, HMT have confirmed that the GMP judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes", which is set out here:

https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

The assumption made at the 2016 valuation was that funds pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase and that funds will be required to pay the full indexation on GMPs for those attaining State Pension Age after 6 April 2016. This effectively assumes that the Government extends their current policy indefinitely and we believe this is a sensible approach to making an interim allowance for GMP equalisation.

Therefore we are not anticipating any change in our approach to valuing GMP in the 2019 valuation unless there is further guidance released for public service schemes.

Appendix 2 Summary of assumptions

In this Appendix we have summarised the assumptions at 31 March 2019 that we propose to use for the 2019 valuation. The assumptions used in the previous valuation are also given below for comparison

Assumptions		Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
Financial assumptions			
Market date		31 March 2019	31 March 2016
CPI inflation		2.6% p.a.	2.4% p.a.
Salary increases			
	Short-term	n/a	CPI to 31 March 2020
	Long-term	3.6% p.a.	3.9% p.a.
Discount rate		5.0% p.a.	5.4% p.a.
Pension increases on GMP		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases	

Assumptions	Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
Demographic assumptions		
Post-retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Member mortality multiplier	110% / 105%	120% / 85%
Dependant base tables	S3DMA / S3DFA	S2PA
Dependant mortality multiplier	70% / 85%	120% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a
Retirement assumption	Weighted average of each tranche retirement age	
Pre-retirement decrements	GAD 2019 scheme valuation with no salary scale, 50% IH decrement	GAD 2013 scheme valuation
50:50 assumption	Member data	Member data
Commutation	50% of maximum	50% of maximum
% members with qualifying dependant	75% / 70%	75% / 70%
Age difference	Husbands are 3 years older	Husbands are 3 years older

Appendix 3 Results on other bases

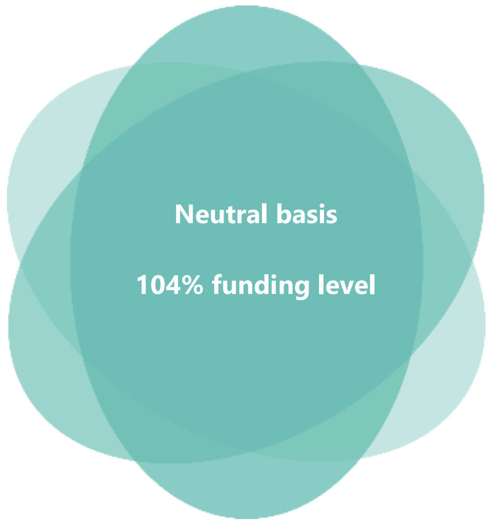
Neutral basis

The neutral basis is set with the main purpose of providing the administering authority an idea of the level of prudence contained within the funding basis. The neutral estimate should represent our best estimate of the funding position, in other words, we believe that it is equally likely that the fund will beat or miss the funding target based on the neutral assumptions derived. The neutral estimate does not contain any margins for prudence.

The funding basis includes an allowance for prudence in the discount rate assumption only. The discount rate on the neutral basis is therefore 5.9% p.a. as set out above. All other assumptions are the consistent with the proposed funding basis.

The results on the neutral basis as at 31 March 2019 are set out in the table below.

Past service funding position	Neutral basis 31 March 2019 £000s
Smoothed asset value	1,043,467
Past service liabilities	
Actives	247,749
Deferred pensioners	268,762
Pensioners	485,160
Total Liabilities	1,001,671
Surplus (Deficit)	**41,796**
Funding level	**104%**



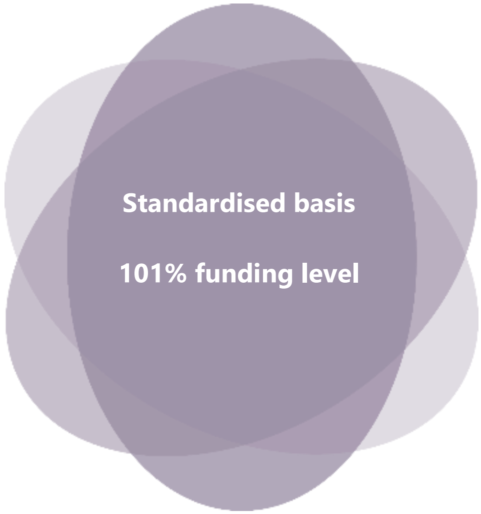
Standardised basis

As part of our calculations we have considered the results a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the Scheme Advisory Board with the results for the Fund for comparison purposes.

The standardised basis is set by GAD with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions).

The results on the standardised basis as at 31 March 2019 are set out in the table below.

Past service funding position	Standardised basis 31 March 2019 £000s
Smoothed asset value	1,043,467
Past service liabilities	
Actives	265,518
Deferred pensioners	272,786
Pensioners	499,918
Total Liabilities	1,038,222
Surplus (Deficit)	**5,245**
Funding level	**101%**



Appendix 4 Risks

Some of the key risks that could have a material impact on the funding position of the Fund are described below.

Employer covenant
Employers may be unable to meet their obligations. For example, on exiting the Fund, employers may be unable to fund cessation payments

Investment
Assumed returns may not be achieved in practice and further contributions may be required from the participating employers

Inflation
If the actual rate of inflation or salary increase is higher than assumed, further contributions may be required from the participating employers

Mortality
If members live longer than assumed, the cost of providing the benefits will increase

Member options
If members exercise options which result in a higher cost of benefits (e.g. unreduced early retirements) further contributions may be required from the participating employers

Orphan liability
If employers leave the Fund with insufficient assets to cover their pensions obligations then obligations could fall to the other employers

Further details on the key risks are set out below.

Employer covenant risk

In agreeing the Recovery Plan with each participating employer it is important that the administering authority considers the ability of the employer to make contributions to the Fund both now and in the future as well as their ability to meet any future cessation deficits as they fall due.

The administering authority should form an objective assessment of the strength of the employer covenant when deciding at what level to set the recovery period for each participating employer. The administering authority should also monitor the strength of the employer covenant over time, so that any sudden changes in the employer's position can be mitigated.

Investment risk

Allowance is made in the assumptions for the expected long-term performance of each asset class. There is a risk that these returns will not be achieved in practice, which would result in further contributions being required. Further, the value of the Fund's assets may not move in line with the Fund's liabilities – either because the Fund invests in volatile assets such as equities whose value might fall, or because the value of the liabilities has increased due to falling interest rates and the assets are not of sufficient duration to keep up (or a combination of these).

The administering authority should regularly review their investment strategy to ensure they understand the risks being taken and that those risks are being managed appropriately.

Inflation

In projecting the future benefit payments, assumptions are made regarding the future price inflation and future salary increases. There is a risk that the actual rate of inflation or salary increase will be higher than assumed which will increase the cost of providing the benefits. This would result in additional contributions being required and a deterioration in the funding position unless investment returns are similarly higher than expected.

Mortality

It is not possible to predict with any certainty how long members of the Fund will live, and if members live longer than expected, additional contributions will be required and the Fund's funding position will deteriorate.

Member options

There are also other demographic risks. Certain benefit options may be exercised by members without requiring the consent of the administering authority or the Employer, for example commutation of pension for cash at retirement or taking a transfer value. The value of the cash benefit is generally expected to be less than the value of the pension exchanged so the funding position would only deteriorate if fewer members than expected took this option. Individual transfer values can be higher or lower than the value of the valuation liabilities, depending on the particular member and market conditions.

Orphan liability

As many unrelated employers participate in the Fund there is an orphan liability risk where employers leave the Fund with insufficient assets to cover their pensions obligations so that the difference may fall on the remaining employers.

Section 13

Under Section 13 of the Public Service Pensions Act 2013, the Ministry of Housing, Communities and Local Government (MHCLG) is required to commission a report on the actuarial valuations of the LGPS funds, and this report is currently prepared by the Government Actuary's Department (GAD). The purpose of the "Section 13" report to is report on whether the following aims are achieved: compliance, consistency, solvency and long-term cost efficiency, and to identify any funds that cause concerns.

The report covering the 2016 round of valuations was published in September 2018 and made a number of recommendations. One of those recommendations stated that "the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG Minister in advance of the next valuation". If this recommendation is taken forward, this would clearly have a material impact on the ability of fund actuaries and administering authorities to set assumptions that they believe to be appropriate for their own fund.

There are good reasons why assumptions vary across funds. In particular, different investment strategies lead to different expected future returns, a fund's geographical region and membership profile has a significant impact on longevity assumptions and the fund's attitude to risk is factored into the discount rate through a transparent and bespoke level of prudence. Changes in assumptions will also only be made if considered appropriate in light of experience and other factors emerging since the previous valuation. We do not have a house view on assumptions. However, the external push towards consistency is another factor that we may need to consider in setting appropriate assumptions for the Fund and we will discuss consistency at various points in this document.

One "consistent" set of assumptions may be the set of assumptions that we are required to provide 2019 valuation results on to the LGPS Scheme Advisory Board (SAB) in order to aid comparison between funds. The assumptions used are a mixture of standardised and local demographic assumptions. We do not believe that these assumptions as a whole are appropriate for the funding of the Fund but they are a useful reference point.

Current regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation which we have set out below. At this stage we have made no allowance for any of these issues in the proposed assumptions advice as we are awaiting further guidance. However, we are keen to engage with the administering authority at an early stage to consider the approach to each of these issues as we go through the 2019 valuation process.

McCloud/Sargeant judgement and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the SAB in place and HMT allowed SAB put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders earlier this year and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the Government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

It is still unclear what this means for the LGPS. On 14 February 2019 the SAB released a series of Q&As and a question for administering authorities to consider how they should approach the 2019 valuation. There was an overwhelming majority of funds who wanted SAB to provide guidance in order to promote a consistent approach between the funds. This guidance should assist funds deciding with their actuary how to approach these potential benefit changes in the 2019 valuation and we would be happy to discuss this further once this guidance has been issued. This could potentially include backdating benefit changes to 1 April 2019.

On 14 May 2019, the SAB published an advice note covering the implications of McCloud and the cost cap in relation to the 2019 fund valuations. The note recommended that should there be no finalised outcome by 31 August 2019 then no changes should be made to the Scheme benefit design for valuation purposes, however each administering authority should consider how they approach the additional risks that these potential extra costs may pose. This would involve making employers aware of the potential for extra costs to arise, for example via the Fund's FSS. Once the outcome is known, it may be possible to revisit contributions through an interim valuation, subject to the outcome of the consultation regarding changes to the local valuation cycle.

GAD have carried out some calculations to estimate the impact that the McCloud judgement could have on local authority accounts as at 31 March 2019, which should provide assistance to administering authorities. However we would be happy to carry out some Fund specific calculations if that would be helpful.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national

Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Although this has no immediate effect on the local fund triennial valuation process as the 2019 valuation is going ahead as planned, MHCLG are considering the implications of also moving the local fund valuations to a quadrennial basis. We are currently awaiting the outcome of the consultation on this which closed on 31 July 2019 but at the moment we are unsure how many years of contributions we will need to certify as part of the 2019 valuation, as the next valuation could be delayed until 2024. As part of the consultation we were pleased to see a proposal enabling interim valuations as well as a requirement for funds to reassess funding positions and contribution rates prior to 2024 as we have concerns about the five year gap between valuations which have already been raised with MHCLG.

Other regulatory uncertainties

There are a number of other risks to the Fund and the LGPS in general, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the Government. This is particularly poignant following the implementation of investment pooling.
- The State Pension Age is due to be reviewed by the Government in the next few years.

London Borough of Hammersmith and Fulham Pension Fund

2019 actuarial valuation – Council results

Purpose and scope

We have been requested by the London Borough of Hammersmith and Fulham (the Council), the administering authority of the London Borough of Hammersmith and Fulham Pension Fund (the Fund), to prepare an executive summary of the whole fund valuation results and a summary of the 2019 actuarial valuation results attributable to the Council.

Whole Fund Results

Past service funding position

The following table summarises the funding position attributable to the Fund at 31 March 2019 and compares this with the position at 31 March 2016, the date of the last formal funding valuation.

Past service funding position	31 March 2019	31 March 2016
Assets	£1,044m	£851m
Liabilities	£1,079m	£966m
Surplus / (Deficit)	(£35m)	(£115m)
Funding level	97%	88%

Over the three years to 31 March 2019, investment returns have been very strong, averaging 8.4% p.a. This is higher than assumed at the last valuation (5.4% p.a.) and is the main reason for the increase in funding level, together with paying in additional contributions towards the deficit.

The liabilities have also increased as a result of members accruing more benefit over the 3 years, an assumed lower discount rate and higher future inflation. Future life expectancy improvements have reduced which has dampened the increase on the liabilities.

Proposed contribution rate

Revised contribution rates for all employers in the Fund will take effect from 1 April 2020 and will apply for the three years to 31 March 2023. As required by the LGPS Regulations, the contribution rate for each employer will be presented in two parts:

- Primary contribution rate. This is expressed as a percentage of pensionable pay and reflects the contributions required in order to fund the employer's share of the cost of benefits building up now and in the future (net of employee contributions).
- Secondary contribution rate. This is any percentage or amount by which the primary rate of contribution should be increased or decreased, most commonly in order to pay off any past service deficit which is attributable to the employer or to return an element of surplus to the employer.

The following table summarises the primary rate at whole Fund at 31 March 2019 and compares this with the primary rate at 31 March 2019.

Primary rate	Proposed basis 31 March 2019 % of payroll p.a.	Previous valuation 31 March 2016 % of payroll p.a.
Average total future service rate	24.4%	22.5%
Less average member rate	-7.0%	-7.0%
Fund primary rate	**17.4%**	**15.5%**

The primary rate has increased as a result of the increase in CPI inflation and the decrease in discount rate from 5.4% to 5.0% p.a. This increase has been offset to some extent by the lower assumed future improvements in life expectancy relative to the assumption made at 31 March 2016.

Council results

Past service funding position

The following table summarises the funding position attributable to the Council at 31 March 2019 and compares this with the position at 31 March 2016.

Past service funding position	31 March 2019	31 March 2016
Assets	£925m	£730m
Liabilities	£974m	£865m
Surplus / (Deficit)	(£49)	(£135m)
Funding level	95%	84%

The following table sets out the proposed revised contribution rate for the Council and compares it with the current level of contributions:

Contribution rate	From 1 April 2020	From 1 April 2019
Primary rate (% of pay/amount)	17.1% / £13.9m	15.3% / £11.9m
Secondary rate (% of pay/amount)	4.8% / £3.8m	11.3% / £8.6m
Total rate (% of pay/amount)	**21.9% / £17.7m**	**26.3% / £20.5m**

As can be seen, the primary contribution rate has increased since the last valuation. This is mainly due to changes in assumptions underlying our valuation, in particular because of a lower level of investment returns assumed going forward (i.e. a lower discount rate). Given the strong investment performance experienced by equity markets over the last few years, we are effectively assuming that this may be balanced out by lower investment returns in future. Furthermore, the outlook for future inflation has increased which means that future salary and pension growth are assumed to be higher than at the 2016 valuation. More details on the assumptions adopted can be found in the next section.

The secondary rate reduction has however decreased significantly, from 11.3% to 4.8% reflecting the increase in the funding level and decrease in deficit over the period. This means the total required contribution rate can reduce. In calculating the secondary rate, we have adopted a deficit recovery period of 17 years.

Risks

It is worth noting there are a number of potential additional risks and uncertainties to be aware of, including:

- The possibility of a market correction. There is a risk that the exceptional level of investment returns witnessed over recent years may lead to a "correction" in the markets, causing a deterioration of asset values in future.
- Additional liabilities arising from the recent McCloud and Sargeant cases. There has been a recent Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively. On 27 June 2019 the Supreme Court denied the Government's request for an appeal, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. The impact is likely to be an increase in liabilities.
- Additional liabilities arising from the HM Treasury cost cap mechanism. The purpose of the cost cap mechanism is to ensure the cost of the LGPS remains sustainable, however this has recently been triggered. The review found that there has been a reduction in certain costs associated with providing LGPS benefits largely due to a slow down in improvements in longevity and so there is an expectation that benefits will be improved. Any improvements will be subject to the remedy that is decided in light of the recent McCloud & Sargeant judgement.
- Other political and economic uncertainties. There is a great deal of uncertainty in the UK economy at the moment as the UK continues to respond to the results of the European referendum in 2016, leading to a high level of volatility in the equity and currency markets. We consider it more prudent to retain some surplus within the Fund until more stability returns to the economy.

Assumptions

The key financial and demographic assumptions used in our valuation are summarised as follows:

Key assumptions	31 March 2019	31 March 2016
Discount rate	5.0% p.a.	5.4% p.a.
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short term	n/a	CPI to 31 March 2020
Long term	3.6% p.a.	3.9% p.a.
Life expectancies (years)		
Male currently aged 65	21.7	24.6
Female currently aged 65	24.3	26.2
Male currently aged 45	23.1	26.9
Female currently aged 45	25.8	28.5

Further details of the assumptions and data used can be found in our report *LBHF March 2019 Initial Results Advice* dated 1 October 2019.

Next steps

We trust the above information is useful and would be happy to answer any queries at our meeting on 15 November. Following agreement of the above contributions, these will be certified in our formal report on the valuation which is due to be completed by 31 March 2020.

Barry McKay

Barry McKay FFA
Barnett Waddingham LLP
12 November 2019

Agenda Item 9

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: Diversified Private Credit Manager Selection

Report of: Matt Hopson

Summary

The Pensions Sub-Committee agreed at the meeting on 12 September 2019 to reallocate the Pension Fund's 5% allocation to diversified private credit. The current mandate with Partners Group is returning funds to investors and will have dissolved by the end of 2020.

After drawing up an initial longlist of managers that were capable of running such a mandate, this was reduced to a shortlist of two. The Sub-Committee met on 22 October 2019 to interview the two managers, Partners Group and Aberdeen Standard Investments (ASI), to determine their suitability for the mandate.

Both managers put forward compelling cases, and it is recommended that the Sub-Committee appoints ASI for the reasons set out in this paper.

Recommendations

1. Appendices 1 and 2 should not be made available for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

2. The Sub-Committee appoints Aberdeen Standard Investments to run the Pension Fund's £55m diversified private credit mandate using the Multi Factor Private Credit Fund.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate.

Our Priorities	Summary of how this report aligns to the LBHF Priorities
• Being ruthlessly financially efficient	Although there are no immediate financial implications arising from this report, investment performance will have an impact on the Council’s future employer contributions to the Pension Fund and this is achieved via a direct charge to the General Fund.

Financial Impact

Although there are no immediate financial implications arising from this report, investment performance will have an impact on the Council’s future employer contributions to the Pension Fund and this is achieved via a direct charge to the General Fund.

The investment manager fees payable are set out in Appendix 1 to this report.

Legal Implications

The Pensions Sub-Committee has the power to appoint investment managers under its terms of reference.

Units in a pooled investment Fund fall within the definition of securities and financial instruments under the EC Directive 2004/39/EC and Directive 2014/65/EU so as to fall within the exceptions under PCR Regulation 10(1)(e)(i) regarding requirement for an OJEU tender process.

Contact Officer(s):

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1. The Sub-Committee met with both ASI and Partners Group who presented their diversified credit offerings. Both provided credible options but, on balance, officers are recommending Aberdeen Standard Investments (ASI) for the reasons set in section 2.

1.2. The ASI product is the Multi Sector Private Credit Fund.

2. Reasons for Decision

2.1. Officers are recommending ASI for the following reasons:

- The fee quoted is a substantially lower fee.
- The lower risk lower return profile is more attractive, given the stage of the credit cycle.
- The portfolio is more diversified across different types of credit, with more real estate and infrastructure debt as opposed to a corporate credit focus.
- As a seed investor, the Pension Fund has been offered a seat on the Investment Advisory Board.
- The evergreen nature of the product enables for a smoother long-term investment.

3. Equality Implications

3.1. None

4. Risk Management Implications

4.1. None

5. Other Implications

5.1. None

6. Consultation

6.1. None

List of Appendices:

Appendix 1: MAC Manager selection Paper (EXEMPT)

Appendix 2: MAC Shortlisting Paper (EXEMPT)

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: Pension Fund Consultant Aims and Objectives

Report of: Matt Hopson

Summary

1.1 This paper provides the Pensions Sub-Committee with a summary of:

a. The requirements of the Competition and Markets Authority (CMA) for the Pension Fund to establish aims and objectives for its investment consultant.

b. Some suggested aims and objectives for the Fund's consultant, Deloitte.

Recommendations

1. The Sub-Committee is requested to note and comment on the report with a view to formalising and agreeing aims and objectives for the Pension Fund's investment consultant, Deloitte.

Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and taxpayer.

Financial Impact

- None

Legal Implications

- The CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come in to effect in December 2019, by which time Pension Funds must have set aims and objectives for their investment consultants or else be in breach of the order.

Contact Officer(s):

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

1.1. This proposal is for the aims and objectives set out in section 1.7 to be adopted.

CMA Findings

1.2 After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve pension fund governance, with a number concerns expressed around fees and conflicts of interest.

1.3 The key remedies suggested in the report are as follows:

- Remedy 1: Mandatory competitive tendering for first adoption of fiduciary management.
- Remedy 2: Mandatory warnings when selling fiduciary management.
- Remedy 3: Enhanced trustee guidance on the competitive tender process.
- Remedy 4: Requirement to report disaggregated fees to existing customers.
- Remedy 5: Minimum requirements for fee disclosures for prospective clients.
- Remedy 6: Standardised methodology to report past performance.
- Remedy 7: Trustees to set strategic objectives and firms to periodically report against them.
- Remedy 8: Basic standards for reporting performance of recommended asset management “products” and “funds”.

1.4 Whilst a number of these are either not relevant to the London Borough of Hammersmith and Fulham Pension Fund, either because they are the responsibility of the firms, or we do not outsource fiduciary responsibilities, Remedy 7 still applies to LGPS Funds and is something currently not in place within LBHF governance arrangements.

1.5 After consultation, the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come into effect in December 2019, by which time all Pension Funds will be required to have formally set aims and objectives for their investment consultants.

Setting aims and objectives

1.6 The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The regulator’s view is that it is good practice for Pension Funds, including LGPS schemes, to set aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage any areas of underperformance.

1.7 As the Pension Fund investment consultancy mandate is considerably all encompassing, the aims and objectives need to be fully comprehensive. Below are some suggested areas broken down into sub categories for the Sub-Committee to debate:

1. Assistance in Achieving the Fund's Objectives:

a) Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns.

b) All advice considers funding implications and the ability of the Fund to meet its long-term objectives.

c) The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk.

d) The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost efficient manner.

e) The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned.

f) The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Sub-Committee when considering the investment of the Fund's assets.

2. Governance and Costs

a) Assist the Sub-Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees.

b) Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice.

c) Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost effective manner.

d) The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost effective solutions may be available.

e) The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS.

f) The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools.

3. Proactivity/Keeping Informed

a) Advise the Sub-Committee on appropriate new investment opportunities.

b) Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.

c) The investment consultant has kept the Sub-Committee up to date with regulatory developments and additional compliance requirements.

d) The investment consultant has highlighted areas that the Sub-Committee may wish to focus on in the future.

e) The investment consultant should be generally available for consultation on fund investment matters.

4. Monitoring

a) The investment consultant provides insightful monitoring focused on the reasoning behind performance.

b) The Sub-Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy.

c) Monitoring is integrated with funding and risk.

d) Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis.

5. Delivery

a) The investment consultant has formed a strong working relationship with the Sub-Committee, Council Officers and other key stakeholders.

b) Reports and educational material are pitched at the right level, given the Sub-Committee's understanding.

c) Provides training/explanation which aids understanding and improves the Sub-Committee's governance.

d) Meeting papers are provided in a timely fashion, with all required detail and accuracy.

e) The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance.

f) The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian.

2. Reasons for Decision

2.1. The aims and objectives above should be incorporated and subject to annual performance review subject to the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019.

3. Equality Implications

3.1. N/A

4. Risk Management Implications

4.1. N/A

5. Other Implications

5.1. N/A

6. Consultation

6.1. N/A

List of Appendices:

None

Agenda Item 11

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: MHCLG LCIV Progress Report

Report of: Matt Hopson

Executive Summary

1.1 At the request of the Ministry for Housing, Communities and Local Government (MHCLG), the London CIV (LCIV) has prepared a pooling progress report as at September 2019, detailing an indicative projection of shareholder member pooling intentions, transition costs and savings over the next four years.

Recommendations

1 Appendix 1 should not be made available for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

2. The Pension Fund Sub-Committee is recommended to note this report

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Wards Affected: None

H&F Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and taxpayer.

Financial Impact

- None

Legal Implications

- None

Contact Officer(s):

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. MHCLG Progress Report

1.1 The London CIV pooling progress report has been prepared based on the data provided by the 32 local authorities within London and, in preparing cost and saving projections, a number of assumptions have been applied to this data. The estimated savings passed on to member shareholders by March 2023 is projected to be circa £60m.

1.2 As at 31 March 2019, the LCIV had achieved a 48% pooling level across London's total of £38bn assets under management, with a projected LCIV pooling level of 68% by 31 March 2023. Of the £18bn held in pooled assets, £8bn is invested directly through the LCIV and £10bn invested in passive. The London Borough of Hammersmith and Fulham Pension Fund had 70% of assets pooled as at 31 March 2019 and this is anticipated to reach 78% by 31 March 2023.

1.3 The LCIV's cumulative total costs including annual running costs, service provider fees, transition and set up costs is expected to reach £81m by 31 March 2023, with cumulative savings of £109m anticipated to be generated during this period. By 31 March 2023 the total savings generated by the LCIV net of costs is estimated to be £60m.

2. Equality Implications

2.1. N/A

3. Risk Management Implications

3.1. N/A

4. Other Implications

4.1. N/A

5. Consultation

5.1. N/A

List of Appendices:

Appendix 1: MHCLG Progress Report

LBHF Pension Fund

Knowledge and Skills Self-Assessment

Name: ………………………………………………………….

Role: Committee member

1) Pensions Legislative and governance context

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the law relating to pensions in the UK	
Overall understanding of the Local Government Pension Scheme regulations in relation to benefits, administration and investments	
Knowledge of the discretion policies in place for the Fund and other policies regarding administration	
Understanding of the role and powers of the Pensions Regulator, and the Scheme Advisory Board	
Understanding of the role of the Investment Committee, pensions board, director of finance and monitoring officer	
Awareness of Environmental, Social and Governance (ESG) investment issues	
Awareness of the UK Code of Corporate Governance and the Stewardship code	

2) Pensions accounting and auditing standards

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the Accounts and Audit regulations and legislative requirements relating to the role of the committee in considering signing off the accounts and annual report	
Awareness of the role of both internal and external audit in the governance and assurance process	

3) Financial services procurement and relationship management

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

General understanding of the main public procurement requirements of UK and EU legislation and how they apply to procuring services for local authority Pension Funds	
Awareness of supplier risk management and the nature and scope of risks to be considered when selecting third parties	

4) Investment performance and risk management

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks	
Awareness of the Myners principles of performance management and the approach adopted by the committee	
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime	

5) Financial markets and products knowledge

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

What is the role of a fund manager	
Understanding of the primary importance of the investment strategy decision	
The appointment process of a fund manager and fee structures offered	
A broad understanding of the workings of the financial markets and of investment vehicles available to the pension fund and the nature of the associated risks	
An awareness of the limits placed by regulation on the investment activities of local government pension funds.	

Awareness of the risk and return characteristics of the main asset classes and understanding of the role of these asset classes in long term pension fund investing	Analysed in Table Below

Asset Class	I have sufficient knowledge of the subjects detailed below and do not require additional training	I would like further training on the areas highlighted below	*Current Fund Manager(s)*
Multi Asset Credit (Fixed Income)	Y/N	Y/N	*Partners Group/Oakhill Advisors*
Property – long lease	Y/N	Y/N	*Aberdeen Standard*
Absolute Return	Y/N	Y/N	*London CIV*
Inflation Linked	Y/N	Y/N	*M&G*
Passive Equities – Global/Low Carbon	Y/N	Y/N	*LGIM*
Infrastructure	Y/N	Y/N	*Aviva/Partners Group*

6) Actuarial methods, standards and practices

I have sufficient knowledge of the subjects detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Knowledge of the valuation process, including developing the funding strategy in conjunction with the Fund Actuary and inter-valuation monitoring	
Awareness of the importance of monitoring early and ill health retirement strain costs	
A broad understanding of the implications of including new employers into the Fund and of the cessation of existing employers	
A general awareness of the relevant considerations in relation to outsourcings and bulk transfers	

Signed:………………………………………………. Date:………………………

Once complete, please return to:

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Agenda Item 13

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 26/11/2019

Subject: Pension Fund's Proposed Responsible Investment Policy and Update to the Environmental, Social and Governance (ESG) Policy

Report of: Phil Triggs, Matt Hopson, Tim Mpofu

Summary

1.1 This paper provides the Pensions Sub-Committee with the following:

a. A newly proposed initial draft of the Pension Fund's Responsible Investment Policy.

b. A suggested update of the Pension Fund's Environmental, Social and Governance (ESG) Policy. This suggested section is currently included (necessary by Regulation) as a separate section within the Pension Fund's Investment Strategy Statement.

Recommendations

1. The Sub-Committee is requested to note and comment on the report with a view to enabling officers to formalise and finalise the ESG related policies and statements.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the H&F Priorities
• Building shared prosperity	Being a responsible investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive contribution to the long-term sustainability of the global environment, enabling the Pension Fund to enhance its investment return.

Financial Impact

- No direct financial impact.

Legal Implications

- None

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Background Papers Used in Preparing This Report

None

PROPOSED UPDATE TO THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY WITHIN THE INVESTMENT STRATEGY STATEMENT

1. Introduction

1.1. The London Borough of Hammersmith and Fulham (LBHF) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of capital. Such a responsibility extends to making a positive contribution to the long-term sustainability of the global environment.

1.2. The Pension Fund recognises that managing environmental, social and corporate governance (ESG) issues is consistent with its overall fiduciary duty as their outcome may be financially material to the financial state of the Pension Fund. This presents a significant responsibility for the Pension Sub-Committee and the ESG approach then becomes integral to its overall investment strategy.

1.3. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability. The Pension Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by 2030. This commitment means that the Pension Fund must integrate ESG factors into its overall investment strategy.

1.4. Members of the Pension Fund trust the Pensions Sub-Committee to act with the utmost fiduciary duty in their best interests and ensure that their benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Pensions Sub-Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

1.5. The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below:

Suggested Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.

- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool, the London CIV) and other member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.

- The Pension Fund wants to **make members proud** of the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

Policy Implementation: investing to build a better future

1.6. Over recent years, the Pension Fund has made great strides in considering the impact of climate change within its investments. This has influenced the choice of investment and how performance is monitored.

- The Pension Fund has committed to investing its entire passive equities holdings into low carbon index-tracker funds. This represents estimated carbon savings of over 35,000 tonnes per annum.

- The Pension Fund maintains a 7.5% allocation to infrastructure investments, the majority of which is currently invested in renewable energy assets. This includes wind farms, solar plants and energy storage facilities.

1.7. The Pension Fund will continue to assess its investment opportunities in sustainable and low carbon assets. We aim for our pension fund to be carbon neutral by the year 2030. As such, this will be reflected in the strategic asset allocation and the overall investment strategy.

1.8. In addition to carbon neutrality, the Pension Fund will continually assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property and social impact opportunities.

Policy Implementation: engaging with investment community

1.9. Institutional investors have the power to influence and change behaviour globally. The LBHF Pension Fund believes that there is significant value in being able to engage with the companies we invest in and be part of the transition to a global, low carbon economy.

1.10. The measurement of ESG performance is still developing and benefitting from significant improvements. There are several benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.

- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

1.11. Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

Policy Implementation: collaboration with other stakeholders

1.12. The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The LBHF fund is committed to playing a key role as part of the LGPS London CIV pool.

1.13. As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its money is invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS pension funds to find common solutions for ESG issues.

1.14. As more funds are onboarded into the London CIV, the Pension Fund expects to increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the fund's strategic objectives and those of the 31 other London Local Authority's Pension Funds.

1.15. The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance the LAPPF's governance policies. In exceptional cases, the investment manager will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

Policy Implementation: making our members proud

1.16. LBHF's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented on the Local Pension Board.

1.17. The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

1.18. The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

1.19. Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the fund's administrative function and the fund's assessment of its many risks.

1.20. A proposed redraft to the fund's Investment Strategy Statement incorporating the above principles will be brought to the 11 February 2020 meeting for consideration by the Sub-Committee

PROPOSED RESPONSIBLE INVESTMENT POLICY

2. Purpose of the Responsible Investment Policy

2.1. As part of the Investment Strategy Statement, the Regulations require administering authorities to outline how they plan to meet each of the following objectives which are aimed at improving the investment and governance of the Fund:

a. a requirement to invest fund money in a wide variety of investments;
b. the authority's assessment of the suitability of particular investments and types of investments;
c. the authority's approach to risk, including the ways in which risks are to be assessed and managed;
d. the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e. the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f. the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

2.2. With regard to responsible investment, it is proposed that the Sub-Committee approve its own Responsible Investment policy document.

2.3. The purpose of this policy document is to lay out the fund's approach to objective (e) above.

2.4. The proposed Responsible Investment policy is set out in Appendix 1.

3. Reasons for Decision

3.1. The update to the ESG Policy is to be included as part of the update to the Investment Strategy Statement, a full redraft of which will be brought to the next Sub-Committee meeting.

3.2. The Responsible Investment Statement will be a stand-alone policy document which aims to make clear the Pension Fund's investment values and will be subject to regular ongoing review.

4. Equality Implications

4.1. N/A

5. Risk Management Implications

5.1. Managing the material risks to the Pension Fund's investment performance posed by environmental, social and governance factors.

6. Other Implications

6.1. N/A

7. Consultation

7.1. N/A

List of Appendices:

Appendix 1: Responsible Investment Policy

Appendix 1

Responsible Investment Policy

1.1. The Pension Fund recognises environmental, social and corporate governance (ESG) factors as central themes in measuring the sustainability and impact of its investments. Failure to appropriately manage these factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.

1.2. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.

1.3. Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Pension Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Pension Fund's intention to act as a responsible investor and will play a key role in the Pension Fund's asset allocation and investment manager selection processes.

1.4. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewables as the main source of energy. The impact of this transition on the sustainability of investment returns will be continually assessed.

1.5. The Pensions Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on society. Greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

1.6. It is important to note that the Pensions Sub-Committee has a fiduciary duty to act in the best interests of the LGPS members to ensure that their benefits are honoured in retirement. Such a responsibility extends also to making a positive contribution to the long-term sustainability of the global environment.

1.7. ESG integration into the Pension Fund's investment decision processes aims to mitigate the associated investment risks, whilst enhancing investment returns for the Pension Fund, thereby safeguarding members' futures.

Policy Implementation: Selection Process

1.8. The Pensions Sub-Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pensions Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes. This includes, but is not limited to:

a. evidence of the existence of a Responsible Investment policy;
b. evidence of ESG integration in the investment process;
c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
d. commitment to addressing the challenges posed by climate change;
e. a track record of actively engaging with stakeholders to influence best practice;
f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

1.9. As part of its investment selection process, the Pensions Sub-Committee will obtain proper advice from the fund's internal and external advisers with the requisite knowledge and skills. This will be supplemented by regular training.

1.10. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investable companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement

1.11. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvements. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which includes carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investments.

1.12. The Pension Fund's officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

a. regularly meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;

b. reviewing reports issued by investment managers and challenging performance where appropriate;

c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the pension fund's objectives;

d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;

e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

1.13. The Pension Fund's officers will work closely with the London Collective Investment Vehicle (LCIV) pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all issues which could present a material financial risk to the long-term performance of the fund. This will include the LCIV's ESG frameworks and policies for investment analysis and decision making.

1.14. Pension Fund officers will report on the Pension Fund's investment performance, including an update on the ongoing ESG performance, to the Pensions Sub-Committee at least once every quarter. This will include a review into the fund's progress towards achieving its ESG targets.

1.15. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

a. Pension Fund employers;
b. Local Pension Board;
c. advisers/consultants to the fund;
d. investment managers

Policy Implementation: Training

1.16. The Pensions Sub-Committee and the fund's officers will receive regular training on responsible investment. A review of training requirements and needs will be carried out at least once on annually. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.