London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Agenda

Tuesday 29 September 2020 at 6.30 pm
Online - Virtual Meeting

MEMBERSHIP

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

CONTACT OFFICER: Amrita Gill
Committee Coordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

Reports on the open agenda are available on the Council's website:
www.lbhf.gov.uk/committees

Members of the press and public can watch the meeting on YouTube:
https://youtu.be/hlnrLdVAlEs

Date Issued: 21 September 2020

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee
Agenda

Item		**Pages**
1.	**MINUTES OF THE PREVIOUS MEETING**	5 - 11

To approve the minutes of the meetings held on 23rd June and 31st July 2020.

2. APOLOGIES FOR ABSENCE

3. ROLL CALL AND DECLARATIONS OF INTEREST

To confirm attendance, the Chair will perform a roll call. Members will also have the opportunity to declare any interests.

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 Standards Committee.

4. QUARTERLY UPDATE — 12 - 78

This paper provides the Pension Fund Sub-Committee with summary of the Pension Fund's overall performance for the quarter ended 30 June 2020.

5. ANNUAL REPORT — 79 - 217

This report presents the draft Pension Fund Annual Report and

Statement of Accounts for the year ended 31 March 2020.

The Sub-Committee is requested to comment and approve the updated Responsible Investment Statement.

The Sub-Committee is requested to note the transition completed on 21st August 2020.

The purpose of this report is to provide a briefing of the recent Supreme Court ruling on the Local Government Pension Scheme Investment Guidance and provide details of potential implications for LGPS Funds.

The Sub-Committee is requested to note the report and the anticipation that further staff resources will be required in due course, with progress updates brought to future meetings.

This paper and associated appendix provides the Sub-Committee with more detailed information on three asset classes that are being closely monitored by the Pension Fund’s advisors.

11. EXCLUSION OF THE PUBLIC AND PRESS

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

12. EXEMPT MINUTES OF THE PREVIOUS MEETING

To approve the exempt minutes of the meeting held on 31st July 2020.

13. PENSIONS ADMINISTRATION UPDATE

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Tuesday 23 June 2020

PRESENT

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

Co-opted members: Michael Adam

Other Councillors: Phil Triggs (Director of Treasury and Pensions), Timothy Mpofu (Pension Fund Manager), Trevor Webster (Human Resources), Mary Lamont (Head of People & Talent), Dawn Aunger (Assistant Director People and Talent), Rhian Davies (Director of Resources), Matt Hopson (Strategic Investment Manager), Emily Hill (Director of Finance), Amrita Gill (Clerk)

Officers: Kevin Humpherson (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED –
THAT, the minutes of the meeting held on 11th February 9th March 22nd April were approved by the chair

2. APOLOGIES FOR ABSENCE

There were no apologies for absence.

3. DECLARATIONS OF INTEREST

There were no declarations of Interest.

4. H&F PENSION ABATEMENT - PROPOSED ABOLISHMENT

Trevor Webster, (Human Resources) introduced the item and explained that this report recommended that from 1st July the Council should cease operating the abatement of pension benefits for certain H&F pensioners who were re-employed by an employer that operated the Local Government Pension Scheme (LGPS). This would bring the Council inline with most other London local authorities and would eliminate all current discrepancies in the treatment of pensioners who may be re-employed following their retirement.

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.

Until 31 March 1998 abatement was mandatory in the LGPS. From 1 April 1998 until 31 March 2014 it was discretionary. Trevor Webster also explained the reasons why this policy was no longer relevant to the Council and the rational for ceasing the abatement.

Trevor Webster (Human Resources) noted that currently the Council had four pensioners whose pension was abated. The responsibility fell on the re-employed pensioner to inform the Surrey Pensions Team of any re-employment to which abatement may be applied.

Councillor PJ Murphy asked if there was any financial impact on the four pensioners whose pension was abated. In response Trevor Webster explained that the four pensioners would receive their full pension from 1st July, however they wouldn't be entitled to any backdated pension if the recommendations were agreed by the Pension Fund Sub-Committee. Contact would be made with the pensioners and their pension would be increased by a relatively small amount to bring it inline with the changes. For these pensioners, the estimated increased pension costs were under £50,000 a year. The longer-term impact would depend on the number of LBHF pensioners with pre-2014 service who had re-employed, however the impact was expected to be insignificant compared to the total liabilities of the Fund.

RESOLVED -
THAT, the Council from 1st July ceased the abatement of pension benefits for eligible H&F pensioners who were re-employed by an employer that operates the LGPS.

5. INVESTMENT STRATEGY UPDATE

Kevin Humpherson (Deloitte) provided an update and noted that the pension fund had been invested in the M&G Inflation Opportunities Fund (IOF) since 2015. As at 30 April 2020, the pension fund had £113.0m invested with the Fund. In February 2020, the pension fund approved an asset allocation of 10% to inflation strategies and 5% to property. To meet the inflation objectives of this mandate, the M&G IOF had a sizeable allocation to long lease property. This allocation effectively meant that the pension fund's exposure to long lease property was around 9%, and exposure to UK commercial property (including income strips and ground rents) was around 13.5%. Whilst the Fund had outperformed its return objective since inception, it had largely underperformed its expected sector allocation. 84% of the Fund was exposed to UK commercial property compared with the expected 55% target allocation. The Fund had a larger exposure to the office, hotel and leisure sectors which had been significantly impacted by the lockdown measures put in place earlier this year as a means to minimise the spread of the coronavirus disease. In addition, the Fund had faced some challenges in rent collection which had led to more rent deferrals from the tenants. As a result, the pension fund faced an increase to its cash flow risk which could lead to increased difficulties in paying out pension benefits if this was not addressed.

Therefore, the Pension Fund Sub-Committee was recommended to either partially or fully disinvest from the M&G IOF and commence the search for a replacement manager to achieve the Fund's diversification targets.

The earliest point of redemption would be 1st September and monies would be distributed 30 business days after. The fund manager had discretion whereby they don't have to distribute more than 5% in any one dealing date. The Council's total holding within the Fund was 22% therefore a full disinvestment could be distributed over a 5-month period should this be necessary. In addition, there would be an option to keep the income strip allocation. However, it was felt that this wouldn't be a viable option. In addition, a dilution levy would be applied purely based on market pricing in September 2020. This would be 25 basis points as an estimate.

Kevin Humpherson explained that going forward the Council would need to explore alternative options to reallocate the investment. Some of the factors to consider when reviewing alternative options would be exposure to UK property, exposure to UK linkage and expected return on the Fund as a whole. A number of discussions had been held with some fund managers as a possible alternative to M&G. In the long term, the proceeds should be invested in assets which delivered inflation linked income while adding diversification to the Fund, such as infrastructure debt. Recognising this would take time to identify and select, and was not helped by the current market conditions,

Phil Triggs (Director of Treasury and Pensions), commented that officers agreed with Deloitte's suggested approach, primarily on the basis that the existing M&G portfolio was over exposed in several sectors and this was exemplified with the impact of Covid-19 and the potential downturn possibility that it placed on the future prospects for that part of the portfolio.

Councillor Matt Thorley asked whether there was a risk of a longer exit from the Fund due to the 5% cap if the Council partially disinvested and at what stage would the Council need to allocate the capital. Kevin Humpherson provided an outline on what it would mean to partially disinvest and how long this could take. He noted that the fund manager had discretion to defer a full redemption request and implement on successive dealing dates. The fund manager would review the liquidity of the portfolio at the time to determine how much of the redemption could be executed on the dealing date.

Councillor PJ Murphy asked for clarification around the total property exposure to the Fund. He also asked if a partial disinvestment was carried out, were Officers confident that the Fund would perform whilst the Council explored other investment options, particularly around sustaining the inflation balance. Kevin Humpherson explained that the over total exposure to property was 13.5%. Full sale of M&G would take this down to 5% and a partial disinvestment would bring this to 9.25%. The Council would have expected a 7.5% exposure to the property market via the M&G fund if the recent changes to the market had not taken place. It was difficult to predict the performance at this stage. This would depend on how quickly tenants were able to pay their leasing.

Michael Adam felt that a full divestment would result in a better outcome, given M&G's exposure to certain chains. In addition, it was important to consider retaining high RPI linkage in the Fund and if there was an opportunity to replace it with other RPI linked assets in the future, this would be beneficial.

The Chair asked for further clarification to be provided around timescales for an alternative investment option. Phil Triggs said that further discussions around potential options could be discussed as part of the weekly calls with the Chair, with the view to present a few other products at the next meeting.

Phil Triggs (Director of Treasury and Pensions), explained that following the disinvestment from the LCIV UK Equity Fund, completed in December 2019, the Fund's 45% strategic allocation to equities was entirely invested in the Legal & General World Low Carbon Equity Index Fund. As at 31 March 2020, the Fund had £411.5m of its investment portfolio invested in the passive Fund. In April 2020, the Sub-Committee, met with the pension fund's officers and investment consultant to discuss how best to position itself to minimise its downside risk exposure and take advantage, via active management, of the prevailing uncertainty in the financial markets at the time.

Subsequently, the Sub-Committee decided to allocate a third of the pension fund's equity allocation (15% of its overall investment portfolio) to an active equity manager and requested its investment consultant to present a shortlist of suitable strategies for the pension fund. On 11th May 2020, four investment managers presented their strategies to the Sub-Committee. Following this an agreement was reached to appoint Morgan Stanley, who managed the LCIV Global Equity Sustain Fund, as the pension fund's new active equity manager. This decision was taken outside of the Sub-Committee and this paper had been brought to this Sub-Committee for formal ratification and approval.

The Sub-Committee expressed a clear preference for Morgan Stanley's investment process, citing the concentrated portfolio and lower correlation to the market. The Sub-Committee was particularly impressed with how the investment manager integrated environmental, social and governance (ESG) factors into their investment process. The pension fund considered ESG related risks to be a significant factor in the long-term sustainability of the global environment.

The Chair asked for an update to be provided on how this investment had an impact on the Fund's overall carbon footprint. In response Phil Triggs said that the Council's ESG dashboard was being monitored and updated on a regular basis. The exact figures would be included as an agenda item for the next Sub-Committee meeting.

RESOLVED -
THAT, the Sub-Committee

a. Formally approved the investment decision to investment 15% of the pension fund’s investment assets into the LCIV Global Equity Sustain Fund.
b. Approved the decision to a full disinvestment from the M&G Inflation Opportunities Fund and commence the search for a replacement manager.

6. EXCLUSION OF THE PUBLIC AND PRESS

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.

7. EXEMPT MINUTES OF A PREVIOUS MEETING

RESOLVED –
THAT, the minutes of the meeting held on 9th were approved by the chair

8. INVESTMENT STRATEGY UPDATE - EXEMPT APPENDICES

The exempt elements of the report were noted.

Meeting started: 6:30pm
Meeting ended: 7:30pm

Chair ....

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Friday 31 July 2020

PRESENT

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

Co-opted members: Michael Adam

Officers: Emily Hill (Director of Finance), Dawn Aunger (Assistant Director People and Talent), Gareth Hopkins (Pensions Consultant), David Hughes (Director of Audit, Fraud, Risk and Insurance), Kim Smith (Chief Executive), Dave Rogers (Head of HR Operations),Mike Sloniowski (Risk Management), David Abbott (Head of Governance)

External Guests
Gareth Hopkins, Pensions Consultant

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. EXCLUSION OF THE PUBLIC AND PRESS

The sub-committee agreed, 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.

4. LGPS PENSIONS ADMINISTRATION SERVICE - EXEMPT

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced the item and the recommendations in the exempt report were approved.

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.

Meeting started: 2:30pm
Meeting ended: 3.53pm

Chair ....

Contact officer: Amrita Gill
Committee Co-ordinator
Governance and Scrutiny
☎: 07776672845
E-mail: amrita.gill@lbhf.gov.uk

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: 29/09/2020

Subject: Pension Fund Quarterly Update Pack

Report of: Tim Mpofu, Pension Fund Manager

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 June 2020
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:

   a. Approve moving cash balances to Northern Trust's Conservative Ultra Short Fund.

   b. Note the update.

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 the council tax payer.

Financial Impact

- None

Legal Implications

- None

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. LBHF Pension Fund Quarterly Update – Q1 2020/21

1.1. This report and attached appendices make up the pack for the quarter ended 30 June 2020. 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. Kevin Humpherson from Deloitte will be attending the meeting to present this report.

1.4. Appendix 4 is a report on the Pension Fund's investment performance during 2019/20 in comparison with other LGPS funds. The fund's investment performance was in the 19th percentile, mainly as a result of excellent performance from its equity and multi asset investments.

1.5. The Pension Fund's cashflow monitor is provided in Appendix 5. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to 31 March 2020. An analysis of the differences between the actuals and the forecasts for the quarter is also included.

1.6. Appendix 6 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.

1.7. Appendix 7 gives an update on the Forward Plan as at 30 September 2020.

2. Cash Management Strategy: Northern Trust Conservative Ultra Short Fund

2.1. On 19 March 2020, in an emergency move to help control the economic shock from the response to the coronavirus pandemic, the Bank of England reduced its base rate from 0.25% to 0.1%. Subsequently, the Pension Fund's bank and custodian reduced the overnight interest rates payable on the fund's accounts.

2.2. Although the Pension Fund does not have a strategic allocation to invest its cash, it often holds cash balances in order to pay scheme member pensions, transfer funds when capital calls are requested or when managing an investment transaction that requires a cash redemption. Cash balances tend to vary during the year depending on the Pension Fund's investment activity.

2.3. The current low interest rate environment increases the risk of cash drag for the fund, with its cash balances only yielding 0.18% since March 2020. The Pension Fund has the option to invest its cash short-term using Northern Trust's Conservative Ultra Short Fund (CUSF).

2.4. The CUSF currently yields 0.74% and is intended for investors with a time horizon of three to nine months. The table below provides a summary for the fund.

Yield to Maturity	0.74%
Average portfolio quality	A/A+
Target duration	0.5 years
Dealing	T+2
Cost	No additional cost

2.5. In addition to the above criteria, the CUSF applies ESG exclusions and integrations in its portfolio construction process. The ESG performance of the fund is reported to investors on a monthly basis.

3. Risk Management Implications

3.1. The cash strategy is regarded as being of minimal risk.

4. Other Implications

4.1. N/A

5. Consultation

5.1. N/A

List of Appendices:

Appendix 1: Scorecard at 30 June 2020
Appendix 2: Pension Fund ESG Report
Appendix 3: Deloitte Quarterly Report for Quarter Ended 30 June 2020
Appendix 4: PIRC Universe Overview 2019/20
Appendix 5: Cashflow Monitoring Report
Appendix 6: Pension Fund Risk Register
Appendix 7: Pensions Sub-Committee Forward Plan

Scorecard at 30 June 2020 **Appendix 1**

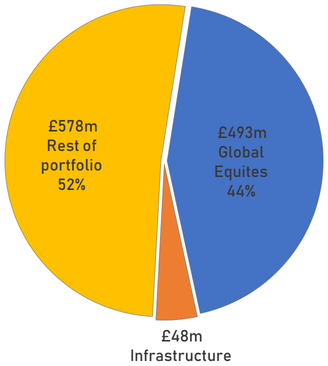
London Borough of Hammersmith and Fulham Pension Fund Quarterly Monitoring Report

	Sep 19	Dec 19	Mar 20	Jun 20	Comment/ Report
Value (£m)	1,098.6	1,108.7	1,006.4	1,118.7	Deloitte Report Gross of Fees
% return quarter	3.0%	0.3%	-8.8%	11.1%	
% return one year	5.9%	12.3%	-2.9%	4.8%	
LIABILITIES					
Value (£m)	1,090	1,082	1,090	1,090	
Surplus/(Deficit) (£m)	6.0	9.7	(22)	(22)	
Funding Level	101%	101%	98%	98%	
MEMBERSHIP					
Active members	3,821	4,026	4,332	4,151	
Deferred beneficiaries	7,171	7,085	6,840	6,992	
Pensioners	5,173	5,222	5,111	5,278	
Employers	50	50	50	47	
CASHFLOW					
Cash balance	£4.4m	£1.2m	£1.6m	£3.0m	Appendix 5
Variance from forecast	£3.1m	£0.0m	£0.0m	£0.6m	
RISK					
No. of new risks	0	1	0	1	Appendix 6 – Risk Register
No. of ratings changed	7	5	0	12	
LGPS REGULATIONS					
New consultations	CMA Review	None	None	McCloud Supreme Court Judgement	
New sets of regulations	None	None	None	None	

Enviromental, Social & Governance (ESG) Report — 30 June 2020

The London Borough of Hammersmith & Fulham Pension Fund is committed to being a responsible investor. In line with this commitment, the Pension Fund recognises Enviromental, Social & Governance (ESG) factors to be integral to its investment strategy.

The Pension Fund has a target to achieve carbon neutrality by 2030.



46.3k

estimated number of cars kept of the road each year by investing in renewable energy[1]

Estimated Carbon Savings (tonnes p/a)

MSCI Low Carbon	Aviva Infrastructure
44.7k	10.1k

Key Highlights

57%

CO_2 emissions saved by investing in the MSCI Low Carbon Fund

20

number of engagements by LGIM on Social topics during the last quarter.

79

number of companies engaged over the last quarter by LAPFF

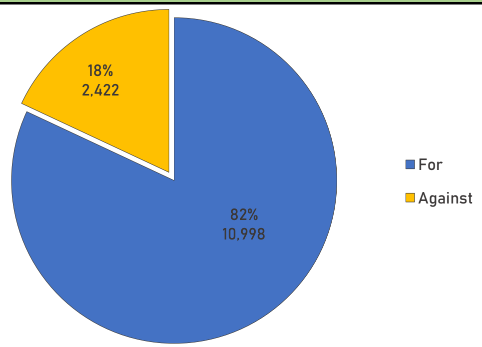
Investment in Low Carbon Assets

£544mil	49%

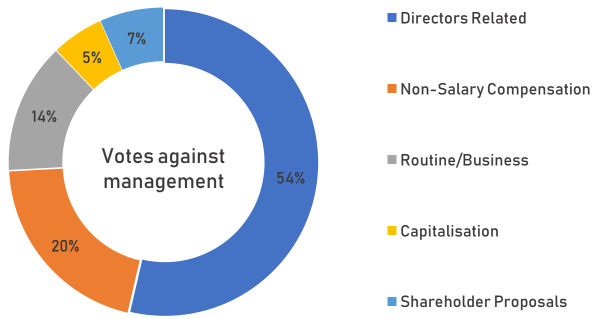
Low Carbon Investments	£000
MSCI Low Carbon	493,330
Aviva Infrastructure	27,177
Partners Infrastructure	20,443
LCIV Green Bonds	3,226

Although the Pension Fund does not invest through the use of segregated mandates, fund managers are expected to develop a voting framework consistent with the Pension Fund's own voting policy. The fund managers' voting activity for this quarter is reported below. At present, the Pension Fund holds pooled equity investments with Legal & General Investment Management and the London CIV, through its Absolute Return Fund (Ruffer).

Voting Summary

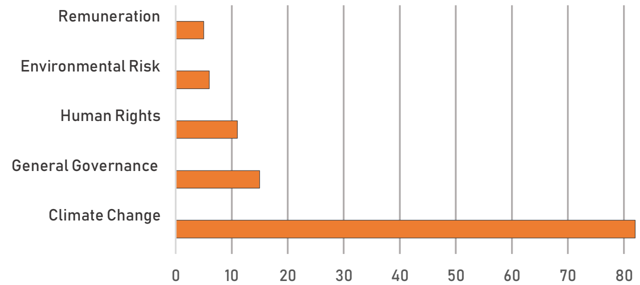


Voting Breakdown



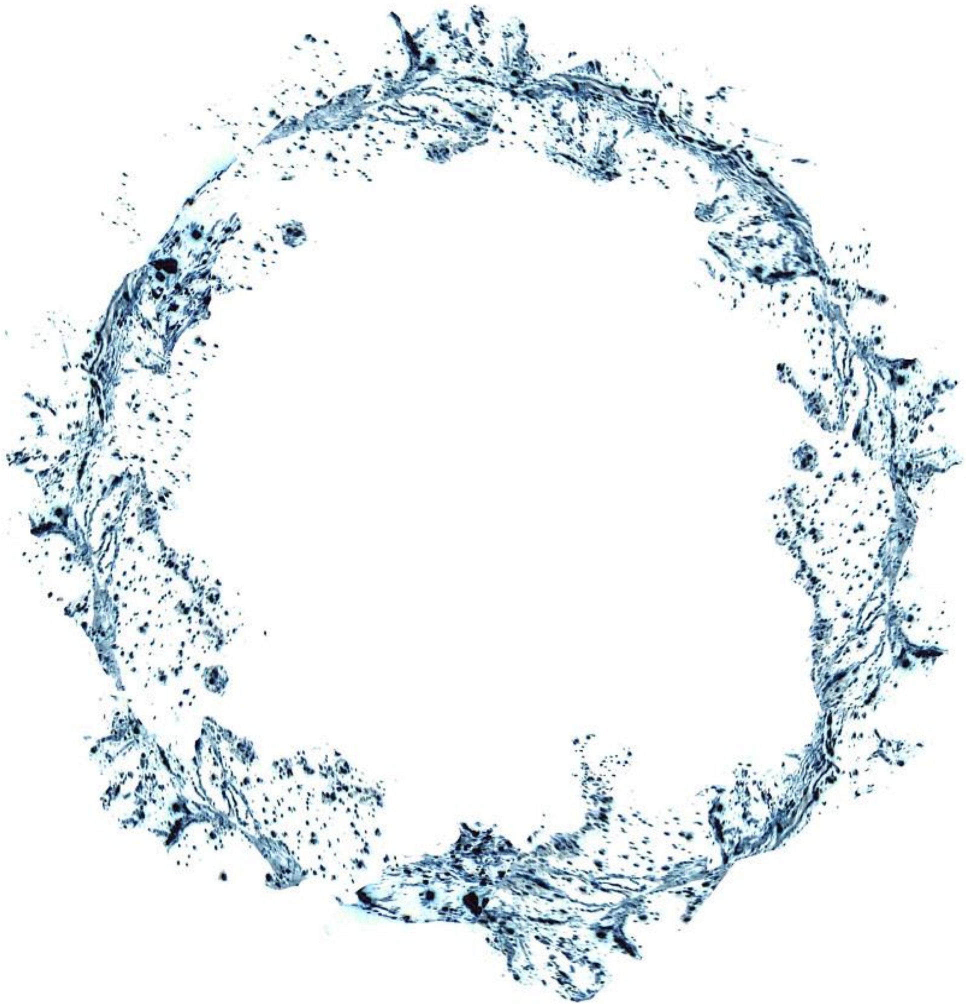
LAPFF Engagement

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF), the UK's leading collaborative shareholder engagement group. LAPFF regularly engages with companies to encourage best practice and ensuring that they have the right policies in place to create value.



[1]Source: Aviva Investors/ERM. Data as at 30 June 2018. Car equivalency calculation based on 2016 5 door hatchback; 10,000 p.a (Carbon Footprint)

Deloitte.



London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 30 June 2020

Deloitte Total Reward and Benefits Limited
September 2020

Contents

1 Market Background

Global Equities

At the start of the second quarter, the 'epicentre' of the COVID-19 outbreak was still in Europe, but latterly moved west to both North and South America with countries such as USA and Brazil experiencing large spikes in reported cases. By the end of June, most countries in Europe had brought the outbreak under some form of control, albeit local outbreaks were still emerging.

Economic data for April showed the damage caused by lockdown restrictions with unprecedented contractions in economic activity around the world. However, by the end of the second quarter some early economic indicators - such as US jobs and retail data - suggested that the economic recovery was underway. That said, the global economy has a long way to go to get back to pre COVID-19 levels of economic activity and recover significant falls in GDP.

After the sharp downturn in global equity markets during March, global equity markets rebounded strongly in the second quarter of 2020, returning 18.4% in local currency terms (or 19.7% in sterling terms). Investors were undoubtedly reassured by unprecedented levels of fiscal and monetary stimulus which had a stabilising effect on capital markets around the world. Equity markets were also buoyed by the gradual easing of lockdown restrictions and hopes of a speedy V-shaped economic recovery.

There was a large dispersion in returns at a sector level with different industries impacted by the COVID-19 outbreak to differing degrees. Basic Materials was the best performing sector in the second quarter returning 26.6%, whilst Industrials (19.3%) and Technology (16.8%) also made large gains. Oil & Gas (-9.4%) was the one sector to deliver a negative return over the second quarter with investors recognising that it would take some time for global oil demand to recover to pre COVID-19 levels.

UK equities also rebounded over the quarter (the FTSE All Share index returned 10.2%) but lagged overseas markets. The UK market's high concentration to underperforming sectors such as Oil & Gas and Financials and continued uncertainty over the UK's future trading relationship with the EU are likely contributors to underperformance. The FTSE 250 Index (13.9%) outperformed the FTSE 100 Index (9.1%) due to its greater diversification and smaller exposure to the Oil & Gas and Financials sectors.

Government bonds

Nominal gilt yields continued to trend lower over the quarter decreasing 15-20 bps across the curve. In fact, for the first time in history yields fell into negative territory at shorter maturities. Demand for gilts remains elevated in such uncertain economic times. The Bank of England has committed to buy sufficient quantities of gilts, through its recently expanded quantitative easing programme, to offset the necessary increase in gilt issuance required to fund the government's enlarged spending plans. The All Stocks Gilt Index subsequently delivered a positive return of 2.5% over the 3 months to 30 June 2020.

Real yields on index-linked gilts also trended lower, decreasing by 20-30 bps at the short-end and by 40-50 bps for longer maturities with a corresponding rise in long term inflation expectations, perhaps as a result of record levels of monetary stimulus. The All Stocks Over 5 Year Index-Linked Gilts Index returned 11.5% over the quarter.

Corporate bonds

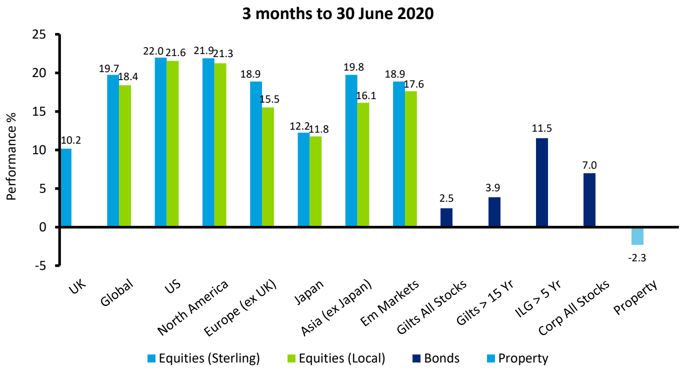
Credit spreads narrowed 65 basis points in the second quarter as risk appetite returned, underpinned by central bank support, which includes promises to purchase both investment grade and high yield corporate debt. Corporate bonds therefore outperformed equivalent gilts over the quarter with the iBoxx All Stocks Non-Gilt Index returning 7.0%.

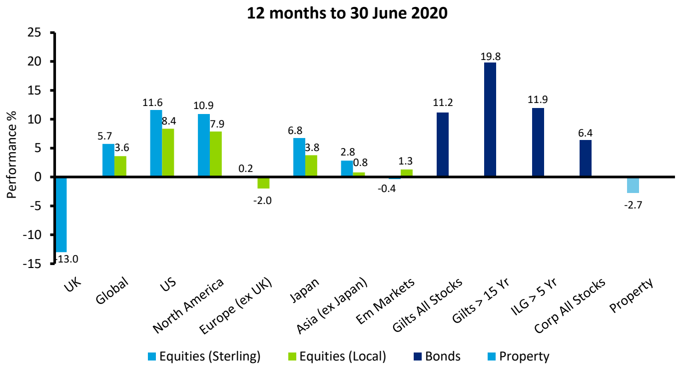
Although credit spreads have narrowed, they remain above historic average levels. However, the risk of default remains elevated and shouldn't be underestimated given the severity of COVID-19's economic impact. Although the first peak of the COVID-19 virus appears to have passed its worst point, the exact shape and speed of the economic recovery remains as uncertain as the future spread of the virus.

Property

The UK property market trended lower over the second quarter with the MSCI UK All Property Index delivering a negative return of -2.3%. Whilst there was increased activity over the second quarter transactions remains suppressed versus pre-pandemic levels. Consequently, gating restrictions remain in place across many property funds. Furthermore, negative performance over the second quarter is unlikely to represent the full extent of property market depreciation. Further valuation falls seem likely in the months ahead.

The reduction in business activity during lockdown has severely disrupted corporate cashflows over the second quarter and tenants across all sectors requested rental deferments, most notably in the holiday and leisure industries. The COVID-19 lockdown has also accelerated longer term structural trends including the decline in high street shopping in favour of online shopping, whilst increased levels of remote working may affect future demand for central offices.





2 Performance Overview

2.1 Investment Performance to 30 June 2020

Breakdown of Fund Performance by Manager as at 30 June 2020 Fund	Manager	3 month	1 year	3 year p.a.	5 year p.a.
Equity Mandate					
	LGIM Low Carbon Mandate	19.9	7.1	n/a	n/a
MSCI World Low Carbon Target Index		20.0	7.2	n/a	n/a
Difference		-0.1	-0.1	n/a	n/a
Dynamic Asset Allocation					
	LCIV Absolute Return Fund	6.4	8.1	2.5	3.4
3 Month Sterling LIBOR + 4% p.a.		1.1	4.6	4.7	4.6
Difference		5.3	3.5	-2.1	-1.2
Global Bonds					
	LCIV Global Bond Fund	7.5	2.7	n/a	n/a
Barclays Credit Index (Hedged)		6.8	5.5	n/a	n/a
Difference		0.7	-2.8	n/a	n/a
Private Equity					
	Invesco	-0.5	16.1	12.6	13.6
	Unigestion	3.0	3.8	4.0	9.9
Secure Income					
	Partners Group MAC[2]	-4.1	-1.4	2.8	4.3
3 Month Sterling LIBOR + 4% p.a.		1.1	4.6	4.7	4.6
Difference		-5.1	-6.1	-1.9	-0.2
	Oak Hill Advisors	11.2	-2.1	0.8	2.1
3 Month Sterling LIBOR + 4% p.a.		1.1	4.6	4.7	4.6
Difference		10.2	-6.7	-3.9	-2.5
	ASI MSPC Fund[4]	n/a	n/a	n/a	n/a
3 Month Sterling LIBOR[5]		n/a	n/a	n/a	n/a
Difference		n/a	n/a	n/a	n/a
	Partners Group Infra[2]	0.8	11.3	7.2	n/a
	Aviva Infra Income[3]	6.3	-0.1	n/a	n/a
Inflation *Protection*					
	M&G	3.1	5.0	6.7	8.3
RPI + 2.5% p.a.		0.7	3.6	4.9	5.0
Difference		2.4	1.5	1.8	3.3
	ASI Long Lease Property Fund	0.3	4.7	6.9	7.0
FT British Government All Stocks		2.9	13.2	8.0	8.0
Difference		-2.6	-8.5	-1.1	-1.0
Total Fund		11.1	4.8	5.0	6.8
Benchmark[1]		10.0	6.5	6.8	7.8
Difference		1.1	-1.7	-1.8	-0.9

Source: Northern Trust (Custodian). Figures are quoted net of fees. Differences may not tie due to rounding.
[1] The Total Assets benchmark is calculated using the fixed weight target asset allocation.
[2] Partners Group Multi Asset Credit and Direct Infrastructure Fund performance provided to 31 May 2020.
[3] Aviva Investors performance figures provided by Northern Trust take into account a c. 2% income distribution from the Infrastructure Income Fund towards the end of each quarter.
[4] ASI MSPC Fund date of inception 24 April 2020.
[5] ASI MSPC Fund is measured against a blended benchmark of 3 Month Sterling LIBOR and the ICE ML Sterling BBB Corporate Bond Index while the strategy is in the process of deploying invested capital. The weight of the benchmark allocated to the ICE ML Sterling BBB Corporate Bond Index reflects the proportion of the Fund's investment in the MSPC Fund which has been deployed by ASI. Once the Fund's investment has been fully deployed, the MSPC Fund will be measured against a benchmark consisting 100% of the ICE ML Sterling BBB Corporate Bond Index. Over the quarter to 30 June 2020, the MSPC Fund has been measured against a benchmark of 100% 3 Month Sterling LIBOR.

Over previous quarters, we have estimated net of fees returns based on gross of fees performance figures provided by the Fund's custodian, Northern Trust. We received communication following quarter end that the returns provided by Northern Trust are now calculated on a net of fees basis.

We have updated our historical data to reflect this. All performance figures quoted in this report are consistent with the net of fees figures provided by Northern Trust.

3 Total Fund

3.1 Investment Performance to 30 June 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund - Net of fees	11.1	4.8	5.0	6.8
Benchmark[(1)]	10.0	6.5	6.8	7.8
Net performance relative to benchmark	1.1	-1.7	-1.8	-0.9

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

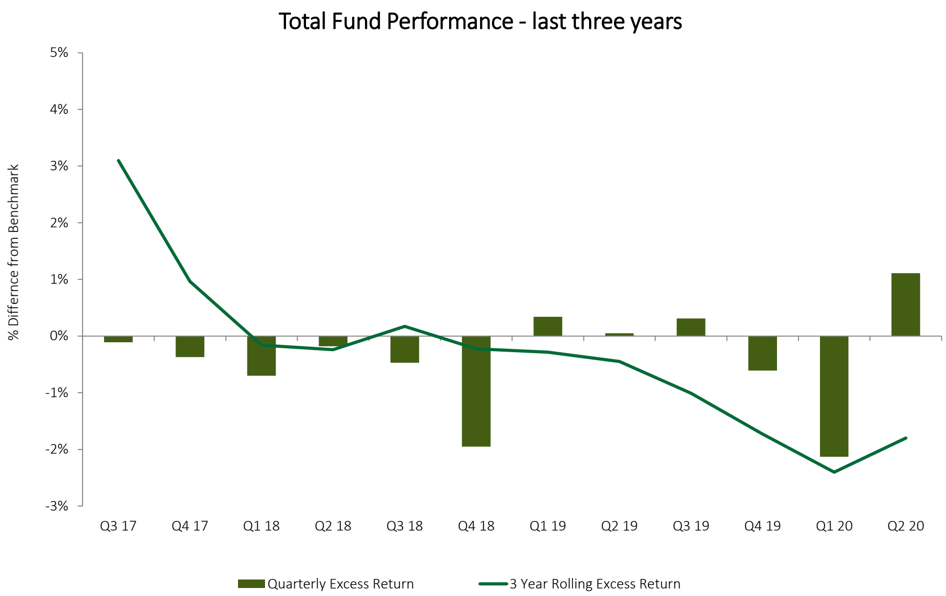
(1) Fixed weight benchmark

The Total Fund returned a positive return of 11.1% over the quarter to 30 June 2020 on a net of fees basis, outperforming the fixed weight benchmark by 1.1%.

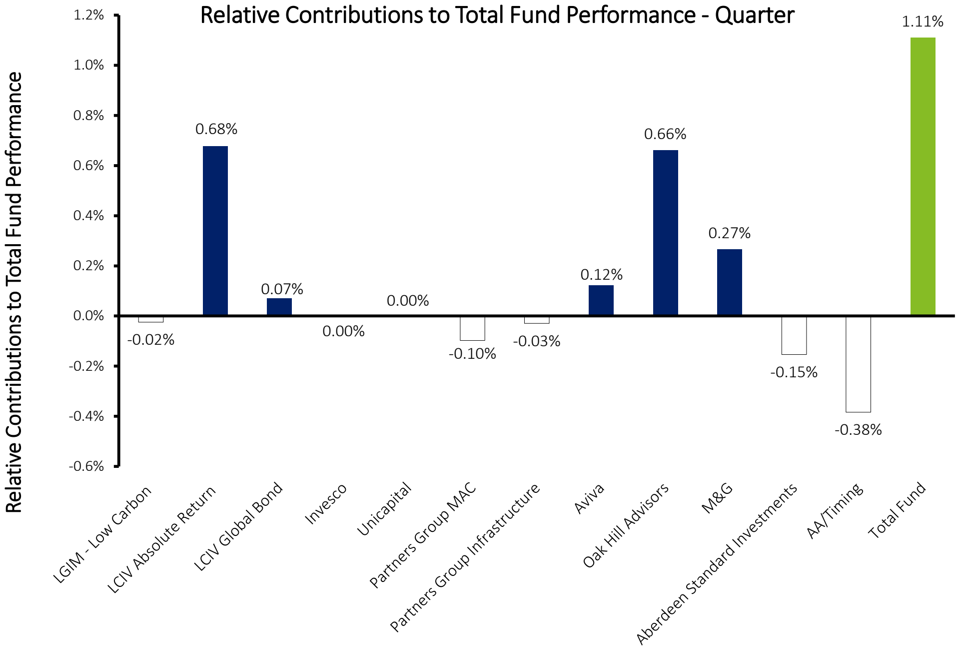
Over the year to 30 June 2020, the Total Fund delivered a return of 4.8% on a net of fees basis, underperforming the fixed weight benchmark by 1.7%. Meanwhile, over the three and five year periods to 30 June 2020, the Total Fund delivered positive returns of 5.0% p.a. and 6.8% p.a. respectively on a net of fees basis, underperforming the fixed weight benchmark by 1.8% p.a. and 0.9% p.a. respectively over both periods.

Over the three year period to 30 June 2020, underperformance can be somewhat attributed to the Fund's allocation to the LCIV UK Equity Fund. The UK equity strategy, managed by Majedie, underperformed its FTSE-based benchmark by 5.2% p.a. on a net of fees basis over a three-year period until point of disinvestment in December 2019.

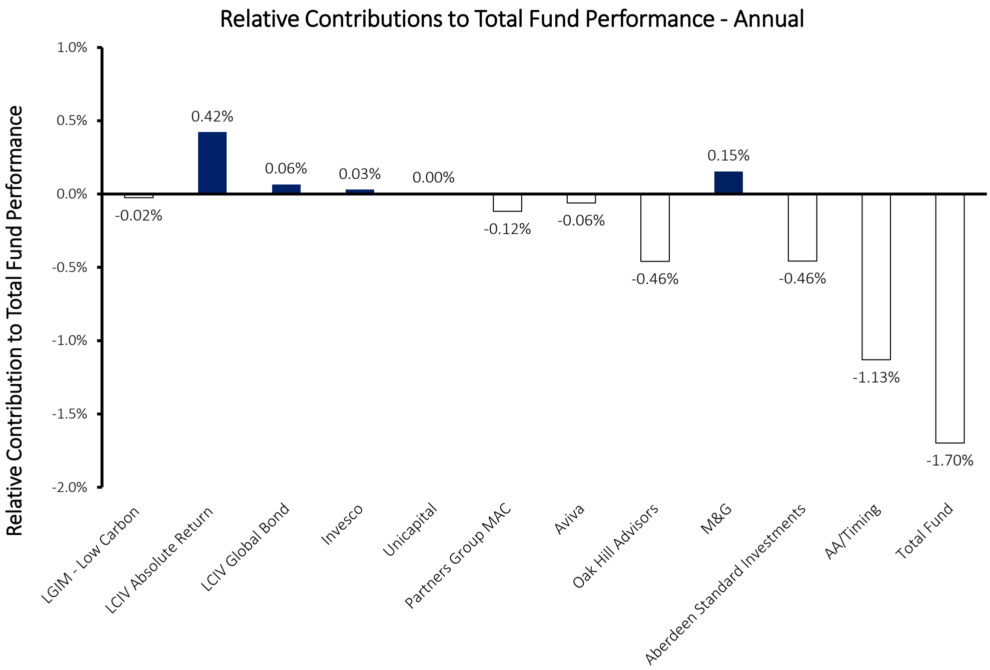
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 30 June 2020. The 3-year rolling excess return increased over the quarter but remained negative.



3.2 Attribution of Performance to 30 June 2020



Over the second quarter of 2020, the Fund outperformed its benchmark primarily as a result of outperformance from Oak Hill Advisors and the LCIV Absolute Return Fund, relative to their respective cash-plus benchmarks. Both of these strategies were the largest detractors to performance over the first quarter of 2020. It should be noted that Oak Hill Advisors and the LCIV Absolute Return Fund are measured against a cash plus benchmark, which over shorter time horizons will result in relative performance differences.



The Fund underperformed its fixed weight benchmark by 1.7% over the year to 30 June 2020. Underperformance can largely be attributed to underperformance from Oak Hill Advisors, such was the degree of underperformance over the first quarter of 2020, and the Aberdeen Standard Investments Long Lease Property Fund which has underperformed its gilts-based benchmark over three of the four quarters to 30 June 2020. The Aberdeen Standard Investments Long Lease Property Fund is measured against a gilt-based benchmark which, again, can result in short term differences. The negative contribution provided by the "AA/Timing" bar represents the impact of the Fund having an overweight allocation to the Partners Group MAC and Aberdeen Standard Investments strategies during a period of negative performance, and includes the underperformance from the LCIV UK Equity Fund over Q3 and Q4 2019.

3.3 Asset Allocation

The table below shows the value of assets held by each manager as at 30 June 2020 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation 31 Mar 2020 (£m)	30 June 2020 (£m)	31 Mar 2020 (%)	30 June 2020 (%)	Benchmark Allocation (%)
LGIM	Low Carbon Equity (passive)	411.5	493.3	40.9	44.1	45.0
	Total Equity	**411.5**	**493.3**	**40.9**	**44.1**	**45.0**
LCIV	Absolute Return	128.5	136.7	12.8	12.2	10.0
LCIV	Global Bond	101.0	107.5	10.0	9.6	10.0
	Total Dynamic Asset Allocation	**229.5**	**244.3**	**22.8**	**21.8**	**20.0**
Invesco	Private Equity	1.5	1.4	0.2	0.1	0.0
Unicapital	Private Equity	0.7	0.7	0.1	0.1	0.0
	Total Private Equity	**2.2**	**2.1**	**0.2**	**0.2**	**0.0**
Partners Group[1]	Multi Asset Credit	19.2	19.3	1.9	1.7	0.0
Oak Hill Advisors	Diversified Credit Strategy	65.6	72.9	6.5	6.5	7.5
Partners Group[1]	Direct Infrastructure	23.0	27.6	2.3	2.5	5.0
Aviva	Infrastructure Income	26.1	27.2	2.6	2.4	2.5
Aberdeen Standard Investments	Multi Sector Private Credit	-	55.0	-	4.9	5.0
	Secure Income	**133.8**	**202.0**	**13.3**	**18.1**	**20.0**
M&G	Inflation Opportunities	111.0	114.4	11.0	10.2	10.0
Aberdeen Standard Investments	Long Lease Property	58.9	59.1	5.9	5.3	5.0
	Total Inflation Protection	**169.9**	**173.4**	**16.9**	**15.5**	**15.0**
Northern Trust	Trustee Bank Account	59.5	3.5	5.9	0.3	0.0
	Total	**1,006.4**	**1,118.7**	**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
[1]Partners Group Multi Asset Credit and Direct Infrastructure valuations provided by Northern Trust with a month's lag (i.e. as at 28 Febraury 2020 and 31 May 2020)

Over the second quarter of 2020, the Fund's underweight position to equities reduced from 4.1% to 0.9%, such was the extent of the rebound in global equity markets following the COVID-19 outbreak.

The Fund's secure income allocation increased over the quarter following the £55m commitment to the ASI Multi Sector Private Credit Fund being fully drawn for investment in April. The funds were transferred from the Northern Trust bank account, where they were being held following disinvestment from Legal & General. The Fund's Secure Income allocation remains underweight as at 30 June 2020, with the Partners Group Direct Infrastructure Fund yet to be fully drawn for investment.

The Fund's Dynamic Asset and Inflation Protection allocations are 1.8% and 0.5% overweight respectively as at 30 June 2020.

On 27 May 2020, the Partners Group Direct Infrastructure Fund issued a net capital distribution of €0.5m to the Fund, comprising a capital call, drawing down an additional c. 2.3% (€1.3m), and a €1.8m distribution of capital. Total drawn down following this call was c. 54.3%.

Over the quarter, it was agreed to invest approximately one third of the Fund's equity allocation to a new active equity manager. Following a manager selection exercise in April 2020, the Sub-Committee decided to allocate this investment to the Morgan Stanley Global Sustain Fund, via the London CIV platform. The strategy has yet to be launched by the London CIV. Once launched, funds will be transferred from the Legal & General World Low Carbon Equity Fund.

In addition, over the second quarter of 2020, the Fund agreed to disinvest from the M&G Inflation Opportunities V Fund primarily due to the Fund's over-exposure to the UK property market. The Fund is targeting M&G's dealing date of 1 September 2020, however as the Fund's investment represents a large allocation of the Inflation Opportunities Fund's NAV, the full redemption may be spread over several monthly dealing dates, meaning the total value may not be fully redeemed immediately.

3.4 Yield Analysis as at 30 June 2020

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

Manager	Asset Class	Yield as at 30 June 2020
LGIM	Low Carbon Equity	N/A[1]
LCIV	Absolute Return	1.15%
LCIV	Global Bond	3.27%
Partners Group	Multi-Asset Credit	3.59%
Oak Hill Advisors	Diversified Credit Strategy	7.70%
Aviva Investors	Infrastructure	7.90%[2]
M&G	Inflation Opportunities	2.10%
Aberdeen Standard Investments	Long Lease Property	4.30%
	Total	**1.34%**

[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 31 March 2020.

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
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
	Multi Sector Private Credit	Significant changes to the investment team responsible for the Fund	1

4.1 London CIV

Business

As at 30 June 2020, the London CIV had assets under management of £8,971m within the 13 sub-funds (not including commitments to the London CIV Infrastructure Fund and London CIV Inflation Plus Fund), an increase of £1,328m over the quarter primarily as a result of positive market movements over the period. The total assets under oversight, including passive investments held outside the London CIV platform was £19.6bn, an increase of £2.9bn over the three month period with a further £0.5bn committed to the recently launched London CIV Infrastructure Fund and London CIV Inflation Plus Fund.

COVID-19 Impact:

The London CIV's employees continue to work remotely, and are expected to remain so for the foreseeable future. The London CIV has continued to host monthly LCIV Business Updates to keep investors informed and up to date with regards to progress with mandate developments and fund launches. All Meet the Manager sessions continue to go ahead as planned.

Personnel

As reported last quarter, Jason Fletcher was appointed as permanent Chief Investment Officer and started the role in July following a short handover period. Jason takes over from Kevin Corrigan, who has been interim CIO since November 2019.

It was also reported last quarter that Jacqueline Jackson had been appointed Head of Responsible Investment. Jacqueline joined in June and is working alongside pool members to better understand ESG requirements and expectations alongside continuing to develop the London CIV's commitment to responsible investment. Jacqueline has already signed the London CIV up as an affiliate to Pensions for Purpose and the Task Force on Climate Related Disclosures ("TCFD").

The London CIV is expected to appoint a new Head of Operations following terms being accepted for the position and will begin advertising for a new Head of Private Markets. The London CIV is also looking to appoint a third Client Relations Manager.

Deloitte view – It is positive to see a permanent Chief Investment Officer and we hope for continued stability going forward. We are continuing to monitor developments on the business side as well as the new fund launches.

4.2 LGIM

Business

As at 30 June 2020, Legal & General Investment Management ("LGIM") had assets under management ("AuM") of c. £1,241m, an increase of c. £45m since 31 December 2019.

COVID-19 Impact and Reporting Issues:

Whilst only announced biannually, we expect LGIM's assets under management to have suffered a material fall from the COVID-19 market crash in early 2020.

More widely, LGIM had to adjust its business operations in light of the COVID-19 lockdown restrictions. LGIM reported that it enacted its business contingency planning, and that it had evolved to enable greater agile working for employees to ensure business continuity.

Despite enacting these contingency plans, we have recently noted a number of reporting/operational concerns on a range of reporting issues which LGIM has cited have been delayed due to the impact of remote working and a spike in annual leave over the summer. We plan to follow-up with LGIM with the aim of resolving these issues to ensure that the Fund receives timely information going forwards.

Personnel

Please note, at the time of writing, we had not yet received a personnel update from LGIM for Q2 2020 on the Index team, and we will provide an update when we receive this.

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

4.3 Ruffer

Business

As at 30 June 2020, Ruffer held assets under management of £20.1bn, an increase of c. £1.0bn over the quarter.

Personnel

There were no significant team or personnel changes to the Absolute Return Fund over the quarter.

COVID-19 Impact:

As reported last quarter, in line with government guidance, Ruffer closed its London, Edinburgh and Paris offices in March with all employees and partners successfully transitioning to remote working. All staff have been provided remote access to key systems such that portfolio management and dealing activities are not impacted. Prior to the move to remote working, Ruffer had successfully implemented a split workforce to test its systems which proved successful.

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.

4.4 PIMCO

Business

As at 30 June 2020, PIMCO held $1.9tn in assets under management, an increase of c. $0.1tn over the quarter. The LCIV Global Bond Fund stood at £338.6m in assets under management as at 30 June 2020, representing an increase over the quarter of £62.8m.

COVID-19 Impact:

There have been no notable changes to PIMCO's control environment, including trade flow and middle/back office processes which are maintaining the appropriate segregation of duty requirements and independent reconciliations.

PIMCO has also stated that there has been no changes to valuation methodology and has been in close contact with pricing vendors over recent weeks. Reporting of PIMCO's assets also remains within respective timelines and has not faced any dealing issues or delays due to COVID-19.

At a fund level, the Global Bond Fund has witnessed no defaults in the portfolio as a result of COVID-19. Two issuers were downgraded to below investment grade over the quarter, with PIMCO deciding to sell one and keep hold of the other.

Personnel

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

In June 2020, PIMCO announced that Tom Otterbein, managing director and Head of Client Management Americas, will be retiring from the firm at the end of the month. Candice Stack, managing director and current Head of the US Institutional Client Management team since 2016, has been appointed to replace Tom.

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

4.5 Partners Group

Business

As at 30 June 2020, Partners Group had total assets under management of $96.3bn, an increase of c. $4.9bn since 31 December 2019.

COVID-19 Impact:

Following COVID-19 restrictions having weighed on investments in the portfolio, the distributions of the MAC 2014 Fund have been extended by a year from July 2020 to July 2021 to support the cashflow of the underlying companies invested in over the short to medium term, which will in turn support the long-term performance of the Fund.

More widely, Partners Group organised its Crisis Response Team and immediately put its business continuity plan into effect for a pandemic scenario in early 2020 that subsequently was borne out. The team was expanding to include both Partners Group CEO and CRO, to ensure that key business functions were represented and accounted for and holds daily calls for regular updates.

Partners Group has placed health and safety as its number one priority and has actioned temporary closure of the majority of offices, with those still open offering restricted numbers of workers with strict social distancing and hygiene protocols and has discouraged the use of public transport. Additionally, Partners Group has extended its remote working capabilities to ensure there is no interruption to business and restricted travel globally. Overall, Partners Group has stated that there have been no major interruptions to either critical or non-critical business functions to date.

Multi Asset Credit

The Partners Group MAC Fund had a net asset value of £94.3m at 30 June 2020, a decrease of £3.6m since the previous quarter end valuation at 31 March 2020 due to a combination of negative returns over the quarter and a distribution made back to investors in June 2020. 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, with the Partners Group MAC Fund making one further distribution over the quarter, which totaled £2m across all investors.

Partners Group expects to issue a further distribution of £10m from the MAC Fund, shared between all investors, towards the end of August 2020. The London Borough of Hammersmith and Fulham Pension Fund would expect to receive a total of c. £2.0m from this distribution.

Direct Infrastructure

As at 30 June 2020 the Direct Infrastructure Fund had drawn down c. 54% of its total €1,081m commitment value for investment, with 78% of the total Direct Infrastructure Fund's portfolio committed to investment opportunities at the end of the quarter.

Personnel

There were no significant team or personnel changes to the Multi Asset Credit or Direct Infrastructure Fund teams over the quarter.

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

4.6 Aberdeen Standard Investments – Multi-Sector Private Credit

Business

As at 30 June 2020, the Aberdeen Standard Investments Multi-Sector Private Credit Fund had a commitment value of £91m. On 1 July 2020, the strategy received an additional subscription of £6m and ASI expects to receive £41m of further subscriptions on 1 October 2020.

The MSPC Fund has a robust indicative pipeline of private credit assets for the coming months and has closed on two private deals since the start of Q3.

COVID-19 Impact:

The MSPC Fund was launched in April, following the initial onset of the COVID-19 pandemic. As such, the portfolio is able to be built up in a cautious and more 'COVID-aware' manner. All investments made to date are performing as expected, and ASI states that it does not have any loans in the MSPC Fund which are on the 'Watchlist' or that have experienced credit downgrades.

After the initial uncertainty of lockdown in early Q2, deal flow has picked up and has continued into Q3.

Personnel

There were no significant team or personnel changes to the Multi-Sector Private Credit Fund over the quarter,

In the wider credit team, Ray Ellis joined the Commercial Real Estate Debt team and Helen Zheng joined the Structured Credit team. Ray and Helen have 35 and 3 years' experience respectively.

***Deloitte View* –** We continue to rate Aberdeen Standard Investments for its private credit capabilities.

4.7 Oak Hill Advisors – Diversified Credit Strategies (DCS)

Business

As at 1 May 2020, Oak Hill Advisors held assets under management of $40.0bn, an increase of $1.1bn since 1 February 2020.

The DCS net asset value stood at $3.8bn as at 30 June 2020, an increase of c. $0.4bn over the quarter, with c. $3m of net inflows over the period.

COVID-19 Impact:

As reported last quarter, during March 2020, Oak Hill Advisors enacted a formal initiative which included restrictions to all non-essential business travel, all travelers to carry a laptop and remote connectivity to enable remote working if needed. Oak Hill Advisors employees have been working remotely since 16 March, following a test of Oak Hill Advisors' system capacity. This accompanied Oak Hill Advisors' upgrade of its IT systems and infrastructure in early 2019.

Oak Hill Advisors has provided cross training between a couple of its offices to ensure that key operational functions have the necessary cover, for example to ensure trade/settlement and treasury functions have several people who can perform each task. Oak Hill Advisors performs weekly portfolio reviews to ensure each team is familiar with the mandate and positioning alongside each industry being covered by both senior and junior investment professionals should senior research professionals not be able to perform these tasks.

At a fund level, the DCS Fund has seen a wave a downgrades by rating agencies following the economic slowdown caused by COVID-19. Although, Oak Hill Advisors states that this has not materially changed the composition of the portfolio and the strategy has maintained the same average credit quality since the beginning of 2020.

Personnel

At managing director level and above, OHA advisors saw one new joiner and two leavers over the quarter.

Izzy Goncalves joined the firm as a managing director to work as a product specialist with her role including client coverage. It has not been determined yet which product Izzy will specialise in over the long-term, however Izzy is currently working with the Diversified Credit Strategies team. Izzy has been hired to help streamline some operations within the business.

Alex Jung, senior advisor and co-head of Oak Hill's European business, left the firm over the quarter to start her own company. Chad Valerio, portfolio manager and managing director for distressed assets also left Oak Hill over the quarter, to join ONEX where he is looking to help build out the distressed assets business.

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

The Aviva Investors Infrastructure Income Fund had total subscription value of £1,253m as at 30 June 2020, remaining unchanged over the second quarter of 2020 as no new investor commitments were received. As at 30 June 2020, the undrawn amount for the AIIIF was c. £100m.

COVID-19 Impact:

Following the COVID-19 outbreak, the Aviva Investors Infrastructure Income Fund and its underlying assets have been valued in line with Aviva's usual valuation policy and methodology, with Q1 and Q2 2020 valuations reflecting the potential impact on assets from COVID-19 related factors. Aviva has confirmed that it has not applied material uncertainty or suspended or delayed pricing or issuing units in the Fund.

At the onset of the pandemic, Aviva implemented a heightened asset monitoring process with weekly meetings with external asset management and service providers to identify and rectify any issues as quickly as possible.

AIIIF Structure

In July 2020, Aviva contacted investors with the aim of gauging interest on holding a vote on the future of the AIIIF. Specifically, Aviva is keen to understand whether investors wish to keep the AIIIF as an open-ended, actively marketed product, or to soft close at the point NAV plus undrawn commitments reaches £2bn.

It is important to note at this stage that Aviva is only asking investors if they would like to hold a vote, not to formally vote at this stage.

Personnel

There were no significant team or personnel changes over the quarter to 30 June 2020 at the Director level.

An associate, Leo Pillemont, left the team over the second quarter of 2020. Leo has left Aviva Investors to work for a windfarm developer.

Deloitte View – We continue to rate Aviva Investors positively for its infrastructure capabilities. Regarding the structure, our view would be not to hold a vote, as we see no benefit to changing the structure of the fund.

4.9 M&G – Inflation Opportunities Fund

Business

As at 30 June 2020, the M&G Inflation Opportunities Fund V held assets under management of £544m, an increase of c. £16m over the quarter.

COVID-19 Impact:

As reported last quarter, M&G has implemented business continuity plans across its business. M&G adopted flexible working in most locations over a year ago, such that staff, including fund managers and dealers, have the necessary operational connectivity and equipment to work from home and in most cases were used to doing so already. This has allowed the vast majority of M&G's business to continue as usual, with all critical services functioning. M&G has replaced face to face meeting with video or audio conferencing counterparts.

At a fund level both the Secure Property Income Fund and Secured Lease Income Fund, which form part of the wider Inflation Opportunities Fund, have received rent concession requests from tenants, primarily in the hotel and leisure sectors and largely in the form of rent deferrals. M&G has stated that it will continue to support the short term liquidity of tenants in this difficult period but continues to monitor government packages that it believes will support tenants to ensure that tenants are accessing these where applicable to improve their short-term liquidity. M&G states that the two aforementioned funds have reasonable liquidity positions with a high quality and diversified tenant base. M&G believes this will assist with short term cash flow.

M&G added a "material uncertainty clause" to all 31 March 2020 valuations. As at 30 June 2020, the "material uncertainty clause" was lifted for:

- c. 35% of long lease assets, following assertions from the fund's valuer, CBRE, that these valuations can be relied upon; and
- c. 62% of income strips assets, following an announcement from RICS that it will be removed from all institutionally managed student accommodation.

Personnel

There were no significant team or personnel changes to the M&G Inflation Opportunities Fund over the second quarter of 2020.

Deloitte view – Given the Fund's over-exposure to the UK property market, the Sub-Committee has decided to make a full redemption from the M&G Inflation Opportunities Fund.

4.10 Aberdeen Standard Investments – Long Lease Property

Business

As at 30 June 2020, the Aberdeen Standard Investments Long Lease Property Fund had a total fund value of c. £2.6bn, increasing by c. £9m over the quarter.

COVID-19 Impact:

As reported over the first quarter of 2020, due to material valuation uncertainty, ASI announced the decision to suspend trading on the ASI Long Lease Property Fund, effective 18 March 2020, due to the market disruption caused by COVID-19 and the material uncertainty it has created around valuing the Fund's investments fairly in order to protect the interests of all investors in the Fund.

Following quarter end, Aberdeen Standard Investments has been informed by the Long Lease Property Fund's independent valuers that there is sufficient market based evidence to remove the material valuation uncertainty clause. As such, ASI has lifted the suspension on trading, effective 3 August 2020. As a result, the Long Lease Property Fund's dealing has reverted to normal.

Personnel

In April 2020, ASI announced that as part of their real estate management team restructure to align with the future direction of the business, Richard Marshall, Portfolio Manager of the ASI Long Lease Property Fund, will leave ASI at the end of October 2020. Les Ross, Deputy Portfolio Manager will formally become the new Portfolio Manager from 1 August 2020. Richard has held the position of Portfolio Manager of the ASI Long Lease Property Fund since 2006 and his contribution has been viewed as one of the key factors to the Fund's success.

The announcement of Richard's departure follows ASI's previous announcement in March 2020 that they would be restructuring their real estate leadership and management teams to better align with the future direction of the business led by Neil Slater. Three new leadership roles of Head of Real Estate Investment Strategy, Head of Real Estate Investment Management and Head of Real Estate Business Management, Finance, Operations & Structuring were subsequently created, with Anne Breen, Andy Creighton and Paolo Alonzi taking on the roles respectively from 1 April 2020. Mike Hannigan, Head of Real Estate UK also stated his intention to retire from ASI, with an interim corporate strategy role created for him during the period to retirement reporting to Neil.

Later in April 2020, a further update was provided by ASI with a new Global Real Estate Management Team created to work alongside the Real Estate Leadership Team who will take ownership of key investments and functional outcomes. The Team will be further split into fund management and asset management, with fund management appointing Heads of each area of business who will provide line management responsibility of the respective fund managers in that area.

In May 2020, Martin Gilbert, Chairman of ASI, retired from most of his board roles at the AGM but will remain as Chairman of ASI until September 2020 to ensure a smooth transition period.

At the end of June 2020, ASI announced the appointment of Stephen Bird as the new CEO Designate and Director of Standard Life Aberdeen (SLA) to take effect from 1 July 2020. Stephen Bird will succeed the incumbent Keith Skeoch, who will formally step down as CEO and from the board of directors in September 2020, subject to regulatory approval.

Deloitte View – We are closely monitoring the changes to senior leadership at ASI. Keith Skeoch's departure was somewhat expected in the near future, and we see Stephen Bird as a very capable appointment. With regards to real estate and the Long Lease Property Fund, while the departure of Richard Marshall was a surprise, Les Ross is the obvious replacement and is very experienced and well positioned to take over. That said, Richard's contribution to the fund was significant and we continue to closely monitor both the fund and wider business.

5 London CIV

5.1 Investment Performance to 30 June 2020

At the end of the second quarter of 2020, the assets under management within the 13 sub-funds of the London CIV was £8,971m with a further £506m committed to the Infrastructure and Inflation Plus Funds. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased by c. £2.9bn to c. £19.6bn 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 31 Mar 2020 (£m)	Total AuM as at 30 June 2020 (£m)	Number of London CIV clients	Inception Date
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,415	3,089	13	11/04/16
LCIV Global Equity	Global Equity	Newton	584	692	3	22/05/17
LCIV Global Equity Focus	Global Equity	Longview Partners	678	776	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	210	236	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	302	366	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	382	470	3	18/04/18
LCIV Sustainable Equity Exclusion Fund	Global Equity	RBC Global Asset Management (UK)	210	321	2	11/03/20
LCIV Global Total Return	Diversified Growth Fund	Pyrford	309	270	4	17/06/16
LCIV Diversified Growth	Diversified Growth Fund	Baillie Gifford	589	602	7	15/02/16
LCIV Absolute Return	Diversified Growth Fund	Ruffer	862	754	8	21/06/16
LCIV Real Return	Diversified Growth Fund	Newton	113	122	2	16/12/16
LCIV MAC	Fixed Income	CQS	713	936	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	276	338	3	30/11/18
Total			**7,643**	**8,971**		

Over the quarter to 30 June 2020, the LCIV Sustainable Equity Exclusion Fund gained one new investor, whilst one London Borough disinvested from the LCIV Global Total Return Fund and the LCIV Diversified Growth Fund and two disinvestments were made from the LCIV Absolute Return Fund.

6 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.

6.1 World Low Carbon Equity – Investment Performance to 30 June 2020

	Last Quarter (%)	One Year (%)
Net of fees	19.9	7.1
Benchmark (MSCI World Low Carbon Target)	20.0	7.2
MSCI World Equity Index	19.9	6.5
Net Performance relative to Benchmark	-0.1	-0.1

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

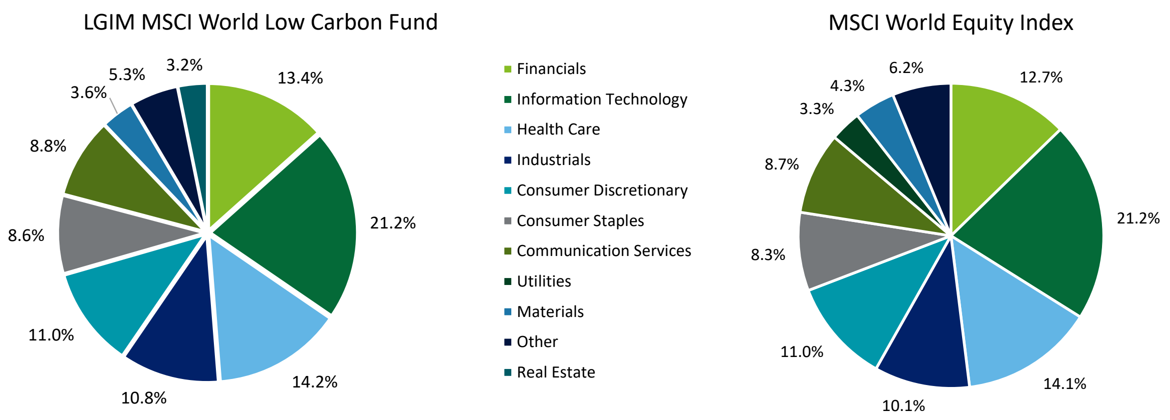
The LGIM MSCI World Low Carbon Index Fund delivered an absolute return of 19.9% on a net of fees basis over the second quarter of 2020, making up much of the losses realised over the first quarter of 2020.

The strategy slightly underperformed its MSCI World Low Carbon Target Index benchmark by 0.1% over the quarter but performed in line with the MSCI World Equity Index.

Over the one-year period to 30 June 2020, the LGIM MSCI World Low Carbon Fund has marginally underperformed its benchmark by 0.1%, returning 7.1% on a net of fees basis. However, the sustainable-focused fund outperformed the MSCI World Equity Index by 0.6% over the year, owing to the strategy's larger allocation to financials and industrials, and lower allocation to energy, transport and materials, which was favourable positioning over the first quarter of 2020.

6.2 Portfolio Sector Breakdown at 30 June 2020

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 June 2020.



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 utilities and materials represents the low carbon nature of the Fund.

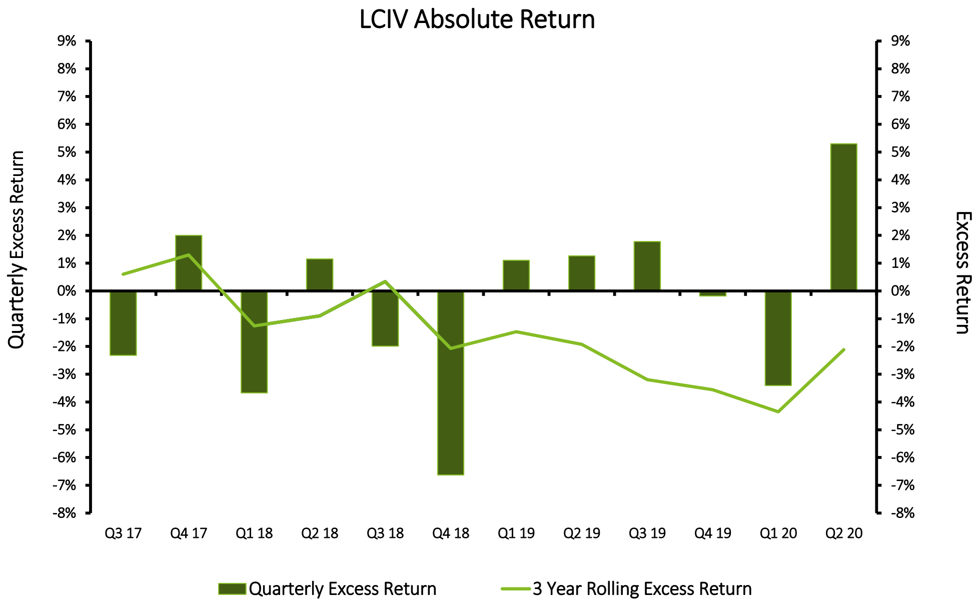
7 LCIV – Absolute Return

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.

7.1 Dynamic Asset Allocation – Investment Performance to 30 June 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Net of fees	6.4	8.1	2.5	3.4
Target	1.1	4.6	4.7	4.6
Net performance relative to Target	5.3	3.5	-2.1	-1.2

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



The Absolute Return Fund returned 6.4% on a net of fees basis over the quarter to 30 June 2020, outperforming its LIBOR +4% target by 5.3%. Over the year to 30 June 2020, the fund outperformed its target by 3.5%, delivering a positive return of 8.1% on a net of fees basis. However, despite delivering a positive absolute performance of 2.5% p.a. on a net of fees basis over the three year period to 30 June 2020, the fund has underperformed its target by 2.1% p.a. over this period.

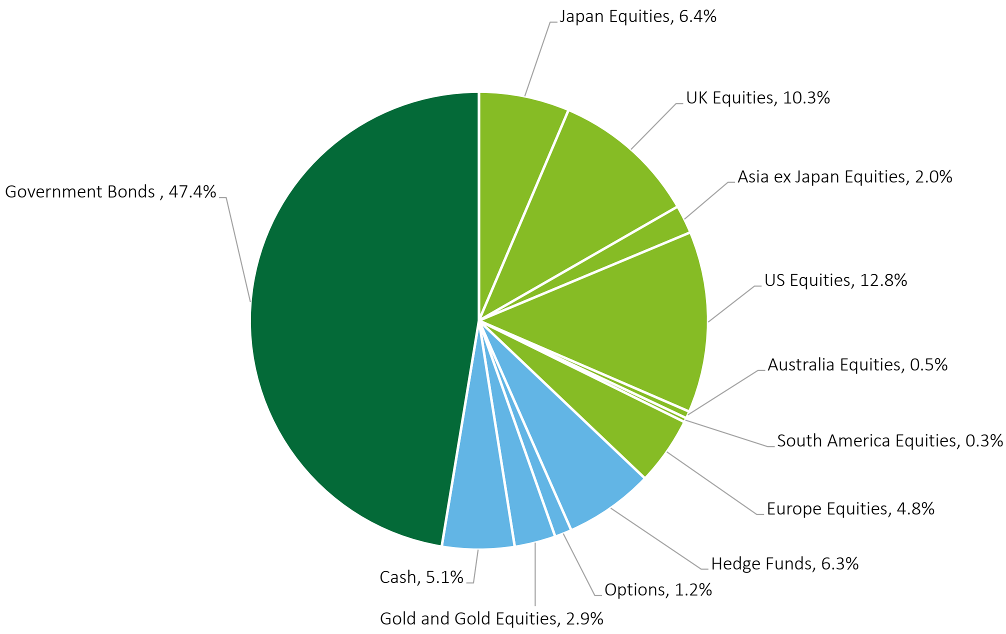
Over the second quarter of 2020, the LCIV Absolute Return Fund's positive performance was primarily driven by the strategy's exposures to gold and gold equities, which Ruffer accredits c. 4% of its return to over the quarter. With gold price rising by c. 11%, the portfolio's gold holdings rose by 50% owing largely to a bias to gold mining stocks which Ruffer added to at the end of March 2020.

Ruffer also made a c. 15% strategic allocation to US Inflation-linked bonds before the close of the first quarter, with a rise in US real yields causing prices to fall at the time. This allocation proved to be a large contributor to positive performance over the quarter to 30 June 2020 as inflation expectations rose from a very low base and, at least initially, investors sought safer assets.

In addition, the strategy was able to participate, to some extent, in the equity market rebound over the second quarter owing to its 37% equity exposure. Although, after providing the largest detraction to negative performance over the first quarter of 2020, the strategy's options and credit protection detracted from performance over the quarter. Ruffer altered its credit protections over March and April 2020, switching focus to distress in high yield and moving away from investment grade credit exposures, which weakened returns despite investment grade spreads falling by c. 50%.

7.2 Asset Allocation

The chart below represents the asset allocation of the LCIV Absolute Return Fund portfolio as at 30 June 2020.



Source: London CIV

8 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.

8.1 Global Bond – Investment Performance to 30 June 2020

	Last Quarter (%)	One Year (%)
Net of fees	7.5	2.7
Benchmark	6.8	5.5
Net Performance relative to Benchmark	0.7	-2.8

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

Over the quarter to 30 June 2020, the LCIV Global Bond Fund returned 7.5% on a net of fees basis, outperforming its Barclays Aggregate – Credit Index Hedged (GBP) Index by 0.7%. Over the year, the strategy underperformed its benchmark by 2.8% owing to the underperformance realised over the first quarter of 2020, despite achieving a positive return of 2.7% on a net of fees basis over the period.

The Global Bond Fund's credit positions, particularly the financials allocation which PIMCO remains overweight to, contributed positively to performance over the quarter as credit spreads tightened. The financials sector provided the largest detraction to performance over the first quarter of 2020, the rally over the quarter to 30 June 2020 has largely recovered much of the losses realised although spreads remain above historic average levels.

The strategy's macro positioning, driven by an overweight allocation to the US and tactical positioning in local emerging market debt, also contributed positively to performance over the quarter.

At the onset of the quarter, the strategy was initially cautiously positioned in order to protect from any further widening of spreads. As such, the strategy experienced low levels of participation in the general credit market uplift in early April when credit spreads contracted.

The strategy experienced no defaults over the quarter, although two issuers, which represent a small proportion of the portfolio, were downgraded to below investment grade. Of these downgraded issuers, PIMCO sold one but maintained the other as the manager still holds conviction in the issuer.

The strategy remains relatively well positioned to cope with downgrades and there have been no forced sales over the quarter. The Global Bond Fund has the ability to hold up to 10% in sub-investment grade credit.

8.2 Performance Analysis

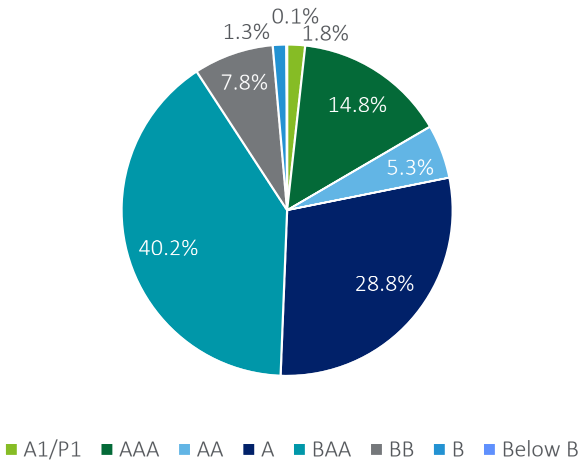
The table below summarises the Global Bond portfolio's key characteristics as at 30 June 2020.

	31 March 2020	30 June 2020
No. of Holdings	709	806
No. of Countries	43	45
Coupon	3.25	3.45
Effective Duration	6.27	6.89
Rating	A	A-
Yield to Maturity (%)	3.96	2.78

Source: London CIV

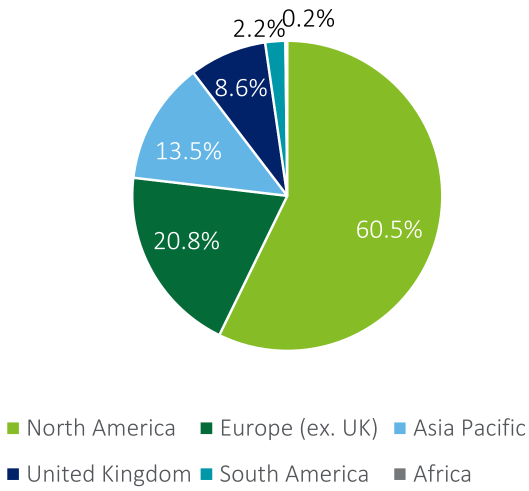
The number of holdings increased by 97 over the quarter with PIMCO taking advantage of new issues coming to the market at spreads higher than their pre COVID-19 levels. The number of holdings as at 30 June 2020 are now roughly consistent with pre COVID-19 levels.

The chart below represents the split of the Global Bond portfolio by credit rating. The Fund's investment grade holdings made up c. 90.8% as at 30 June 2020, a decrease of 1.6% over the quarter, with the Fund predominately invested in BAA and A rated bonds.



Source: London CIV

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.

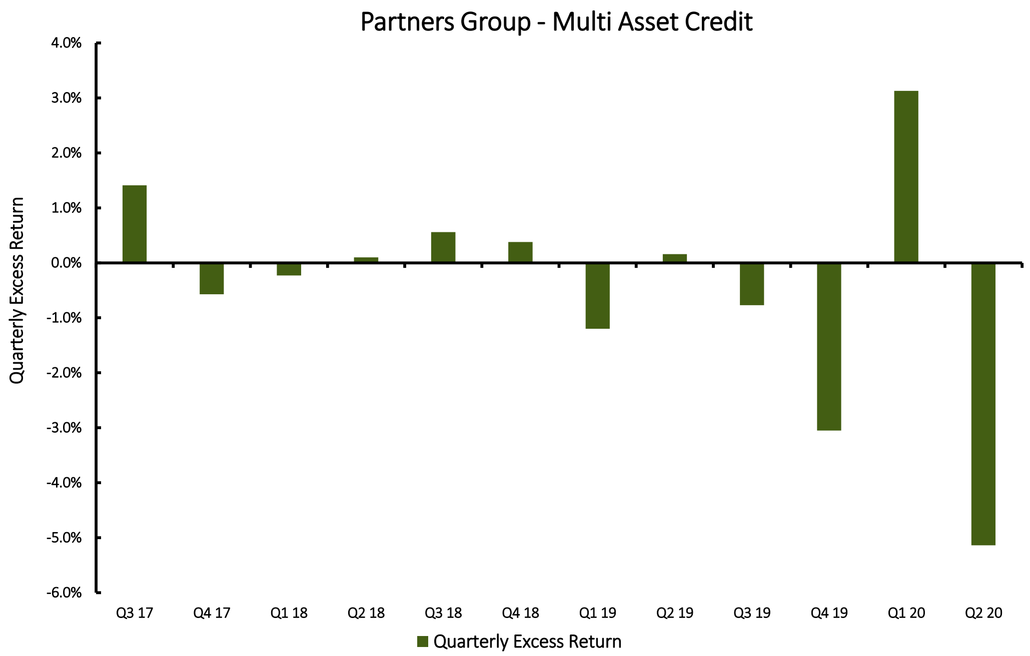
9 Partners Group – Multi Asset Credit

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

9.1 Multi Asset Credit - Investment Performance to 31 May 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Net of fees	-4.1	-1.4	2.8	4.3
Benchmark / Target	1.1	4.6	4.7	4.6
Net performance relative to Benchmark	-5.1	-6.1	-1.9	-0.2

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



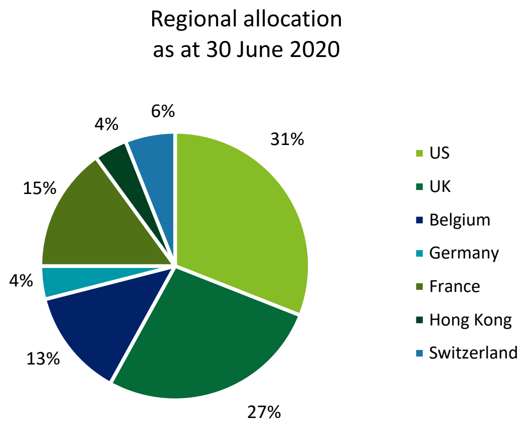
Please note, performance shown is to 31 May 2020.

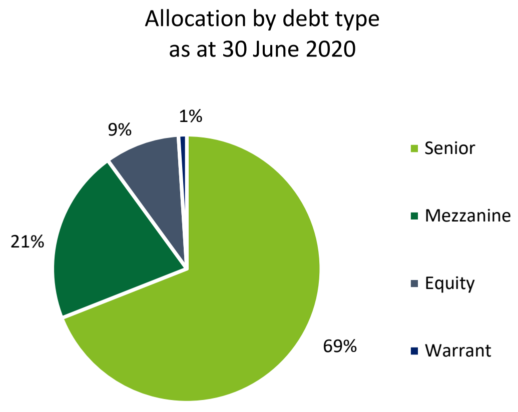
The Multi Asset Credit strategy has underperformed its 3 Month LIBOR +4% benchmark by 5.1% over the three month period to 31 May 2020, delivering a negative return of -4.1% on a net of fees basis. Over the quarter to 30 June 2020, we expect the MAC Fund to have delivered a return of -1.6% on a net of fees basis, based on an estimation of the strategy's time-weighted rate of return using cashflow information.

Negative performance can be attributed to impairments to the underlying investments of the portfolio, as a result of the impact of COVID-19.

9.2 Asset Allocation

The charts below show the regional split of the Fund as at 30 June 2020.





Note: Based on information provided by Partners Group.

The table below shows details of the Fund's holdings based on net asset value as at 30 June 2020. Partners Group no longer assesses its portfolio directly against the impacts of COVID-19, citing market recovery. Partners Group instead provides details of its standard watchlist rating, where investments rated "red" have an estimated high likelihood of default and "yellow" rated investments have a medium likelihood of default. The relevant ratings have been included in the table below.

Investment	Description	Type of Debt	Tranche	Maturity Date	Current IRR (%)	NAV (£m)	% of Total NAV	Watchlist Rating
AS Adventure	Large European specialist multi-brand outdoor retail group	Corporate	First Lien	28 Apr 2022	0.7	11.2	12.6%	
IDEMIA	Security and identity solutions company	Corporate	Mezzanine	31 May 2027	11.4	13.4	15.1%	n/a
Affordable Care, Inc.	US dental support organisation	Corporate	Second Lien	22 April 2023	1.6	4.8	13.3%	n/a
		Corporate	Second Lien	22 April 2023	11.7	7.0		
Cote Bistro	UK café chain	Corporate	First Lien	24 May 2024	8.0	8.6	9.7%	
Springer	Scientific publishing company	Corporate	First Lien	15 Aug 2022	5.1	0.7	0.8%	n/a
Project Silk	Hotel/Gaming	Corporate	Mezzanine	21 Dec 2020	5.1	5.8	6.5%	
Claranet	Cyber security, networks and telecommunications services	Corporate	First Lien	24 May 2022	2.9	1.1	7.8%	n/a
		Corporate	First Lien	24 May 2022	5.9	5.8		

ICCNexergy	Power system developer and manufacturer	Corporate	First Lien	30 Apr 2021	8.2	6.8	7.7%	n/a
Diligent Corporation	Corporate software	Corporate	First Lien	15 Apr 2022	7.8	5.1	5.7%	n/a
VFS Global Services	Country visa related services	Corporate	First Lien	29 July 2024	5.1	5.7	6.4%	
Vistra Group	Private equity firm	Corporate	Second Lien	26 Oct 2023	12.3	2.0	4.1%	n/a
		Corporate	Second Lien	26 Oct 2023	10.5	1.6		
Panda Stonewall	Power plant project	Corporate	First Lien	31 Nov 2021	6.7	0.0	0.0%	n/a
Lifeways Community Care	Social care	Corporate	First Lien	31 May 2022	1.5	2.8	3.2%	
Vestcom International	Marketing solutions to retailers	Corporate	First Lien	19 Dec 2023	6.1	1.9	2.1%	n/a
Plano Synergy	Fishing equipment manufacturer	Corporate	First Lien	12 May 2021	1.2	1.5	1.7%	
Bartec GmbH	Machinery explosion protection	Corporate	First Lien	15 November 2026	N/a	N/a	N/a	

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.

Of the investments currently on Partners Group's watchlist which have been rated "red":

- AS Adventure, a European retail business specialising in outdoor equipment and clothing, has been impacted by temporary store closures. Lack of summer tourism has had a material impact;
- Bartec, an oil and gas services company, has suffered due to the sharp drop in oil and gas prices seen in Q1 and Q2;
- Lifeways is the UK's largest provider of living/home care support for complex physical and mental needs. A key part of its offering is being able to work with patients in the patient's home, this has been substantially limited due to COVID-19;
- Plano, an American designer, manufacturer and marketer of outdoor sporting equipment, has seen lower retail sales and less outdoor activity due to the impact of COVID-19;
- Project Silk, a real estate investment in a portfolio of UK hotels, has seen blanket hotel closures have a severe impact; and
- Cote Bistro, a London based chain of French bistros, has seen substantial restaurant closures impact cashflows.

9.3 Fund Activity

As at 30 June 2020 the Partners Group Multi Asset Credit Fund had made 54 investments of which 38 have been fully realised. The Fund's three year investment period ended in July 2017 and, therefore, any investments realised have subsequently been repaid to investors. Over the quarter, the maturity of the Fund was extended an additional year to 28 July 2021 to facilitate the wind-down of the portfolio given the changes to the market over the first quarter of 2020.

Partners Group issued one distribution over the quarter, with £0.4m distributed to the London Borough of Hammersmith and Fulham Pension Fund on 29 June 2020.

10 Aberdeen Standard Investments – Multi-Sector Private Credit Fund

Aberdeen Standard Investments was appointed to manage a multi sector private credit mandate, with the Fund drawing down capital for investment on 8 April 2020. The Multi Sector Private Credit Fund aims to outperform the ICE ML Sterling BBB Corporate Bond Index once it has been fully deployed. The manager has an annual management fee

10.1 Multi-Sector Private Credit - Investment Performance to 30 June 2020

	Last Quarter (%)
Net of fees	0.0
Benchmark / Target	0.2
Net performance relative to Benchmark	-0.3

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

The Multi Sector Private Credit Fund was launched and incepted into the Fund's portfolio on 24 April 2020. As such, the performance and benchmark figures quoted above reflect the returns since the date of inception to 30 June 2020.

Once fully committed, the strategy will be measured against the ICE ML Sterling BBB Corporate Bond Index. While the strategy is in the process of deploying invested capital, the strategy is measured against a blended benchmark of 3 Month Sterling LIBOR and the ICE ML Sterling BBB Corporate Bond Index, with the weight of the benchmark allocated to the ICE ML Sterling BBB Corporate Bond Index reflecting the proportion of the Fund's investment in the MSPC Fund which has been deployed by ASI. Over the quarter to 30 June 2020, the MSPC Fund has been measured against a benchmark of 100% 3 Month Sterling LIBOR.

10.2 Portfolio Composition

Aberdeen Standard Investments aims to deploy invested capital in line with its long-term target asset allocation over two phases – an initial allocation via liquid opportunities, and a second phase made up of illiquid investments.

Phase 1 – Initial Asset Allocation

The target initial asset allocation, and allocation as at 20 August 2020, is provided in the table below:

	Target Phase 1 Allocation (%)	20 August Allocation (%)
Cash/Liquid Instruments		
Liquid ABS	10.0	9.4
Short Duration Fund	15.0	13.4
Cash	10.0	27.4
Corporate Loans		
Global Loans Fund	15.0	12.5
Public Opportunities		

Short Duration Corp Bonds (6 month duration)	15.0	6.3
IG Corp Bonds (3-4 year duration)	25.0	22.3
Structured Credit – Mezzanine ABS		
CMBS	5.0	0.0
CLO's	5.0	0.9

Source: Aberdeen Standard Investments

Phase 2 – Illiquid Investments

The table below provides details of the illiquid investments the strategy has invested in since inception, as at 20 August 2020:

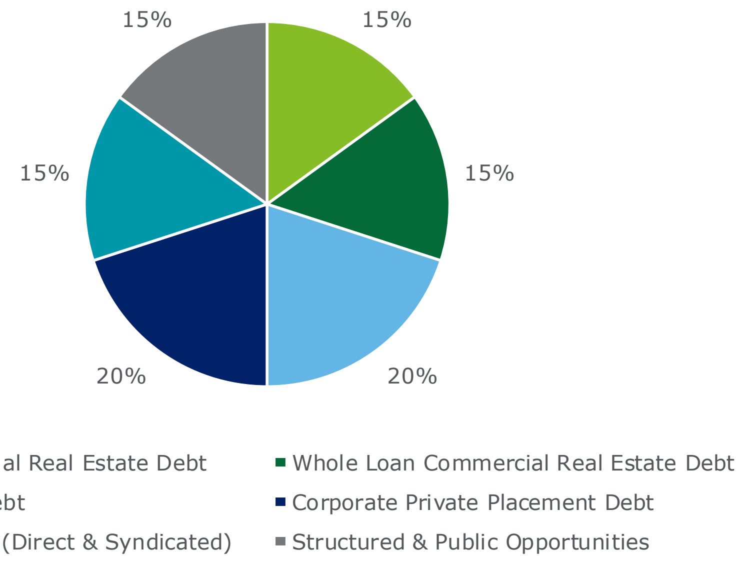
Project Name	Date Completed	MSPC Investment	Total Debt Raised	Maturity	Credit Rating	Spread*	Yield Pick-Up
Infrastructure Debt							
Infra 1 (UK Smart Meter)	July 2020	£4.4m	£1.1bn (4.4% by ASI)	14 years	BBB	250 bps	50 bps
Commercial Real Estate Debt							
CREL 1 (Industrial)	July 2020	£3.2m	£44m (100% by ASI)	3 years	BBB	362bps	145 bps

Source: Aberdeen Standard Investments

*Relative to 8 year gilts

Long-Term Target Allocation

The long-term target allocation of the ASI MSPC Fund is shown below:



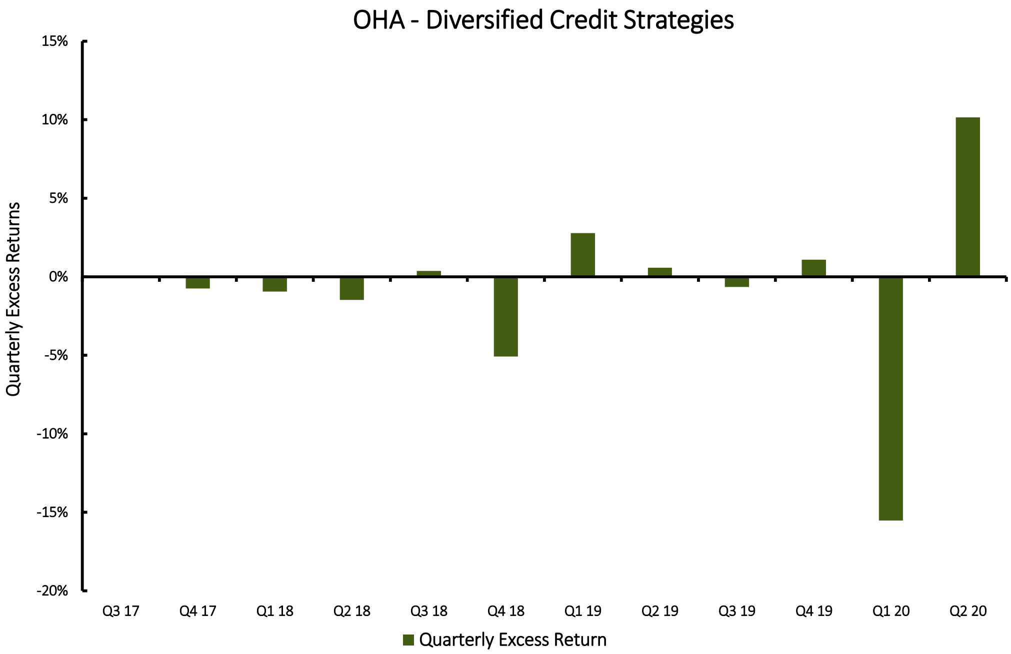
11 Oak Hill Advisors – Diversified Credit Strategies Fund

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 June 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Net of fees	11.2	-2.1	0.8	2.1
Benchmark / Target	1.1	4.6	4.7	4.6
Net Performance relative to Benchmark	10.2	-6.7	-3.9	-2.5

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



Following considerable underperformance over the first quarter of 2020, the Oak Hill Advisors Diversified Credit Strategies Fund outperformed its 3 Month Sterling LIBOR +4% p.a. benchmark by 10.2% over the quarter to 30 June 2020, returning 11.2% on a net of fees basis. However, such was the extent of the underperformance over the first quarter of 2020, the strategy has underperformed its benchmark by 6.7% over the year to 30 June 2020 on a net of fees basis, delivering a negative return of -2.1% in absolute terms.

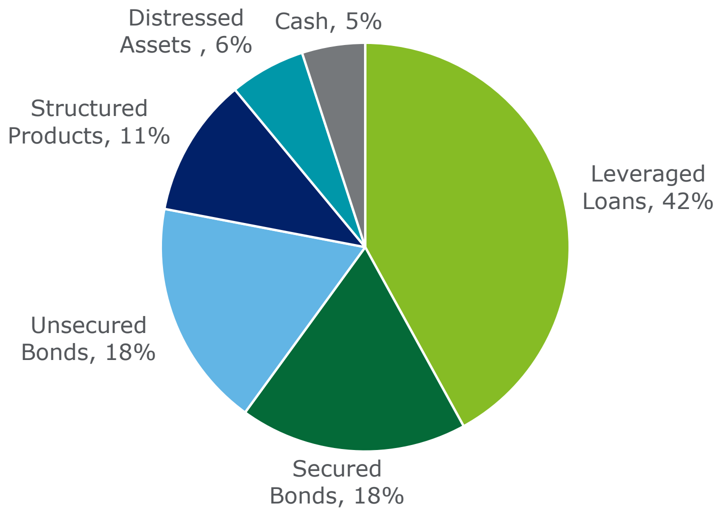
The strategy's high yield bonds and leveraged loans exposures rallied over the quarter as credit spreads narrowed with risk appetite returning to the market, recovering a large proportion of the drawdown over the first quarter of 2020. The strategy's high yield bonds allocation has in fact delivered marginally negative returns of -0.2% since the start of 2020, outperforming the ICE BofAML US High Yield Index 4.6% over the period.

During the second quarter of 2020, out of the strategy's 429 positions, 64 assets (c. 15%) from 44 issuers were downgraded. Of which: 56% were high yield bonds; 33% were leveraged loans; and 11% were structured products. Oak Hill Advisors has, however, confirmed that the downgrades themselves have not materially altered the composition of the strategy's portfolio and the strategy has managed to maintain the same average credit rating since the start of 2020.

Oak Hill Advisors does not track the number of defaults within its portfolio. The strategy's opportunistic nature means that the fund can take on restructuring opportunities for issuers. However, the manager does track when an issuer becomes "non-performing". Oak Hill Advisors has stated that no positions in the portfolio became "non-performing" over the quarter.

11.2 Asset allocation

The below chart shows the composition of the Diversified Credit Strategies Fund's Portfolio as at 30 June 2020.



Source: Oak Hill Advisors

Over the quarter, the Diversified Credit Strategies Fund decreased its allocation to leveraged loans, whilst increasing its exposure to secured and unsecured bonds.

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 June 2020

Activity

Over the quarter, the Fund made no commitments to new investments. Partners Group only expects to add one new investment to the Direct Infrastructure Fund portfolio before the end of the investment period.

As at 30 June 2020, the total capacity of the Direct Infrastructure Fund was €1.08 billion. Of this, c. 78% (c. €0.8bn) has been committed to investments, with 54% (c. €0.6bn) of the total capacity drawn down from investors.

The Partners Group Direct Infrastructure Fund's portfolio is made up of investments where c. 58% have no direct correlation to GDP. The remaining c. 42% of assets have limited correlation with GDP, however these assets provide an essential service with contract-based structures and high barriers to entry. As such, Partners Group sees no immediate causes for concern, however the true impact will not yet be known.

Capital Calls and Distributions

27 May 2020

- The Fund issued a net capital distribution of c. €10m to investors, comprising:
  - Its 23rd capital call, drawing down an additional c. 2.3% (€25m); and
  - Its 2nd distribution of capital, returning €35m to investors.
- Total drawn down following this call was c. 54.3%.

The distribution to investors represents distributions received by the Direct Infrastructure Fund. Partners Group received residual proceeds stemming from the sale of Axia NetMedia, a fiber network operator in Canada that owned a 50% stake in Covage, a leading wholesale fiber infrastructure provider in France that sells access to fiber services enterprises and SME businesses. The Canadian business was sold to telecommunications company Bell Canada in August 2018 and Partners Group remained invested in Covage. In November 2019, Partners Group announced that it had, on behalf of its clients, signed a binding sale agreement alongside 50% co-investor Cube to sell a 100% stake in Covage to SFR FTTH. The sale, which gives Covage a minimum equity value of €1 billion and is subject to customary regulatory clearances, was expected to take place during the first half of 2020. Upon completion, this transaction will conclude the exit from the Axia fiber platform in all material aspects.

Pipeline

Partners Group currently has 25 transactions in due diligence, representing investment opportunities of c. $9bn across the whole group. The opportunities are predominately within the Communication, Waste Management and Transportation sectors, with c. 82% of the pipeline being split between Europe and North America.

12.2 Investments Held

The table below shows a list of the investments held by the Partners Group Direct Infrastructure Fund as at 30 June 2020. Partners Group no longer assesses its portfolio directly against the impacts of COVID-19, citing market recovery. Partners Group instead provides details of its standard watchlist rating. Investments which are performing below the underwriting base case are rated “With Issues”. The relevant ratings have been included in the table below.

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

EnfraGen	Renewable Power Generation and back-up power provider	TBC	Renewable Energy	South America	September 2019	n/a
VSB	Renewable energy project development and asset management	Lead	Renewable Energy	Germany	January 2020	n/a

Superior Pipeline Company, a US midstream pipeline investment focusing on upstream services, has recognised a substantial impact due to falling oil and gas prices which started in Q4 2018 and has grown in severity since the COVID-19 outbreak. Additionally, lower levels of drilling during the COVID-19 period has impacted revenues.

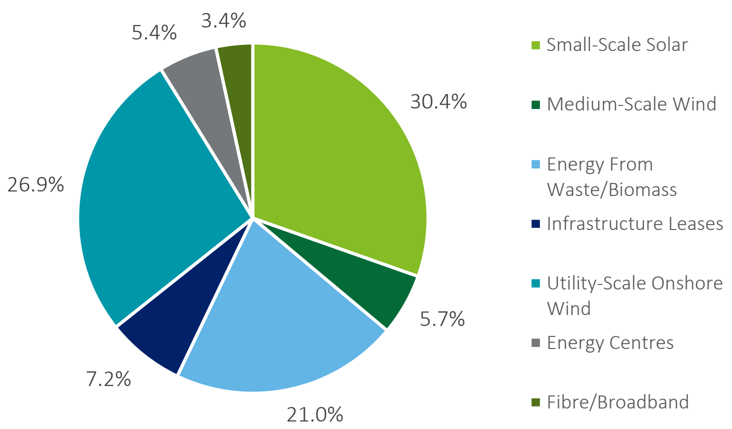
13 Aviva Investors – Infrastructure Income

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 31 March 2020

Sector Breakdown

The chart below shows the split of the portfolio by sector as at 31 March 2020.



Source: Aviva Investors.

Small-scale solar and utility-scale onshore wind make up c. 58% of the portfolio.

Holdings

The top 10 holdings in the Infrastructure Income Fund account for c. 53.3% of the Fund and are detailed below.

Top 10 holdings as at 31 March 2020	Asset	Proportion of Fund
Brockloch Rig Wind Farm	Utility-scale Onshore Wind	7.9%
Biomass UK No.3	Energy from Waste	5.5%
Hooton Bio Power	Energy from waste	5.4%
Aviva Investors Energy Centres No.1	Energy Centres	5.4%
Homesun	Small-scale Solar PV	5.3%
Biomass UK No.2	Energy from Waste	4.9%
EES Operations No.1	Small-scale Solar PV	4.8%
Biomass UK No.1	Energy from Waste	4.8%
Turncole Wind Farm	Utility-scale Onshore Wind	4.7%
Minnygap Energy	Utility-scale Onshore Wind	4.7%
Total		**53.3%**

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

Source: Aviva Investors.

Pipeline

As at 30 June 2020, the queue for the Infrastructure Income Fund was c. £99.8m, with no new commitments being onboarded. Aviva currently has a "priority pipeline", representing transactions which the Fund has exclusivity on, are in due diligence for or are strongly positioned to complete on 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. £312.8m as at 31 March 2020.

The Aviva Investors Infrastructure Income Fund completed two transactions over the quarter to 30 June 2020. In April, Aviva Investors completed on a c. £5m infrastructure lease, underlying the construction of a biogas plant in Hampshire. In May, Aviva Investors completed the c. £23m acquisition of an operational biogas plant.

COVID-19 Impact

Following the COVID-19 outbreak, the Aviva Investors Infrastructure Income Fund and its underlying assets have been valued in line with Aviva's usual valuation policy and methodology, with Q1 and Q2 2020 valuations reflecting the potential impact on assets from COVID-19 related factors. Aviva has confirmed that it has not applied material uncertainty or suspended pricing or issuing units in the Fund.

The strategy has proven to be resilient during the COVID-19 pandemic. All sectors were designated by the government as key sectors and there was therefore no requirement to cease operations. As the majority of the assets in the portfolio were obtained on an unlevered basis, any additional financial risk that may arise from levered assets has been mitigated. The remaining risk is largely expected to come via some price risk on certain wind and energy from waste assets, alongside supply chain risk.

Despite market activity slowing, Aviva closed two deals over the second quarter of 2020. Aviva is optimistic that further opportunities will arise throughout the remainder of 2020, particularly in the digital and fiber sectors.

Further details of the impact on each sector can be found in the table below, which has been provided by Aviva. Since last quarter, Aviva has downgraded its view of the impact of COVID-19 on utility-scale onshore wind from "moderate" to "low".

Sector	Aviva view on impact
Small-scale solar	Low impact, as revenue comes from assets with low operational complexity and low counterparty risk alongside income coming from regulated sources.
Medium-scale wind	Low impact, as revenue comes from assets with low operational complexity and low counterparty risk alongside income coming from regulated sources.
Energy from waste	Moderate impact, primarily as a result of supply chain disruption with insufficient staff to supply assets and operate assets.
Infrastructure leases	Low impact as lease structures are collateralised against assets.
Utility-scale onshore wind	Low impact as revenue comes from assets with low operational complexity and low counterparty risk with a mix of regulated income and power price exposure.
Energy centres	Low impact as lease structures are collateralised against assets and the counterparty is the public sector.
Fibre broadband	Low impact as installed network operated remotely with capacity to increase network growth already in place. Some construction projects suffered some delays in rolling-out new assets, however this is not expected to increase costs but will delay the planned roll out schedule.

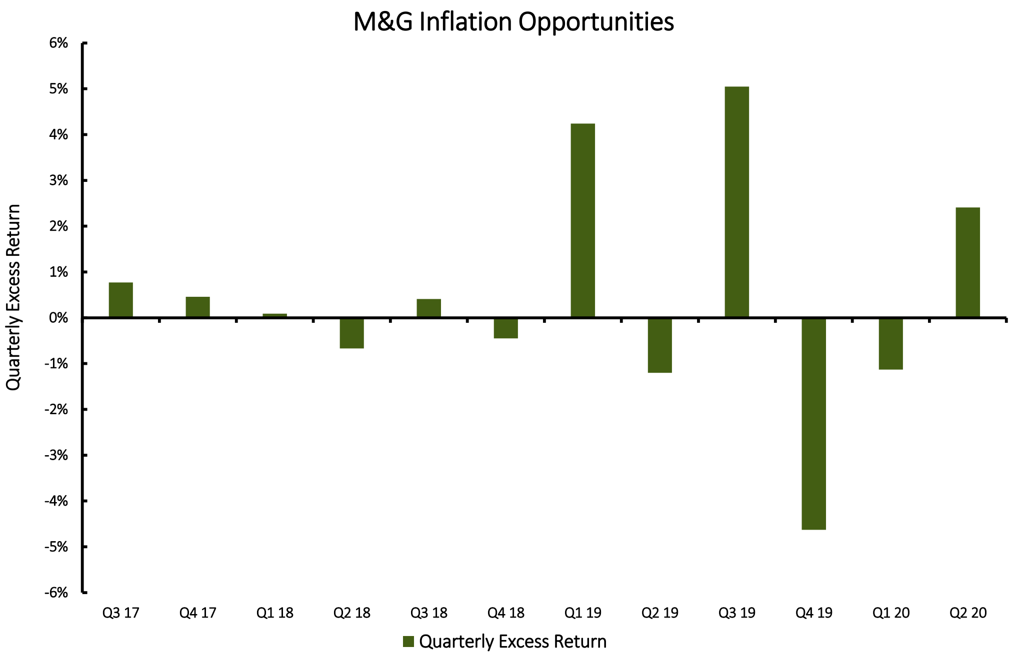
14 M&G – Inflation Opportunities

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 June 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Net of fees	3.1	5.0	6.7	8.3
Benchmark / Target	0.7	3.6	4.9	5.0
Net Performance relative to Benchmark	2.4	1.5	1.8	3.3

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



Over the quarter to 30 June 2020, the Inflation Opportunities Fund delivered a return of 3.1% on a net of fees basis, outperforming its FTSE Index-Linked Gilts 5+ years benchmark by 2.4%. Over the year and three year periods to 30 June 2020, the strategy outperformed its benchmark by 1.5% and 1.8% p.a. respectively, delivering 5.0% and 6.7% in absolute terms on a net of fees basis.

Positive performance over the quarter was primarily driven by the strategy's ground rents exposure, despite providing the largest contribution to negative performance over the first quarter of 2020, alongside housing associations and local authorities. Ground rent assets are long dated in nature and sensitive to changes in credit spreads, as such these assets in particular realised significant gains in absolute value over the quarter synonymous with the tightening of spreads.

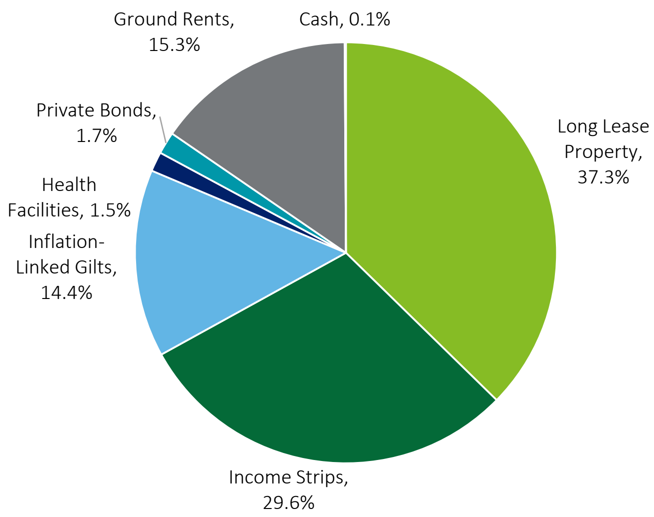
The strategy's long lease property and income strips assets provided negative contributions to performance over the quarter following headwinds faced by the underlying real estate occupiers given the economic and current lockdown restrictions, in particular the retail, leisure and hospitality sectors.

The strategy's long lease property exposure is held through the M&G Secured Property Income Fund (the "SPIF"). The SPIF has collected c. 82% of its Q2 2020 rent and expects the collection rate to remain at this level for Q3 2020. The hotel and leisure sectors in particular have been the most impacted by COVID-19. All three of the SPIF's leisure sector tenants have failed to pay rent for Q2 and Q3, meanwhile three of the SPIF's seven hotel tenants and one of its four student accommodation tenants have failed to pay rent either just for Q3, or over both Q2 and Q3. Active discussions are ongoing to ensure tenants have sufficient liquidity over the short term and to agree terms for the repayment of deferred rent (c. 10% of portfolio rent deferred). However, two tenants, Travelodge and Buzz Bingo (c. 8% of the portfolio), have entered a restructuring process with rent levels likely to be compromised.

The strategy's income strips exposure is held through the M&G Secured Lease Income Fund (the "SLIF"). The SLIF has collected c. 67% of Q2 rental income (c. 71% of total income), with c. 22% of rent deferred. M&G expects rent collection to be c. 78% over Q3 2020 once Marston's pays its rent monthly during the quarter, following the pubs' reopening on 4th July, and David Lloyd starts paying rent from August, with gyms and health clubs reopened on 25th July across much of the UK. M&G expects all rental deferrals to be repaid over 2020 or shortly after.

14.2 Asset allocation

The below chart shows the composition of the Inflation Opportunities Fund's portfolio as at 30 June 2020.



Source: M&G

Over the quarter, the Inflation Opportunities Fund's allocation to long lease property and income strips decreased, whilst inflation linked gilts and ground rents increased largely as a result of mark to market movements.

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 June 2020

	Last Quarter (%)	One Year (%)	Three Years (% p.a.)	Five Years (% p.a.)
Net of fees	0.3	4.7	6.9	7.0
Benchmark / Target	2.9	13.2	8.0	8.0
Net Performance relative to Benchmark	-2.6	-8.5	-1.1	-1.0

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

Over the quarter to 30 June 2020, the ASI Long Lease Property Fund delivered 0.3% on a net of fees basis, underperforming its FT British Government All Stocks Index benchmark by 2.6%.

The Long Lease Property Fund has outperformed the wider property market, as measured by the MSCI (formerly IPD Monthly) UK All Property Index, by 2.6% over the quarter on a net of fees basis. Outperformance relative to IPD can be attributed to the Fund's stronger tenant quality, with the impact of COVID-19 continuing to dominate the property market over the second quarter of 2020. Outperformance has also been driven by the portfolio's long, inflation-linked leases and the lack of any high street, shopping centre or retail warehouse exposure with these sectors particularly impacted by the COVID-19 outbreak.

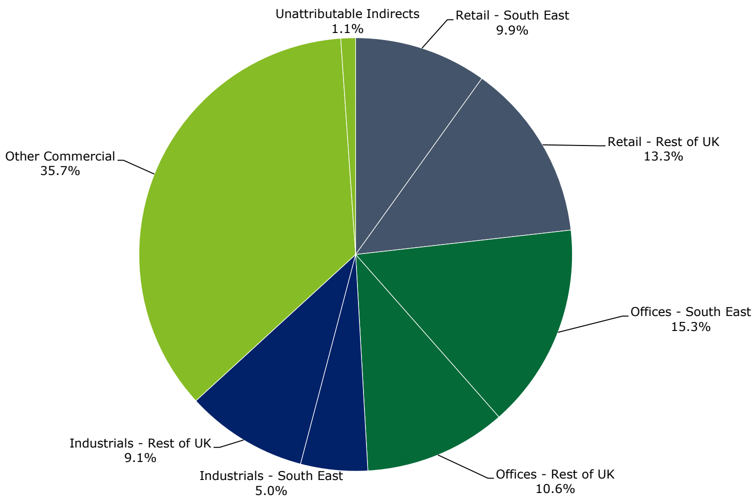
As a result of the continued lack of transactional activity, and therefore the lack of market evidence for external valuers, ASI stated that the "material uncertainty clause" remained in place regarding the valuation of the portfolio as at 30 June 2020. Following quarter end, ASI announced that the deferral of trading of the Long Lease Property Fund, alongside the "material uncertainty clause" relating to valuations, has been lifted with dealing returning to normal as at 3rd August 2020. This follows confirmation from the external valuers that there is sufficient market based evidence to provide accurate and reliable valuations for the strategy's assets.

As markets begin to return to a degree of normality, ASI expects long lease property to continue to outperform the wider market. Whilst ASI suspects the values of its higher quality assets may strengthen, the manager admits that those assets in the hospitality, leisure, pub and restaurant sectors are expected to realise a decline in values.

Rent collection has proved to be a challenge for landlords as a result of the COVID-19 outbreak. The Long Lease Property Fund has collected 92.2% of its rental income over the second quarter of 2020, with 3.8% subject to deferment arrangements and 3.8% of rent unpaid or subject to ongoing discussions with tenants. ASI has collected 89.7% of its Q3 2020 rent as at 8 September, with the proportion of the portfolio subject to deferment arrangements increasing to 6.1% and the proportion unpaid or subject to ongoing discussions with tenants increasing to 4.2%.

15.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 June 2020 is shown in the graph below.



Over the quarter to 30 June 2020, the Fund's allocation to the office and retail sectors remained at 25.9% and 23.2% respectively. The allocations to industrials and other commercial properties decreased by 0.2% to 14.1% and increased by 0.2% to 35.7% respectively over the quarter.

Q2 and Q3 2020 rent collection, split by sector, as at 18 August 2020 is reflected in the table below:

Sector	Proportion of Fund (%)	Q2 2020 collection rate (%)	Q3 2020 collection rate (%)
Alternatives	6.1	99.2	100.0
Car Parks	3.7	100.0	100.0
Car Showrooms	2.9	100.0	79.6
Hotels	7.9	92.1	82.8
Industrial	15.0	100.0	90.1
Leisure	3.3	50.0	66.0
Public Houses	5.6	0.0	25.8
Offices	27.4	100.0	90.7
Student Accommodation	9.6	100.0	83.2
Supermarkets	18.5	100.0	99.7
Total	**100.0**	**89.6**	**81.0**

The leisure sector, primarily pubs and restaurants, has been impacted the most by the COVID-19 outbreak with assets with tenants subject to restrictions having limited trade.

As at 15 July 2020, six tenants have issued requests to ASI for rent deferment, representing 13.7% of Fund income:

- Marstons' plc, whose pubs had closed for trade but have now largely re-opened, has deferred its rent payments for Q2, to be repaid over the next 12 months. Q3 rent is to be paid monthly.

- Park Holidays, which has had holiday bookings cancelled, on park leisure facilities closed and parks only open to existing lodge and caravan owners, has had 50% of its rent deferred for Q2 to be repaid in Q4. Parks have since re-opened on a reduced service basis and Q3 rent is to be paid monthly.

- Caprice (The Ivy) has re-opened after previously being closed for trade. Rent deferment is being discussed.

- Z-hotels has re-opened, previously closed for trade. Rent has been deferred for Q2, to be repaid over the next 12 months.

- Merlin Attractions' Legoland park and hotel has now re-opened, following previous closure. Rent deferment is being discussed for Q3, having paid rent in full for Q2.

- Napier University, following concerns over the lack of summer trade as a result of no summer schools and the cancellation of the Edinburgh Fringe Festival, has deferred 50% of its Q3 rent.

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

Tenant	% Net Income	Credit Rating
Tesco	7.6	BBB
Whitbread	5.8	BBB
Sainsbury's	4.7	BB
Marston's	4.5	BB
Asda	3.9	BBB
Salford University	3.7	A
QVC	3.5	BB
Save the Children	3.5	BB
Lloyds Bank	3.4	AA
Poundland	3.4	B
Total	**44.0***	

*Total may not equal sum of values due to rounding

As at 30 June 2020, the top 10 tenants contributed 44.0% of the total net income of the Fund. Of which 16.2% 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 25.0 years as at 31 March to 24.7 years as at 30 June 2020. The proportion of income with fixed, CPI or RPI rental increases increased by 0.1% to 90.5% over the quarter. The progression of the UK Statistics Authority's announcement to reform RPI to bring it into line with CPIH is being monitored as, should this take place, this would reduce the Fund's long term rental income growth.

15.3 Sales and Purchases

Due to the impact of the UK lockdown, ASI has continued to see a significant reduction in market activity.

Due to the suspension of drawing funds, ASI currently had one sale and leaseback acquisition on hold. The Fund expects to complete this transaction once the investment restrictions are lifted.

Additionally, two pre-let funding hotel projects, equating to 3.5% of total Fund value, have had construction suspended in line with government advice. The Dalata hotel in Glasgow was due to complete in Summer 2021 and the Dalata hotel in Bristol was due to complete in Autumn 2021. Completion dates for both properties have now been delayed until Autumn 2021 and early 2022 respectively.

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
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	0.0%	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
Aberdeen Standard Investments	Multi Sector Private Credit	5.0%	3 Month Sterling LIBOR / ICE ML Sterling BBB Corporate Bond Index	08/04/2020
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.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

Deloitte.

This document is confidential and it is not to be copied or made available to any other party. Deloitte Total Reward and Benefits Limited does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte Total Reward and Benefits Limited engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte Total Reward and Benefits Limited is registered in England and Wales with registered number 03981512 and its registered office at Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom.

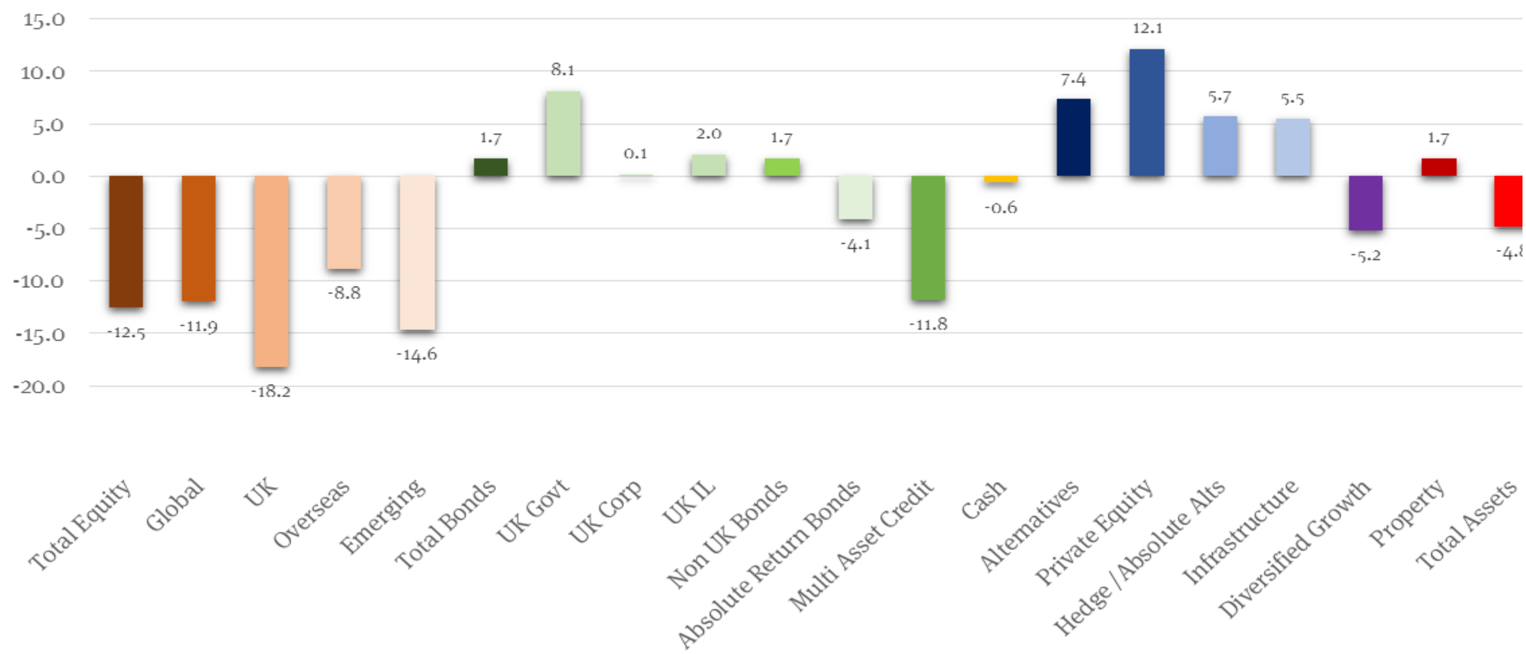
Deloitte Total Reward and Benefits Limited is a subsidiary of Deloitte LLP, the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

© 2020 Deloitte Total Reward and Benefits Limited. All rights reserved.

Universe Overview

Latest Year Performance



- Another year of global political uncertainty but this time was the unprecedented effects of COVID -19 .
- The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices, much of the credit market becoming barely liquid and property and many alternatives difficult to value.
- Funds returned an average of -4.8% for the year, perhaps better than was expected by many.
- Equities fared worst - funds with higher exposures to more defensive assets will have performed relatively well.

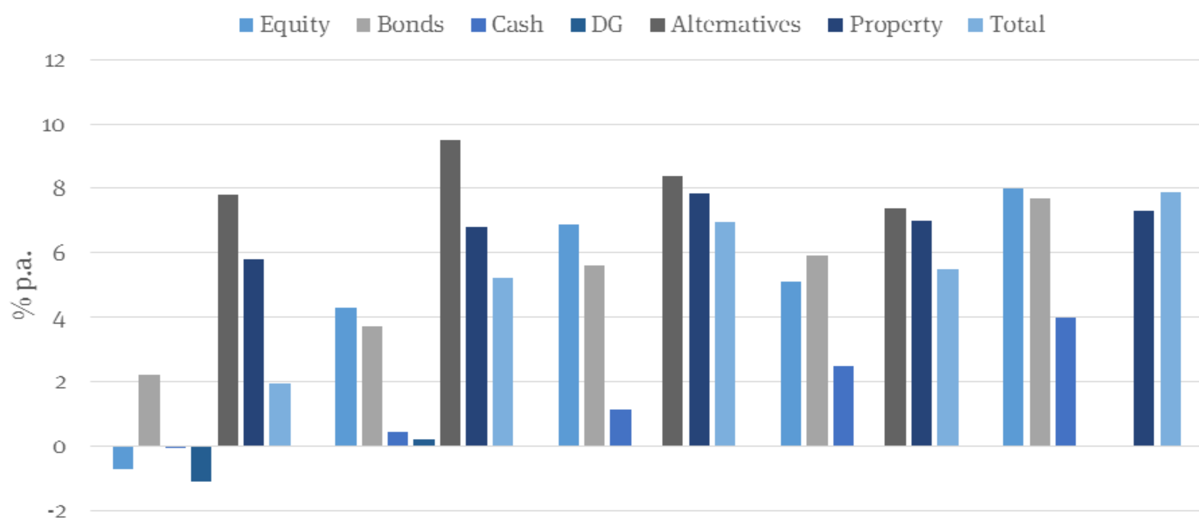
Asset Allocation

- Strategic asset allocation remained broadly static most of the change to fund weightings came about from the relative market movements over the year.

	End March		
% Allocation	2019	2020	Diff
Equities	55	51	-4
Bonds	19	21	2
Cash	3	2	-1
Alternatives	11	13	2
Diversified Growth	3	3	-
Property	9	9	-

Universe Longer Term Results

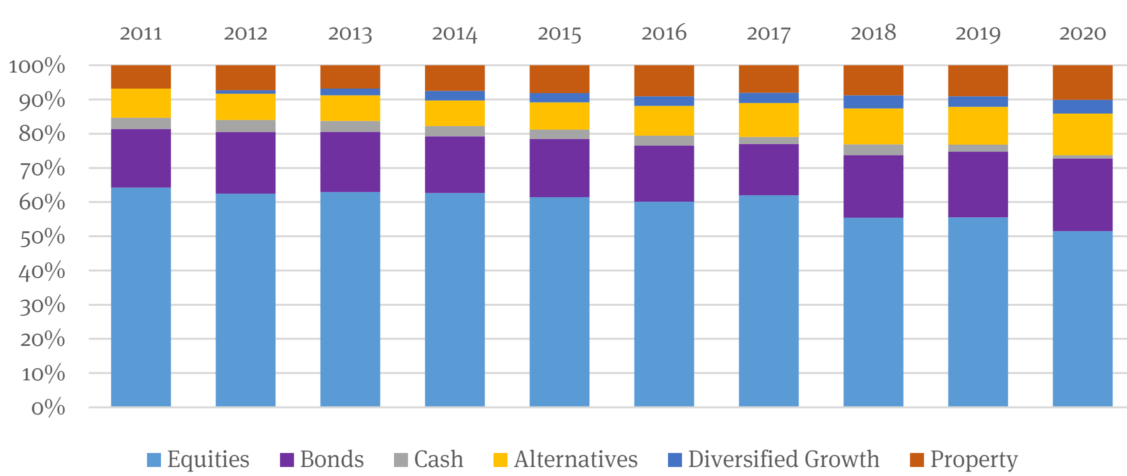
• Long term performance of the LGPS remains strong. The average funds delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 7.9% p.a.
• Equities have driven the strong long term performance.
• Alternatives have performed strongly due in a large part to the excellent returns from private equity.



% p.a.	3 Years	5 Years	10 Years	20 Years	30 Years
Equity	-0.7	4.3	6.9	5.1	8.0
Bonds	2.2	3.7	5.6	5.9	7.7
Cash	-0.1	0.4	1.1	2.5	4.0
DG	-1.1	0.2			
Alternatives	7.8	9.5	8.4	7.4	
Property	5.8	6.8	7.8	7.0	7.3
Total	1.9	5.2	6.9	5.5	7.9

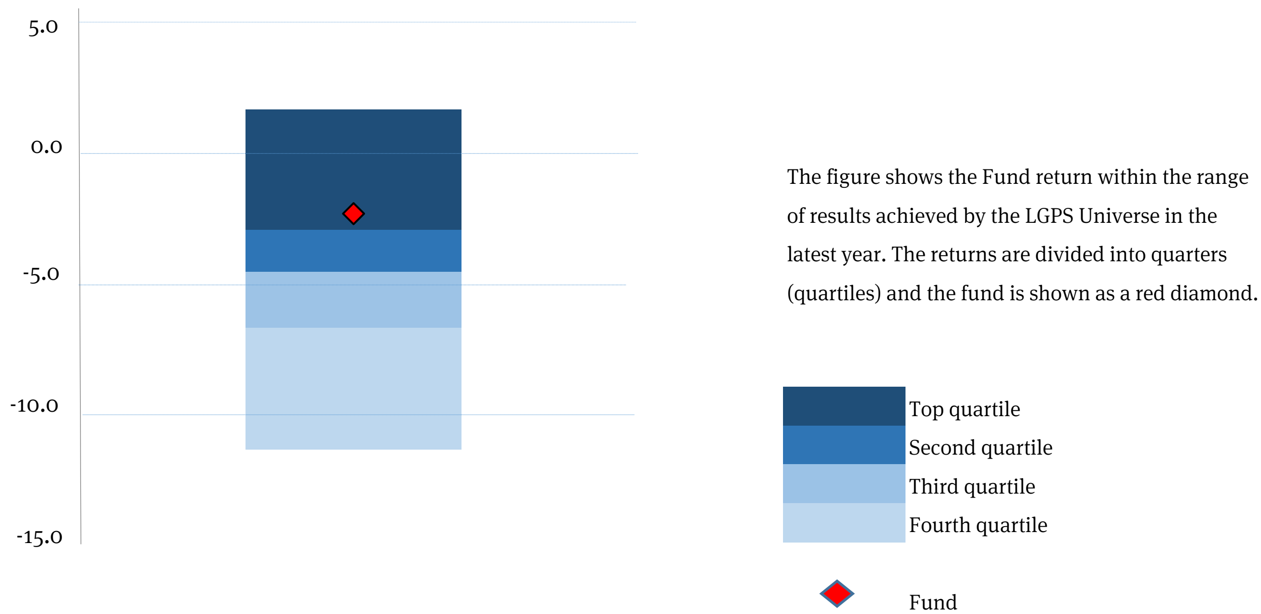
Asset Allocation

• Equities remain the largest allocation within most fund's assets. 80% of this allocation is now invested overseas.
• Alternatives have increased markedly over the decade. Private equity makes up a half of this allocation with infrastructure increasing in recent years and expected to increase further.
• Within the bond allocation, there has been a continued move from index based towards absolute return mandates.



Latest Year

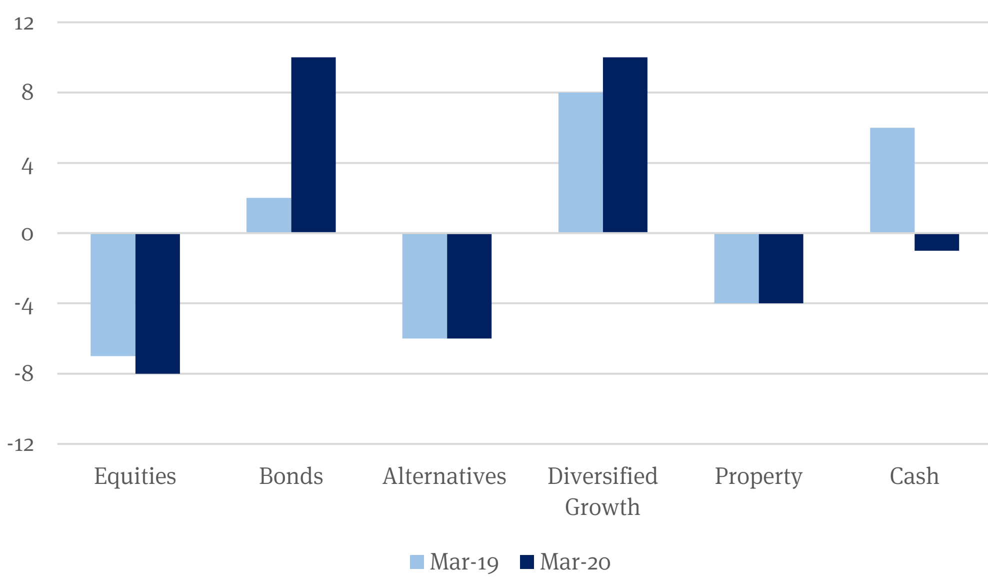
- In the latest year the Fund return of -2.2% was well ahead the average of -4.8% and ranked in the 19th percentile.
- Excellent performance by the equity managers and DGF manager (ranked 1st overall) led to the positive result.



The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

Fund Asset Allocation

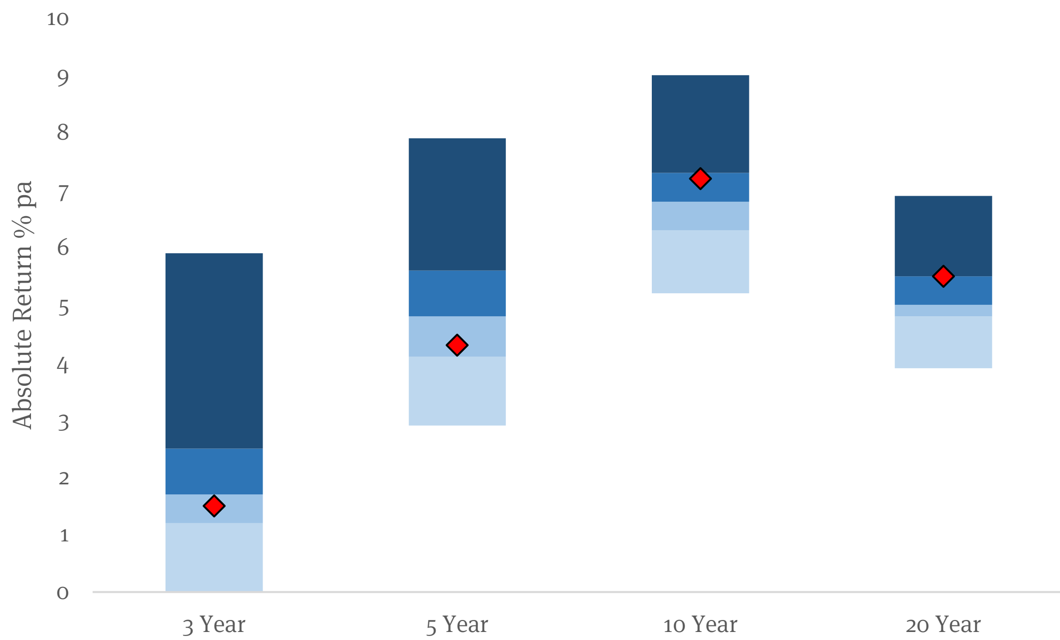
- The Fund is structured differently to the average fund and switched assets from cash into bonds during the year.
- The key difference is the lower allocation to equities and higher investment in bonds and diversified growth.
- Last year these differences had a neutral impact on relative performance.



The chart shows the Fund's relative % weightings at asset class level at 31st March 2019 and 2020.

Fund Longer Term Returns

- The latest year result has brought the 3 year return to just below average.
- The Fund has improved it position and is now above average over the longer term.

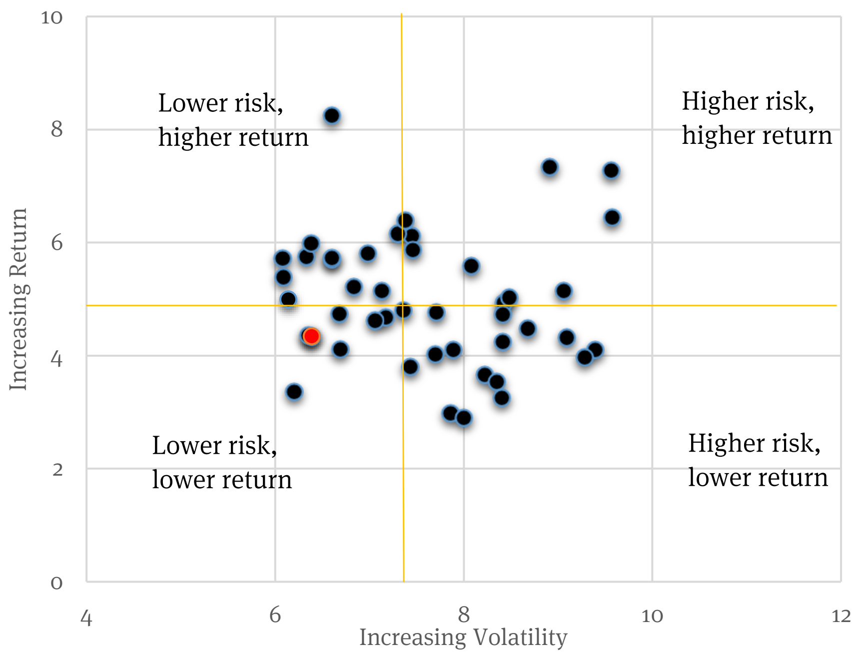


	3 Year	5 Year	10 Year	20 Year
Fund	1.5	4.3	7.2	5.5
Universe Average	1.9	5.2	6.9	5.5
Ranking	(61)	(68)	(32)	(34)

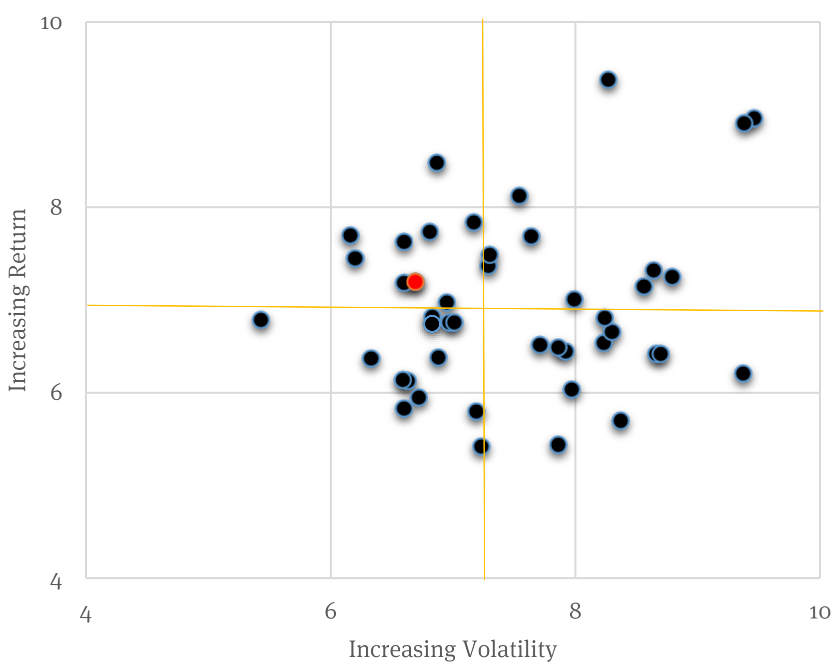
Risk and Return

- Over the last ten years the Fund (red dot) has efficiently produced an above average return at a below average volatility.
- Over the last five years the volatility remained low but the return has fallen to below average.

Last Five Years (% p.a.)



Last Ten Years (% p.a.)



The charts show the funds (black dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.

The yellow are the median results. These divide the funds into quadrants. Most funds would prefer to be in the top left quadrant.

Appendix 4: Cashflow Monitoring Position as at 30 June 2020

Pension Fund Current Account Cashflow Actuals and Forecast for period April 2020 – March 2021

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	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	**1,674**	**2,746**	**3,194**	**3,033**	**2,033**	**2,633**	**2,233**	**1,233**	**1,033**	**633**	**1,633**	**2,233**	**£000s**	**£000s**
Contributions	5,278	2,610	2,550	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	**33,838**	**2,820**
Pensions	(3,129)	(3,149)	(3,163)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	(3,100)	**(37,341)**	**(3,112)**
Lump Sums	(592)	(202)	(888)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	**(7,082)**	**(590)**
Net TVs in/(out)	(226)	294	898	300	300	300	300	300	300	300	300	300	**3,666**	**306**
Net Miscellaneous Expenses	(259)	(77)	(82)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	**(2,218)**	**(185)**
Net Cash Surplus/(Deficit)	**1,072**	**(524)**	**(685)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(1,000)**	**(9,137)**	**(7,61)**
Distributions	-	972	524	-	1,600	600	-	800	600	-	1,600	600	**7,296**	**608**
Net Cash Surplus/(Deficit) including investment income	**1,072**	**448**	**(161)**	**(1,000)**	**600**	**(400)**	**(1,000)**	**(200)**	**(400)**	**(1,000)**	**600**	**(400)**	**(1,841)**	**(153)**
Withdrawals from Custody Cash	-	-	-	-	-	-	-	-	-	2,000	-	-	**2,000**	**167**
Balance c/f	**2,746**	**3,194**	**3,033**	**2,033**	**2,633**	**2,233**	**1,233**	**1,033**	**633**	**1,633**	**2,233**	**1,833**	**159**	**13**

Current Account Cashflow Actuals Compared to Forecast During the April to June 2020 Quarter

	Apr-20		May-20		Jun-20		Apr-Jun 20
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Variance
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Contributions	6,000	5,278	2,100	2,610	2,100	2,550	238
Pensions	(2,900)	(3,129)	(2,900)	(3,149)	(2,900)	(3,163)	(741)
Lump Sums	(700)	(592)	(700)	(202)	(700)	(888)	418
Net TVs in/(out)	(500)	(226)	(500)	294	(500)	898	2,466
Expenses	(200)	(259)	(200)	(77)	(200)	(82)	182
Distributions	-	-	-	972	1,400	524	96
Withdrawals from Custody Cash	-	-	2,000	-	-	-	(2,000)
Total	**1,700**	**1,072**	**(200)**	**448**	**(800)**	**(161)**	**659**

Notes on variances during quarter:

- Distributions of £1.5m were paid to the fund during the quarter. This forecast for the near future is for this amount to remain relatively stable. However, this will be subject to change once the cashflows from the LCIV Global Sustain Fund are known.
- 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.

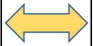
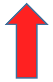
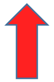
Pension Fund Custody Invested Cashflow Actuals and Forecast for period April 2020 – March 2021

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	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	**59,535**	**2,576**	**2,620**	**3,297**	**1,297**	**5,297**	**2,097**	**8,097**	**4,897**	**10,897**	**7.697**	**13,697**	**£000s**
Sale of Assets	-	68	232			1,000		1,000					**2,300**
Purchase of Assets	(57,018)	-	(1,150)			(1,200)		(1,200)					**(60,567)**
Net Capital Cashflows	**(57,018)**	**68**	**(3)**										**(58,268)**
Distributions	-	-	1,805						2,000				**3,805**
Interest	11	15	1										**27**
Management Expenses	-	-	12										**12**
Foreign Exchange Gains/Losses	47	(39)	21										**29**
Class Actions	-	-	-										**-**
Net Revenue Cashflows	**58**	**(24)**	**1,839**	**-**	**-**	**-**	**-**	**-**	**2,000**	**-**	**-**	**-**	**3,873**
Net Cash Surplus/(Deficit) excluding withdrawals	**(56,959)**	**44**	**921**	**-**	**6,000**	**(1,200)**	**6,000**	**(1,200)**	**6,000**	**(1,200)**	**6,000**	**-**	**(54,395)**
Withdrawals from Custody Cash	-	-	-	-	-	-	-	-	-	(2,000)	-	-	**(2,000)**
Balance c/f	**2,576**	**2,620**	**3,540**	**3,540**	**3,540**	**3,340**	**3,340**	**3,140**	**5,140**	**3,140**	**3,140**	**3,140**	**(56,395)**

Notes on Invested Cash Movements

- In November 2019, the fund agreed to make a commitment of £55m to invest into Aberdeen Standard's Private Multi Asset Credit Fund. This was financed by redeeming assets which were invested in the Fund's passive equities strategy. The investment was completed in full in April 2020.
- During the quarter, the following amounts were repaid back
    - £0.2m from Partner's Group Private Multi-Asset Credit Fund
    - £0.1m from the Invesco Private Equity Funds
- There were distributions during the quarter of £1.8m from the Partners Group Funds
- During the quarter, capital calls of £3.6m were requested from the fund by Partners Group for investment into the infrastructure fund.

London Borough of Hammersmith & 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						
Investment	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	5	4	2	11	4	44	**TREAT** 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment 2) The Fund will continue to review its asset allocation and make any changes when necessary 3) The Fund holds a well diversified portfolio, which should reduce the downside risks of adverse stock market movements.	3	33	10/09/2020
Investment	2		Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty	5	4	1	10	4	40	**TREAT** 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	30	10/09/2020
Funding	3		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	4	40	**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) Officers continue to monitor the increases in CPI inflation on an ongoing basis.	3	30	10/09/2020
Investment	4		Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020.	4	4	1	9	3	27	**TREAT** 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. 3) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.	3	27	10/09/2020
Funding	5		There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	5	4	3	12	3	36	**TREAT** 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short term pensions obligations. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.	2	24	10/09/2020
Governance	6		The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	5	4	3	12	2	24	**TORELATE** 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. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4)Fund representation on key officer groups.	2	24	10/09/2020

Page 69

Investment	7		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	3	11	3	**33**	**TREAT** 1) The Investment Management Agreements (IMAs)clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee is 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	**22**	10/09/2020
Funding	8		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	**TOLERATE** 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**	10/09/2020
Funding	9		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	**20**	**TOLERATE** 1) Fund employers continue to 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**	10/09/2020
Investment	10		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	3	**30**	**TREAT** 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, 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.	2	**20**	10/09/2020
Governance	11		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**	**TOLERATE** 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. 3) Uncertainty surrounding new MHCLG guidance	3	**18**	10/09/2020
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**	**TREAT** 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	**16**	10/09/2020

Funding	13		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. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	**16**	10/09/2020
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** 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2)Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3)Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	**14**	10/09/2020
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**	10/09/2020
Governance	16		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. 2)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 expert advice is sought.	1	**12**	10/09/2020
Governance	17		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**	10/09/2020
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 (LAPFF) which engages with companies on a variety of ESG issues including climate change.	2	**12**	10/09/2020
Governance	19		Failure by the audit committee to perform 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 governance issues are regularly tabled.	2	**12**	10/09/2020

Operational	20		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain.	3	2	1	6	3	**18**	**TREAT** 1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment 4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy 5) 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.	2	**12**	10/09/2020
Funding	21		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) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	**11**	10/09/2020
Investment	22		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. 2) 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. 3)Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	10/09/2020
Operational	23		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) LBHF IT data security policy adhered to. 3) Implementation of GDPR	1	**11**	10/09/2020
Governance	24		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** 1) Officers maintain knowledge of legal framework for routine decisions. 2)Eversheds retained for consultation on non-routine matters.	1	**11**	10/09/2020
Funding	25		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** 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	**11**	10/09/2020
Governance	26		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** 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise, and challenge advice provided routinely.	1	**10**	10/09/2020

Operational	27	↔	Financial failure of third party supplier results in service impairment and financial loss.	5	4	1	10	2	**20**	**TREAT** 1) Performance of third party suppliers 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**	10/09/2020
Investment	28	↔	Failure of global custodian or counterparty.	5	3	2	10	2	**20**	**TREAT** 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	**10**	10/09/2020
Operational	29	↔	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	**TREAT** 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	**10**	10/09/2020
Governance	30	↔	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** 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	10/09/2020
Governance	31	↔	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) Officers 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**	10/09/2020
Operational	32	↔	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**	10/09/2020
Funding	33	↓	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	**10**	**TOLERATE** 1) Political power required to effect the change.	1	**10**	10/09/2020
Funding	34	↓	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	1	**10**	**TOLERATE** 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	1	**10**	10/09/2020

Page 73

Funding	35		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** 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	**9**	10/09/2020
Governance	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	**TREAT** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	**9**	10/09/2020
Governance	37		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 a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	10/09/2020
Regulation	38		Loss of 'Elective Professional Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.	4	2	2	8	2	**16**	**TREAT** 1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**8**	10/09/2020
Operational	39		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**	**TREAT** 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	10/09/2020
Funding	40		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** 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**	10/09/2020
Regulation	41		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** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	10/09/2020
Governance	42		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	2	**10**	**TREAT** 1) Succession planning processes are 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.	1	**5**	10/09/2020

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	NEW	After agreeing on changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house, the pension fund may experience difficulty in finding an appropriately qualified candidate in a competitive recruitment market. A private sector solution may not meet the necessary service requirements.	4	3	3	10	5	**50**	**TREAT** 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team 2) Recruitment is underway for the pensions manager of the retained team 3) Officers to receive a handover pack from the departing RBKC retained pensions team. 4) Consultant to assist in recommending an appropriate replacement for the third-party administration provider.	4	**40**	10/09/2020
Admin	2		COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	**27**	**TOLERATE** 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home.	3	**27**	10/09/2020
Admin	3		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	3	3	7	4	**28**	**TOLERATE** 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs	3	**21**	10/09/2020
Admin	4		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**	10/09/2020
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. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment	2	**18**	10/09/2020
Admin	6		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	**TREAT** 1) Process notes are 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**	10/09/2020

Admin	7		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 can interrogate data to ensure accuracy.	1	**11**	10/09/2020
Admin	8		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**	10/09/2020
Admin	9		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 regarding 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**	10/09/2020
Admin	10		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**	10/09/2020
Admin	11		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**	10/09/2020
Admin	12		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	**TREAT** 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	2	**8**	10/09/2020
Admin	13		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	**TREAT** 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**	10/09/2020
Admin	14		Failure to detect material errors in bank reconciliation process.	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 reconciliation process.	1	**6**	10/09/2020

Admin	15		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 this is collected over several months.	1	**6**	10/09/2020
Admin	16		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. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	**6**	10/09/2020
Admin	17		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. 2) All files are backed up daily.	2	**6**	10/09/2020
Admin	18		Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	1	**6**	**TREAT** 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	10/09/2020
Admin	19		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**	10/09/2020
Admin	20		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**	10/09/2020
Admin	21		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**	10/09/2020
Admin	22		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**	10/09/2020

Appendix 6

Forward Plan for Pensions Sub-Committee – September 2020

Area of work	September 2020	November 2020	February 2021	July 2021
Governance	Quarterly Update Pack Pension Sub-Committee minutes Responsible Investment Statement	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes	Quarterly Update Pack Pension Sub-Committee minutes
Investments	Fund Manager monitoring Responsible Investment Statement	Fund Manager monitoring	Fund Manager monitoring	Fund Manager monitoring
Funding	Actuarial Funding Level Update	Actuarial Funding Level Update	Actuarial Funding Level Update	Actuarial Funding Level Update

Agenda Item 5

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 29/09/2020

Subject: Draft Annual Report 2019/20

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager
Tim Mpofu, Pension Fund Manager

Summary

This report presents the draft Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2020.

Recommendations

The Sub-Committee is requested to:

1. Approve the Pension Fund Annual Report for 2019/20.

2. Note the draft Pension Fund Accounts for 2019/20 and PIRC Universe Overview.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the council and the council tax payer.

Financial Impact

The financial implications of the introduction of this statement will be continually monitored to ensure that scheme members' future pensions are safeguarded.

Legal Implications

None

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Annual Report

1.1. The Pension Fund Annual Report 2019/20, which includes the draft Pension Fund Accounts 2019/20, is a regulatory requirement and needs to be approved by the Pension Fund Sub-Committee. The draft Pension Fund Annual Report for 2019/20 is attached as Appendix 1.

1.2. The Sub-Committee members are asked to comment on any matters in the draft Pension Fund Annual Report and delegate approval of the final document to the Director of Treasury & Pensions in consultation with the Chair.

1.3. In March 2020, the MHCLG consulted key stakeholders regarding the impact of the COVID-19 response on financial operations of the local authority finance departments. The outcome from this consultation was to extend the deadline of submitting the annual accounts from 31 July 2020 to 30 November 2020 for all local authority bodies.

1.4. The Pension Fund accounts 2019/20 were produced and handed to the external auditors in June 2020. A draft Annual Report will be shared with the external auditors following approval at this Sub-Committee meeting. The external audit is currently underway, beginning in August 2020.

1.5. The Pension Fund investments returned -2.9% over the year. This was mostly driven by the widespread market sell off in March 2020 following the global response to the COVID-19 pandemic. This was ahead of the average -4.8% return across the LGPS.

2. Reasons for Decision

2.1. Reasons are set out in the main body of the report.

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: London Borough of Hammersmith and Fulham Pension Fund Annual Report 2019/20

Annual Report

Hammersmith & Fulham Pension Fund • 2019/20

Contents

1. Preface

Report from Chair of the Pensions Sub-Committee

WELCOME TO THE ANNUAL REPORT OF HAMMERMSITH AND FULHAM PENSION FUND

The Pensions Sub-Committee is responsible for overseeing the management of the London Borough of Hammersmith and Fulham Pension Fund, including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2019-20.

As the Covid-19 pandemic arrived in early in 2020 and across the world people have been suffering, our thoughts are with those affected. The Pension Fund has experienced a 1.8% fall in investment value over the financial year due to the global sell off in riskier assets during March, although the Fund's diversifying assets have helped to protect value compared to many other equity heavy Pension Funds. The Sub-Committee continues to monitor the Fund closely at each quarterly committee meeting and challenges the investment advisors as necessary to ensure the Fund's investments are being managed effectively.

The Fund had completed actuarial valuation as at 31 March 2019, with the funding level improving significantly from 88% in 2016, to 97%. This is primarily a result of strong investment returns over the period.

The Pension Fund remains conscious of its role in ensuring good environmental, social and governance behaviours from the companies in which it invests. The Fund made a £55m commitment to the Aberdeen Standard Multi Asset Credit Fund, which is expected to allow the Fund to further access renewable energy investments as the portfolio is constructed. The Fund also transferred an additional £122m to the MSCI Low Carbon Fund from the UK equity portfolio.

The headline numbers show that the MSCI World Low Carbon Target Index contains, in absolute terms, 43 million tonnes of CO_2 (equivalent) less than the MSCI World Index at 28 million compared with 71 million. This combined with the investment in the Aviva Renewable Infrastructure Fund (£28m) shows the Fund is taking an active approach to being a responsible investor. By investing in the Aviva infrastructure Fund, this is the equivalent of keeping 44,400 cars off the road every year.

I would like to thank all those involved in the management of the Pension Fund during the year especially those who served on the Sub-Committee during 2019/20.

Councillor Iain Cassidy
Chairman of the Audit, Pensions & Standards Committee & Pensions Sub-Committee

Introduction

The London Borough of Hammersmith and Fulham Pension Fund (the Fund) is part of the national Local Government Pension Scheme (LGPS) and is administered locally by Hammersmith and Fulham Council. It is a contributory defined benefit pension scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies, and from investment returns on the Fund's investment assets. Contributions rates for employees set in accordance with the Local Government Pension Scheme Regulations 2013. Employer contributions are set based on the triennial actuarial funding valuation. The latest valuation for the fund was carried out as at 31 March 2019, and the new contributions came into effect from 1 April 2020.

The benefits payable from the Fund in respect of service from 1 April 2014 are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- Career average revalued earnings (CARE), revalued in line with the Consumer Prices Index.
- Pensionable pay to include non-contractual overtime and additional hours.
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age.
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement.
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health.

The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Benefits accrued in the Scheme before 1st April 2014 are protected up to that dated based on the scheme member's final year's pay.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

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

The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

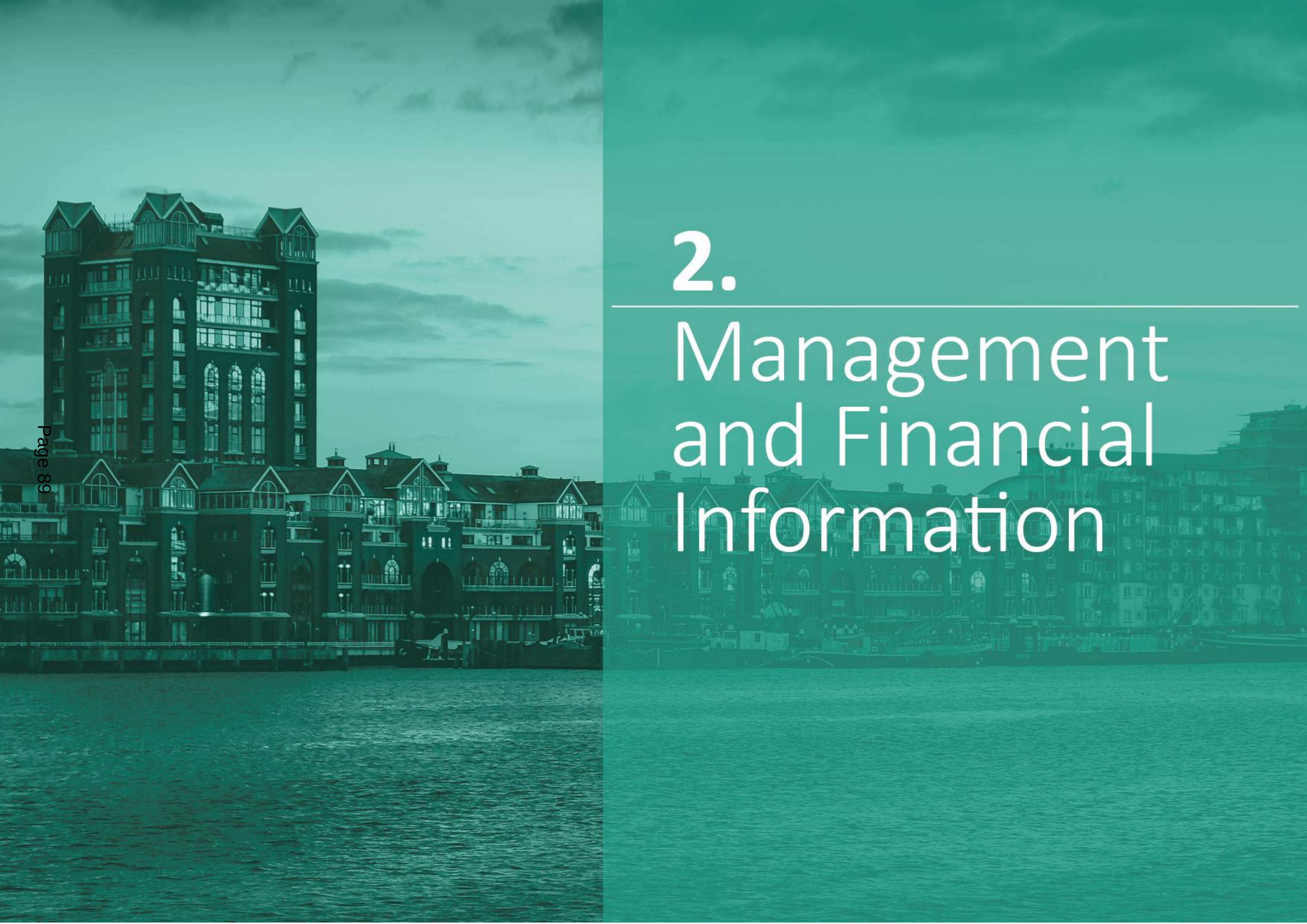
It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Introduction (continued)

THIS ANNUAL REPORT COMPRISES THE FOLLOWING SECTIONS:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** which details the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- **Actuarial Information** which includes the funding position of the Fund with a statement from the Fund's actuary.
- **The Fund's Annual Accounts** for the year ended 31 March 2020.
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
    - Governance Compliance Statement
    - Statement of Investment Principles
    - Communication Policy
    - Funding Strategy Statement

Further information about the Local Government Pension Scheme can be found at: *www.lbhfpensionfund.org*



2. Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

The London Borough of Hammersmith & Fulham Council has delegated responsibility for pension matters to the Audit, Pensions and Standards Committee.

The Committee is comprised of six elected representatives of the council – four from the administration and two opposition party representatives. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights. In order to manage the workload of the committee, it has delegated decisions in relation to all pension matters to the Pensions Sub-Committee.

The Sub-Committee obtains and considers advice from the Tri-Borough Director of Treasury and Pensions, the Section 151 Officer and, as necessary, from the Fund's appointed actuary, advisors and investment managers.

Terms of reference for the Sub-Committee are:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund's management arrangements, including the appointment and termination of fund managers, actuary, custodians and fund advisors.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine any other investment or Pension Fund policies that may be required from time to time to comply with Government regulations and to make any decisions in accordance with those policies

The current membership of the Pensions Sub-Committee is set out below. All elected members served for the full year in 2019/20.

Councillor	Committee Attendance 2019/20
Iain Cassidy (Chair)	5/5
Matt Thorley (Vice Chair)	5/5
Rebecca Harvey	3/5
PJ Murphy	5/5

Councillors may be contacted at Hammersmith Town Hall, King Street, London, W6 9JU

LOCAL PENSION BOARD

The Council has also established a Pensions Board (the Board) to assist the Pensions Sub-Committee as required by the Public Services Pensions 2013. The purpose of the Pensions Board is to provide oversight of the Pensions Sub-Committee.

The Board does not have a decision-making power in relation to management of the Fund but is able to make recommendations to the Pensions Sub-Committee. It meets at least twice a year.

Terms of reference for the Local Pension Board are:

- To secure compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the Fund.
- To secure compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme
- To ensure effective and efficient governance and administration of the Scheme

The membership of the Board is as follows:

- Two employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member representatives from the Council or an admitted or scheduled body.

The current membership of the Pensions Board is set out below.

Board Member	Employer/Employee	Attendance 2019/20
Cllr Rory Vaughn (Chair)	Employer	2/2
Cllr Bora Kwon	Employer	2/2
Eric Kersey	Employee	1/1
Orin Miller	Employee	1/1
Neil Newton	Employee	0/2

MEMBER AND OFFICER TRAINING

The LGPS Governance regulations and other related legislation requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge

During 2019/20 knowledge was gained at various meetings with investment managers in addition to individual attendance at conferences and seminars.

Further relevant training is planned for 2020/21 based on self-assessments completed by Sub-Committee and board members in accordance with the policy.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. The Members Code of Conduct is in Part 5 of the Council Constitution which can be found online at *www.lbhf.gov.uk*

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

GOVERNANCE COMPLIANCE STATEMENT

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non- or partial-compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's Governance Compliance statement was updated in June 2015 can be found at Appendix 1.

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Advisor	Deloitte	
Investment Managers	**Global Equities (Passive)** Legal & General Investment Management **Private Multi-Asset Credit** Partners Group **Infrastructure** Aviva Investors Partners Group **Private Equity** Invesco Unigestion	**UK Equities (Active)** London LGPS CIV - Majedie Asset Management **Absolute Return** London LGPS CIV – Ruffer **Fixed Income** Oakhill Advisors **Long Lease Property** Aberdeen Standard **Inflation Linkage** M&G Investments
Custodian	Northern Trust	
Banker	NatWest Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton LLP	
Legal adviser	Eversheds Sutherland	
Scheme Administrators	Surrey County Council	
AVC Providers	Zurich Assurance	Equitable Life Assurance Society

OFFICERS

Strategic Director of Finance and Governance (S151 Officer)	Hitesh Jolapara until May 2020 Emily Hill since May 2020	
Tri-Borough Pensions Team	Phil Triggs Matt Hopson Mat Dawson Tim Mpofu	Julia Stevens from January 2020 Billie Emery Alastair Paton Ruby Vuong from September 2019
Pensions Manager	Maria Bailey	

Contact details are provided in Section 7 of this report

Risk Management

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

The responsibility for the Fund's risk management strategy rests with the Pensions Sub-Committee. In order to manage the risks two Pension Fund Risk Registers are maintained, one focusing on investment risks and the other focusing on administration risk. These documents are reviewed quarterly. For the key risks which have been identified, appropriate planned actions have been introduced to minimise their impact. The risk registers are managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to the appropriate "risk owners".

The key risks identified within the Pension Fund risk register are:

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Investment	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	High	Tri-Borough Director of Pensions and Treasury	The Fund's officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment The Fund will continue to review its asset allocation and make any changes when necessary
Administration	Changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house poses signification operational risk to the fund	High	Strategic Director of Finance and Governance	A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team
Investment	Significant volatility and negative sentiment in global investment markets cause by global political uncertainty	High	Tri-Borough Director of Pensions and Treasury	The Fund's officers are in regular dialogue with investment managers with regards to their management of political risk. The Fund holds a well-diversified portfolio and the investment strategy is reviewed regularly.
Administration	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and		Strategic Director of Finance and Governance	The Fund's officers continue to monitor the staffing changes, contract and KPIs of third-party provider.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
	complaints.			

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (Appendix 3) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently as and when required.

Objective Area at Risk	Risk	Risk Rating	Responsible Officer	Mitigating Actions
Funding	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	Medium	Strategic Director of Finance and Governance	The Fund's officers maintain a regularly monitored cashflow forecast. The Fund's cash position is reported to sub-committee quarterly. The Fund continually reviews the income it receives from underlying investments
Governance	The asset pool disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	Medium	Tri-Borough Director of Pensions and Treasury	The Fund's officers are in frequently engage with the pool and partner funds Ongoing fund and pool proposals are monitored regularly
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	Medium	Tri-Borough Director of Pensions and Treasury	The scheme's pension liabilities are reviewed on a quarterly basis and revalued every three years.
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	Medium	Tri-Borough Director of Pensions and Treasury	The Fund's investments are continually monitored by officers. Each quarter, the Fund reviews its investment strategy to ensure optimal risk asset allocation.

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Committee.

The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the audits take place.

The results of these reviews are summarised below and cover 99.5% of investment holdings at 31 March 2020.

Fund Manager	Type of Assurance	Control Framework	Compliance with Controls	Reporting Accountant
Aberdeen Standard	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Aviva Investors	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Invesco	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Legal & General	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
M&G Investments	SOC10	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Oak Hill Advisors	SOC10	Reasonable assurance	Reasonable assurance	RSM US LLP
Partners Group	ISAE 3402	Reasonable assurance	Reasonable assurance	PWC LLP
Ruffer LLP	ISAE 3402	Reasonable assurance	Reasonable assurance	Ernst Young LLP
Unigestion	ISAE 3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Custodian				
Northern Trust	SOC10	Reasonable assurance	Reasonable assurance	KPMG LLP

Financial Performance

The Fund asset value decreased by £39m during 2019/20, to £1,013m as at 31 March 2020, due to the uncertainty in the global economic outlook as a result of the COVID-19 disease.

The triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 88% compared to 83% in 2013. However, funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level over the next three years.

The latest triennial revaluation took place in 2019 and set employer contribution rates from 2020/21 onwards.

ANALYTICAL REVIEW – FUND ACCOUNT

	2015/16	2016/17	2017/18	2018/19	2019/20
Fund account	£'000	£'000	£'000	£'000	£'000
Dealings with members					
Contributions	(30,617)	(32,274)	(33,454)	(36,386)	(37,869)
Pensions	37,858	40,770	42,827	48,846	52,660
Net (additions)/withdrawals from dealings with members	**7,241**	**8,496**	**9,373**	**12,460**	**14,791**
Management expenses	7,762	6,530	4,503	6,199	5,866
Investment Income	(12,631)	(12,799)	(10,283)	(11,967)	(14,642)
Change in market value	9,784	(148,740)	(10,384)	(49,142)	33,043
Net (increase)/decrease in the Fund	**12,156**	**(146,513)**	**(6,791)**	**(42,450)**	**39,058**

Over the five-year period, pensions paid have exceeded contributions received by £52m in total. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.

The Fund's market decreased by £39m in 2019/20, mainly due to the uncertainty in the financial markets due to the global response to the COVID-19 pandemic.

Both officers and the Pensions Sub-Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Financial Performance (continued)

ANALYTICAL REVIEW – NET ASSET STATEMENT

	2015/16	2016/17	2017/18	2018/19	2019/20
Net Asset Statement	£'000	£'000	£'000	£'000	£'000
Bonds	36,771	-	-	-	-
Equities	136,937	112,475	150	150	150
Pooled investment vehicles	671,300	834,828	998,141	1,034,851	949,921
Commodities	1,976	-	-	-	-
Derivatives	(368)	-	-	-	-
Cash deposits	7,544	7,856	6,168	12,843	59,524
Other	1,504	486	35	34	26
Total Investment Assets	855,664	1,002,682	1,004,494	1,047,878	1,009,621
Current assets	1,842	4,373	6,420	5,396	5,572
Current Liabilities	(1,187)	(4,223)	(1,291)	(1,201)	(1,178)
Net (increase)/decrease in the Fund	856,319	1,002,832	**1,009,623**	**1,052,073**	**1,014,015**

The points to note are:

- 95% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 5% is in property pooled funds. (95% and 5% respectively in 2018/19).
- The overall value of pooled investment vehicles decreased by £85m (8%) during the year.

Further details are given in the Investment Policy and Performance Section.

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2015/16	2016/17	2017/18	2018/19	2019/20
Contributions receivable	£'000	£'000	£'000	£'000	£'000
- Members	(6,795)	(6,937)	(6,781)	(7,157)	(7,408)
- Employers	(22,412)	(22,494)	(24,268)	(25,074)	(26,135)
- Transfers in	(1,375)	(2,090)	(3,012)	(2,934)	(4,326)
- Other	(35)	(753)	607	(1,221)	-
Total Income	(30,617)	(32,274)	**(33,454)**	**(36,386)**	**(37,869)**

	2015/16	2016/17	2017/18	2018/19	2019/20
Benefits Payable	£'000	£'000	£'000	£'000	£'000
- Pensions	29,076	30,002	31,465	32,912	34,916
- Lump sum retirements and death benefits	5,536	5,685	7,256	8,167	9,400
- Transfers out	3,230	5,046	4,086	7,726	7,225
- Refunds	16	37	20	41	119
Total Expenditure	37,858	40,770	42,827	48,846	51,660
Net Dealings with Members	7,241	8,496	9,373	12,460	**13,791**

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers in were higher, reflecting more new starters joining the scheme and choosing to transfer in benefits on commencement of employment, than last year.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Administration					
Employees	77	138	235	214	223
Supplies and services	527	381	165	132	151
Other Costs	2	1	3	2	3
Total Administration Costs	**606**	**520**	**403**	**348**	**377**
Governance and Oversight					
Employees	74	103	341	337	446
Investment advisory services	100	66	65	93	68
Governance and compliance	54	43	0	56	134
External audit	21	24	21	16	25
Actuarial fees	19	31	25	50	79
Total Governance and Oversight Costs	**268**	**267**	**452**	**552**	**752**
Investment Management					
Management fees	4,774	4,310	3,223	4,763	4,250
Performance fees	1,646	997	343	244	36
Transaction costs	73	382	44	185	421
Custodian fees	395	54	38	107	28
Total Investment Management Fees	**6,888**	**5,743**	**3,648**	**5,299**	**4,735**
Total Operational Expenses	7,762	6,530	4,503	**6,199**	**5,864**

In 2020, the Fund carried out extensive work related to the triennial valuation. This was a key cost driver for the increase in governance and oversight employee costs for the pension funds. Costs increased by 32% from 2018/19.

The Fund's investment management expenses fell by 10.6% during the year. The main driver of this reduction in cost was a result of transferring all equities from active to passive.

The Fund's performance fees decreased by 85% due to underperformance from the fund's diversified credit manager, as well as the change noted previously.

Administration Management Performance

The administration of the Fund is managed by Hammersmith and Fulham Council, but undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2014.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes several performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	2016/17 Performance	2017/18 Performance	2018/19 Performance	2019/20 Performance
Letter detailing transfer out quote	20 days	59%	34%	82%	89%
Process refund and issue payment voucher	10 days	92%	98%	92%	93%
Letter notifying estimate of retirement benefit	10 days	82%	100%	87%	93%
Letter notifying actual retirement benefit	7 days	87%	100%	98%	95%
Letter acknowledging death of member	5 days	100%	100%	100%	94%
Letter notifying amount of dependant's benefits	10 days	100%	100%	94%	96%
Calculate and notify deferred benefits	20 days	70%	44%	90%	79%

Performance has generally improved across the board due to improvements in staffing and the implementation process of the new online pension systems. During the financial year ending 31 March 2020, there were no delays in processing pension payments and no impact on the accuracy of final calculations made.

The ORBIS on-line pension system is a secure portal which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the system to:

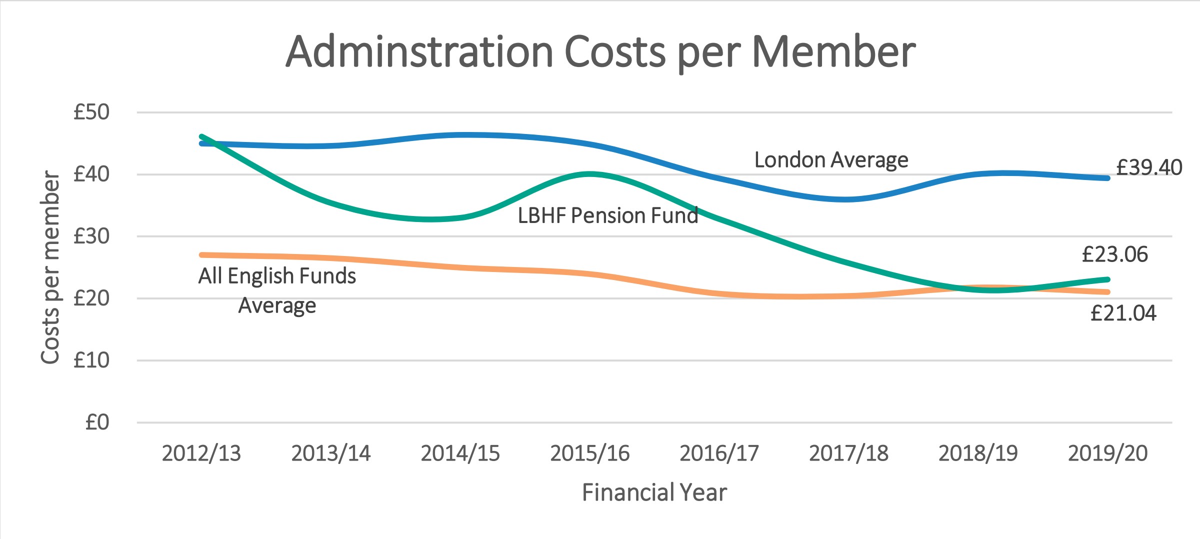
- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations e.g. early retirements

COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4).

No new complaints have been lodged with the Ombudsman in 2019/20.

Administration Management Performance (continued)



STAFFING INDICATORS

The Pension Fund's cost of administration per member remains below the average for the London borough pension funds as shown in the chart. Administration costs are subject to regular review.

The administration of the Fund comprises of:

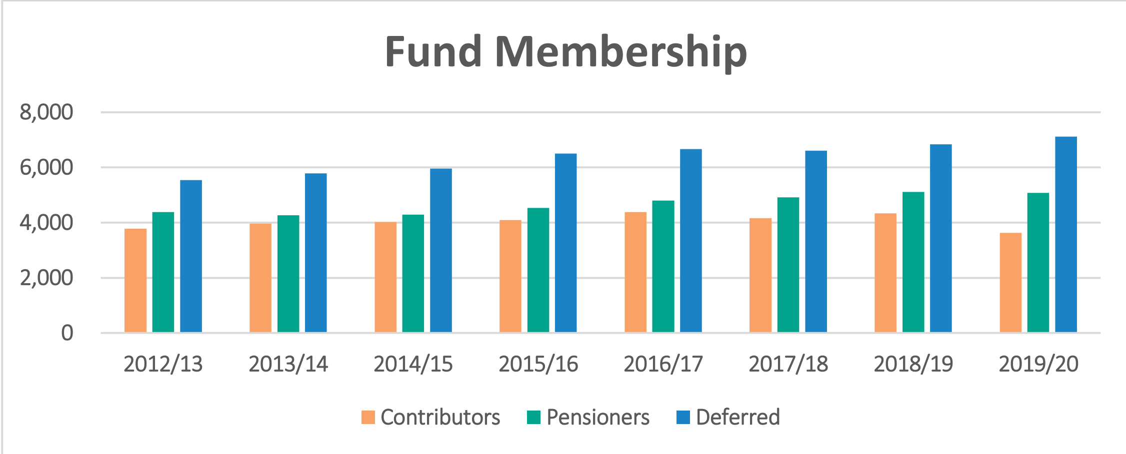
- 3 full-time equivalent (FTE) staff engaged by Surrey CC working directly on pension administration for Hammersmith and Fulham
- 2.8 FTE Hammersmith and Fulham HR staff to deal with internal administration.
- 1.93 FTE Westminster Finance staff assigned to the oversight and governance of the Pension Fund.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by about 10% over the past 5 years from 14,269 to 15,828.

The introduction of auto-enrolment in 2013 and the increase in admitted employers has led to an increase in members contributing towards the Scheme. Nonetheless, the number of pensioners has been stable over the last several years in common with other local government pension funds, reflecting the maturity of the Fund.



ENHANCED BENEFITS

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given in the table across as at each year on 31 March.

Reason for leaving	2015/16	2016/17	2017/18	2018/19	2019/20
Ill health retirement	10	10	6	4	3
Early retirement	36	29	18	20	21
	46	**39**	**24**	**24**	**24**

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The list below contains a list of the current active contributing employers and the contributions received in 2019/20. The employer's contributions figures include early retirement and deficit funding contributions.

Administering Authority Employer	Employees Contributions £000	Employers Contributions[1] £000	Total Contributions £000
London Borough of Hammersmith & Fulham	5,043	17,225	22,268
Addison Primary School	34	149	183
All Saints Church of England Primary School	12	51	63
Avonmore Primary School	20	87	107
Bayonne Nursery School	17	73	90
Brackenbury Primary School	25	112	137
Cambridge School	32	139	171
Flora Gardens Primary School	18	76	94
Holy Cross Catholic Primary School	35	155	190
Jack Tizard School	47	203	250
James Lee Nursery School	9	39	48
John Betts Primary School	17	70	87
Kenmont Primary School	16	70	86
Larmenier & Sacred Heart Catholic Primary School	30	137	167
Melcombe Primary School	30	130	160
Miles Coverdale Primary School	25	112	137
Normand Croft Community School	30	133	163
Old Oak Primary School	27	125	152
Queensmill School	121	526	647
Randolph Beresford Early Years Centre	48	195	243
Sir John Lillie Primary School	37	107	144
St Augustine's Primary School	15	65	80
St John XXIII Catholic Primary School	28	127	155
St John's Walham Green Church of England Primary School	21	91	112
St Mary's Catholic Primary School	24	109	133
St Paul's Catholic Primary School	24	106	130
St Peter's Church of England Primary School	17	75	92
St Stephens Church of England Primary School	36	162	198
St. Thomas of Canterbury Primary School	15	63	78
The Good Shepherd Primary School	17	78	95
Vanessa Nursery School	15	64	79
Wendall Park Primary School	24	108	132
William Morris Sixth Form School	57	226	283
Wood Lane High School	20	85	105
Wormholt Park Primary School	36	149	185
Total Contributions from Administering Authority	**6,023**	**21,420**	**27,443**

[1] Includes early retirement and deficit contributions

Page 104

Administration Management Performance (continued)

SCHEDULED BODIES

The Fund provides pensions not only for employees of Hammersmith and Fulham Council, but also for the employees of several scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

Scheduled Body	Employees Contributions £000	Employers Contributions[2] £000	Total Contributions £000
Ark Bentworth Primary Academy	11	46	57
Ark Burlington Danes Primary Academy	70	163	233
Ark Conway Primary Academy	15	73	88
Brightwells Academy	75	296	371
Fulham Boys School	39	138	177
Fulham College Boys' Academy	40	144	184
Fulham Cross Girls' Academy	53	179	232
Greenside Academy	15	59	74
Hammersmith Academy	57	200	257
Hurlingham & Chelsea Academy	34	119	153
Lady Margaret School	43	153	196
Langford Primary School	10	37	47
Lena Gardens Primary School	4	17	21
London Oratory School	56	135	191
Mortlake Crematorium Board	22	60	82
Phoenix Academy	26	97	123
Phoenix Canberra Academy	21	127	148
Sacred Heart High School	55	183	238
TBAP Trust	55	205	260
Thomas' Academy	16	65	81
West London Free School	76	295	371
Total Contributions from Scheduled Bodies	**795**	**2,790**	**3,586**

[2] Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not-for-profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

Admitted Body	Employees Contributions £000	Employers Contributions[3] £000	Total Contributions £000
3BM	43	121	164
Abelian UK	1	4	5
Agilisys	2	8	10
Amey	6	20	26
Birkin Clean	2	8	10
BT-IT Services	6	8	14
Caterlink	4	23	27
Chigwell Group	6	22	28
CT Plus Transport	9	47	56
Disabilities Trust	1	4	5
Eden Food Services	32	135	167
Family Support Service	68	218	286
FM Conway	17	57	74
Fulham Palace Trust	7	0	7
HTC – Passenger Transport	2	8	10
K&T Heating Services	16	48	64
London Hire Community Services	1	6	7
Medequip Assistive Technology	2	9	11
Peabody Trust	11	40	51
Pinnacle PSG	78	272	350
Quadron Services	57	197	255
RM Education	1	2	3
Serco Group	175	451	626
Urban Partnership	17	113	130
Wates Group	4	20	24
Total Contributions from Admitted Bodies	**586**	**1,908**	**2,494**

[3] Includes early retirement and deficit contributions

Administration Management Performance (continued)

EMPLOYER ANALYSIS

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Bodies	21	3	24
Admitted Bodies	30	22	52
Total number of bodies	**52**	**25**	**77**

3.

Investment Policy and Performance

Investment Policy

The Pensions Sub-Committee has set out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles".

These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- effective decision making
- clear objectives
- risk & liabilities
- performance measurement
- responsible ownership
- transparency and reporting

The Fund's ISS has been included in this report as Appendix 4.

For 2019/20, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an ISS.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments.
- The administering authority's assessment of the suitability of particular investments and types of investment.
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed.
- The administering authority's approach to pooling investments, including the use of collective investment vehicles.
- The administering authority's policy on how environmental, social and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

Any queries relating to the Fund's investment policy should be addressed to:

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP

Email: *pensionfund@lbhf.gov.uk*

Asset Allocation

The strategic asset allocation is agreed by the Pensions Sub-Committee and the Fund's advisers. The allocation during the year ended 31 March 2020 was as follows:

Asset Class	Target Allocation
Global Equities	45.0%
Fixed Income	27.5%
Inflation Protection	10.0%
Infrastructure	7.5%
Multi Asset	5.0%
Long Lease Property	5.0%
Total	**100.0%**

The Pensions Sub-Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate that they operate under. To follow the Myners' Committee recommendation, Fund Managers are challenged deliberately and formally about asset allocation decisions.

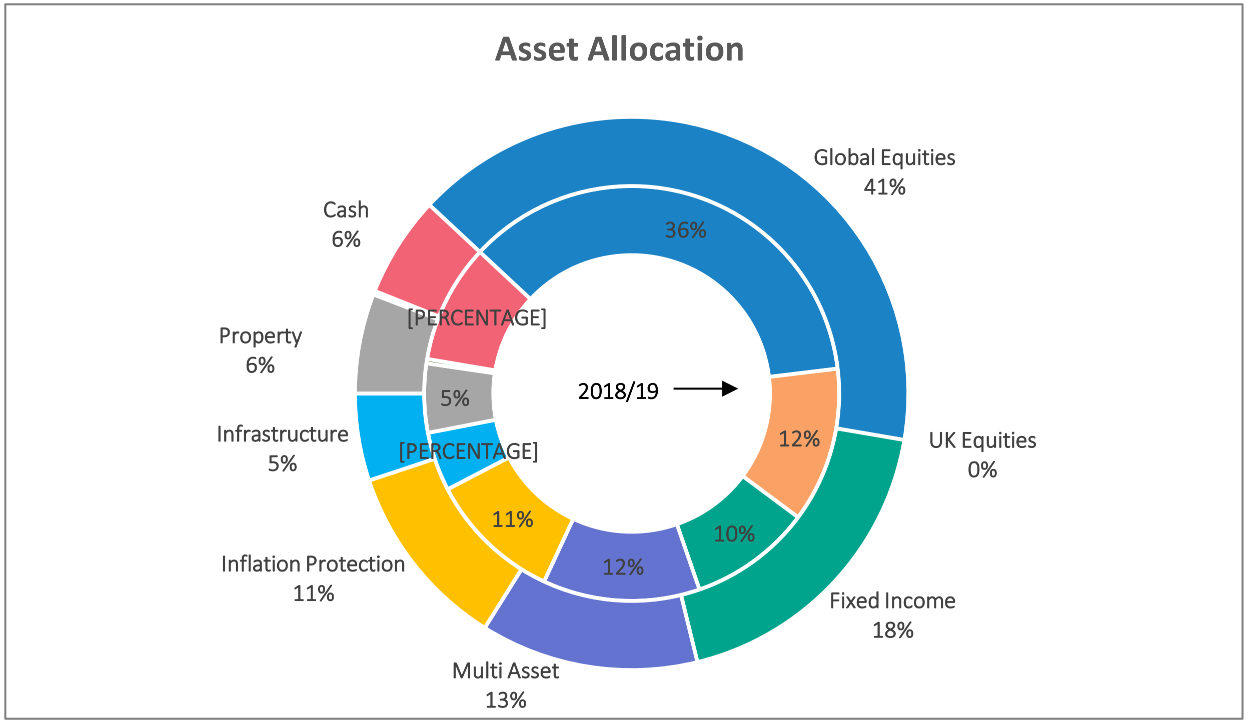
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Sub-Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Advisor on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year are set out below.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pensions Sub-Committee.

At 31 March 2020, the fund had an overweight allocation to cash due to assets in transit. This cash is intended to be allocated to private credit in 2020/21.



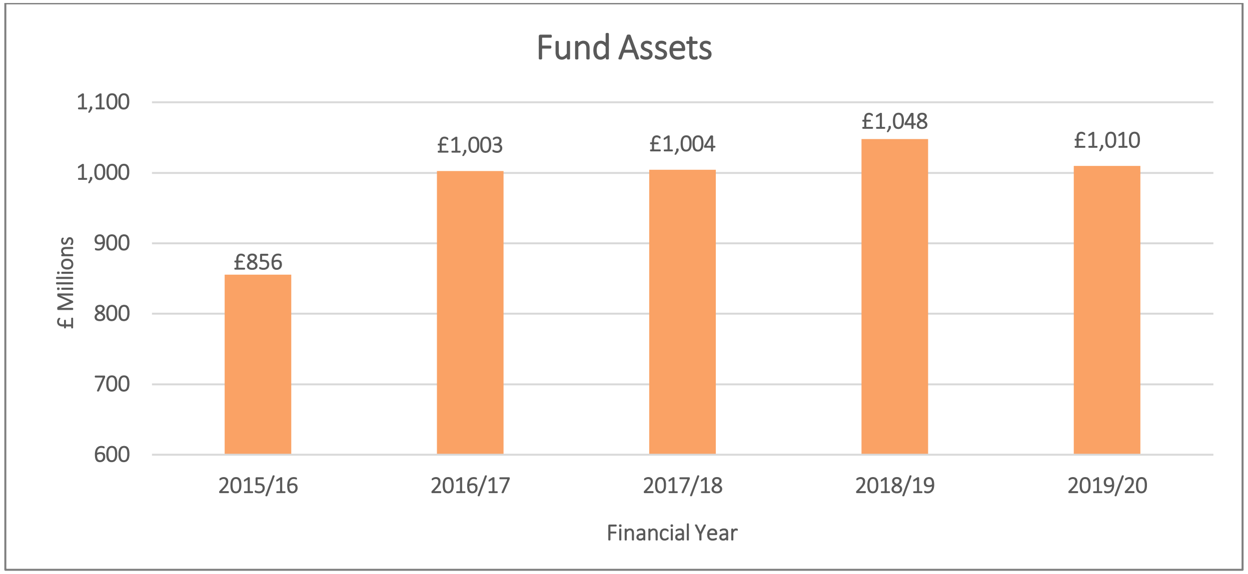
Asset Allocation (continued)

FUND VALUE

The net asset value of the Fund has more than doubled over the past ten years with 28.5% of the growth coming within the last five years.

In 2019/20, the fund's net asset value fell by 3.6% to £1.01bn. The main cause of this negative performance was the uncertainty in the global markets due to the coronavirus disease. The fund had recovered most of these loses by June 2020.

The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

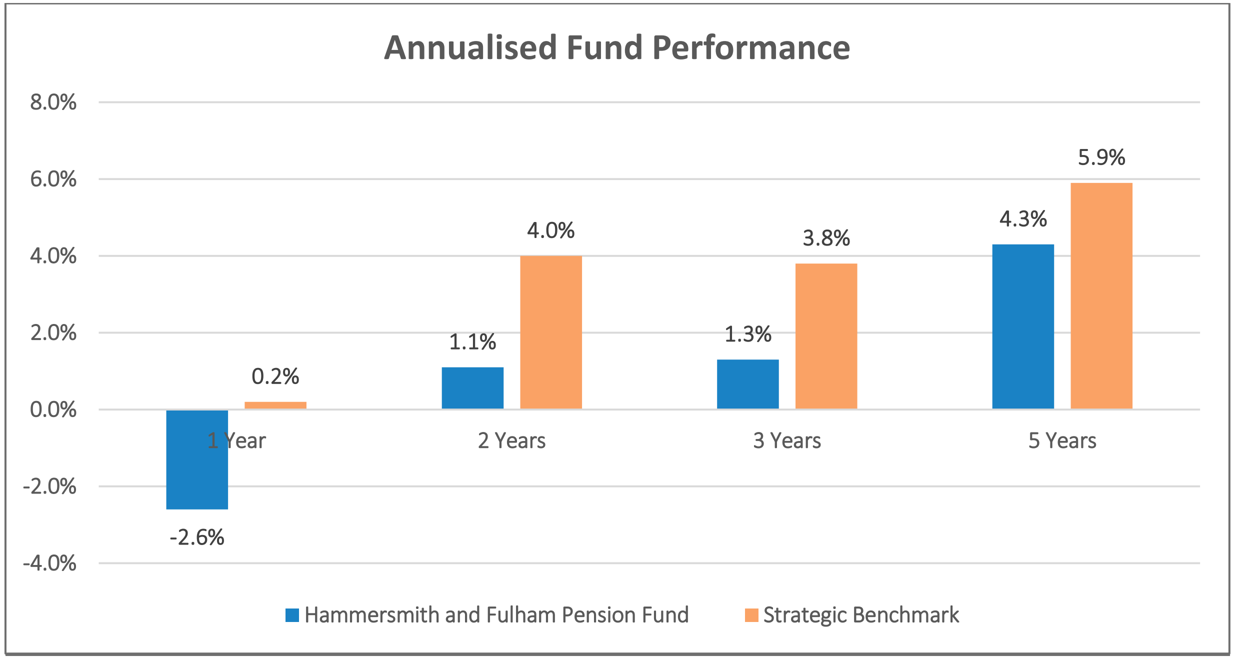


Investment Performance

In 2019/20, the Fund's investment performance was -2.6% (5.0% in 2017/18) to £1.01bn. This was above the average LGPS return of -4.8%.

Performance of the Fund is measured against an overall strategic benchmark. Below this, each fund manager is assigned individual performance targets which are linked to index returns for the assets they management, e.g. FTSE All Share for UK equities. Details of these targets can be found in the Statement of Investment Principles.

The chart below shows the annualised fund performance over different time periods. Overall, the Fund has underperformed strategic benchmark across the different periods with an underperformance of 2.8% in 2019/20.



2019/20 has been a challenging year for the global markets. The response to the global outbreak of the coronavirus disease has introduced volatility across various sectors. This has compounded the effects of the remaining uncertainty surrounding the UK's exit from the EU negotiations.

The Fund's one year performance has been severely impacted due to a number of the Fund's managers working t "cash Plus" benchmarks. These will be underperforming as markets fell in March. This should even out as markets have rebounded in 2020.

Although several of the fund's investment strategies were negatively impacted, in the subsequent months we have seen the fund recover all its losses, increasing by 10.8% since 31 March 2020.

Investment Performance (continued)

The overall performance of each manager is measured over rolling three-year or five-year periods, as inevitably there will be short-term fluctuations in performance.

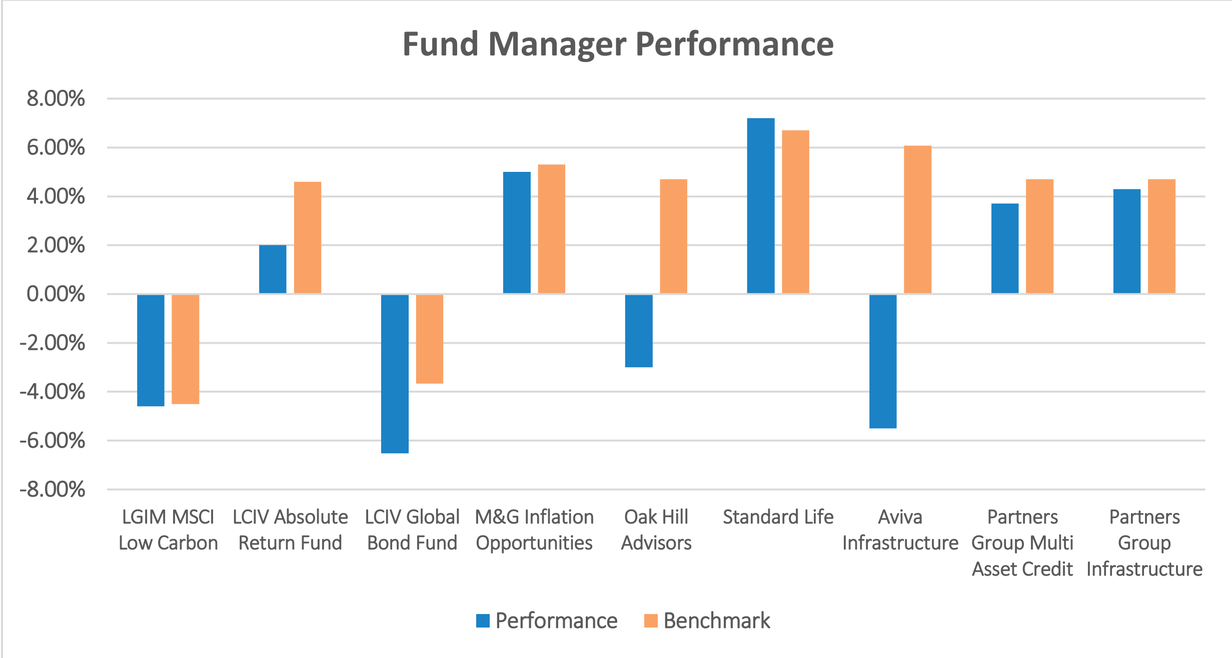
There were a couple new strategies entered during the year; these have been measured on their performance since inception.

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio.

The table on the below shows the portfolio mixture of the fund.

Active	Passive
London LGPS CIV Ltd LCIV Absolute Return Fund (Ruffer) LCIV Global Bond Fund (PIMCO)	**Legal & General Investment Management** MSCI Low Carbon Tracker Fund
Partners Group Private Multi Asset Credit Infrastructure	**M & G Investments** Inflation Opportunities Fund
Aviva Investors Infrastructure	**Aberdeen Standard** Long Lease Property Fund
Oak Hill Advisors Multi Asset Credit	



Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following the best practice in terms of environmental, social and ethical issues has a positive effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of environmental, social and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

In 2019/20 the Fund drafted its Responsible Investment Statement with a final version expected to be approved later in 2020.

The Fund's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pensions Sub-Committee.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally can advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Pensions Lifetime and Savings Association (formerly the National Association of Pension Funds), it does not subscribe to nor is it a member of the Local Authority Pension Fund Forum, UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Sub-Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements.

The Hammersmith and Fulham Pension Fund is a shareholder in London LGPS CIV Limited and had about 63% of assets invested with the pool as at 31 March 2020.

SEPARATION OF RESPONSIBILITIES

The Fund has appointed Northern Trust as its global custodian, which is independent to the investment managers and responsible for the safekeeping of all the Fund's investments. Northern Trust are also responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. This is used for the operation functions of the Fund which include receiving contributions from employers and paying out benefits to members.

The actuary is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

STEWARDSHIP CODE

The Pensions Sub-Committee believes that investor stewardship is a key component of good governance and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Fund's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Sub-Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests and deliver long-term returns.

The Pensions Sub-Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Pensions Sub-Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 3) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority regarding funding the scheme.

Its purpose is:

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

4. Scheme Administration

Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. The London Borough of Hammersmith and Fulham Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents.

The Council administers the scheme for 70 employers (a complete list of employers is provided in section 2). These employers include not only the Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been "admitted" to the pension fund under agreement with the Council.

A not-for-profit contractual arrangement is in place with Surrey County Council for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 19. The Council's Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 87. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

www.lbhfpensionfund.org

INTERNAL DISPUTE RESOLUTION PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

IDRP Stage 1 involves making a formal complaint in writing. This would normally be considered by the body that made the decision in question. If the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

IDRP Stage 2 involves a referral to the administering authority, Hammersmith and Fulham Council to take an independent view.

IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

No complaints have been received or referred to the Pensions Ombudsman in 2018/19.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB

5.
Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the Hammersmith and Fulham Pension Fund ("the Fund") was carried out as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated February 2020.

This statement gives an update on the funding position as at 31 March 2020 and comments on the main factors that have led to a change since the full valuation.

2019 VALUATION

The results for the Fund at 31 March 2019 were as follows:

- The Fund as a whole had a funding level of 97% i.e. the assets were 97% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £35m which is lower than the deficit at the previous valuation in 2016.
- To cover the cost of new benefits a total contribution rate of 17.4% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2019 valuation, we estimate that the funding position at 31 March 2020 has reduced slightly compared with the position as at 31 March 2019.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP

6. Pension Fund Accounts

Statement of Responsibilities

Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs, in line with statute this is the Strategic Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE

The Strategic Director of Finance and Governance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statements of Accounts, the Strategic Director of Finance and Governance has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting.

The Strategic Director of Finance and Governance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities
- assessed the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Used the going concern basis of accounting on assumption that the functions of the authority will continue in operational existence for the foreseeable future.
- Maintained such internal control as they determine as necessary to enable the preparation of financial statements free from material misstatement, whether due to fraud or error.

CERTIFICATE OF THE STRATEGIC DIRECTOR OF FINANCE

I certify that the Statement of Accounts (set out on pages 42 to 78) present a true and fair view of the financial position of the London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2020 and income and expenditure for the year for the financial year 2019/20.

Emily Hill
Strategic Director of Finance and Governance
Section 151 Officer

Date:

Independent Auditors Report

Independent auditor's report to the members of the London Borough of Hammersmith and Fulham Pension Fund on the pension fund financial statements published with the pension fund annual report

We have audited the pension fund financial statements of Hammersmith and Fulham Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE STRATEGIC DIRECTOR OF FINANCE AND THE AUDITOR

As explained more fully in the Statement of the Strategic Finance Director's Responsibilities, the Strategic Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

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

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

OPINION ON OTHER MATTERS

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

[NAME]

for and on behalf of Grant Thornton, Appointed Auditor

Grant Thornton

[ADDRESS]

[DATE]

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2018/19		Notes	2019/20
£'000			£'000
	Dealings with members, employers and other directly involved in the fund		
	Contributions		
(25,074)	From Employers	7	(26,135)
(7,157)	From Members	7	(7,408)
(2,934)	Individual Transfers in from Other Pension Funds		(4,326)
(1,221)	Other income		-
(36,386)	Total Contributions		(37,869)
	Benefits		
32,912	Pensions	8	34,916
8,167	Commutation, Lump Sum Retirement and Death Benefits	8	8,502
-	Payment in respect of tax		898
	Payments to and on account of leavers		
7,726	Individual Transfers Out to Other Pension Funds		7,225
41	Refunds to Members Leaving Service		119
48,846	Total Benefits		51,660
12,460	Net Additions (Withdrawals) from dealings with members		13,791

Pension Fund Accounts and Explanatory Notes (continued)

FUND ACCOUNT

2018/19		Notes	2019/20
6,199	Management expenses	9	5,866
	Returns on Investment		
(11,967)	Investment Income	10	(13,911)
-	Other Income	10	(731)
(49,142)	(Profit) and losses disposal of investments and changes in value of investments	12	(33,043)
(61,109)	Net Return on Investments		(18,401)
(42,450)	Net (Increase)/Decrease in the net assets available for benefits during the year		(38,058)
(1,009,623)	Opening Net Assets of the Scheme		(1,052,073)
(1,052,073)	Closing Net Assets of the Scheme		(1,014,015)

Pension Fund Accounts and Explanatory Notes (continued)[4]

NET ASSETS STATEMENT

2018/19		Notes	2019/20
£'000			£'000
	Investment Assets		
150	Equities	12	150
55,558	Pooled Property Vehicles	12	58,881
902,851	Pooled Investment Vehicles	12	817,347
76,442	Private Equity/Infrastructure	12	73,693
12,843	Cash Deposits	12	59,524
	Other Investment Balances		
34	Investment income due	12	26
1,047,878	Net Investment Assets		1,009,621
2,723	Current Assets	20	3,897
(1,201)	Current Liabilities	21	(1,178)
2,673	Cash Balances (held directly by Fund)		1,675
1,052,073	**Net assets of the Fund available to fund benefits at the period end**		**1,014,015**

[4] The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19a.

Note 1 Description of Hammersmith and Fulham Pension Fund

A. GENERAL

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Hammersmith and Fulham Council (the Council). It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of Hammersmith and Fulham Council and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. Teachers are excluded from this scheme as they are administered under the Teachers' Pension Scheme.

The benefits payable in respect of service from 1 April 2014 are based on an employee's career average revalued earnings (CARE) and the number of years of eligible service. The benefits payable in respect of service prior to 1 April 2014 are based on an employee's final salary and the number of years eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from investment returns on the Fund's investment assets. Contributions from employees are made in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employer contributions are set based on the triennial actuarial funding valuation, as detailed in Note 19.

B. PENSIONS SUB-COMMITTEE

The Council has delegated the investment arrangements of the scheme to the Audit, Pensions and Standards Committee, who in December 2014 formed a Pensions Sub-Committee (the Sub-Committee) and delegated all pensions responsibilities to it. The Sub-Committee decides on the investment strategy most suitable to meet the liabilities of the Fund and has responsibility for the investment strategy. The Sub-Committee is made up of five members, four of whom are elected representatives of the Council with voting rights and one co-opted member. Members of the admitted bodies and representatives of the Trade Unions may attend the committee meetings but have no voting rights.

The Sub-Committee reports annually to the Audit, Pensions and Standards Committee and has full delegated authority to make investment decisions. The Sub-Committee obtains and considers advice from the Strategic Director of Finance and Governance, and as necessary from the Fund's appointed actuary, investment managers and adviser.

C. PENSION BOARD

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets twice a year and has its own Terms of Reference. Board members are independent of the Pensions Sub-Committee.

Note 1 Description of Hammersmith and Fulham Pension Fund (continued)

D. INVESTMENT PRINCIPLES

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Sub-Committee approved an Investment Strategy Statement on 11 February 2020 (available on the Council's website). The Statement shows the Authority's compliance with the Myner's principles of investment management.

The Sub-Committee has delegated the management of the Fund's investments to regulated investment managers (see note 11), appointed in accordance with the regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

E. MEMBERSHIP

Membership of the LGPS is voluntary and employees, whilst auto-enrolled into the scheme, are free to choose whether to stay in or leave the scheme, or make their own personal arrangements outside the scheme.

Organisations participating in the Hammersmith & Fulham Pension Fund include:

- Scheduled bodies, which are local academies and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies and private contractors undertaking a local authority function following outsourcing to the private sector.

The Deferred member numbers include 1,018 undecided leavers, who are no longer paying contributions or in receipt of benefits.

31 March 2019		31 March 2020
50	Number of active employers	50
4,332	Contributing employees	3,635
5,111	Pensioners receiving benefit	5,081
6,840	Deferred pensioners	7,112
16,283	**Total members**	**15,828**

Details of the scheduled and admitted bodies are in Section 2 of this report.

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2019/20 and its position at year end as at 31 March 2020. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they consider the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in a note to the accounts (Note 19). The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of Significant Accounting Policies

FUND ACCOUNT – REVENUE RECOGNITION

A. CONTRIBUTION INCOME

Normal contributions, both from active members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

B. TRANSFERS TO AND FROM OTHER SCHEMES

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

C. INVESTMENT INCOME

Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

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

FUND ACCOUNT – EXPENSE ITEMS

D. BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

E. TAXATION

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises

F. VSP, MSP AND LIFE TIME ALLOWANCE

Members are entitled to request that the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC, it is treated as an expense in the year in which the payment occurs.

G. MANAGEMENT EXPENSES

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses 2016".

- Administrative expenses – All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- Oversight and governance – All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.
- Investment management expenses – The Sub-Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage, and/or a fee based on performance.

Where an investment manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

Note 3 Summary of significant accounting policies (continued)

NET ASSET STATEMENT

H. FINANCIAL ASSETS

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

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14a).

I. DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 14a).

J. FOREIGN CURRENCY TRANSACTIONS

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

K. CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

L. FINANCIAL LIABILITIES

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

M. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of retirement benefits by way of a note to the Net Assets Statement (Note 19a).

N. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 22. There are also some residual policies with Equitable Life, which are disclosed in Note 22, but it is not open for new members.

O. RECHARGES FROM THE GENERAL FUND

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund based on actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 9.

Note 4 Critical Judgements in Applying Accounting Policies

The accounts contain certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are based on best judgement at the time, derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

The items for which there is a significant risk of material adjustment are:

A. PENSION FUND LIABILITY

The Pension Fund liability is calculated every three years by the appointed actuary with annual updates in the intervening years. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in the accompanying actuarial report. The estimates of the net liability to pay pensions depends on several judgements and assumptions. In particular, those relating to the discount rate, the rate at which salaries are projected to increase, change in retirement ages, mortality rates and expected returns on the Fund's assets.

The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £29m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2m, a 0.1% increase in pension increases would increase the liability by about £28m and a one-year increase in life expectancy would increase the liability by about £58m.

B. COVID 19 IMPACT

The ongoing impact of the COVID-19 pandemic has created uncertainty around the valuations of illiquid assets. As such, the Pension Fund's property and infrastructure allocations as at 31 March 2020 have been difficult to value according to the preferred accounting policy. Professional valuers have not been able to actively value many similar sized assets in the market due to the current lockdown environment to obtain a reliable fair value for the Pension Fund's assets. As a result, the values have been largely based on the previously reported period with an estimate included as at 31 March 2020.

C. PRIVATE EQUITY INVESTMENTS

The fair value of private equity investments is unavoidably subjective. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards. The value of private equity investments at the balance sheet date was £2.2m.

D. PRIVATE DEBT/INFRASTRUCTURE INVESTMENTS

The fair value of the Partners Group Multi Asset Credit fund and Infrastructure fund is also to some extent subjective. Several of the underlying assets are traded in private markets only and therefore judgement needs to be made about value, using factors such as the enterprise value and net debt. As at 31 March 2020, the assets invested with Partners Group were valued at £45.5m (£42.3m in 2018/19).

The same applies to the Aviva Infrastructure which is has a quarterly valuation cycle. As at 31 March 2020, the value of the investment was £26.1m (£30.6m in 2018/19).

Note 5 Assumptions Made About the Future and Other Major Sources of Uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual results could differ from the assumptions and estimates.

Note 6 Events After the Balance Sheet Date

In November 2019, the Pension Fund Sub-Committee agreed to appoint Aberdeen Standard Investments as its new private credit manager with a commitment of £55m. As at the balance sheet date, this investment had not been completed but was finalised in full on 24 April 2020.

Note 7 Contributions Receivable

Employees' contributions are calculated on a sliding scale based on a percentage of their gross pay. The administering body, scheduled bodies and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund.

The tables on the right show a breakdown of the total amount of contributions by authority and by type.

BY AUTHORITY

2018/19 £000		2019/20 £000
(25,322)	Administering authority	(27,442)
(3,583)	Scheduled bodies	(3,607)
(3,326)	Admitted bodies	(2,494)
(32,231)	**Total Contributions Receivable**	**(33,543)**

BY TYPE

2018/19 £000		2019/20 £000
(7,157)	Employees' normal contributions	(7,408)
	Employer's contributions:	
(15,740)	Normal contributions	(16,432)
(9,334)	Deficit recovery contributions	(9,703)
(32,231)	**Total Contributions Receivable**	**(33,543)**

Note 8 Benefits Payable

The tables on the right below show a breakdown of the total amount of benefits payable.

BY AUTHORITY

2018/19 £000		2019/20 £000
37,640	Administering authority	39,593
476	Scheduled bodies	672
6,454	Admitted bodies	3,153
41,079	**Total Benefits Payable**	**43,418**

BY TYPE

2018/19 £000		2019/20 £000
32,912	Pensions	34,916
7,297	Commutation and lump sum retirement benefits	7,407
870	Lump sum death benefits	1,095
41,079	**Total Benefits Payable**	**43,418**

Note 9 Management Expenses

The table on the right shows a breakdown of the management expenses incurred during the year.

MANAGEMENT EXPENSES

2018/19 £000		2019/20 £000
334	Administrative costs	365
5,298	Investment management expenses	4,735
567	Oversight and governance costs	766
6,199	**Total Management Expenses**	**5,866**

The table on the right provides a breakdown of the Investment Management Expenses.

INVESTMENT MANAGEMENT EXPENSES

2018/19 £000		2019/20 £000
4,763	Management fees	4,250
244	Performance fees	36
185	Transaction costs	421
106	Custody fees	28
5,298	**Total Investment Management Expenses**	**4,735**

Note 10 Investment Income

The table below shows a breakdown of investment income.

2018/19 £000		2019/20 £000
(8,874)	Pooled investments – unit trusts and other managed funds	(10,777)
(2,995)	Income from Alternative Investments	(3,009)
(98)	Interest on Cash Deposits	(125)
-	Other Investment Income	(731)
(11,967)	**Total Investment Income**	**(14,642)**

Note 11 Investment Strategy

During 2019/20, the Fund's strategy had the following developments:

- In March 2019, the Pensions Sub-Committee agreed to an investment of £85m into the London CIV (LCIV) Global Bonds Fund (managed by PIMCO). This investment was completed in May 2019, with an additional £20m invested with the Fund later that year.
- In July 2019, the Pensions Sub-Committee made a decision to no longer use Legal and General Investment Management's (LGIM) Sterling Liquidity Fund to manage its temporary cash holdings. All temporary cash holdings will be managed through the Fund's custodian, Northern Trust.
- In November 2019, the Fund completed the transition of the LCIV UK Equity (£125m) into the MSCI Low Carbon Fund under the management of LGIM. As at 31 March 2020, the value of the Fund's global equity assets was £411m.
- In December 2019, the Pensions Sub-Committee appointed Aberdeen Standard Investments as the Fund's new private credit manager. This investment would be financed through the sale of global equity assets which would later be refunded from the proceeds received from the Partners Group Multi Asset Credit (MAC)

The market value and proportion of investments managed by each fund manager at 31 March 2020 was as follows:

31 March 2019 £000	%	Fund Manager	Mandate	31 March 2020 £000	%
Investment managed by the London CIV asset pool:					
374,028	35.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	411,304	40.8%
126,636	12.1%	LCIV – Ruffer	Absolute Return (Active)	128,526	12.7%
-	-	LCIV – PIMCO	Global Bonds (Active)	100,960	10.0%
125,154	11.9%	LCIV – Majedie	UK Equity (Active)	-	-
625,818	**59.7%**	**Total assets managed by the London CIV asset pool**		**640,790**	**63.5%**
Investment managed outside of the London CIV asset pool:					
107,834	10.3%	M&G Investments	Inflation Opportunities	110,996	11.0%
73,203	7.0%	Oak Hill Advisors	Secured Income (Active)	65,570	6.4%
55,558	5.3%	Aberdeen Standard	Long Lease Property	58,881	5.8%
30,644	2.9%	Aviva Investors	Infrastructure	26,062	2.6%
16,987	1.6%	Partners Group	Infrastructure	25,347	2.5%
25,318	2.4%	Partners Group	Multi Asset Private Credit	20,108	2.0%
2,199	0.2%	Invesco	Private Equity	1,523	0.2%
1,293	0.1%	Unigestion	Private Equity	653	0.1%
12,867	1.2%	Inhouse Cash	Cash	59,541	5.9%
150	0.0%	London CIV Ltd	UK Equity	150	0.0%
96,007	9.2%	LGIM – Sterling Liquidity Fund	UK Equity	-	0.0%
408,032	**40.3%**	**Total assets managed outside of the London CIV asset pool**		**368,831**	**36.5%**
1,047,878	**100.0%**	**Total investments**		**1,009,621**	**100.0%**

Note 11 Investment Strategy (continued)

As part of the Fund's ongoing investment strategy, there remains an outstanding commitment which was made to the Partners Group Direct Infrastructure fund in August 2015. As at 31 March 2020 €26.4m still remained unfunded.

The private equity investments made some years ago are now in the redistribution phase of the cycle, which will be completed in late 2019. As at 31 March 2020, £2.2m remained to be redistributed back into the Fund.

As shareholders of London LGPS CIV Ltd, (the organisation set up to run pooled LGPS investments in London), the Fund has funded £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. As at 31 March 2020, the Fund had £721.8m invested with the London CIV, which accounts for 63.5% of the fund's total assets.

The table below shows the Fund investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

31 March 2019 £000	%	Fund Manager	Mandate	31 March 2020 £000	%
374,028	35.7%	LGIM – MSCI Low Carbon	Global Equity (Passive)	411,304	40.7%
126,636	12.1%	LCIV – Ruffer	Absolute Return (Active)	128,526	12.7%
107,834	10.3%	M&G Investments	Inflation Opportunities	110,996	11.0%
73,203	7.0%	Oak Hill Advisors	Secured Income (Active)	65,570	6.5%
55,558	5.3%	Aberdeen Standard	Long Lease Property	58,881	5.8%
125,154	11.9%	LCIV – Majedie	UK Equity (Active)	-	-
96,007	9.2%	LGIM – Sterling Liquidity Fund	Cash	-	-

Note 12 Reconciliation of Movement in Investments

The table below shows a reconciliation of the movement in the total investment assets of the Fund by asset class during 2019/20.

Fund Manager	Value at 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Value at 31 March 2020 £000
Equities	150	-	(25)	25	150
Pooled equity Investments	90,851	107,550	(156,567)	(36,487)	817,347
Pooled property investments	55,558	39	-	3,284	58,881
Private equity/infrastructure	76,442	4,654	(7,316)	(87)	73,693
Total	1,035,001	112,243	(163,908)	(33,265)	950,071
Cash deposits	12,843	-	-	238	59,524
Investment income due	34	-	-	-	26
Spot FX contracts	-	-	-	(166)	-
Net investment assets	**1,047,878**	**112,243**	**(163,908)**	**(33,043)**	**1,009,621**

Note 12 Reconciliation of Movement in Investments (continued)

The equivalent analysis for 2018/19 is provided below:

Fund Manager	Value at 1 April 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Value at 31 March 2019 £000
Equities	150	-	(10)	10	150
Pooled equity Investments	890,947	836,089	(867,391)	43,206	90,851
Pooled property investments	51,933	33	-	3,592	55,558
Private equity/infrastructure	55,261	38,866	(20,023)	2,338	76,442
Total	998,291	874,988	(887,424)	49,146	1,035,001
Cash deposits	6,168	-		22	12,843
Investment income due	35	-		-	34
Spot FX contracts	-	-		(26)	-
Net investment assets	**1,004,494**	**874,988**	**(887,424)**	**49,142**	**1,047,878**

Note 13 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments – Equity Funds UK and Overseas Managed Funds	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Unquoted Bonds and Unit Trusts	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price	In house evaluation of market data	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private and Venture Capital Valuation Guidelines 2012	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple Revenue multiple	Valuations could be affected by changes to expected cashflows, cost of replacing key business assets, or by any differences between the audited and unaudited accounts
Infrastructure funds	Level 3	Valued by Fund Managers at the lower of cost and fair value	Managers use their judgement having regard to the Equity and Venture Capital Valuation Guidelines 2012 guidelines noted above	Upward valuations are only considered where there is validation of the investment objectives and such progress can be demonstrated Downward valuations are enacted where the manager considers there is an impairment to the underlying investment

Note 14a Valuation of Financial Instruments Carried at Fair Value

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

LEVEL 1

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples are quoted equities, quoted index linked securities and unit trusts. All level 1 investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Quoted prices are not available for financial instruments at this level. The valuation techniques used to determine fair value use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data e.g. private equity investments.

The values of the private equity investments are based on valuations provided by the General Partners to the private equity funds. The Partners Group multi asset credit and the infrastructure funds are closed ended and therefore not tradable. The valuation is based on market prices where available for some underlying assets and on estimates of prices in secondary markets for others.

		31 March 2019				31 March 2020
Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs		Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
Level 1	Level 2	Level3		Level 1	Level 2	Level3
£000	£000	£000		£000	£000	£000
			Financial Assets			
-	958,409	76,592	Designated at fair value through profit and loss	-	876,228	73,843
-	958,409	76,592	Net Financial Assets	-	876,228	73,843
		1,035,001				**950,071**

Note 14b Transfers Between Levels 1 and 2

In 2019/20, the Fund's operational activity resulted in no transfers between Levels 1 and 2.

Note 14c Reconciliation of Fair Value Measurements Within Level 3

	Market Value as at 31 March 2019	Purchases	Sales	Unrealised Gains/(losses)	Realised Gains/(losses)	Market Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Overseas infrastructure	20,480	4,654	(1,855)	2,948	1,296	27,523
UK Infrastructure	30,644	-	-	(4,582)	-	26,062
Private Credit	25,318	-	(5,461)	251	-	20,108
London LGPS CIV	150	-	-	-	-	150
Total	**76,592**	**4,654**	**(7,316)**	**(1,383)**	**1,296**	**73,843**

Note 14d Reconciliation of Fair Value Measurements Within Level 3

The Pension Fund has analysed historical data and current trends in consultation with independent investment advisors to determine the accuracy of the valuations of its Level 3 investments. The potential impact on the reported valuations as at 31 March 2020 has been estimated to be accurate within the following ranges:

	Assessed Valuation Range (+/-)	Valuation at 31 March 2020	Valuation on increase	Valuation on decrease
Aviva Infrastructure	8.50%	26,062	28,277	23,847
Partners Group Infrastructure	10.00%	27,523	30,275	24,771
Partners Group Multi Asset Credit	10.00%	20,108	22,119	18,097
Total		**73,693**	**80,671**	**66,715**

Note 15a Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities split by UK and Overseas, by category and net assets statement heading as at the balance sheet date. All investments are quoted unless stated.

		31 March 2019				31 March 2020
Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Designated at fair value through profit & loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
			Pooled Investment Vehicles:			
733,642			UK equity funds	650,817		
25,318			UK fixed income funds	121,068		
55,558			UK property funds	58,881		
30,644			UK infrastructure	26,062		
73,203			Overseas fixed income funds	65,570		
16,987			Overseas infrastructure	25,347		
3,493			Overseas venture capital	2,176		
150			London LGPS CIV	150		
96,007			UK cash funds	-		
34			Investment Income Due	26		
	12,843		Cash deposits with managers		59,524	
	2,679		Debtors		2,897	
	2,673		Cash balances (held by fund)		1,675	
1,035,036	**18,195**	-	**Total Financial Assets**	**950,097**	**64,096**	
			Financial Liabilities			
		(1,185)	Creditors	-		(1,178)
1,035,036	**18,195**	**(1,185)**	**Total Financial Liabilities**	**950,097**	**64,096**	**(1,178)**
		1,052,046	**Total Net Assets**			**1,013,015**

Note 15b Net Gains and Losses on Financial Statements

This table summarises the net gains and losses on financial instruments classified by type of instrument.

31 March 2019		31 March 2020
	Financial Assets	
49,146	Fair value through profit and loss	(33,264)
23	Loans and receivables	238
	Financial Liabilities	
(27)	Fair value through profit and loss	(17)
49,142	**Net Gains /(losses) on Financial Instruments**	**(33,043)**

Note 16 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation through pension and pay increases, interest rates and mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts, as the liabilities move in accordance with changes in the relevant gilt yields and changes in inflation.

The Pensions sub-committee maintains a Pension Fund risk register and reviews the risks and appropriate mitigating actions at every meeting.

A. MARKET RISK

In order to meet the Fund's objective of being fully funded within 22 years of the 2016 actuarial valuation, the fund managers have been set differing targets appropriate to the types of assets they manage. The ongoing economic uncertainty that has been caused by the global response to COVID 19 presents an increased risk to the Fund achieving these targets. As such, the Fund continues to invest its assets in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above their benchmarks over the long term, albeit with greater volatility. This diversification reduces exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

The aim of the investment strategy is to maximise the opportunity for gains across the whole fund's portfolio within a tolerable level of risk of an overall reduction in the value of the Fund. Responsibility for the Fund's investment strategy rests with the Pensions sub-committee and is reviewed on a regular basis.

B. PRICE RISK

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

The Fund is exposed to price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of the derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The Fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

All assets except for cash, forward foreign exchange contracts, other investment balances, debtors and creditors are exposed to price risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if prices had been 10% higher or 10% lower.

Assets exposed to price risk	Value £000	+10% £000	-10% £000
At 31 March 2019	1,035,001	1,138,501	931,501
At 31 March 2020	**950,071**	**1,045,079**	**855,064**

C. INTEREST RATE RISK

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

Index linked gilts, cash and some elements of the pooled investment vehicles are exposed to interest rate risk. The table below shows the value of these assets at the balance sheet date (and the prior year) and what the value would have been if interest rates had been 1% higher or 1% lower.

Assets exposed to interest rate risk	Value £000	+1% £000	-1% £000
At 31 March 2019	225,147	226,318	230,307
At 31 March 2020	**355,708**	**343,911**	**367,505**

Note 16 Nature and Extent of Risks Arising from Financial Instruments (continued)

D. CURRENCY RISK

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

The Fund recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

In order to mitigate the risk, one of the Fund's investment managers enters into forward foreign exchange contracts (accounted for as derivatives) to hedge the currency risk which arises from undertaking non-sterling transactions. In addition, several of the pooled investment vehicles partially or fully hedge the currency back into sterling. These actions reduce the overall currency risk the Fund is exposed to

Assets exposed to currency risk	Value £000	+1% £000	-1% £000
At 31 March 2019	400,113	440,124	360,101
At 31 March 2020	**453,863**	**499,249**	**408,476**

E. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

F. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and cash to meet investment commitments. The Fund has immediate access to its cash holdings.

The only assets in the Fund which cannot be liquidated within a month are detailed in the table below. These amounted to 10.55% of the Fund's Net Assets at 31 March 2020 (9.67% at 31 March 2019). The remaining can all be liquidated within days.

Manager	Portfolio	31 March 2019	31 March 2020
Aberdeen Standard	Property	55,558	58,881
Partners Group	Infrastructure	16,987	25,347
Partners Group	Multi Asset Credit	25,318	20,108
Invesco	Private Equity	2,199	1,523
Unigestion	Private Equity	1,293	653
	Total	**107,196**	**106,512**

Note 17 Contingent Liabilities and Contractual Commitments

The Fund had the following commitments at the balance sheet date:

	31 March 2019 £000	31 March 2020 £000
Aberdeen Standard Multi Sector Private Credit	-	55,000
Partners Group Direct Infrastructure Fund 2015	29,098	23,623
	29,098	**78,623**

In December 2019, the Pension Fund Sub-Committee appointed Aberdeen Standard Investment as the Fund's new private credit manager. This investment is expected to be fully funded in Q1 2020/21.

The Partners Group infrastructure commitment is expected to be fully funded by December 2020.

Note 18 Stock Lending Arrangements

The Fund did not participate in stock lending or underwriting.

Note 18 Funding Arrangements

The scheme regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Hammersmith & Fulham Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest full triennial valuation of the London Borough of Hammersmith and Fulham Pension Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and the Local Government Pension Scheme Regulations 2013. The results were published in the triennial valuation report dated 30 March 2017. This valuation set the employer contribution rates from 1 April 2017 through to 31 March 2020.

The 2016 valuation certified a common contribution rate of 15.5% of pensionable pay (13.6% as at March 2013) to be paid by each employing body participating in the Fund, based on a funding level of 88% (83% as at March 2013). In addition, each employing body must pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £851m and the actuary assessed the present value of the funded obligation at £965m indicating a net liability of £114m (£147m 2013).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

- The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.
- Future rises in pensionable pay due to inflation and pension increases.
- Withdrawals from membership due to mortality, ill health and ordinary retirement.
- Progression of pensionable pay due to promotion.

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension payments when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31 March 2019 and will be published in 2020.

Note 19a Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2019. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

31 March 2019 £000		31 March 2020 £000
(1,651,279)	Present value of promised retirement benefits	(1,527,085)
1,052,073	Fair value of scheme assets (bid value)	1,013,015
(599,206)	**Net Liability**	**(514,070)**

Present Value of Promised Retirement Benefits comprises of £1,509.4m (£1,617.1m at 31 March 2019) and £17.7m (£34.1m at 31 March 2019) in respect of vested benefits and non-vested benefits respectively as at 31 March 2019.

The assumptions applied by the actuary are set out below:

FINANCIAL ASSUMPTIONS

	31 March 2019	31 March 2020
Salary increases	3.90%	2.90%
Pension increases	2.40%	1.90%
Discount rate	2.40%	2.35%

DEMOGRAPHIC ASSUMPTIONS

The post mortality tables adopted are the S3PA tables with multiplier of 110% for males and 105% for females. The base tables are projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a. The assumed life expectancies from age 65 are:

		31 March 2019	31 March 2020
Retiring today	Males	23.4	21.8
	Females	24.8	24.4
Retiring in 20 years	Males	25.0	23.2
	Females	26.6	25.8

OTHER ASSUMPTIONS

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Note 20 Current Assets

DEBTORS

31 March 2019 £000		31 March 2020 £000
1,030	Contributions due – employers	1,073
453	Contributions due – employees	486
941	London Borough of Hammersmith & Fulham	941
229	Sundry Debtors	1,397
2,723	**Total Current Assets**	**3,897**

ANALYSIS OF DEBTORS

31 March 2019 £000		31 March 2020 £000
941	Local authorities	941
1,782	Other entities and individuals	2,956
2,723	**Total Current Assets**	**3,897**

Note 21 Current Liabilities

CREDITORS

31 March 2019 £000		31 March 2020 £000
(527)	Unpaid benefits	(541)
(461)	Management expenses	(375)
(212)	Sundry creditors	(262)
(1,201)	**Total Current Liabilities**	**(1,178)**

ANALYSIS OF DEBTORS

31 March 2019 £000		31 March 2020 £000
(1,201)	Other entities and individuals	(1,178)
(1,201)	**Total Current Liabilities**	**(1,178)**

Note 22 Additional Voluntary Contributions (AVCS)

The Fund's AVC providers are Zurich Assurance and the Equitable Life Assurance Society. AVCs are invested separately from the Pension Fund and their valuations are shown in the table below. The same valuations as at 31 March 2019 have been carried forward to this year due to uncertainty in obtaining accurate valuations as at 31 March 2020.

31 March 2019 £000		31 March 2020 £000
908	Zurich Assurance	908
203	Equitable Life Assurance	203
1,111	**Total Additional Voluntary contributions**	**1,111**

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid, and the investments are not included in the Pension Fund Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 23 Related Party Transactions

LONDON BOROUGH OF HAMMERSMITH AND FULHAM

The Pension Fund is administered by the London Borough of Hammersmith and Fulham. The Council incurred costs of £0.447m in 2019/20 (£0.334m in 2018/19) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses.

GOVERNANCE ARRANGEMENTS

One member of the Pensions sub-committee is a deferred member of the Hammersmith and Fulham Pension Fund. Members of the sub-committee are required to make a declaration of interests at the beginning of each meeting.

KEY MANAGEMENT PERSONNEL

The key management personnel of the Fund are the Members of the Pensions Sub-Committee, the Strategic Director of Finance and Governance, the Tri-borough Director of Pensions and Treasury and the Director of Corporate Services. Total remuneration payable to key management personnel in respect of the pension fund is set out below:

	31 March 2019	31 March 2020
Short-term benefits	29	31
Post-employment benefits	41	255
Total	**71**	**286**

Note 25 External Audit Costs

The external audit fee payable to Fund's external auditors, Grant Thornton LLP, was £25,000 (£16,170 in 2018/19).

7. Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they ‘present fairly’ the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

FOR FURTHER DETAILS CONTACT:

FINANCE ENQUIRIES

Tri-Borough Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP
pensionfund@lbhf.gov.uk

HR ENQUIRIES

Bi-Borough Pensions Manager
Royal Borough of Kensington and Chelsea
The Town Hall
Hornton Street
London
W8 7NX
pensions@rbkc.gov.uk

ADMINISTRATIVE ENQUIRIES

Pension Services
Surrey County Council
Room 243 County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN

8. Appendices

Appendix 1. Governance Compliance Statement

BACKGROUND

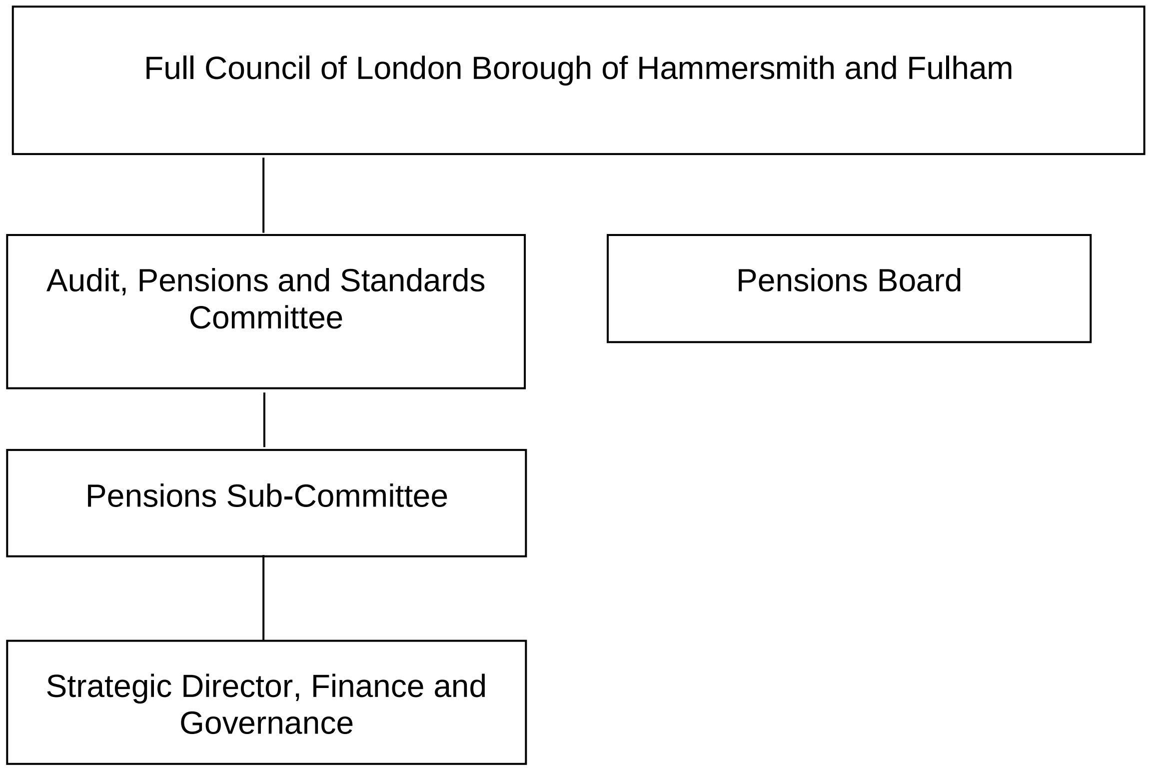
The London Borough of Hammersmith and Fulham Council is the administering authority for the London Borough of Hammersmith and Fulham ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The diagram on the right shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the pension fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.



AUDIT, PENSIONS AND STANDARDS COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Audit, Pensions and Standards Sub-Committee. In order to manage the workload of the committee, the committee has delegated decisions in relation to all pensions' matters to the Pensions Sub-committee.

PENSIONS SUB-COMMITTEE

The role of the Pensions Sub-Committee is to have responsibility for all aspects of the investment and other management activity of the Fund.

The sub-committee is made up of four elected members of the Audit, Pensions and Standards Committee and one co-opted member. Three members of the committee are administration councillors and one member represents the opposition. The sub-committee is chaired by the Chair of the Audit, Pensions and Standards Committee. The Sub Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the sub-committee have voting rights. In the event of an equality of votes, the Chair of the Sub-committee shall have a second casting vote. Where the Chair is not in attendance, the Vice-Chair has the casting vote.

The Sub-committee meets four times a year and may convene additional meetings as required. Three members of the Sub-committee are required to attend for a meeting to be quorate.

The terms of reference for the sub-committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the fund managers, actuary, custodians and fund advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final Statement of Accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the auditor's report on the governance of the Pension Fund.
12. To determine any other investment or pension fund policies that may be required from time to time so as to comply with government regulations and to make any decisions in accordance with those policies.

PENSION BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The London Borough of Hammersmith and Fulham Pension Board was established by full Council on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council;
- Three scheme member's representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Annex 1.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Annex 1: Governance Compliance Statement

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pensions Sub-Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pensions Sub-Committee. Expert advisers attend the Sub-Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pensions Sub-Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pensions Sub-Committee

Annex 1: Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pensions Sub-Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pensions Sub-Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pensions Sub-Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Appendix 2. Communication Policy

1. BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' representatives
- Prospective members
- Employers participating in the Fund

This is the Local Government Pension Scheme (LGPS) Communications Policy Statement for the London Borough of Hammersmith & Fulham (LBHF).

LBHF in its capacity as the Administering Authority engages with other employers (under their status as Admitted and Scheduled Bodies) and has 3,635 active members, 7,112 deferred members and 5,081 pensioners as at 31st March 2019

This policy document sets out the mechanisms that LBHF uses to meet their communication responsibilities.

2. ROLES AND RESPONSIBILITIES

Retained team within HR

The Retained Team are responsible for setting the pensions administration management strategy which includes the drafting of this document and the allocation of communication responsibilities, including those to third parties.

They are also responsible for the monitoring of the quality, timeliness and accuracy of pensions communications from third parties and for the periodic review of this document.

The Retained Team will approve significant communications prior to them being issued that have been drafted on behalf of LBHF by Surrey County Council (SCC) and Hampshire County Council (HCC).

Surrey County Council

SCC are responsible for the day to day transactional pensions administration service under a section 101 agreement with LBHF.

Under this agreement SCC are responsible for the quality, timeliness and accuracy of pensions communications within their normal business activities.

They are also responsible for communications within specific projects and tasks agreed and allocated to them by the Retained Team.

3. HOW INFORMATION IS COMMUNICATED

The table below shows the LBHF communication methods, the frequency of issue and the intended audiences.

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Joiner information with Scheme details	✓	✓				During the recruitment process and upon request	Sent to home address/via employers				✓	✓	✓					
Newsletters	✓	✓				Annually and/or when the scheme changes	Sent to home address/via employers	✓	✓	✓	✓	✓	✓					
Fund Reports and Accounts			✓			Continually available	Link publicised	✓										
Annual Benefit Statements	✓					Annually and on request	Sent to home address and/or via employers for active members. Sent to home address for deferred members	✓	✓									
Factsheets	✓	✓				On request	On request	✓	✓	✓	✓	✓	✓					
Roadshows				✓		When major scheme changes occur	Advertised in newsletters, via posters	✓										
Personal discussions				✓		When required	Displayed in the workplace	✓	✓	✓	✓							
Posters	✓					Continually available	On request	✓			✓							
Employers Guide		✓				Annually	Annually					✓						

Communication Type	Paper Based	Website	Intranet	Face to face	Electronic	Frequency of issue	Communication method	Active member	Deferred member	Pensioner	Prospective members	Employers	Union Reps	Pension fund committee	Pension Board	Residents and taxpayers	Media	Other stakeholders
Employers meetings				✓		Annually	Notifications sent					✓						
Briefing papers	✓				✓	When required	Within Committee papers dispatch							✓	✓			
Committee Reports	✓				✓	With the committee cycle	Within Committee papers dispatch							✓	✓			
Training and Development				✓	✓	Available and/or as when requested	On request	✓			✓			✓	✓			
Press releases					✓	As required	Email										✓	
Other employers joining the fund					✓	As required	Email											✓
Pension disputes IDRP					✓	As required	Email											✓
Statutory returns and questionnaires					✓	As required	Email							✓	✓			✓

4. DETAILS OF WHAT IS COMMUNICATED

Joiner information with Scheme details

A document providing an overview of the LGPS, including who can join, the contribution rates, the retirement and death benefits and how to increase the value of benefits.

Newsletters

An annual newsletter which provides updates on changes to the LGPS as well as other related news, such as national changes to pensions regulations, forthcoming roadshows and contact details.

Fund Report and Accounts

Details of the value of the Pension Fund during the financial year, income and expenditure etc.

Annual Benefit Statements

For active members these include the value of current and projected benefits. The associated death benefits are also shown along with details of any individuals nominated to receive the lump sum death grant.

In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets

Information that provides a summary in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

Roadshows

As required a representative from SCC and/or the Retained Team will visit a particular location to provide a presentation on a particular topic of interest.

Face to face/personal discussions.

Face to face discussions with a representative from SCC and/or the Retained Team to discuss personal circumstances.

Posters

These are to engage with staff that are not in the LGPS, to help them to understand the benefits of participating in the scheme and to provide guidance on how to join.

Employers' Guide

A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications.

Employers meeting

A seminar style event with a number of speakers covering topical LGPS issues.

Briefing papers

Formal briefings that highlight key issues or developments relating to the LGPS and the Fund, these are used by senior managers when attending committee meetings.

Committee papers

Formal documents setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Training and Development.

Pension issues are included in appropriate training and development events – specific pension training and development events are run at significant times such as when the scheme changes.

Press releases

Bulletins providing briefing commentary on LBHF's opinion on various matters relating to the Pension Fund, for example. the actuarial valuation results.

Other employers joining the fund

A legal requirement to notify both organisations of the name and type of employer entered into the Fund (e.g. following the admission of third party service providers into the scheme).

Pension disputes IDRP

Formal notification of pension dispute resolutions to the complainant, together with any additional correspondence relating to the dispute.

Statutory returns and questionnaires

Statutory and various questionnaires that are received, requesting specific information in relation to the structure of the LBHF fund or the composition of the Fund.

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

Surrey County Council

Pension Services (LBHF Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:
Helpdesk: 0208 231 2802
General enquiries and complaints: 0208 541 9293

RETAINED HR TEAM

Maria Bailey
Pensions Manager
Royal Borough of Kensington and Chelsea,
Town Hall,
Hornton Street,
London
W8 7NX

Email: Maria.Bailey@rbkc.gov.uk
Phone: 0207 361 2333

Appendix 3. Funding Strategy Statement

INTRODUCTION

This is the Funding Strategy Statement for the London Borough of Hammersmith and Fulham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hammersmith and Fulham's strategy, in its capacity as administering authority, for the funding of the London Borough of Hammersmith and Fulham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (***Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)*** issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

PURPOSE OF THE FUNDING STRATEGY STATEMENT

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

AIMS AND PURPOSE OF THE FUND

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

FUNDING OBJECTIVES

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

KEY PARTIES

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Hammersmith and Fulham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and;
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and;
- Advise on other actuarial matters affecting the financial position of the Fund.

KEY PARTIES

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent valuation of the Fund was as at 31 March 2019. The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

FUNDING METHOD

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service).

These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year’s benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer’s specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

VALUATION ASSUMPTIONS AND FUNDING MODEL

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund’s long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

Funding Strategy Statement (continued)

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increase	CPI inflation + 1.0% p.a.
Discount rate	5.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received, and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still 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.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) postDecember 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

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. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment will usually be set as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise a proportion of the surplus.

The deficit recovery period or amortisation period that is adopted, and the proportion of any surplus that is amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

POOLING OF INDIVIDUAL EMPLOYERS

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, academy employers are pooled for the purposes of determining contribution rates to recognise the common characteristics of these employers.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Pooling of other individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

NEW EMPLOYERS JOINING THE FUND

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Funding Strategy Statement (continued)

ADMISSION BODIES

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

NEW ACADEMIES

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

CESSATION VALUATIONS

When a Scheme employer exits the Fund and becomes an existing employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being

changes to the local valuation cycle and the management of employer risk consultation document.

Further details of this can be found in the Regulatory risks section below.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer

required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence will be included in order to take potential uncertainties and risk into account e.g. due to market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

REGULATORY FACTORS

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme:*

BULK TRANSFERS

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

RISKS AND COUNTER MEASURES

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

FINANCIAL RISKS

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2% and decrease/increase the required employer contribution by around 0.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

DEMOGRAPHIC RISKS

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The London Borough of Hammersmith and Fulham Council do not pay additional amounts to cover any strain costs arising from early retirements at the retirement date but instead allow for the additional liability at the next formal valuation and pay additional contributions to meet these strains as part of their secondary rate contributions. The Fund is comfortable with this approach due the strong covenant of the Council.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

MATURITY RISK

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

REGULATORY RISKS

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, 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.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements 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 Scheme Advisory Board (SAB) in place and HMT allowed SAB to 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 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 predetermined 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. A remedy is still 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.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

CONSULTATION: LOCAL GOVERNMENT PENSION SCHEME: CHANGES TO THE LOCAL VALUATION CYCLE AND MANAGEMENT OF EMPLOYER RISK

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

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. These 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.

MANAGING EMPLOYER EXITS FROM THE FUND

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
    - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
    - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).

- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer's exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

CHANGES TO EMPLOYERS REQUIRED TO OFFER LGPS MEMBERSHIP

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile for these employers. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

EMPLOYER RISKS

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review from the Fund Actuary, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

GOVERNANCE RISKS

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued, then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

MONITORING AND REVIEW

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

Funding Strategy Statement (continued)

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

d) The authority’s approach to pooling investments, including the use of collective investment vehicles;

e) The authority’s policy on how

Accounts & Audit Regulations made from time to time.

- To receive and consider the Auditor’s report on the governance of the Fund.

Appendix 4. Investment Strategy Statement

PURPOSE OF THE INVESTMENT STRATEGY STATEMENT

This is the Investment Strategy Statement (ISS) adopted by the London Borough of Hammersmith & Fulham Pension Fund (“the Fund”), which is administered by the London Borough of Hammersmith & Fulham Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the London Borough of Hammersmith & Fulham Pension Fund is required to publish this ISS. The regulations require administering authorities to outline how they meet each of the six objectives, aimed at improving the investment and governance processes of the Fund.

This statement addresses each of the objectives included in the 2016 Regulations:

a) A requirement to invest fund money in a wide range of instruments;

b) The authority’s assessment of suitability of particular investments and types of investment;

c) The authority’s approach to risk, including the way in which risks are to be measured and managed;

environmental, social or governance (ESG) 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 rights (including voting rights) attaching to investments.

The Pension Fund Sub-Committee (“the Sub-Committee”) of the London Borough of Hammersmith & Fulham Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Sub-Committee owe a fiduciary duty similar to that of trustees to the council taxpayers, who ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

The relevant terms of reference for the Sub-Committee within the Council’s Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers’ scheme of delegation.
- The consideration and approval of the authority statement of accounts and annual report in accordance with the relevant
- To receive actuarial valuations of the Fund regarding the level of employers’ contributions necessary to balance the Fund.
- To have responsibility for all aspects of the investment and other management activity of the Fund.
- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the investment consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the investment managers, actuary, custodians and fund advisers.
- To agree the Investment Strategy Statement, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and to ensure compliance with these.
- To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of

the Council for the payment of pensions, and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.

- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents.
- Reviewing social, environmental, governance (ESG) and ethical

Funding and investment risks are discussed in more detail later in this document. However, at this stage, it is important to state that the Sub-Committee is aware of the risks it runs within the Fund and the consequences associated with these risks.

Investment Strategy Statement (continued)

- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To determine any other investment or pension fund policies that may be required from time to time, so as to comply with Government regulations and to make any decisions in accordance with those policies.

The Sub-Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes to the Fund.
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary.
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls.

considerations policies, and the exercise of voting rights.

The Director of Finance, officers and the appointed consultants and actuaries support the Sub-Committee. The day-to-day management of the Fund's assets is delegated to the investment managers.

This ISS will be reviewed at least annually, or more frequently as required, in particular, following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the Funding Strategy Statement (FSS).

Under the previous Regulations the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations, this information is given in Appendix A.

OBJECTIVE 7.2 (A) – A REQUIREMENT TO INVESTMENT FUND MONEY IN A WIDE RANGE OF INSTRUMENTS

In order to control risk, the Sub-Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return; such as the financial markets, the manager's skill and the use of alternative investments which are less liquid.
- A diverse range of investible asset classes.
- A diverse range of approaches to the management of the underlying assets.

This approach to diversification has seen the Fund dividing its assets into six broad categories as shown in the table below:

Asset Category	Asset Allocation	Review Range
Global Equities	45.0%	+/- 3.0%
Fixed Income	22.5%	+/- 2.0%
Global Bonds	10.0%	
Multi Asset Credit	7.5%	
Private Credit	5.0%	
Alternatives	12.5%	+/- 0.5%
Infrastructure	7.5%	
Illiquid Strategies	5.0%	
Inflation Protection	10.0%	+/- 1.0%
Multi-Asset	5.0%	+/- 1.0%

Investment Strategy Statement (continued)

Asset Category	Asset Allocation	Review Range
Property	5.0%	+/- 1.0%

It is important to note that within each category, the Fund's underlying investments are not concentrated to one particular sector, thereby providing further diversification benefits. The asset allocation is regularly reviewed and subject to change depending on the prevalent investment conditions.

The Sub-Committee is mainly concerned about ensuring the Fund's long-term ability to meet pension and other benefit obligations, as and when they fall due. To this end, the Sub-Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Sub-Committee considers to be excessive.

The Sub-Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met, and is likely to meet in the future, its return objectives. The Fund currently has a negative cash flow position. This means that the contributions paid in by active members are less than the pension obligations paid out on a monthly basis. The Sub-Committee regularly monitors the Fund's cash flow position and the impact investment income has towards mitigating this risk.

In addition to keeping its investment strategy and policy under regular review, the Sub-Committee will keep this ISS under review to ensure that it reflects the approaches being taken. At all times, the Sub-Committee takes the view that its investment decisions, including those involving diversification, are in the best long-term interest of the Fund's beneficiaries and seeks appropriate advice from investment advisors.

OBJECTIVE 7.2 (B) THE AUTHORITY'S ASSESSMENT OF THE SUITABILITY OF PARTICULAR INVESTMENTS AND TYPES OF INVESTMENT

When assessing the suitability of investments, the Fund considers several factors:

- Expected return
- Risk profile
- Market concentration
- Risk management qualities provided by the asset when the whole portfolio is considered
- Geographic and currency exposures
- The extent to which the management of the asset meet the Fund's ESG criteria

Suitability is a critical test for whether or not a particular investment should be made. Each of the Fund's investments has an individual performance benchmark, against which their reported performance is measured.

The Sub-Committee monitors the suitability of the Fund's assets on a quarterly basis. This includes the monitoring of investment returns and the volatility of the individual investments, together with the Fund's expected level of returns and acceptable risk. This latter point being to ensure that risks caused by interactions between investments within the portfolio are properly understood. When comparative statistics are available, the Sub-Committee will also compare the Fund asset performance with those of similar funds.
The Sub-Committee relies on external advice in relation to the collation of the statistics for review.

OBJECTIVE 7.2 (C) THE AUTHORITY'S APPROACH TO RISK, INCLUDING WAYS IN WHICH RISKS ARE TO BE MEASURED AND MANAGED

The Sub-Committee recognises that there are several risks involved in the investment of fund assets, which include:

Geopolitical and currency risks:

- are measured by the value assets (concentration risk) in any one market, leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of levels of diversification.

Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

trades on time and provide secure safekeeping of the assets under custody.

Employer contributions are based upon financial and demographic assumption determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- the adoption and monitoring of asset allocation benchmarks, ranges and

The Sub-Committee is of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Sub-Committee carefully considers both the individual asset risk characteristics and those of the combined portfolio to ensure the risks are appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of

Investment Strategy Statement (continued)

Solvency and mismatching risks:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and;
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy.

Custodial risk:

- Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle

performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns.

- the appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.

The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

The Sub-Committee is aware that investment risk is only one aspect of the risks facing the Fund. The other key risk relates to the Fund's ability to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment return) and underwrite actuarial risk, namely, the volatility in the actuarial funding position and the impact this has on contributions.

individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed asset classes in which the Fund invests. However, for other private market and less liquid assets, it is much more difficult.

The Sub-Committee is mindful that correlations change over time and at time of stress, it can be significantly different from when they are in more benign market conditions.

To help manage risk, the Sub-Committee uses an external investment adviser to monitor the portfolio risk level. In addition, when carrying out their investment strategy review, the Sub-Committee can appoint different investment advisors to assess the level of risk involved.

The Fund targets a return of 5.0%, in line with the latest triennial actuarial valuation provided by the fund's actuary. This investment strategy is considered to have a low degree of volatility.

When reviewing the investment strategy on a quarterly basis, the Sub-Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this, the risk registers are also reviewed and updated on a quarterly basis.

At each review of the Investment Strategy Statement, the assumptions on risk and return, and their impact on asset allocation will be reviewed.

Investment Strategy Statement (continued)

OBJECTIVE 7.2 (D) THE AUTHORITY'S APPROACH TO POOLING INVESTMENTS, INCLUDING THE USE OF COLLECTIVE INVESTMENT VEHICLES

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost. The Fund's pooling arrangements meet the criteria set out in the Local Government Pension Scheme: Investment Reform Criteria and Guidance.

The Fund is a member of the London Collective Investment Vehicle (CIV) and joined the asset pool as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has about £19.5 billion of assets under management, of which £8.8 billion is managed directly with 14 active funds as of 30 September 2019.

As at the 31st December 2019, the Fund had transitioned assets into the London CIV with a value of £788 million, equivalent to 71% of the fund's assets. The Fund continues to monitor the ongoing development of investment strategies available on the London CIV platform and will look to transition further assets as and when there are suitable investment strategies available on the platform that are compatible with the Fund's investment strategy and objectives.

The table below details the investment assets held by the Fund, the availability of similar mandates on the London CIV platform and how much of the assets are invested with the pool as at 31 December 2019:

Asset Category	Availability on LCIV	Investment with LCIV
Global Equities		
MSCI Low Carbon (LGIM)	Contract negotiated on behalf of LCIV Clients	£546.2m
Multi Asset		
LCIV Absolute Return (Ruffer)	Yes	£132.9m
Fixed Income		
LCIV Global Bonds (PIMCO)	Yes	£108.8m
Private Multi Asset Credit (Partners Group, Aberdeen Standard)	No	-
Multi Asset Credit (Oakhill)	No	-
Infrastructure		
Renewable Infrastructure (Aviva)	No	-
Global Infrastructure (Partners Group)	Yes	-
Inflation Strategies (M&G)	Yes	
Long Lease Property (Aberdeen Standard)	No	

The Fund has committed capital to alternative investment strategies such as property, infrastructure and illiquid debt. The cost of exiting these strategies early would present a material negative financial impact for the Fund. As such, the Fund will continue to hold these investments outside of the London CIV pooling structure to maturity, at which point, the Fund will assess the viability of making such investments within the pool, subject to availability and the Fund's asset allocation.

The Sub-Committee is aware that transitioning certain investment assets to the London CIV could incur significant costs. Whilst it is the expectation of the Fund to make use of the London CIV for the management of most of the Fund's assets in the longer term, the Sub-Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over several years to ensure that unnecessary costs are not incurred.

The Fund reviews its investment strategy at least once every three years, an exercise which considers the suitability of each investment within the portfolio, including an assessment of transition and investment opportunities with the London CIV.

The London CIV Company Board (the Board) comprises of an independent chair, seven non-executive directors (NEDs) of which two are nominated by the LLAs, three executive directors and the London CIV Treasurer. The Board has a duty to act in the best interests of the shareholders and have collective responsibility for:

- Strategy and oversight
- Budget and forward plans
- Performance reviews
- Major contracts and significant decisions, including decisions relating to funds
- Financial reporting and controls
- Compliance, risk and internal controls
- Governance and key policies

The London CIV has four committees responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

- ensuring the integrity of financial statements and reporting.

The responsibilities of the Remuneration & Nomination Committee include:

- developing and monitoring a remuneration policy;
- overseeing the remuneration of key staff; and
- handling nominations and succession planning of key staff and board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;

Investment Strategy Statement (continued)

Governance structure of the London CIV

The London CIV is an authorised company by the Financial Conduct Authority (FCA), which was established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. The current Corporate Governance and Controls Framework was approved by London CIV shareholders in 2018. This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The role of the Investment Oversight Committee is to:

- Determine, maintain and monitor the company's investment strategy, investment performance and investment risks of the portfolios in accordance with the company's strategy and business plan.

The responsibilities of the Compliance, Audit and Risk Committee include:

- overseeing compliance obligations;
- developing and monitoring a risk management framework; and

- identify, discuss and formulate effective solutions to address issues and opportunities facing the company;
- ensure the day-to-day operations meet the relevant legal requirements and compliance obligations of the company; and
- ensure the Board and Committee members receive timely, accurate and transparent management information and reporting to fulfil their duties and responsibilities.

The London CIV's Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Shareholder Committee meets on a quarterly basis and comprises of 12 members, including Councillors and Treasurers from the LLAs.

The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

External independent oversight and assurance of the pool company is provided to the FCA, depositary, external auditors and the Ministry of Housing, Communities and Local Government (MHCLG).

OBJECTIVE 7.2 (E) HOW ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS ARE TAKEN INTO ACCOUNT IN THE SELECTION, NON-SELECTION AND RETENTION AND REALISATION OF INVESTMENTS

The Fund recognises environmental, social and governance (ESG) factors as central themes in measuring the sustainability and impact of its investment decisions. Failure to appropriately manage these factors is considered to be a key risk for the 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 taxpayers.

The United Nations (UN) 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.

Whilst it might not be practical for any organisation to achieve all the SDGs solely by itself, the Fund has developed a Responsible Investment policy that targets several of the UN's SDGs that are aligned with the Fund's investment values.

The Fund, alongside its administering authority employer, has committed itself to achieving carbon neutrality by the year 2030. This commitment demonstrates the Fund's intention to act as a responsible investor and will increasingly play a fundamental role in fund's asset allocation and investment manager selection processes.

The 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 production. The impact of this transition on the sustainability of investment returns will be continually assessed.

The Sub-Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that end, the Fund will continue to seek investments that match its pension liability profile, whilst having a positive impact on society. The Fund is of the view that greater impact can be achieved through active ownership and lobbying for firms to change and utilise their resources sustainably.

The Sub-Committee recognises that is has a fiduciary duty to act in the best interests of the scheme's members to ensure that their benefits are honoured in retirement. Such responsibility extends also to making a positive contribution to the long-term sustainability of the global environment. ESG integration into the Fund's investment decision processes aims to mitigate the associated investment risks, whilst enhancing investment returns for the Fund, thereby safeguarding members' futures.

Policy implementation – Selection process

The Sub-Committee delegates the individual investment selection decisions to it investment managers. In doing so, the 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 Sub-Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection process. This includes, but is not limited to:

- evidence of the existence of a responsible investment policy;
- evidence of ESG integration in the investment process;
- evidence of sign up to relevant responsible investment frameworks such as the United Nations Principles of Responsible Investment (UNPRI);
- commitment to addressing the challenges posed by climate change;
- a track record of actively engaging with stakeholders to influence best practice;
- an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made

As part of its investment manager selection process, the 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.

Several benchmarks and disclosure frameworks exist to measure the difference 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.

The 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:

- regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;

The Fund's officers will work closely with the London CIV (through which the 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 London CIV's ESG frameworks and policies for investment analysis and decision making.

Fund officers will report on the Fund's investment performance, including an update on the ongoing ESG performance, to the Sub-Committee at least once every quarter. This will include a review into the Fund's progress towards achieving its ESG targets.

In preparing and reviewing its Investment Strategy

Investment Strategy Statement (continued)

Investment managers are expected to follow industry 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 the applicable laws and regulations in their respective markets as a minimum.

Policy Implementation – Ongoing engagement

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.

- reviewing reports issued by investment managers and challenging performance where appropriate;
- working with investment managers to establish appropriate ESG reporting and disclosures in line with pension fund's objectives;
- contribution to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member.

Statement, the Fund will consult with the relevant stakeholders including, but not limited to:

- pension fund employers;
- local pension board;
- advisers/consultants to the fund;
- investment managers.

Policy Implementation - Training

The 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 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 Fund's investment process.

OBJECTIVE 7.2 (F) THE EXERCISE OF RIGHTS (INCLUDING VOTING RIGHTS) ATTACHED TO INVESTMENTS

The Fund recognises the importance of its role as good stewards of capital and the need to ensure the highest standards of governance, promoting corporate responsibility in the underlying companies in which it holds its investments. The Sub-Committee has delegated the Fund's voting rights to its investment managers who are required and expected, where practical, to make considered use of voting in the interests of the Fund.

Through its participation as a member of the London CIV, the Fund continues to work closely with other LGPS funds in London to enhance the level of engagement with both the investment managers and the underlying companies in which it invests.

The Fund is a member of the LAPFF, a leading collaborative shareholder engagement group in the UK. The LAPFF regularly issues voting alerts to investment managers on behalf of its members. Investment managers are encouraged to vote in accordance with these alerts where possible or provide an explanation as to why they are unable to do so. The Fund's membership in the LAPFF and the Pensions and Lifetime Savings Association (PSLA) helps in magnifying the voice and influence of pension fund assets owners.

Feedback on this statement

Any feedback on this Investment Statement is welcomed. If you have any comments or wish to discuss any issues, please contact:

Tri-Borough Pensions Team

pensionfund@lbhf.gov.uk

Investment Strategy Statement (continued)

COMPLIANCE WITH CIPFA PENSIONS PANELS PRINCIPLES

DECISION MAKING

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "*Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012*".

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is therefore important for the Fund to demonstrate how it meets principles and intends to achieve best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hopwood, for pension funds whose administering bodies exercise their duties and powers under regulations governing the investment and management of funds:

> "A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are widely accepted to be in support of this approach. The principles, together with the Fund's position on compliance, are set out below.

PRINCIPLE 1 – EFFECTIVE DECISION MAKING

Administrating authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive whilst also managing any conflicts of interest.

Full compliance

The Hammersmith & Fulham Council (the Council) has delegated the management and administration of the Fund to the Pension Fund Sub-Committee (the Sub-Committee). The Sub-Committee meets at least quarterly. The responsibilities of the Sub-Committee are described in section 1 of the Investment Strategy Statement (ISS).

The Sub-Committee is made up of elected members of the Council who each have voting rights. Representatives from the admitted and scheduled bodies, as well as the trade unions may attend as observers.

The Sub-Committee obtains and considers advices from the Fund's officers, appointed actuary, investment managers and advisors. Investment managers are appointed in accordance with the scheme's regulations and the scope of their activities are specified in detailed investment management agreements and regularly monitored. Business plans are presented to the Sub-Committee annually and progress is monitored on a quarterly basis.

Several of the Sub-Committee members have extensive experience of dealing with investment matters and training is made available to new members when they are appointed to the committee.

PRINCIPLE 2 – CLEAR OBJECTIVES

The Fund should set investment objectives that consider the following factors:

- the funds overall pension liabilities
- the potential impact of investment risks on local council tax players
- the strength of the covenant for non-local authority employers
- the attitude towards risk of both the administering authority and the scheme employers

These should be clearly communicated to advisors and investment managers.

Full compliance

The aims and objectives of the Fund are set out within the Funding Strategy Statement and the Investment Strategy Statement. The main objective of the fund is to meet the cost of pension liabilities whilst minimising the fluctuations in the employer contribution rates, thereby keeping costs to taxpayers and admitted bodies at a reasonable level.

In order to ensure that the Fund's assets are sufficient to meeting its short-term and long-term pension liabilities, the Fund's investment strategy has been set to include a combination of income yielding and growth assets. The Fund's investment performance is measured against this objective on a quarterly basis. The Fund's investment strategy is also reviewed regularly.

PRINCIPLE 3 – RISK AND LIABILITIES

The Fund should consider the form and structure of its liabilities. This includes:

- the implications for local council taxpayers;
- the strength of the covenant for non-local authority employers;
- the risk of their default; and
- longevity risk.

Full compliance

The Sub-Committee, in conjunction with its advisers, agrees an investment strategy that is appropriate to meet the Fund's liabilities. A fund actuarial valuation is carried out every three years, with the most recent triennial valuation having been conducted in 2019. The investment strategy is designed to be well diversified, achieving the optimal risk adjusted return for the Fund.

An appropriate asset allocation has been agreed, which aims maximise the potential to close the funding deficit over future years. This is included as an appendix to the ISS.

PRINCIPLE 4 – PERFORMANCE ASSESSMENT

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

Full compliance

The Sub-Committee has appointed investment managers with clear index strategic benchmarks as a means of monitoring the investment manager's skill. Investment managers are held accountable to any under performance against the appropriate agreed upon benchmark.

Manager performance is monitored on a quarterly basis and independent detailed monitoring of the Fund's investments is carried out by the Fund's investment adviser and custodian. Portfolio risk is measured on a quarterly basis and the risk/return implications of the different strategic options are fully evaluated.

The investment adviser is assessed on the appropriateness of the quality of the advice given which include the asset allocation recommendations and the performance of the funds on their rated list. The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the Official Journal of the European Union (OJEU) procedures.

PRINCIPLE 5 – RESPONSIBLE OWNERSHIP

Administering authorities should:

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

Full compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in Section 7 of the ISS. Authority has been delegated to investment managers to exercise voting rights on behalf of the Fund. Investment managers are required to report how they have voted in their quarterly reports.

The Fund intends on using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests. The Fund's approach to this is outline in the ISS.

PRINCIPLE 6 – TRANSPARENCY AND REPORTING

Administering authorities should:

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

Full compliance

The Fund publishes an annual report each year which communicates the Fund's strategy and performance to stakeholders. Copies of the Investment Strategy Statement, Funding Strategy Statement and other policy documents are also made publicly available online on the Council's website.

All Pension Fund Sub-Committee meetings are open to members of the public, and agendas and minutes are also published on the Council's website.

COMPLIANCE WITH THE STEWARDSHIP CODE

The Stewardship Code is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC), directed at institutional investors who hold rights in United Kingdom companies. Its principal aim is to make shareholders who manage other people's money actively engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code, however, expects any directly appointed fund managers and the pool company (London CIV, in this Fund's case) to comply and this is monitored on an annual basis.

Investment Strategy Statement: Appendix B

INVESTMENT AND ADMINISTRATION RISK REGISTER

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Investment Risk Register							
Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Investment	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	11	4	**44**	TREAT 1) Since March, the financial markets have rebounded strongly, and the fund has recovered its previous losses. 2) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment 3) The Fund will continue to review its asset allocation and make any changes when necessary 4) The Fund holds a well-diversified portfolio, which should reduce the downside risks of adverse stock market movements.	3	**33**
Investment	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty.	10	4	**40**	TREAT 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes.	3	**30**
Funding	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%.	10	4	**40**	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) Officers continue to monitor the increases in CPI inflation on an ongoing basis.	3	**30**

Investment	Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020.	9	3	**27**	TREAT 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. 3) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.	3	**27**
Funding	There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations.	12	3	**36**	TREAT 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short-term pensions obligations. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements.	2	**24**
Governance	The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	12	2	**24**	TOLERLATE 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. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4)Fund representation on key officer groups.	2	**22**
Investment	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.	11	3	**33**	TREAT 1) The Investment Management Agreements (IMAs) clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee is 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	**22**

Funding	Scheme members live longer than expected leading to higher than expected liabilities.	11	2	**22**	TOLERATE 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**
Funding	Employee pay increases are significantly more than anticipated for employers within the Fund.	10	2	**20**	TOLERATE 1) Fund employers continue to 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**
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	10	3	**30**	TREAT 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, 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.	2	**20**
Governance	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	6	3	**18**	TOLERATE 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. 3) Uncertainty surrounding new MHCLG guidance	3	**18**

Governance	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	8	3	**24**	TREAT 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	**16**
Funding	Impact of economic and political decisions on the Pension Fund's employer workforce.	8	2	**16**	TOLERATE 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures.	2	**16**
Funding	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	7	2	**14**	TOLERATE 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2)Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3)Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	**14**
Funding	Impact of increases to employer contributions following the actuarial valuation	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**
Governance	Failure to take difficult decisions inhibits effective Fund management	12	2	**24**	TREAT 1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. 2)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 expert advice is sought.	1	**12**

Governance	Changes to LGPS regulations	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**
Investment	Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change	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 (LAPFF) which engages with companies on a variety of ESG issues including climate change.	2	**12**
Governance	Failure by the audit committee to perform its governance, assurance and risk management duties	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 governance issues are regularly tabled.	2	**12**
Operational	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain.	6	3	**18**	TREAT 1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment 4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy 5) 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.	2	**12**

Funding	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	11	2	**22**	TREAT 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	**11**
Investment	Financial loss of cash investments from fraudulent activity	11	2	**22**	TREAT 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures.	1	**11**
Operational	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	11	2	**22**	TREAT 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) LBHF IT data security policy adhered to. 3) Implementation of GDPR	1	**11**
Governance	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	11	2	**22**	TREAT 1) Officers maintain knowledge of legal framework for routine decisions. 2)Eversheds retained for consultation on non-routine matters.	1	**11**
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	11	2	**22**	TREAT 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds.	1	**11**
Governance	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	10	2	**20**	TREAT 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise, and challenge advice	1	**10**

					provided routinely.		
Operational	Financial failure of third-party supplier results in service impairment and financial loss.	10	2	**20**	TREAT 1) Performance of third-party suppliers 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**
Investment	Failure of global custodian or counterparty.	10	2	**20**	TREAT 1)At time of appointment, ensure assets are separately registered and segregated by owner. 2)Review of internal control reports on an annual basis. 3)Credit rating kept under review.	1	**10**
Operational	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	10	2	**20**	TREAT 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV.	1	**10**
Governance	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	10	2	**20**	TREAT 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**
Governance	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	10	2	**20**	TREAT 1) Publication of all documents on external website. 2) Officers 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**

Operational	Inaccurate information in public domain leads to damage to reputation and loss of confidence	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**
Funding	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	10	1	**10**	TOLERATE 1) Political power required to effect the change.	1	**10**
Funding	Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms.	10	1	**10**	TOLERATE 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates.	1	**10**
Funding	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	9	2	**18**	TREAT 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly.	1	**9**
Governance	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	9	2	**18**	TREAT 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	**9**
Governance	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	9	2	**18**	TREAT 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**
Regulation	Loss of 'Elective Professional	8	2	**16**	TREAT	1	**8**

	Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers.				1)Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2)Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3)Existing and new Officer appointments subject to requirements for professional qualifications and CPD.		
Operational	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	7	2	**14**	TREAT 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**
Funding	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities	7	2	**14**	TREAT 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	**7**
Regulation	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	7	2	**14**	TREAT 1) Maintain links with central government and national bodies to keep abreast of national issues. 2)Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**
Governance	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	7	2	**14**	TREAT 1) Succession planning processes are 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.	1	**7**

London Borough of Hammersmith & Fulham Pension Fund Risk Register – Administration Risk							
Risk Group	Risk Description	Impact Total	Likelihood	Total Risk Score	Mitigation Actions	Revised Likelihood	Net Risk Score
Admin	After agreeing on changing the fund's pensions administration provider at the same time as bringing back the retained pensions team in house, the pension fund may experience difficulty in finding an appropriately qualified candidate in a competitive recruitment market. A private sector solution may not meet the necessary service requirements.	10	5	**50**	TREAT 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team. 2) Recruitment is underway for the pensions manager of the retained team. 3) Officers to receive a handover pack from the departing RBKC retained pensions team. 4) Consultant to assist in recommending an appropriate replacement for the third-party administration provider.	4	**40**
Admin	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	9	3	**27**	TOLERATE 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home.	3	**27**
Admin	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	7	4	**28**	TOLERATE 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs	3	**21**

Admin	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.	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**
Admin	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.	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. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment	2	**18**
Admin	Concentration of knowledge in a small number of officers and risk of departure of key staff.	7	3	**21**	TREAT 1) Process notes are 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.	1	**14**
Admin	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	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 can interrogate data to ensure accuracy.	1	**11**
Admin	Loss of funds through fraud or	10	2	**20**	TREAT	1	**10**

Page 211

	misappropriation leading to negative impact on reputation of the Fund as well as financial loss.				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.		
Admin	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	8	2	**16**	TREAT 1) The Fund has generally good internal controls regarding 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**
Admin	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	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**
Admin	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	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**
Admin	Poor reconciliation process leads to incorrect contributions.	4	3	**12**	TREAT 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately	2	**8**

					resourced to manage the reconciliation process.		
Admin	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	7	2	**14**	TREAT 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**
Admin	Failure to detect material errors in bank reconciliation process.	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 this is collected over several months.	1	**6**
Admin	Failure to pay pension benefits accurately leading to under or over payments.	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 this is collected over several months.	1	**6**
Admin	Unstructured training leads to underdeveloped workforce resulting in inefficiency.	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. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members	1	**6**
Admin	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	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. 2) All files are backed up daily.	2	**6**
Admin	Failure to identify GMP liability	6	1	**6**	TREAT	1	**6**

	leads to ongoing costs for the pension fund.				1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.		
Admin	Lack of guidance and process notes leads to inefficiency and errors.	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**
Admin	Lack of productivity leads to impaired performance.	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**
Admin	Rise in ill health retirements impact employer organisations.	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**
Admin	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**


PASSMORE EDWARDS
PUBLIC
OPEN
BUSH THEATRE
CAFÉ/BAR
THIS FOUNDATION STONE
WAS LAID BY
THE DONOR
J. PASSMORE EDWARDS ESQ

hammersmith & fulham

Hammersmith & Fulham Council • Town Hall, King Street, Hammersmith, London, W6 9JU • www.lbhf.gov.uk

hammersmith & fulham

London Borough of Hammersmith & Fulham

Report to: Pensions Sub-Committee

Date: 29/09/2020

Subject: Responsible Investment Policy Draft

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager
Tim Mpofu, Pension Fund Manager

Summary

1.1 At the Pensions Sub Committee held on 11 February 2020, officers presented a draft version of the Pension Fund's Responsible Investment Statement. This was in was line with the issued draft guidance on Responsible Investment which was in introduced by the LGPS Scheme Advisory Board (SAB) in late 2019.

1.2 The Sub Committee was invited to provide initial comment on the document with the view to formalising a statement at a future meeting. The feedback received from the members was incorporated into the updated Responsible Investment Statement, introduced by this paper. This is attached as Appendix 1 to this paper.

Recommendations

1. The Sub-Committee is requested to comment and approve the updated Responsible Investment Statement.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	Being a responsible investor means that, as part of the Pension Fund's fiduciary responsibility, 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

The financial implications of the introduction of this statement will be continually monitored to ensure that scheme members' future pensions are safeguarded.

Legal Implications

None

Contact Officer(s):

Name: Tim Mpofu
Position: Pension Fund Manager
Telephone: 020 7641 6308
Email: tmpofu@westminster.gov.uk

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Responsible Investment Statement

1.1. The purpose of the Responsible Investment (RI) Statement is to make clear the pension fund's approach to investing responsibly. This includes the integration of environmental, social and governance factors as part of the pension fund's investment strategy.

1.2. The introduction reiterates the pension fund's commitment to have the its investment portfolio net zero in carbon emissions by the year 2030.

1.3. The key priorities over the coming years are outlined as follows:

- **Investing towards a sustainable future** – this highlights the pension fund's long-term goal of investing sustainably through low carbon and renewable investments, whilst further exploring responsible investment opportunities across all asset classes.

- **Measuring the impact of investments** – an important part of ensuring the pension fund is on track to achieve its goals is through the measurement of impact across the investment portfolio. This section highlights the steps the pension fund has already made and will look to build up on going forward.

- **Wider engagement with the investment community** – collaboration with key stakeholders in the investment community will be key in accessing new investment opportunities and influencing companies to run their businesses more sustainably.

1.4. Several investment cases study examples have also been included in the RI statement to demonstrate how the pension fund has been implementing the policy.

2. Reasons for Decision

2.1. Reasons are set out in the main body of the report.

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: Responsible Investment Statement, Hammersmith and Fulham Pension Fund 2020

Responsible Investment Statement

Hammersmith & Fulham Pension Fund • 2020

Introduction

Responsible investment is at the core of how we manage our members' pensions. We take great pride in acting in their best interests by investing in a diverse range of investments that generate strong financial returns, ensuring that their benefits are fully honoured in retirement.

But being a responsible investor requires us to do more. We must take responsibility for the impact our investments have on a wide range of environmental, social and governance (ESG) issues that threaten the current and future livelihoods of our global society.

The biggest threat to the long-term sustainability of this global environment in which we are an active investor is climate change, a threat we cannot ignore. This is why we are committed to having our investment portfolio net zero in carbon emissions by the year 2030.

This means that we must integrate ESG factors as part of our overall investment strategy. In doing so, we will ensure that we continue to make investments that are suitable for safeguarding our members' retirement benefits financially, in a way that contributes to the long-term sustainability of the economy and society in which they live.

Key priorities

In our Investment Strategy Statement (ISS), we outline our approach to integrating ESG factors in the selection and non-selection of investments. This approached is centered around the following priorities over the next few years:

1. Investing towards a sustainable future
    - Significant investments in low carbon and renewable investments
    - Exploring further responsible investment opportunities in all asset classes, including social impact investments

2. Measuring the impact of investments
    - Monitoring the impact of our investments on climate change
    - Mapping our journey to achieving carbon neutrality by 2030

3. Wider engagement with the investment community
    - Working closely with our investment pool to access investment opportunities
    - Engaging with investment managers directly or through organisations such as the Local Authority Pension Fund Forum (LAPFF)

Investing towards a sustainable future

The Hammersmith and Fulham Pension Fund is a responsible investor. Investing responsibly provides us with the opportunity to use our power of ownership to influence companies in a wide range of industries to improve the long-term sustainability of their businesses.

We do this by working closely with investment managers and consultants in assessing the impact ESG issues have on the financial performance of our investments. This is a key aspect of our investment risk management: failure to manage ESG risks may lead to underperformance for the fund and missed investment opportunities.

Over the past few years, our pension fund has made significant progress in investing more responsibly. All our public equities investments are through a low carbon index fund and a global sustainability fund. The low carbon fund reduces the pension fund's CO_2 emissions by an estimated 55% when compared with the global benchmark index. The global sustainability fund actively invests in companies that are focused on contributing towards a sustainable future.

Infrastructure investments are a reliable source of income for our fund. We use the income we receive from these investments towards paying our members' pensions on time. We have set aside 7.5% of our investment assets to be directed towards infrastructure investments. Most of the already owned assets are renewable energy projects such as wind farms, solar plants and other energy generation and storage facilities.

We will continue to work closely with our partners in the investment industry to explore further opportunities that have a positive impact on society, across all asset classes. This will involve assessing the existing impact of our current investments.

Key Facts

- **45%** of investments in low carbon generating companies
- **7.5%** investments in infrastructure projects including renewable energy
- Continued assessment of investments with generate positive impact

Investment Case Study

Landfills are a major contributor to the climate crisis because of the methane gases they generate. An alternative to sending waste to a landfill, is to use that waste to generate energy.

Through our infrastructure investment manager Aviva, we are invested in an Energy from Waste facility based in Hooton, Merseyside.

For every tonne of waste processed through an energy from waste plant, approximately 400kg of CO_2 emissions are saved.

Source: Aviva Investors

Measuring the impact of investments

An important aspect of investing towards a sustainable future involves measuring and monitoring the impact of our investments. The measurement and reporting of ESG performance have improved significantly over the last several years. This has enabled investment managers to obtain further disclosures from companies, using reporting frameworks such as those developed by the Task Force on Climate-Related Financial Disclosures (TCFD).

Investment Case Study

Sub-metering is a cost-efficient way to reduce individual energy and water consumption.

Techem, a company managed by our investment manager Partners Group, provides residential energy consumers with technology and services that offer consumption data and incentivise more efficient resource use through lower costs.

This investment has a positive impact on the UN's Sustainable Development Goal 7.3: to "double the global rate of improvement in energy efficiency by 2030".

Source: Partners Group Corporate Sustainability Report 2019

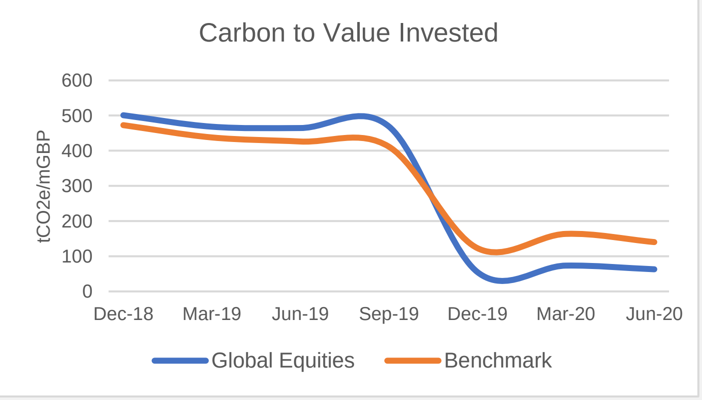
We use the information we receive from our investment managers to develop our own internal metrics and monitor our investment performance. In addition to this, each year we conduct a carbon footprint exercise on our global equities portfolios through a specialist data provider. In the coming years, we intend to extend this carbon footprint exercise to other asset classes such as fixed income and property.

Investment Case Study

The *Carbon to Value Invested* measure is one of the metrics we use to measure our fund's carbon intensity. This divides the apportioned emissions of each company in the fund by the apportioned amount the pension fund has invested in that company, through a pooled vehicle.

This is an effective measure of how efficient the companies in the portfolio are at creating value, relative to the levels of carbon produced.

As shown in the chart, the fund managed to reduce its carbon exposure by disinvesting in companies in carbon intense industries.



We report on the ESG performance of our investments on a quarterly basis. This is reviewed by the Pension Fund Sub-Committee at each meeting to ensure that the pension fund is on track to achieve its objectives. Our ESG reporting is very much an evolving process that we continue to review and improve. We will continue to incorporate more metrics, particularly for social impact and the corporate governance of our investments.

Wider engagement with the investment community

The introduction of asset pooling across the Local Government Pension Scheme (LGPS) has had a significant impact on how we implement our investment strategy. As asset owners, we are responsible for deciding how our members' pensions are invested. This is known as our strategic asset allocation.

The investment pool plays an important role in providing member funds with access to investment opportunities, creating economies of scale that significantly reduce the cost of investment for our fund.

The Hammersmith and Fulham Pension Fund is a member of the London Collective Investment Vehicle (LCIV) pool. We expect the LCIV to manage an increasing portion of our investments in line with our strategic objectives, and those of the other 31 London Borough pension funds.

This makes the LCIV a key partner in ensuring that our investments are being invested responsibly. This will provide us with greater influence when engaging with the wider investment community and the underlying companies in which we are invested.

We will continue to work closely with our investment pool manager, participating in various working groups in the development and onboarding of new investment opportunities.

Key Facts

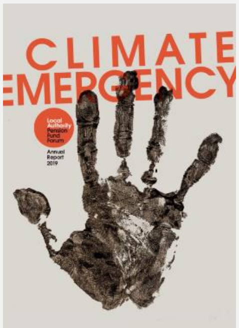
- **65%** of assets invested with the London CIV
- Leading investor in the London CIV's Global Sustain Fund

Investment Case Study

The Local Authority Pension Fund Forum (LAPFF) is the leading voice for local authority pension funds across the UK.

With member assets exceeding £300bn, LAPFF engages directly with the company chairs and boards of investee companies to affect change, promoting the highest standards of corporate governance.

As a member of LAPFF, we require our investment managers to vote in accordance with LAPFF's governance policies.



Source: LAPFF Annual Report 2019

Agenda Item 7

London Borough of Hammersmith & Fulham

Report to: Pensions Sub Committee

Date: 29/09/2020

Subject: Global Equity Investment Transition Report

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager

Summary

1.1 At the Pensions Sub Committee held on 23 June 2020, Members agreed to transfer one third of its Pension Fund equity investment allocation with Legal and General to the Morgan Stanley Investment Management (MSIM) Global Sustain fund. The value of the transfer was £169m.

1.2 The Legal and General Investment Management (LGIM) acted on behalf of the fund as transition manager and successfully completed the transition on 21 August 2020.

1.3 The total cost of the transaction including opportunity costs was £0.553m.

Recommendations

1. The Sub Committee is requested to note the report.

Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	By Investing in the Morgan Stanley Global Sustain Fund, 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

The total cost to the Pension Fund of the transition was £0.553m.

Legal Implications

None

Contact Officer(s):

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Transition Process

1.1. The committee ratified the decision to invest in the MSIM Global Sustain Fund at the 23 June 2020 meeting.

1.2. The decision was taken to use the Fund's existing transition manager, LGIM. As LGIM were also the incumbent manager this was expected to be the most efficient way of carrying out the transaction.

1.3. The London CIV (LCIV) worked with the Fund, LGIM and MSIM to coordinate the transition. As part of the process, LCIV hired an independent consultant to assess LGIM's performance and efficiency during the transition process. This is attached at appendix 2. Their view is that LGIM have delivered overall a satisfactory outcome for the Pension Fund.

1.4. The headline figures show the total cost to the Fund was £0.553m, with the largest individual cost being trade impact, which is the impact of the trades moving prices in the market as order books are filled. The major contributors to the costs are shown below:

- Trade impact £0.181m
- Taxes £0.114m
- Spread £0.106m

1.5. A detailed report from LGIM is attached as appendix 1 to this report.

2. Reasons for Decision

2.1. The report is for noting.

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: Legal and General Transition Report
Appendix 2: MJ Hudson Transition Report

London Borough of Hammersmith and Fulham

Transition post-trade report - August 2020

Legal & General
INVESTMENT MANAGEMENT

Table of contents

Contacts - Your team

Client Relationship Management

James Sparshott	**Head of Local Authorities Distribution**	+44 (0)20 3124 3135	James.Sparshott@lgim.com
Robert Rayner	**Client Manager**	+44 (0)20 3124 4865	Robert.Rayner@lgim.com

LGIM assigns both a dedicated project manager and transition manager to each event. This approach ensures that a project manager is always on hand to guide clients through the transition, from set-up to account closing, whilst allowing a transition manager to focus solely on the planning and execution of your bespoke trading strategy. The contact details of your transition team are detailed below.

Transition Management

Chad Grine	**Head of Transition Management**	☎ +44 (0)20 3124 4316	Chad.Grine@lgim.com
Katrina McMillan	**Head of ISM Co-ordination**	☎ +44 (0)20 3124 3021	Katrina.McMillan@lgim.com
Catherine Darlington	**Head of Transition Strategy**	☎ +44 (0)20 3124 3020	Catherine.Darlington@lgim.com
Alec Farley	**Senior Transition Manager**	☎ +44 (0)20 3124 4307	Alec.Farley@lgim.com
Dustin Skriker	**Senior ISM Co-ordination Manager**	☎ +44 (0)20 3124 3012	Dustin.Skriker@lgim.com
Dimitrios Giannopoulos	**ISM Co-ordination Manager**	☎ +44 (0)20 3124 3023	Dimitrios.Giannopoulos@lgim.com

Executive summary

Overview

- Legal & General Investment Management ("LGIM") was appointed to implement a £169m global equity restructuring on behalf of the London Borough of Hammersmith and Fulham Superannuation Fund ("the Fund").
- The objective of the transition was to restructure a third of the Fund's existing MSCI low Carbon holdings, managed on a passive basis by LGIM, to fund a new active mandate, that will be managed by Morgan Stanley Investment Management within the London CIV ("LCIV").
- LGIM utilised a client specific unitised fund ("CSUF") within the LGIM pooled fund structure to accommodate the restructuring. The legacy assets were transferred into the transition account on 10 August 2020. The benchmark point for the transition activity was close of business 17 August 2020, trading commenced on 18 August 2020 and was completed in a single day.
- 10% of the legacy assets were retained within the target portfolio. The total trading turnover was £297.1m.
- The resultant portfolio was successfully delivered on 21 August 2020. Any residual cash from income and accruals will be transferred in due course.

Transition costs:

The table shows the costs for the transition activity. The total implementation shortfall cost was -£0.553m or -32.7bps which is within the estimated one standard deviation range and very close to the estimated mid point of -31.5bps.

Impact costs were slightly lower than estimated as LGIM was able to source good natural volume whilst purchasing Reckitt Benckiser, which was the largest individual trade in this transition, representing nearly 20% of average daily volume.

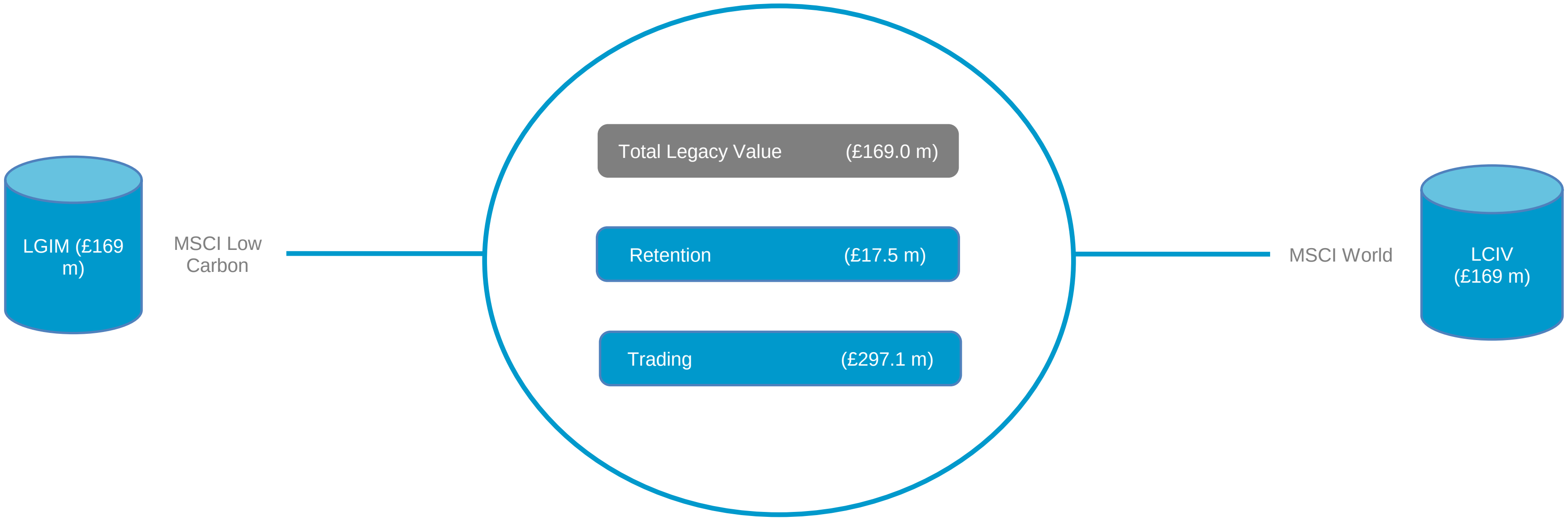
	Actual (£m)	Actual (bps)[1]	Predict (bps)	Diff (bps)
Explicit costs				
Commission	(0.032)	(1.9)	(1.8)	(0.1)
Taxes	(0.114)	(6.7)	(6.9)	0.2
Spread	(0.106)	(6.3)	(6.4)	0.1
Trade impact	(0.181)	(10.7)	(12.0)	1.3
LGIM fees	(0.075)	(4.4)	(4.4)	0.0
Total transaction costs:	**(0.508)**	**(30.1)**	**(31.5)**	**1.5**
Physical opportunity cost	(0.044)	(2.6)	+/- 39.9	
Currency opportunity cos	(0.001)	(0.1)		
Total opportunity costs:	**(0.045)**	**(2.7)**		
Total implementation shortfall:	**(0.553)**	**(32.7)**	**+8.4 to**	**(71.4)**

Note [1] - Actual bps are against total legacy value (£169m)

Transition structure

The transition involved one legacy manager and one target manager. The value of the legacy assets transitioned was a third of the equity portfolio managed by LGIM, £169m.

Page 234

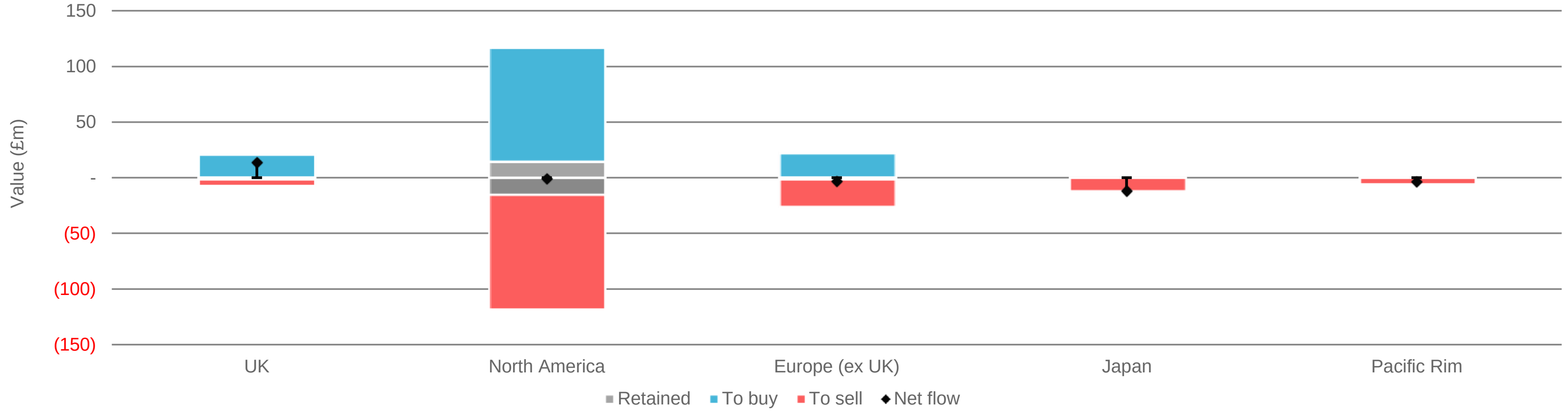


Asset class summary

The table below shows the breakdown by region between the legacy and target managers, as well as the trading required to bring them into alignment. The main shift was out of Asia into the UK, this was managed by trading during the overlap between the markets, selling Japan at the close and purchasing the UK at the start of the UK trading day.

Asset class	Legacy (£m)	Target (£m)	Retained (£m)	To sell (£m)	To buy (£m)	Net flow (£m)
Equities	**168.013**	**163.482**	**17.532**	**150.481**	**145.950**	**(4.531)**
UK	7.393	21.370	1.131	6.262	20.239	13.978
North America	117.544	116.955	14.992	102.552	101.962	(0.590)
Europe (ex UK)	25.742	22.765	1.123	24.619	21.642	(2.978)
Japan	11.659	-	-	11.659	-	(11.659)
Pacific Rim	5.675	2.393	0.286	5.389	2.107	(3.282)
Cash	**0.962**	**5.492**	**-**	**-**	**-**	**4.531**
Total [1]	**168.975**	**168.975**	**17.532**	**150.481**	**145.950**	**-**

Note [1] - Values are based on benchmark prices and do not represent actual values traded



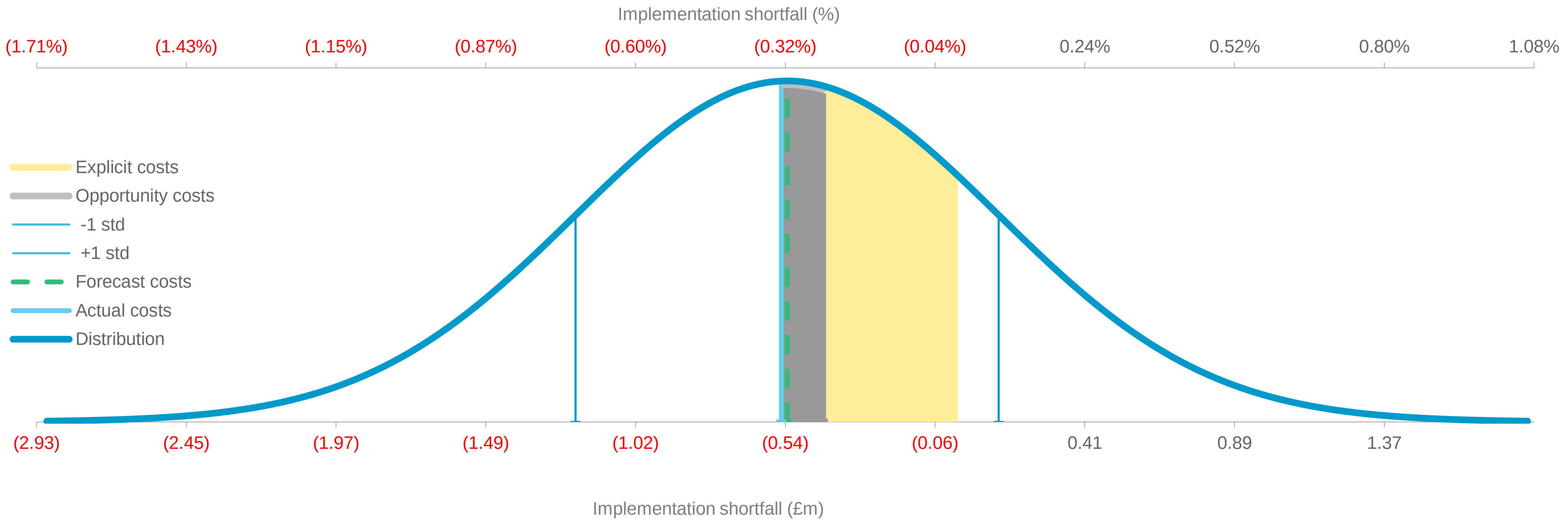
Implementation shortfall

The table shows the costs for the transition activity. The total implementation shortfall cost was -£0.553m or -32.7bps which is within the estimated one standard deviation range and very close to the estimated mid point of -31.5bps.

The implementation shortfall ('IS') benchmark point was the close of business on 17 August 2020. Trading was completed in a single day. As trading conditions were favourable during implementation LGIM did not erode much of our trading buffer and at the conclusion of trading held cash in excess of the requested target cash. Morgan Stanley confirmed they wished to receive this value as cash as part of the transfer.

	Actual (£m)	Actual (bps)(1)	Predict (bps)	Diff (bps)
Explicit costs				
Commission	(0.032)	(1.9)	(1.8)	(0.1)
Taxes	(0.114)	(6.7)	(6.9)	0.2
Spread	(0.106)	(6.3)	(6.4)	0.1
Trade impact	(0.181)	(10.7)	(12.0)	1.3
LGIM fees	(0.075)	(4.4)	(4.4)	0.0
Total transaction costs:	**(0.508)**	**(30.1)**	**(31.5)**	**1.5**
Physical opportunity cost	(0.044)	(2.6)	+/- 39.9	
Currency opportunity cost	(0.001)	(0.1)		
Total opportunity costs:	**(0.045)**	**(2.7)**		
Total implementation shortfall:	**(0.553)**	**(32.7)**	**+8.4**	**to (71.4)**

Note (1) - Actual bps are against total legacy value (£169m)



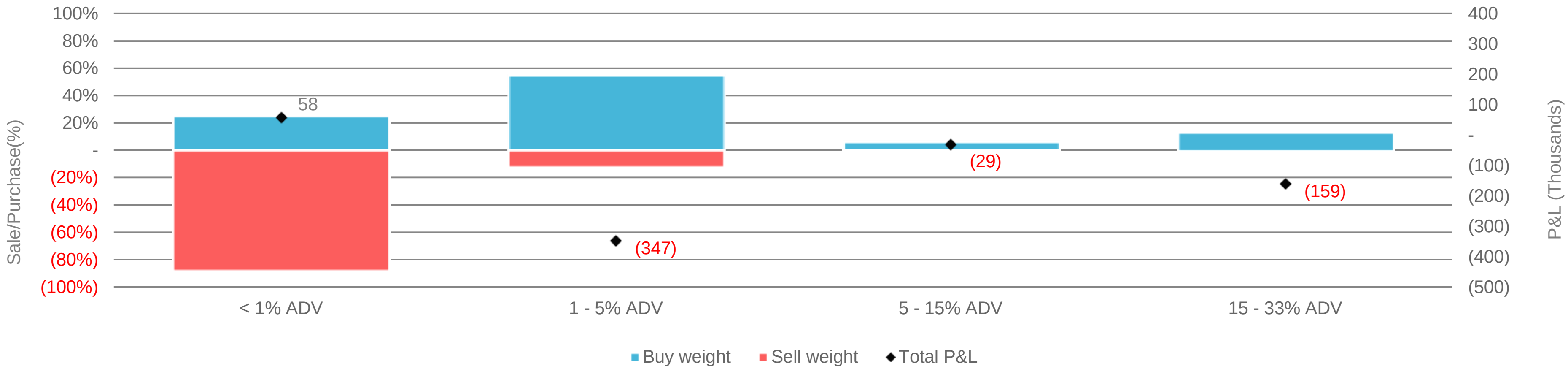
Equity liquidity

The table below shows the costs broken down between buys and sales apportioned according to a stock's liquidity.

Reckitt Benckiser comprised of £11.8m of the £19.7m of purchases which were over 15% of average daily volume. LGIM was able to source good natural volume in this name early in trading, completing 75% of the required trading within the first hour and a half of UK trading. This enabled LGIM to address the regional shift from Japan into the UK efficiently without incurring significant impact costs.

	Sells				Buys				Total	
Liquidity Band	**Count**	**Weight (%)**	**Value (£m)**	**P&L (£m)**	**Count**	**Weight (%)**	**Value (£m)**	**P&L (£m)**	**Weight (%)**	**P&L (£m)**
Equities	**385**	**100.00%**	**(150.597)**	**0.117**	**39**	**100.00%**	**146.543**	**(0.593)**	**100.00%**	**(0.477)**
< 1% ADV	318	87.70%	(132.068)	0.134	12	25.29%	37.065	(0.076)	56.92%	0.058
1 - 5% ADV	66	12.11%	(18.232)	(0.015)	22	54.60%	80.006	(0.331)	33.06%	(0.347)
5 - 15% ADV	1	0.20%	(0.298)	(0.003)	3	6.70%	9.815	(0.027)	3.40%	(0.029)
15 - 33% ADV	-	0.00%	-	-	2	13.41%	19.657	(0.159)	6.62%	(0.159)
Currency P&L										**(0.001)**
Total [1]	**385**	**100.00%**	**(150.597)**	**0.117**	**39**	**100.00%**	**146.543**	**(0.593)**	**100.00%**	**(0.478)**

Note [1] - Total figure excludes LGIM Fees



Largest contributors to profit and loss

Positive contributions to implementation shortfall came from US information technology names in particular. This sector represented the highest overall trading volume in the transition. Whilst the portfolio was increasing its overall exposure to the sector, the sales in this sector contributed positively to implementation shortfall as the sector rallied at the start of a strong day in US markets. The sale of Amazon provided the largest positive contribution to implementation shortfall; the stock was the top performer in the S&P index, rising 4.1% on the day of trading as it benefited from strong performance in both the information technology and consumer discretionary sectors.

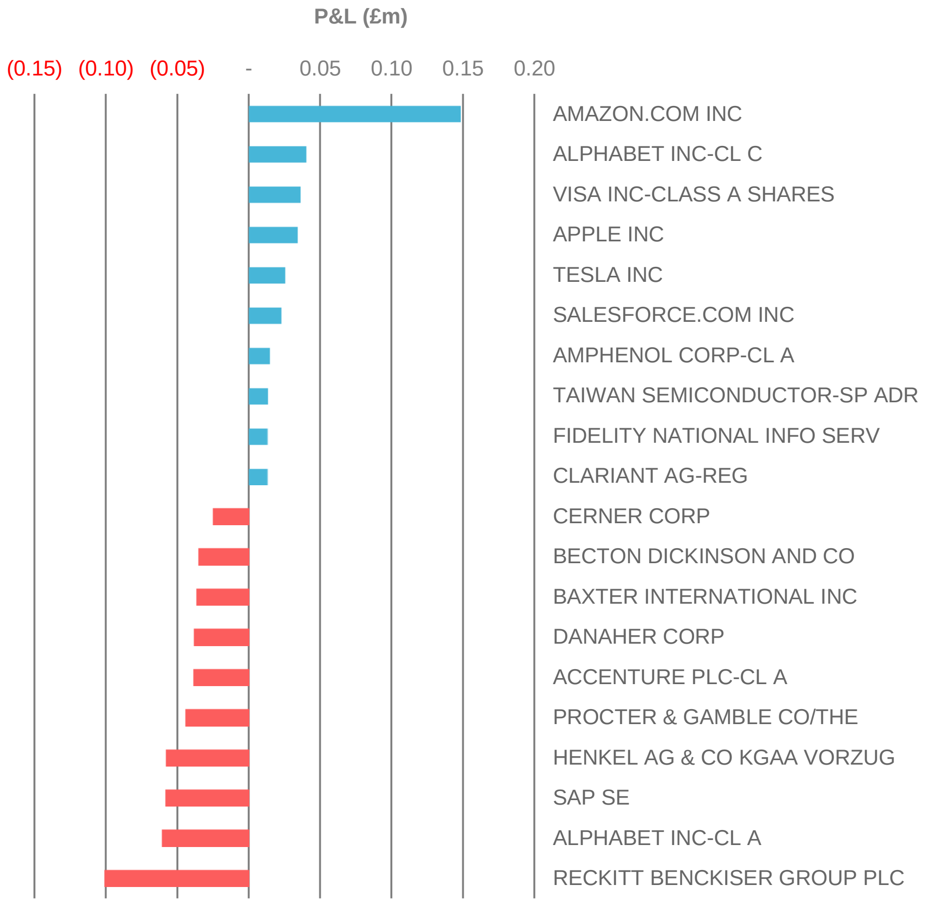
Whilst Reckitt Benckiser represents the largest negative contribution to implementation shortfall it was the largest individual trade in this transition and represented nearly 20% of average daily volume. LGIM was able to source good natural volume in this name early in trading, completing 75% of the required trading within the hour and a half of UK trading. This enabled LGIM to address the regional shift from Japan into the UK efficiently without incurring significant impact costs.

Largest P&L gain

Instrument	Name	CCY	P&L (£m)	Value (£m)
2000019	AMAZON.COM INC	USD	0.148	(5.850)
BYY88Y7	ALPHABET INC-CL C	USD	0.040	(4.189)
B2PZN04	VISA INC-CLASS A SHARES	USD	0.036	7.502
2046251	APPLE INC	USD	0.034	(7.962)
B616C79	TESLA INC	USD	0.025	(0.931)
2310525	SALESFORCE.COM INC	USD	0.023	(0.884)
2145084	AMPHENOL CORP-CL A	USD	0.015	3.506
2113382	TAIWAN SEMICONDUCTOR-SP ADR	USD	0.013	3.354
2769796	FIDELITY NATIONAL INFO SERV	USD	0.013	3.223
7113990	CLARIANT AG-REG	CHF	0.013	(0.269)

Largest P&L loss

Instrument	Name	CCY	P&L (£m)	Value (£m)
B24CGK7	RECKITT BENCKISER GROUP PLC	GBP	(0.101)	11.817
BYVY8G0	ALPHABET INC-CL A	USD	(0.060)	6.046
4846288	SAP SE	EUR	(0.058)	9.905
5076705	HENKEL AG & CO KGAA VORZUG	EUR	(0.058)	7.841
2704407	PROCTER & GAMBLE CO/THE	USD	(0.044)	5.786
B4BNMY3	ACCENTURE PLC-CL A	USD	(0.039)	8.801
2250870	DANAHER CORP	USD	(0.038)	5.153
2085102	BAXTER INTERNATIONAL INC	USD	(0.036)	6.483
2087807	BECTON DICKINSON AND CO	USD	(0.035)	7.210
2185284	CERNER CORP	USD	(0.025)	3.133



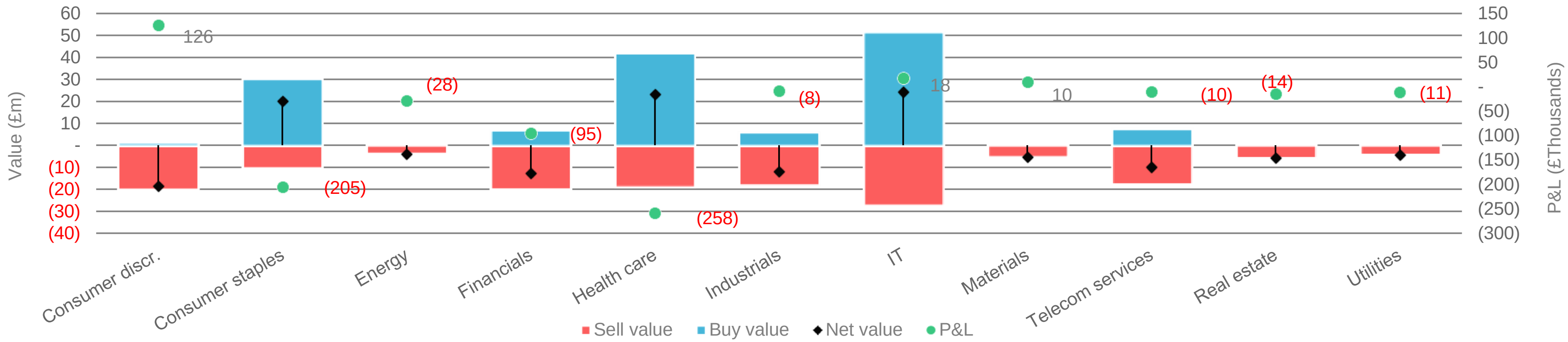
Sector trade breakdown

The table below shows the profit and loss by sector. The portfolio increased its exposure to the information technology and healthcare sectors, whilst decreasing its exposure to industrials and financials and switching its consumer sector exposure from discretionary into staples.

The larger sector shifts occurred in the US trading and as highlighted in the pre trade report, the largest individual name contributions to risk were in the information technology sector. LGIM prioritised the trading of these names once the US opened.

	Sell value (£m)	Count	Buy value (£m)	Count	Net value (£m)	P&L (£m)
Equities	**150.597**	**385**	**146.543**	**39**	**(4.054)**	**(0.477)**
Consumer discretionary	19.950	40	1.515	1	(18.435)	0.126
Consumer staples	10.267	28	30.438	6	20.171	(0.205)
Energy	3.844	8	-	-	(3.844)	(0.028)
Financials	19.793	63	7.122	5	(12.671)	(0.095)
Health care	18.754	46	41.979	10	23.225	(0.258)
Industrials	18.093	63	6.136	4	(11.956)	(0.008)
Information technology	27.164	54	51.587	10	24.422	0.018
Materials	5.265	16	-	-	(5.265)	0.010
Telecommunication services	17.597	32	7.766	3	(9.831)	(0.010)
Real estate	5.607	19	-	-	(5.607)	(0.014)
Utilities	4.264	16	-	-	(4.264)	(0.011)
Currency P&L						**(0.001)**
Total [1]	**150.597**	**385**	**146.543**	**39**	**(4.054)**	**(0.478)**

Note [1] - Total figure excludes LGIM fees



Currency trade exposure

The most expensive region to trade was North America, due to the high trading turnover in this region.

Currency	Sell value (£m)	Buy value (£m)	Net value (£m)	P&L (£m)
UK	**6.260**	**20.354**	**14.093**	**(0.116)**
British Pound	6.260	20.354	14.093	(0.116)
Developed Europe	**24.616**	**21.776**	**(2.841)**	**(0.137)**
Euro	15.821	21.776	5.955	(0.120)
Danish Kroner	1.142	-	(1.142)	(0.008)
Swiss Franc	5.575	-	(5.575)	0.002
Israeli Shekel	0.451	-	(0.451)	0.000
Norwegian Krone	0.298	-	(0.298)	(0.003)
Swedish Krona	1.329	-	(1.329)	(0.009)
North America	**102.913**	**102.298**	**(0.615)**	**(0.238)**
US Dollar	97.408	97.545	0.136	(0.227)
Canadian Dollar	5.505	4.753	(0.752)	(0.011)
Japan	**11.685**	**-**	**(11.685)**	**0.026**
Japanese Yen	11.685	-	(11.685)	0.026
Developed Asia	**5.122**	**2.116**	**(3.006)**	**(0.012)**
Australian Dollar	3.794	-	(3.794)	0.002
Hong Kong Dollar	1.077	2.116	1.040	(0.012)
Singapore Dollar	0.252	-	(0.252)	(0.002)
Currency P&L				**(0.001)**
Total [1]	**150.597**	**146.543**	**(4.054)**	**(0.478)**

Note [1] - Total figure excludes LGIM fees

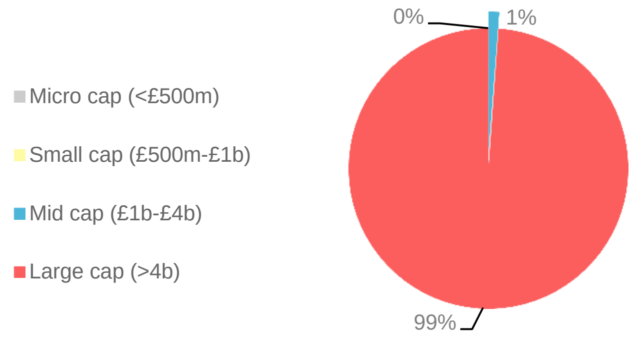
Page 240

Market capitalisation

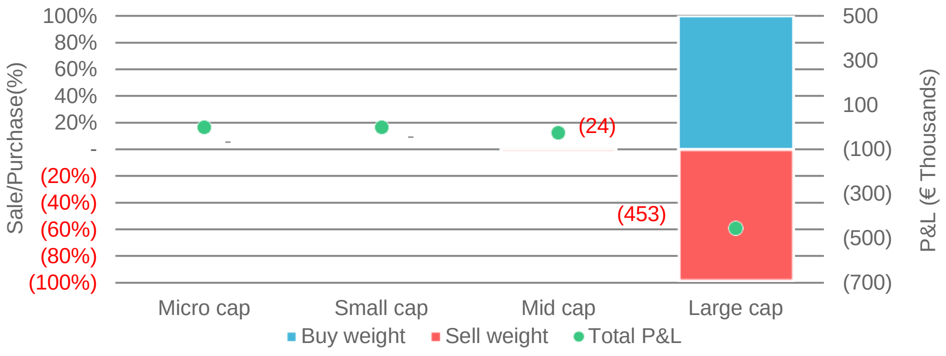
	Sells				Buys				Total	
Liquidity Band	Count	Weight (%)	Value (£m)	P&L (£m)	Count	Weight (%)	Value (£m)	P&L (£m)	Weight (%)	P&L (£m)
Equities	385	100.00%	(150.597)	0.117	39	100.00%	146.543	(0.593)	100.00%	(0.477)
Micro cap (<£500m)	-	0.00%	-	-	-	0.00%	-	-	0.00%	-
Small cap (£500m-£1b)	-	0.00%	-	-	-	0.00%	-	-	0.00%	-
Mid cap (£1b-£4b)	13	2.27%	(3.414)	(0.024)	-	0.00%	-	-	1.15%	(0.024)
Large cap (>4b)	372	97.73%	(147.184)	0.140	39	100.00%	146.543	(0.593)	98.85%	(0.453)
Currency P&L										(0.001)
Total[1]	**385**	**100.00%**	**(150.597)**	**0.117**	**39**	**100.00%**	**146.543**	**(0.593)**	**100.00%**	**(0.478)**

Note [1] - Total figure excludes LGIM Fees

Largest sells			
Name	Weight (%)	Market cap (£bn)	P&L (bps)
APPLE INC	5.29%	1,605	43
AMAZON.COM INC	3.88%	1,257	253
ALPHABET INC-CL C	2.78%	822	96
FACEBOOK INC-CLASS A	1.53%	585	(19)
JOHNSON & JOHNSON	1.17%	303	16
NVIDIA CORP	1.12%	235	(61)
NESTLE SA-REG	0.96%	267	23
HOME DEPOT INC	0.88%	229	(100)
BERKSHIRE HATHAWAY INC-CL B	0.83%	378	64
UNITEDHEALTH GROUP INC	0.82%	227	(39)



Largest buys			
Name	Weight (%)	Market cap (£bn)	P&L (bps)
RECKITT BENCKISER GROUP PLC	8.06%	54	(98)
SAP SE	6.76%	151	(59)
ACCENTURE PLC-CL A	6.01%	115	(44)
HENKEL AG & CO KGAA VORZUG	5.35%	31	(74)
VISA INC-CLASS A SHARES	5.12%	302	48
BECTON DICKINSON AND CO	4.92%	57	(49)
BAXTER INTERNATIONAL INC	4.42%	32	(56)
ALPHABET INC-CL A	4.13%	822	(100)
PROCTER & GAMBLE CO/THE	3.95%	259	(77)
MEDTRONIC PLC	3.71%	101	(34)



Glossary

Active manager	An investment manager who seeks to outperform their respective benchmark
Active risk	A type of risk that a fund or managed portfolio creates as it attempts to beat the returns of the benchmark against which it is compared.
ADR	American Depository Receipt - a certificate issued by a US bank representing a specified number of shares in a foreign stock traded on a US exchange.
Agency trade	Where the broker acts as an agent on behalf of the Manager, and agrees to trade a specified security with other clients. Commissions and associated brokerage costs of the trade are agreed in advance. This is different from where the broker acts as Principle (See Principal Trade)
Asset class	The way assets are broadly grouped together for ease of reference – e.g. equities, bonds and cash. A group of securities that exhibit similar characteristics
Average daily volume	The average amount of an individual stock traded in a day
Basis point	A term used to describe one hundredth of one percent (0.01%)
Benchmark	A fund Manager's performance is assessed by comparing it to a suitable Benchmark
Best execution	The responsibility of brokers to provide the most advantageous, or best price, order execution for customers
Bid / offer spread	The difference between the bid price and the offer price of a security. The bid price is usually lower to reflect the price at which an investor can sell a security, where as a security is purchased at the higher offer price.
Buffer	The allocated difference between a legacy portfolio's assets and a target portfolio's asset to allow for implicit and explicit costs
Commission	A fee paid to brokers upon executing a trade. The payment is in return for the broker providing liquidity .
Coupon payment date	The date on which a bond interest payment is made or scheduled to be made
Credit rating	A published ranking, based on analysis by a credit agency, of an issuer's financial history, specifically as it relates to the issuer's ability to meet debt obligations.
Credit spread	A measure of the yield above the benchmark security (typically a Treasury security)
Currency overlay	The buying or selling of currency forward positions to maintain a portfolio's currency exposure against a desired strategic benchmark .
Daily dealing (LGIM world)	Daily rebalancing for PMC funds to match movements in the benchmark and cash flows in and out of the funds
Daily dealing with charges (LGIM world)	Daily rebalancing for PMC funds to match movements in the benchmark and cash flows in and out of the funds less fees deducted
Effective duration (option-adjusted duration)	The duration measure used for bonds with embedded optionality. It is the sensitivity of the price to a parallel shift in the Treasury curve, where the price reflects any exercise of options. Alternatively, effective duration is calculated as the sum of key rate durations
Exchange for physical (EFP)	An transaction where one party buys a basket of physical assets and sells futures contacts and or the opposite sells the physicals and buys futures
Exchange traded funds (ETFs)	A security that tracks an index, commodity or basket of assets like an index fund, but trades like a stock on an exchange
Explicit costs	Fixed costs, that are easily measured as a result of market trading (e.g. commissions and taxes)

Glossary

Ex-dividend date	The first date following declaration of a dividend oo wwhich the buyer of a stock is not entitled to receive the next dividend
Futures hedge / overlay	The buying or selling of futures to move a portfolio's exposure as close to the required benchmark as possible
Broker crossing	Trading with a broker to cross at mid-market prices, or against an agreed benchmark (e.g. VWAP)
GDR	Global Depository Receipt - A bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank
Gap risk / Intraday exposure	The risk caused by out of market exposure where you are raising cash in one market and spending it in another and the two markets are not open at the same time. This risk can also be shown as overexposure to the market, whereby the money is spent before it is raised.
Illiquid securities	Securities where the required number of shares to trade is high relative to the average number of shares traded daily
Implementation shortfall	A measure of transition cost. It compares the actual performance of the assets over the period of the transition against the performance of the target portfolio if the transition had been implemented instantaneously with zero cost. Performance measurement starts from the close of the business day prior to trading.
Implicit costs	Costs that are indirectly incurred in trading. These costs include market impact and bid-offer spread.
Internal crossing	Crossing that takes place within LGIM flow. This type of trade will be facilitated via a broker and executed at the mid-market price (e.g. with no spread or market impact)
In-kind / retention	The overlap of securities between the legacy assets and the assets in the target portfolio.
In-specie transfers	The movement of physical stocks between accounts.
Key rate duration	The price sensitivity of a bond to a change in yield at a single tenor, holding all other tenors constant
Legacy asset list	The portfolio(s) of securities and cash provided by the old fund managers at the beginning of a transition
LDI	Liability driven investments. An investment strategy determined by the sum of current and future liabilities
Liquidity	A measure of the ability to buy/sell an asset without causing a significant movement in the price and minimum loss of value
Marginal contribution to risk	Is the measure of how much an individual stock is contributing to the tracking error
Market impact	It is a measurement of the price movement of the asset as a result of the transaction. The adverse movement of a security away from the mid-market price due to the introduction of new supply or demand into the market.
Minimum increment	The only possible increment to the tradable quantity of a bond (e.g. the bond quantity has to be a multiple of this figure)
Minimum piece	The smallest tradable quantity for a bond. (e.g. the bond does not trade in smaller quantities)
Odd lot	Only applicable to equities, where the number of shares is not in the normal market tradable lot size, unlike bonds these can be traded but there can be a small
Opportunity costs / gain	This is the timing cost of a transition. It is the cost of being invested in one risk profile when desiring another risk profile. It results from the tracking error between legacy and target portfolios
Participation level	The proportion of a stocks Average Daily Volume,that a trade is, the higher the participation level the higher the impact in the market.

Glossary

Residual securities	Typically an illiquid security that is not required by the target portfolio and an extended amount of time is required to liquidate the position
Restricted currency	Currencies that typically have Government controls in place. They are not freely traded and require agents in the country to execute, these trades are typically performed by the Custodian
Risk premium	The additional cost required by a broker to transact an Exchange for Principal trade
Share exchanges	A service to convert securities within a fund into units in that fund or convert units in a fund into the underlying securities held in that fund
Standard deviation	Standard deviation is a measure of dispersion a set of data from the mean. In the case of TE it measures the historical volatility of a stock or portfolio of stocks from it's mean
Stock specific / idiosyncratic risk	Company or industry specific risk that is inherent with each investment, sometimes known as specific risk, diversifiable risk or residual risk
Systematic risk	The risk inherent to the entire market or market segment, sometimes known as the diversifiable risk or market risk
Take-off	The assets off loaded by a manager
Take-on	The assets acquired by a manager
Target portfolios	The desired portfolio required for the client
Taxes	The fees associated with trading securities in different markets (e.g. SEC fees for US securities and stamp duty for other markets)
Tracking error / risk	A measure of the divergence between the price behaviour of one portfolio of securities and another. Tracking errors are quoted as a standard deviation percentage difference
Transaction costs	A measure of costs incurred during trading including explicit costs (taxes and commissions), half bid / ask spread and market impact
Unit trading	Buying and selling units of an open ended fund. The unit price will move in line with the overall value of the fund, which in turn, moves in line with the underlying asset prices
Volume weighted average price (VWAP)	A measure of the average price for a security over a defined time period. Calculated by taking the average price for each trade, weighted by the number of shares traded at that price
Weekly dealing (LGIM world)	Weekly rebalancing of funds to match movements in the benchmark and cash flows in and out of the funds
Wish list	A manager's requested target portfolio(s)
Yield to call	The yield on a bond if it were bought and held to its call date
Yield to maturity	The internal rate of return earned by an investor who buys the bond today at the market price, assuming that the bond will be held until maturity and that all coupon that the bond will be held until maturity and that all coupon and principal payments will be made on schedule. This is also know as the redemption yield

Disclaimer and important legal notice

Legal & General Investment Management does not provide advice on the suitability of its products or services.
Past performance is no guarantee of future results. The value and income derived from investments may go down as well as up.
This presentation, and any information it contains, has been produced for use by professional investor and their advisors only. It should not be distributed without the permission of Legal & General Investment Management Limited.

Confidentiality and Limitations:

The information contained in this document (the "Information") has been prepared by Legal & General Investment Management Limited ("LGIM", "we" or "us"). Such Information is the propriety and/or confidential information of LGIM and may not be disclosed by you to any other person without the prior written consent of LGIM.
Unless otherwise agreed by LGIM in writing, the Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Any trading or investment decisions taken by you should be based on your own analysis and judgment (and/or that of your professional advisors) and not in reliance on us or the Information. To the fullest extent permitted by law, we exclude all representations, warranties, conditions, undertakings and all other terms of any kind, implied by statute or common law, with respect to the Information including (without limitation) any representations as to the quality, suitability, accuracy or completeness of the Information.
Any projections, estimates or forecasts included in the Information (a) shall not constitute a guarantee of future events, (b) may not consider or reflect all possible future events or conditions relevant to you (for example, market disruption events); and (c) may be based on assumptions or simplifications that may not be relevant to you.
The Information is provided "as is" and "as available". **To the fullest extent permitted by law, LGIM accepts no liability to you or any other recipient of the Information for any loss, damage or cost arising from, or in connection with, any use or reliance on the Information. Without limiting the generality of the foregoing, LGIM does not accept any liability for any indirect, special or consequential loss howsoever caused and on any theory or liability, whether in contract or tort (including negligence) or otherwise, even if Legal & General has been advised or the possibility of such loss.**

Third Party Data:

Where this document contains third party data ("Third Party Data"), we cannot guarantee the accuracy, completeness or reliability of such Third Party Data and accept no responsibility or liability whatsoever in respect such Third Party Data.

Publication, amendments and updates:

We are under no obligation to update or amend the Information or correct any errors in the Information following the date it was delivered to you.
LGIM reserves the right to update this document and/or the Information at any time and without notice.
Although the Information contained in this document is believed to be correct as at the time of printing or publication, no assurance can be given to you that this document is complete or accurate in the light of information that may become available after its publication.
The Information may not take into account any relevant events, facts or conditions that have occurred after the publication or printing of this document.
Issued by Legal & General Investment Management Limited which is authorised and regulated by the Financial Conduct Authority. Legal & General Investment Management, One Coleman Street, London EC2R 5AA

MJ HUDSON
Allenbridge

6.1

Hammersmith & Fulham Pension Fund

Transition Management Review – Global Equites

MJ Hudson Investment Solutions

SEPTEMBER 2020

Table of Contents

6.1

Contacts

Steve Webster

Director
+44 20 7079 1000
steve.webster@mjhudson.com

Ben Gates

Associate
+44 20 7079 1000
ben.gates@mjhudson.com

Executive Summary

	Legacy	Target
Portfolios	LGIM Low Carbon (33%)	LCIV Global Sustainable Core
Names (£ Size) ex. cash	385 (168m)	39 (164m)
Retained (£ size)	24 (17.5m)	24 (17.5)
Traded (£ size)	385 Sold (150.5m)	15 Bought (146.5m)
Average Daily Volume	0.6%	4.85%

	Estimated	Realised
Implementation Shortfall (bps)	31.5	32.7
Fixed Costs inc. LGIM fees **(bps)**	13.1	13
Implicit Costs (bps)	18.4	17
Opportunity Cost (bps)	+/-39.9	2.7

bps = % of portfolio legacy value (inc. cash) £169m

6.1

Background

London CIV (LCIV) and Hammersmith & Fulham LGPS (H&F) have appointed MJ Hudson to review and oversee the transition of global equities from Legal and General Investment Management (LGIM) to the LCIV Global Sustainable Core Equities Fund (GSC) sub-advised by Morgan Stanley Investment Management (MSIM).

H&F were invested in a passive LGIM MSCI Low Carbon fund, managed as a life fund. H&F instructed LGIM that they wish to transfer a third (£170m) of their holdings to seed the new LCIV GSC fund.

LGIM provided a transition service to H&F, utilising their CSUF (Client Specific Unitised Fund), which effectively acts as a "side pocket" of the LGIM life fund. The LGIM proposed approach to redeem and transition assets using the CSUF had the following pros and cons:

Pros

- Retained Exposure – Client remains invested throughout the transition event
- Optimal Transaction Tax – No transaction tax when moving assets into the transition fund
- Legacy Asset Expertise – LGIM familiar with trading in legacy assets

Cons

- Fixed Fee – Equivalent of 4.5bps. Comparatively high as exclusive of brokerage.
- LGIM Choice of Redeemed Assets – LGIM PM choose which assets to redeem (this must be representative of the fund, but can be used by the PM to rebalance the life fund)
- Long Leadtime – Assets can only move, and trade based on LGIM weekly dealing cycle

On 10th August, LGIM moved 409 of 1300 constituent names of LGIM MSCI Low Carbon fund into the CSUF representing a £166m in-specie redemption. As required by LGIM, the redeemed names were broadly representative country and sector weights of the Low Carbon Fund.

On 11th August LCIV provided to LGIM the final MSIM target portfolio list for the GSC fund. We note that 23 (£17m) of the 409 names redeemed from the LGIM Low Carbon fund crossed with the target list.

The transition was fully executed on 18th of August, benchmarked against the Market on Close (MOC) on 17th of August.

Transition trading was settled on 20th of August and target assets were moved to the LCIV GSC fund on 24th August (for value 21st August), which generated a purchase of units, which have now been received by H&F LGPS.

Transition Event & Analysis

LGIM completed the transition with an Implementation Shortfall (benchmark 17th August) of 32.7bps compared to an estimate of 31.6bps. This result was within the one standard deviation opportunity cost (±39.9) We note that LGIM's initial July pre-transition analysis had a much higher than expected opportunity cost (50bps) versus our expectation of nearer 30bps. This was subsequently amended down to 40bps for the final August pre-trade.

TRADE OUTLIERS

We noted from the LGIM's pre-trade analysis a single purchase name (Reckitt Benckiser), representing 7.5% of the target, is much more illiquid than the rest of the transition portfolio. LGIM said that this purchase is equivalent to trading 15% of one day's average volume. Unsurprisingly, this name came clear in the post-trade analysis as having the largest detriment to the trading. LGIM completed 75% early in the day but the stock rose over the remainder of the day leading to total IS contribution of 6bps. LGIM traded approximately 30% of the day's volume.

Additionally, the rally of the S&P 500 and particularly its tech stocks, helped LGIM when it came to selling names like Amazon, Apple, and Tesla. The Alphabet switch of C for A shares was naturally hedging as both prices rose with the gain on selling C counteracting the loss on buying A.

FOREIGN EXCHANGE

LGIM traded most of the required spot FX, long dated at or close to the WMR benchmark on MOC 17th August with some "true-up" trading done on the 18th and 19th August. We note that all trades were triangulated through the base currency GBP which although not the most efficient (due to paying spread twice in some cases), may be a requirement of the fund's structure. The most significant true-up was the reversal on USD which was a result of the better-than-expected performance of selling USD shares, as explained above, however this was responsible for the majority of the FX shortfall as a result.

6.1

TABLE 1: FORIGN EXCHANGE

Currency	GBP Bought	Sold IS	GBP Sold	Bought IS	Gross GBP	Total IS
AUD	3,795,185	90	1,674	(2)	3,796,859	87
CAD	774,484	16	22,510	(148)	796,994	(132)
CHF	5,575,217	92			5,575,217	92
DKK	1,143,949	9			1,143,949	9
EUR			5,953,932	(860)	5,953,932	(860)
HKD			1,039,639	(66)	1,039,639	(66)
ILS	450,939	19			450,939	19
JPY	11,685,130	161			11,685,130	161
NOK	298,612	5	876	(6)	299,487	(1)
SEK	1,335,237	16	6,298	(24)	1,341,535	(7)
SGD	256,609	9	4,570	(13)	261,179	(4)
USD	159,452	1,883	297,736	3	457,188	1,886
Total	**25,474,815**	**2,298**	**7,327,235**	**(1,115)**	**32,802,050**	**1,183**

IMPLEMENTATION SHORTFALL ANALYSIS

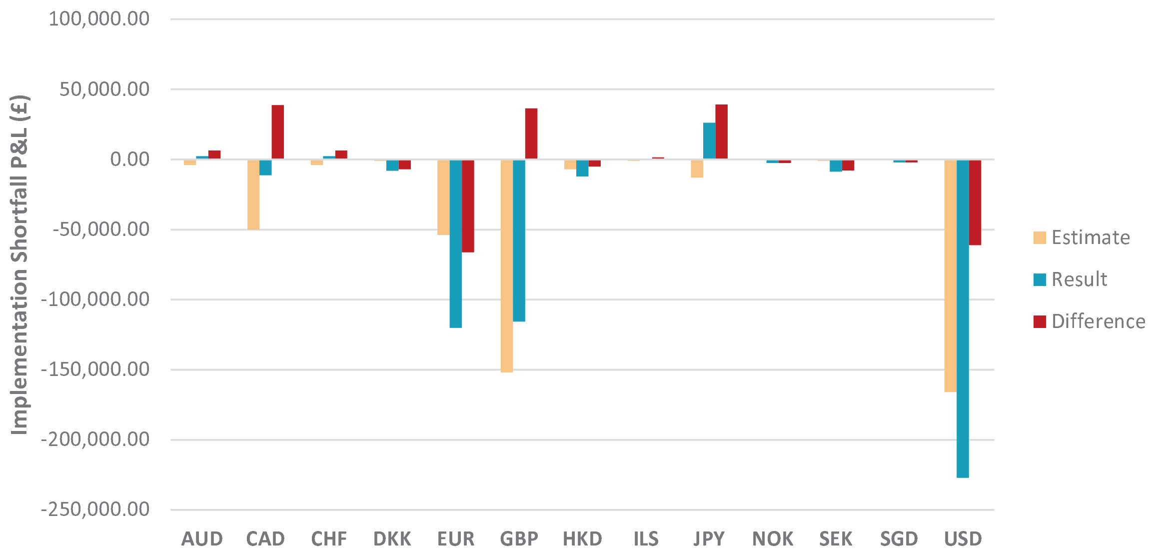
Included below is a summary of the implementation shortfall as calculated by MJ Hudson, compared to the estimate, and result as reported by LGIM. MJH agrees with LGIM's reported result for Implementation Shortfall having verified their trade files and independently verified their calculation. The minor differences in values are due to different benchmark prices sourced on 17th August.

TABLE 2: IMPLMENTATION SHORTFALL COMPARISON

Asset Type / Cost	Implicit	Commission	Taxes	Total IS
MJH Result				
Equities Sells (£)	(134,920)	15,242	3,516	(116,162)
Equities Buys (£)	468,363	16,573	110,476	595,412
Sub-total (£)	*333,443*	*31,815*	*113,992*	*479,251*
FX (£)	1,183	-	-	1,183
TM Fee (£)	-	75,000	-	75,000
Grand Total (£)	**334,626**	**106,815**	**113,992**	**555,434**
Total (bps)	**19.8**	**6.3**	**6.7**	**32.9**
LGIM Result				
Equities Sells (£)	(135,402)	15,242	3,516	(116,644)
Equities Buys (£)	466,286	16,573	110,476	593,335
Sub-total (£)	*330,884*	*31,815*	*113,992*	*476,691*
FX (£)	1,183	-	-	1,183
TM Fee (£)	-	75,000	-	75,000
Grand Total (£)	**332,067**	**106,815**	**113,992**	**552,875**
Total (bps)	**19.7**	**6.3**	**6.7**	**32.7**
MJH-LGIM Difference	**(0.2)**	**(0.0)**	**(0.0)**	**(0.2)**
LGIM Estimate				
Equities (£)	308,000	30,000	116,000	454,000
FX (£)	-	-	-	-
TM Fee (£)	-	75,000	-	75,000
Grand total (£)	**308,000**	**105,000**	**116,000**	**529,000**
Total (bps)	**18.4**	**6.3**	**6.9**	**31.6**
Result-Estimate Difference	**1.2**	**0.0**	**(0.2)**	**1.1**

The table below show the estimated and realised performance for each currency (market) transitioned.

CHART 1: ESITIMATE VS RESULT (COUNTRY)



Risk Management

LGIM forecasted a higher level of risk than we were initially comfortable with. LGIM still proposed a 40bps level of risk which believed to be high given the relatively liquid (short period) nature of the transition. To control intra-day exposure risk, LGIM managed the shift from Asia to UK by trading the Asia close with the UK open. Other markets were neutral. Given the transition primary shifts were Japan to UK, there does appear to be some evidence that LGIM did achieve some risk mitigation with lower than expected shortfall occurring in both countries. Slightly more disappointing was LGIM not being able to balance the neutral risk in the US, resulting in an IS £66k worse than estimated.

Systems and Operations

There were no apparent issues relating to systems or operational failures, though we note that the constraints of the LGIM weekly dealing cycle, meaning that assets can only move between funds and transfer out to LCIV on Fridays, is less than ideal. Additionally, we note that the lead-time for LGIM requiring MSIM's final wish list a week in advance of trading is long compared to some of LGIM's competitor.

However we welcome the use of LGIMs CSUF fund to facilitate the transition and recognise that this had provided significant value-add to H&F, specifically the ability to remain invested and the facility not being subject to UK SDRT when moving from the legacy fund to the transition account.

We also believe that LGIM's transition fees were higher than peers, but understand this is as a result of their fixed fee arrangement for CSUF use.

Reporting & Communication

LGIM's reporting was generally of a lower quality than we would normally expect. We highlighted on three occasions errors in their pre-trade report. Specifically, their liquidity analysis in their July report was incorrect and there were omissions in the August report. Importantly, this omission removed the line which represented the most illiquid name (Reckitt Benckiser). We also note that their pre-trade report provided no detailed liquidity analysis (e.g. worst names by ADV). Additionally, LGIM's approach of representing Implementation Shortfall as negative numbers differs from the T-charter approach and is possibly confusing to a client comparing this to competing proposals.

LGIM's post trade report lacks shortfall attribution and gives no comparison of estimate verses outcome (Chart 1 in this report generated by MJH).

Lastly, while team communications, expertise and responsiveness was good, LGIM seemed slightly confused about the role of LCIV and their respective sub-advisor.

Score Card

Categories / Scores	1	2	3	4	5	Change
IS Result			✓			❯
Operational Performance			✓			❯
Comunication		✓				❯
Compliance & Controls			✓			❯
Project Management			✓			❯
Trading & Crossing				✓		❯
Risk Management				✓		❯

1. A major failure occurred within with performance category
2. Some of the deliverables within this category were not executed to a satisfactory level
3. Most of the deliverables within this category were achieved as proposed
4. Most of the deliverables within this category were executed to a high standard
5. All of the deliverables within this category out-performed expectations

6.1

6.1

1 Fredrick's Place, London, EC2R 8AE, United Kingdom | +44 20 7079 1000 | london@mjhudson.com | mjhudson.com | mjhudson-allenbridge.com

This document is directed only at the person(s) identified on the front cover of this document on the basis of our investment advisory agreement.
No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it.

This document is issued by MJ Hudson Allenbridge. MJ Hudson Allenbridge is a trading name of MJ Hudson Allenbridge Holdings Limited (No. 10232597), MJ Hudson Investment Advisers Limited (04533331), MJ Hudson Investment Consulting Limited (07435167), and MJ Hudson Investment Solutions Limited (10796384). All are registered in England and Wales. MJ Hudson Investment Advisers Limited (FRN 539747) and MJ Hudson Investment Consulting Limited (FRN 541971) are Appointed Representatives of MJ Hudson Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority.
The Registered Office of MJ Hudson Allenbridge Holdings Limited is 1 Fredrick's Place, London, EC2R 8AE.

Agenda Item 8

London Borough of Hammersmith & Fulham

Report to: Pensions Sub Committee

Date: 29/09/2020

Subject: Supreme Court Decision on LGPS Investment Guidance

Report of: Phil Triggs, Director of Treasury and Pensions

Summary

1.1 The purpose of this report is to provide a briefing of the recent Supreme Court ruling on the Local Government Pension Scheme Investment Guidance and provide details of potential implications for LGPS Funds.

Recommendations

1. The Sub Committee is recommended to note the content of this report

---

LBHF Priorities

Please state how the outcome will contribute to our priorities

Our Priorities	Summary of how this report aligns to the LBHF 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.

Legal Implications

None

Contact Officer(s):

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report
None

DETAILED ANALYSIS

1. Background

1.1. This paper provides information on the recent Supreme Court ruling on the Local Government Pension Scheme (LGOS) Investment Guidance. Under his statutory power, the Secretary of State for Housing, Communities and Local Government (MHCLG) issued Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) ("the guidance").

1.2. Under the LGPS (Management and Investment of Funds) Regulations 2016 ("the regulations"), LGPS administering authorities in England and Wales are required to follow that guidance when formulating their Investment Strategy Statement (ISS). The guidance directs how social, environmental and governance considerations should be taken into account, and included two guidance passages (below), which provoked a legal challenge led by the Palestine Solidarity Campaign Ltd:

1) "…the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government."

2) The second passage states that authorities "should not pursue policies that are contrary to UK foreign policy or UK defence policy".

2. Supreme Court Ruling

2.1. On 29 April 2020, the Supreme Court handed down its judgment, ruling against the Secretary of State. The court decided that by including these two passages in the guidance, the Secretary of State had exceeded his statutory powers.

2.2. In his judgment, Lord Wilson concluded:

2.3. "Irrespective of whether the misconception to which I have referred played a part in leading the secretary of state to include in the guidance the two passages under challenge, I conclude that his inclusion of them went beyond his powers. HOW (Lord Wilson's capital letters) does not include WHAT. Power to direct HOW administrators should approach the making of investment decisions by reference to non-financial considerations does not include power to direct (in this case for entirely extraneous reasons) WHAT investments they should not make."

2.4. The ruling, which was by a 3-2 majority, will likely be disappointing to the Government, albeit one which it will have to accept. The Government is expected to respond to the ruling with revised investment guidance and possible additional secondary legislation.

3. Potential implications

3.1. It is believed that there will be a number of potential implications for LGPS funds:

- Increase in correspondence from campaign groups. This ruling could see a significant increase in the volume of approaches that administering authorities receive from a range of campaigners, activists and pressure groups. There is a possibility that these groups will see this ruling as giving LGPS funds a green light to pursue a range of divestment strategies and will want to ensure that their particular area is included. Funds need to prepare themselves for this increase in interest and ensure that they have the necessary governance and processes in place to manage it.

- Need to remain aware of the lawful requirements of the guidance, including those regarding ESG issues. The guidance directs that LGPS funds may take purely non-financial considerations into account (in addition to financial considerations), provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

- Consideration given to the review of ISS and Responsible Investment policies. While it is not believed that the existing guidance would have stopped any LGPS Funds from setting out their views as a responsible investor, any updated guidance from MHCLG will need to be reviewed in due course, especially as to the “whats” and the “hows”. Any red lines to be drawn by government may have to be lifted out of guidance and inserted into secondary legislation.

- Role of central government in “guiding” LGPS investment strategy. Lord Wilson held that LGPS fund assets are not public monies, and the Supreme Court has now made it clear that responsibility for investment decisions rests entirely with the administering authorities.

- It remains to be seen if the MHCLG responds to this ruling, beyond deleting the unlawful passages from its guidance, given that this judgment cannot be appealed. Other matters concerning the Government at present may drive the timing of any future response.

- It is noted that the version of the statutory guidance currently published on www.gov.uk no longer includes the two passages that were ruled unlawful by the Supreme Court.

4. Risk Management Implications

4.1. None

5. Other Implications

5.1. None

List of Appendices: None

Agenda Item 9

London Borough of Hammersmith & Fulham

Report to: Pensions Sub Committee

Date: 29/09/2020

Subject: Local Government Pension Scheme McCloud Consultation – Amendments to the Statutory Underpin

Report of: Phil Triggs, Director of Treasury and Pensions

Summary

1.1 The Ministry of Housing, Communities and Local Government (MHCLG) has issued a consultation on proposals to remove age discrimination from the Local Government Pension Scheme (LGPS). This was caused by the transitional protections introduced at the time of LGPS Scheme reform on 1 April 2014, which are now considered unlawful.

1.2 The proposals extend the protection to cover further members and amend how the protection works, requiring the benefits of those previously covered to be reviewed. Applying the remedy will be a significant exercise.

1.3 It will require additional administration resources, result in additional cost and increase the Fund's liabilities. The consultation closes on 8 October 2020. It is currently anticipated that revised Regulations will not be in place before 2022/2023.

1.4 The consultation now issued and attached as Appendix 1 sets out the proposals for addressing the issue in the LGPS.

Recommendations

1. The Sub-Committee is requested to note the report and the anticipation that further staff resources will be required in due course, with progress updates brought to future meetings.

LBHF Priorities

Please state how the outcome will contribute to our priorities

Our Priorities	Summary of how this report aligns to the LBHF 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.

Legal Implications

None

Contact Officer(s):

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Background

1.1. At the time of the Lord Hutton report and public service pension scheme reform in 2014 (LGPS) and 2015 (the remaining public service schemes), transitional protections were introduced to protect those deemed to be within ten years of retirement on 1 April 2012.

1.2. Following tribunal cases brought by McCloud (Judges' Scheme) and Sargeant (Firefighters' Scheme) and subsequent court appeals, the Court of Appeal ruled that the protections within those schemes were found to be unlawful on grounds of age discrimination.

1.3. The government chose not to seek leave to appeal to the Supreme Court and, instead, undertook to address the issue across all public service schemes. This has been a long and complicated exercise.

1.4. Unlike the other schemes, the LGPS had retained its active members in one scheme, providing a final salary link for service to 31 March 2014 and a career average revalued earnings (CARE) scheme for membership from 1 April 2014. Active members who were in service on 31 March 2012 and within ten years of retirement on 1 April 2012 were protected by a statutory underpin.

1.5. Assuming a retiring officer continues to meet basic criteria, this ensured that the officer, with the right to immediate payment of benefits, would receive the better of the CARE scheme benefits or the benefits they would have received had the final salary scheme continued beyond 1 April 2014. This is calculated by the pensions administration system.

1.6. The consultation now issued and attached as Appendix 1 sets out the proposals for addressing the age discrimination issue in the LGPS scheme.

2. Consultation Proposals

2.1. The proposed solution extends the statutory underpin to cover all members active on 1 April 2012, irrespective of years remaining to retirement, who accrue benefits in the 2014 Scheme and who do not have a disqualifying break in service.

2.2. It also amends the operation of the underpin to ensure that it works consistently and effectively for all members, extending its reach to include active members who left or leave without immediate entitlement to benefits and taking account of adjustments to benefits at retirement such as early retirement reductions.

2.3. As a result, an exercise to review the benefit calculations of all qualifying active members who have left since 1 April 2014, including those who were covered by the current underpin, will be required.

2.4. The proposed revised underpin will require up to two calculations, the first upon the earlier of leaving active membership or reaching the 2008 Scheme normal pension age, and the second upon crystallisation of the benefits into payment. Benefits will only be increased to meet the underpin, if necessary, upon payment.

2.5. Detailed proposals are provided for other events such as transfers and the payment of survivor benefits.

2.6. In order to clarify the position of members who did not aggregate previous deferred membership with their current membership, a 12-month aggregation window is proposed. Following this, only aggregated service will be covered by the underpin. This will require a dedicated one-off exercise.

2.7. It is proposed that protection should apply to membership to April 2022, but that members' final salary at the first underpin date be used within the underpin calculation. This will mean that the protection continues to be a feature of calculations for decades to come.

2.8. It is expected that more members will benefit from the proposals than under the current arrangements. Protection will be automatic and members do not need to apply. Members who joined the scheme after 31 March 2012 are not covered by the proposals.

2.9. At the same time, the Government also announced the unpausing of the 2016 cost cap process and that the review of the operation of the cost cap will complete prior to the 2020 cost cap process. This will enable the cost of the proposed remedy to be taken into account within the 2016 cost cap process.

2.10. The cost cap process is carried out by the Government Actuary Department (GAD) to measure the cost of the LGPS scheme and ensure it remains within the boundary of the original cost envelope.

2.11. If the cost is deemed to be out of those bounds, changes need to be made to the scheme benefits or contributions to bring the cost back into line with the cost envelope. It is separate from this consultation but may be impacted by it.

3. Key issues

3.1. Applying the remedy in practice will not be straightforward. It will add further complications to the administration of the Scheme and will require additional specialist resources. This cannot be fully quantified until the administration system providers can confirm how much of the processes can be automated.

3.2. They, in turn, are involved in discussions with their clients and with the Local Government Association (LGA) who are providing central preparation support for the LGPS in England and Wales.

3.3. The availability of specialist resources is limited. Planning will take place to establish how the required work can best be delivered alongside day to day work, and suitable resources secured. Initial discussions have taken place with Barnett Waddingham, the Fund's Actuary, regarding potential support available.

3.4. Exercises are or are expected to be required to:

- Communicate with members to inform them of the proposal and in due course the outcomes, to manage expectations of when their record will be reviewed and to include underpin information on annual benefit statements as proposed in the consultation.

- Communicate with participating employers to acquire final salary and service break details since 1 April 2014, and update member records. This detail is no longer required by the current CARE Scheme but is required to operate the final salary underpin calculation. It is anticipated that issues will arise in obtaining data from historic payrolls and central guidance is awaited as to how such cases should be treated.

- Inform members of the 12-month aggregation window and process the resulting transfers.

- Review all leaver records for members who ceased active membership since 1 April 2014, applying the new underpin tests and retrospectively amending benefits and paying arrears where the underpin benefits apply.

- Update processes and train staff to carry out the underpin tests for future leavers.

- Calculate and prepare communications on member pensions tax issues.

3.5. Fund liabilities are anticipated to increase, with provision for remedy being made at the 2019 Fund valuation. At Fund level, it is anticipated that the effect of the proposals will not make a further material difference. However, the effect at individual employer level will depend on membership profiles and may vary. This will be further explored with the Fund Actuary as the proposals develop.

4. Regulations

4.1. The consultation includes the draft LGPS Regulations to give effect to the proposals. However, Her Majesty's Treasury may require final regulations to wait for the unfunded pension schemes solution to be finalised. They may, therefore, not be effective until 2022/2023. In the intervening period, records can be updated and preparations made.

5. Equality Implications

5.1. The consultation proposals are designed to address discrimination in the LGPS. The document notes that MHCLG has analysed the proposals to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in Section 149 of the Equality Act 2010. In doing so, an equalities impact report prepared by the Government's Actuary Department, has been considered.

5.2. The consultation seeks views from stakeholders and notes that the matter will be kept under review. A further equalities impact assessment will be undertaken following the consultation.

6. Risk Management Implications

6.1. None

7. Other Implications

7.1. None

List of Appendices:

Appendix 1: MHCLG Consultation: LGPS (England & Wales) – Amendments to the statutory underpin

Ministry of Housing, Communities & Local Government

Local Government Pension Scheme (England and Wales)

Amendments to the statutory underpin

July 2020
Ministry of Housing, Communities and Local Government

© Crown copyright, 2020

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence visit http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

July 2020

Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland.
Impact Assessment:	<u>Public Sector Equality Duty</u> The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to: 1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act 2) advance equality of opportunity between people who share a protected characteristic and those who do not 3) foster good relations between people who share a protected characteristic and those who do not. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the

	firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences. 1) **Qualification for the underpin -** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming. 2) **Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that: • this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and • this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases). These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

	government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service. In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher). These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership. Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be

	undertaken following the consultation at the appropriate juncture. <u>Other impacts</u> The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa). As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate. None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015.

Basic Information

To:	This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives. Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties.
Body/bodies responsible for the consultation:	Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk

	Alternatively, please send postal responses to: Local Government Finance Stewardship Ministry of Housing, Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of your organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

1. This consultation contains proposals to amend the rules governing 'transitional protection' in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters' and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme's benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members' normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory 'underpin'.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least at high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall.

5. In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts' findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.

Background

Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes[1].

10. In their final report[2], the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)[3], as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

---

[1] Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf
[2] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton
[3] In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer[4].

Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013[5] (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service[6], but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.

- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.

- a move from a 1/60th accrual rate to a 1/49th accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.

- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.

- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

---

[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions

[5] http://www.legislation.gov.uk/uksi/2013/2356/contents, as amended

[6] Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes[7] where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014[8] (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

[7] With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.
[8] http://www.legislation.gov.uk/uksi/2014/525/contents/made, as amended

applicable to the member under the 2008 Scheme (usually 65[9])[10] (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
    - in active membership in the 2014 Scheme the day before their ‘underpin date’ (see below),
    - do not have a disqualifying break in service after 31st March 2012, and
    - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual’s ‘underpin date’ which is the earlier of:
    - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
    - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the ‘assumed benefits’ (i.e. the career average benefits the protected member has accrued) against the ‘underpin amount’ (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member’s pension account is to be increased by the difference (regulation 4(4)).

The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters’ pension schemes (‘McCloud’ and ‘Sargeant’, respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

[9] By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.
[10] By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018[11] that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019[12], the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants[13]. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

---

[11] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf

[12] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/

[13] The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

Addressing the discrimination

Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation[14] seeking views on this matter as it applies to most of the other main public service pension schemes[15]. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

---

[14] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[15] The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went to on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

Question 2 – Do you agree that the underpin period should end in March 2022?

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing ‘lookback’ provisions where members have had a reduction in pay[16].

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members’ accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of ‘minimum interference’. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. ‘Minimum interference’ means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts’ findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

---

[16] Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years’ pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Question 6 – Do you have other comments on technical matters related to the draft regulations?

The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require[17] that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

[17] Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection[18].

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitled to a pension[19] would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Question 8 – Are there any other comments regarding the proposed underpin qualifiying criteria you would like to make?

Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together[20]. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic[21] - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

---

[18] For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.
[19] This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.
[20] This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.
[21] Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations.

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply[22].

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link[23] on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

a) active in the LGPS on 31st March 2012,

b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and

c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
    - Membership one – active from 2011 to 2016, and
    - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

[22] By virtue of regulation 22(8) of the 2013 Regulations.
[23] By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare[24].

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection[25]. Good communications with members

---

[24] Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.
[25] However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority[26] proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))[27]. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

---

[26] Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.
[27] Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women[28] or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

---

[28] http://www.parliament.uk/briefing-papers/sn06838.pdf

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:

    - leaves active service in a relevant scheme membership,
    - reaches their 2008 Scheme NPA, or
    - dies.

  Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.

- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.

- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.

- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

Question 13 – Do you agree with the two-stage underpin process proposed?

Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.

- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,

- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.[29]

At date of leaving (without taking scheme benefits)

70. Where an active qualifting member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account[30], they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

Age retirement

73. When a qualifying member takes voluntary payment[31] of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving[32]. The underpin crystallisation date will take place upon their pension coming into payment.

---

[29] Under regulations 22(6) or (7) of the 2013 Regulations

[30] Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.

[31] Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.

[32] As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date[33]. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'[34] or 'tier 2'[35] benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'[36] benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

---

[33] With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[34] Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.
[35] Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.
[36] Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club[37]. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting[38] on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

---

[37] https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/
[38] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations[39] that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a ‘Club’ transfer[40], a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:

    a) the member’s accrued rights,

    b) the member’s ‘provisional assumed benefits’ (see **annex C**), and

    c) the member’s ‘provisional underpin amount’ (see **annex C**).

[39] Regulation 9(1) and (2) of the 2014 Regulations
[40] Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**[41] – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**[42] – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

---

[41] This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.

[42] This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead (‘trivial commutation’). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations[43]. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate the trivial commutation sum due of the following:

a) the member’s total accrued rights,

b) the member’s ‘provisional assumed benefits’ (see **annex C**), and

c) the member’s ‘provisional underpin amount’ (see **annex C**).

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.

3) Where c) is not greater than b), just pay the trivial commutation sum based on the member’s accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Supplementary matters

Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member’s underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

[43] Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds thoughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year[44] was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.
- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.
- For deferred and deferred pensioner members[45], their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance[46] to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

[44] Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.
[45] Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[46] However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual[47]. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)[48], LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.

- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period[49].

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

---

[47] https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual

[48] 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), http://lgpsregs.org/resources/guidesetc.php

[49] Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
2) advance equality of opportunity between people who share a protected characteristic and those who do not
3) foster good relations between people who share a protected characteristic and those who do not.

Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.

- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.

- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.

- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an “average” member at each particular age. Allowing for variations in individual members’ future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)[50] and the Annual Population Survey (APS) (2019)[51] in looking at the potential impacts of the following characteristics.

Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters’ and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member’s age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin –** GAD’s analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government’s view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

50 https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

51 https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

118. **Members who benefit from the underpin** – GAD's analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and

- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Sex

120. In relation to sex, GAD's analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male

- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male

- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also incudes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforfce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?

Question 20 – Do you agree with our equalities impact assessment?

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation[52] on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

---

[52] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Priorisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Question 25 – What principles should be adopted in determining how to prioritise cases?

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022[53]. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the peformance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressureon liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

[53] Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary[54], the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions[55] the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism[56]. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board[57] which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

---

[54] As appointed under regulation 114 of the 2013 Regulations
[55] Based on directions issued by HM Treasury and LGPS experience
[56] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[57] Regulation 116 of the 2013 Regulations

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
Section 21(1) of the Public Service Pension Act 2013 states:

'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

Annex B – Draft regulations

S T A T U T O R Y   I N S T R U M E N T S

2020 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2020

Made - - - -	***
Laid before Parliament	***
Coming into force - -	***

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.

(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.

(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013([58]) are amended in accordance with regulations 3 and 4.

3. In regulation 89 (annual benefit statement) after paragraph (4) insert—

"(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

which would apply if the member's underpin date was the closing date of the Scheme year to which the statement relates.

([58]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493,S.I.2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

4.—(1) In Schedule 1 (interpretation) after the definition of "registered pension scheme" insert—

"relevant scheme membership" has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;"

Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

5. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014([59]) are amended in accordance with regulation 6.

6. In regulation 4 (statutory underpin)—

(a) in paragraph (1)(a) omit the words from "and who on 1st April 2012" to the end;

(b) for paragraph (1)(b) substitute—

"(b) is or has been an active member of the 2014 Scheme; and"

(c) in paragraph (1)(c) substitute "; and" with ".";

(d) omit paragraph (1)(d);

(e) at the end insert—

"(1A) For the purpose of this regulation a member's relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member's scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

([59]) S.I. 2014/525.

(a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),

(b) regulations 10(5) or (6) of these Regulations, or

(c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

(a) an active or deferred member would otherwise have relevant Scheme membership;

(b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

(f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

(g) for paragraph (2)(b) substitute—

"(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";

(h) after paragraph 2(b) insert—

"(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."

(i) after paragraph 2 insert—

"(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

(a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

(b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."

(j) for paragraph (3) substitute—

"(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."

(k) for paragraph (4) substitute—

"(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."

(l) after paragraph (4) insert—

"(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."

(m) for paragraph (5) substitute—

"(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

(n) in paragraph (5)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(o) in paragraph (5)(b) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(p) after paragraph (5) insert—

"(5A) Where the member's pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022.

(5B) Where a member's underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

(q) for paragraph (6) substitute—

"(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if–"

(r) in paragraph (6)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(s) in paragraph (6)(b)(iii)—

(i) substitute "the member's assumed benefits" with "the member's provisional assumed benefits";

(ii) at the end add "but limited to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022"

(t) after paragraph (6) insert—

"(6A) Where a member's underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

"(7) Subject to paragraph (8) a member's underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—

(a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;

(b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;

(c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;

(d) the date the member receives payment under regulation 34 of the 2013 Regulations;

(e) the date the member transfers their benefits out of the 2013 Regulations following;

(i) an application made under regulation 96 of the 2013 Regulations; or

(ii) by virtue of regulation 98 of the 2013 Regulations.

(f) the date a member dies.

(8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

(9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.

(10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.

(11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.

(12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.

(13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971([60]) between a member's underpin date and their underpin crystallisation date; and

(b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or

(b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

([60]) 1971 c. 56.

(18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000([61]) is not to be treated as a member's underpin date or underpin crystallisation date.

(19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.

(20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.

(21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

2013 Regulation	*Rate*
41(4)	49/160
42(4)	49/320
42(5)	49/160
42(9)	49/240
42(10)	49/120
44(4)	49/160
45(4)	49/320
45(5)	49/160
45(9)	49/240
45(10)	49/120
47(4)	49/160
48(4)	49/320
48(5)	49/160
48(9)	49/240
48(10)	49/120

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

Names
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

Name
Parliamentary Under Secretary of State
Date
Ministry of Housing, Communities and Local Government

([61]) S.I. 2000/1052.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations"). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
    - the date they leave active service with an immediate or deferred entitlement to a pension,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
    - was active in the LGPS on 31st March 2012,
    - had membership of the 2014 Scheme, and
    - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
    - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly[62], the career average benefits they have accrued in the 2014 Scheme over the underpin period[63], and
    - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period[64].

---

[62] For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.
[63] The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.
[64] If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.

- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount[65]. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.

- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:

    - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

    - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

[65] Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

The underpin crystallisation date – proposed approach

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.

- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general[66], a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:

    - the date a member takes voluntary payment of their pension, at any age between 55 and 75,

    - the date a member takes flexible retirement,

    - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,

    - the date a member retires on ill-health grounds,

    - the date a member transfers out or trivially commutes their benefits, or

    - the date a member dies.

- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

Circumstance giving rise to a member's underpin crystallisation date	How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date

[66] An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

Voluntary age retirement or flexible retirement	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes.
Redundancy[67] and ill-health pension being paid (from active or deferred status)	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme.

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.

- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:

    - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
    - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
    - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

[67] Including termination on grounds of business efficiency

Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age (‘SPa’)
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

Example 1 (retirement at age 65)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,060 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,670 pa

The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required**.** The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

Example 2 (retirement at SPa)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

2014 Scheme (age 65): £6,770 pa	2008 Scheme (age 65): £6,060 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £6,770 pa

For this member **no underpin addition** would be required**.**

Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

2014 Scheme (age 65): £6,770 pa	2008 Scheme (age 65): £6,670 pa

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be untaken when the member takes their pension at their underpin crystalisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £7,440 pa

Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,070 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,460 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required**.** The 2014 Scheme benefit would be increased by £110 pa.

Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58,** the pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£5,890 pa	£4,930 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,040 pa	£6,320 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

2014 Scheme: £6,040 pa	2008 Scheme: £5,670 pa

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

2014 Scheme (SPa): £7,220 pa	2008 Scheme (SPa): £7,270 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

Example 5 (retirement from deferment #2)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	**2008 Scheme**
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, **an additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63,** the relative pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£6,830 pa	£6,870 pa

In this example there is a **'provisional guarantee amount'** of £40 pa**.**

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,390 pa	£7,980 pa

This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

London Borough of Hammersmith & Fulham

Report to: Pensions Sub Committee

Date: 29/09/2020

Subject: Investment Strategy Update - Asset Class Review

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager

Summary

This paper and associated appendix provides the Sub-Committee with more detailed information on three asset classes that are being closely monitored by the Pension Fund's advisors. These are:

- Ground Rents
- Supported Social Housing
- Infrastructure Debt

Recommendations

The Sub Committee is requested to:

a. Note the report and consider whether these asset allocations should be taken to the next stage as a part replacement for the Fund's Inflation Protection portfolio with M&G.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
• Building shared prosperity	Being an outperforming investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive financial contribution, sharing prosperity and lessening the financial impact on council tax payers.

Financial Impact

The financial implications of these investments will be continually monitored to ensure that members' pensions are safeguarded.

Legal Implications

None

Contact Officer(s):

Name: Matt Hopson
Position: Strategic Investment Manager
Telephone: 020 7641 4126
Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

Asset Class Review

1. Background

1.1. The Pension Fund Sub Committee agreed to terminate the M&G inflation protection mandate, this was due to a number of factors, but most notably the over exposure to long lease property that has built up in the portfolio, overlapping with the Fund's exposure to long lease property through Aberdeen Standard Investments.

1.2. Since then, the Fund's investment consultant, Deloitte, has narrowed down a list of prospective inflation protection strategies that warrant further investigation as potentially investment alternatives.

2. Investment Strategy

2.1. The Fund's investment consultant has explored three promising areas to undertake a more in depth review:

<u>Ground Rents</u>

2.2 This is investing purely in the freeholds of larger developments such as mixed use commercial sites.

Benefits

- Ground rent investments receive long-term expected cashflows through the rental agreements that are in place with the leaseholder. For some funds, these cashflows can be taken as income distribution and used for pension scheme cashflow management.

- The cashflows received can be inflation linked and rise over time. The inflation linkage is normally through RPI or CPI, with agreements in place to review the rent received with respect to inflation after a few years.

- The returns received generally have low correlation to other return seeking assets.

- If rental income received from the leaseholder stops, the owner of the ground lease is able to take ownership of the leasehold property, which normally has a higher value. This provides security against the risk of default from the other party.

Risks

- Counterparty Risk – a leaseholder may not honour its obligation to pay rent and default on the ground lease agreement. However, as highlighted the owner of the ground lease has security in the form of the leaseholder's property, which it can inherit full ownership of.

- Valuation Risk – The value of a ground rent asset is the opinion of the valuers based on several assumptions. Ground rents are largely illiquid and traded infrequently, so valuations can be difficult to benchmark against.

- Illiquidity Risk – Ground rent leases can be difficult to buy and sell without suffering a discount. In exceptional circumstances, a fund may limit or suspend trading due to extreme market conditions or high levels of redemptions/withdrawals to protect an investor's funds.

- Reputational Risk – The Fund may be associated with recent ground rents scandals involving residential houses.

<u>Supported Social Housing</u>

2.3 Investing in purpose built social housing specifically for individuals who may require special care or are unable to live and work independently.

Benefits

- The income received is ultimately funded by the UK central government, which clearly represents security. That said, this income is collected via housing associations which themselves carry credit risk. There is also a risk that the government may reduce housing benefits.

- Social Supported Housing has strong and direct ESG credentials, predominantly within a social capacity where providing care and housing to individuals in this situation can have a real and tangible benefit to both the individuals and the wider community.

- Due to a shortage of supply in this type of accommodation, there is strong demand in the market. In addition, the UK government has formally backed some leases for a period (i.e. 10 out of 25 years) to ensure they have uptake.

- The demand for the accommodation is dependent on the number of people who are in need of it, rather than the wider macro-economic and market environment. As such, demand can be seen as relatively uncorrelated to the market.

Risks

- Illiquidity Risk – due to the bespoke nature of the social supported housing assets it can be difficult to buy and sell without suffering a discount. A fund may also include additional liquidity restrictions to ensure that a fair return is achieved by holding onto assets for an appropriate duration or to restrict trading under certain market conditions.

- Political Risk – the return assumptions of an investment are based on the current benefits offered by the government, which could be changed or amended and adversely affect the return on investment.

- Administrative Risk – the administration of the social supported housing is carried out by not-for-profit housing associations. If administered poorly, there may be an increased likelihood that they are unable to meet payments or in worst case scenarios go bankrupt.

- Construction & Development Risk – due to the bespoke nature of the assets, they may need to be built or developed. If the construction and/or development of an asset is delayed or requires significant changes, the asset value might be materially affected.

- Property Market Risk – the underlying assets might be subject to changes in the wider property market. If property markets undergo a period of distress, the asset values may fall.

<u>Infrastructure Debt</u>

2.4 This is investing in the debt part of the capital structure (as opposed to equity which the fund has access through with Aviva and Partners Group) for infrastructure developments such transportation links and renewable energy.

Benefits

- Debt agreements with equity holders will receive fixed income repayments that are contractual at expected times. If the equity holder defaults on repayment, the arrangement may include clauses that take effect such as the equity holder not being able to take out any more debt financing or limiting dividend payments until the matter is resolved. The repayments may also include some inflation linkage.

- The underlying assets are likely to be either essential in use or have inelastic demand, meaning that even in the periods of low economic activity, the counterparty should be receiving income and be able to make repayments.

- Of the small amount of defaults that occur, the recovery rate is usually high. In comparison to corporate bonds, the expected loss on infrastructure debt is usually lower.

- UK investment grade infrastructure debt is often linked to inflation (RPI or CPI).

Risks

- Counterparty Risk – the counterparty (usually the infrastructure equity owner) to the debt agreement may default and not meet their obligations. As highlighted investment managers may include clauses that look to limit the occurrence of this and engage with those with high credit ratings.

- Similarly, the credit rating of the counterparty may change and affect the price of the bond. Investment managers may therefore look to only invest in counterparties who have higher credit ratings.

- Valuation Risk – the value of an infrastructure assets (including debt) is the opinion of the valuers based on several assumptions. Infrastructure assets are largely illiquid and traded infrequently, so valuations can be difficult to benchmark against and know the true market value.

- Illiquidity Risk – infrastructure assets are less liquid than assets traded on public markets. Subsequently, investors may not be able to disinvest quickly without suffering a market discount. Market conditions may also restrict the sale of an asset as there might be no available purchaser.

- Interest Rate Risk – the underlying contractual repayments of the debt agreement might be linked to the rate of interest. A change in the level of interest could lead to a material change in valuation of the debt.

- The Fund is also likely to gain some infrastructure debt exposure through the Aberdeen Standard diversified private credit portfolio.

3. Risk Management Implications

3.1. Risk are outlined in the report and associated appendix

4. Other Implications

4.1. None

5. Consultation

5.1. None

List of Appendices:

Appendix 1: Asset class review

Deloitte.

London Borough Hammersmith and Fulham Pension Fund

Ground Rents, Supported Living and Infrastructure Debt Asset Class Overview

September 2020

Introduction

This report has been prepared for the Pensions Sub-Committee ("the Sub-Committee") of the London Borough of Hammersmith & Fulham Pension Fund ("the Fund").

The purpose of the report is to provide the Sub-Committee with an overview of ground rents, social supported housing and infrastructure debt as investment asset classes. For each asset class the report will cover a summary of the general investment strategy used, the current market and the main benefits alongside the risk/return characteristics of each.

Background

At the last Committee meeting, we discussed the M&G Inflation Opportunities Fund ("the IOF") and the Sub-Committee decided to instruct a full disinvestment from M&G. While the IOF's income and inflation linkage is important to the overall strategy, the changing allocation of the IOF over the past few years had left the overall Fund overexposed to UK commercial property, in particular long lease.

M&G is expecting to make a full disinvestment payment on 12 October, estimated to be £113m. The initial allocation for the funds will be Ruffer (LCIV Absolute Return Fund) given its downside protection and limited transaction costs. However, the Sub-Committee must reallocate the funds in a more appropriate long term solution and agree a new benchmark asset allocation for the 10% that had been held with M&G.

Ground Rents

Overview

With any property holding, it is possible to create two levels of ownership: freehold and leasehold. The owner of the freehold maintains ownership of the land and the rights to any properties on that land while the owner of the leasehold acquires the property on a long-term ground lease and consequently has to make regular payments to the freeholder, referred to as ground rents.

Ground leases are typically over 100 years at inception and ground rents are a fraction of the rents a leaseholder may obtain from subletting the property. However, in an environment of low yields, the expected yield on ground leases is attractive (particularly given its security), and if rental increases are linked to inflation, the real yield is high relative to index-linked gilts, making ground leases linked to RPI an attractive inflation hedging investment when compared with traditional liability hedging assets.

Whilst the leaseholder can sell a leasehold property at any time and recover the property's full sale value, the freeholder still owns the underlying land and therefore has rights over any property, which resides on the land. Consequently, a leaseholder must seek the freeholder's permission to make any changes to the leasehold property, which may affect the property's value. Should the leaseholder ever default on their ground rent payments, the freeholder is able to forfeit their ground lease and inherit full ownership of the leasehold property with its higher value. In this way, a ground lease can be viewed as an over-collateralised loan, and this is key to the attractive nature of this investment.

Furthermore, the over-collateralisation means that tenant strength is not as pressing a concern as it is to the leaseholder. The vacant possession value is typically 2 to 4 times greater than the investment value of the ground lease.

Market Summary

Due to the general low-yield environment seen across investment markets, the demand for previously lower yielding assets such as ground rents has risen in recent years. This has reduced the yield received on purchases of good quality assets, as prices have risen.

In general, due to the size of investment that ground rent funds can target, leases are normally held against commercial property over residential, with funds normally targeting the hotel and holiday park sectors. Given the difficulties that managers face to find good quality assets at attractive prices, it is expected that funds will target other sectors such as healthcare.

Benefits

- Ground rent investments receive long-term expected cashflows through the rental agreements that are in place with the leaseholder. For some funds, these cashflows can be taken as income distribution and used for pension scheme cashflow management.

- The cashflows received can be inflation linked and rise over time. The inflation linkage is normally through RPI or CPI, with agreements in place to review the rent received with respect to inflation after a few years.

- The returns received generally have low correlation to other return seeking assets.

- If rental income received from the leaseholder stops, the owner of the ground lease is able to take ownership of the leasehold property, which normally has a higher value. This provides security against the risk of default from the other party.

Risks

- *Counterparty Risk* – A leaseholder may not honour its obligation to pay rent and default on the ground lease agreement. However, as highlighted the owner of the ground lease has security in the form of the leaseholder’s property, which it can inherit full ownership of.

- *Valuation Risk* – The value of a ground rent asset is the opinion of the valuers based on several assumptions. Ground rents are largely illiquid and traded infrequently, so valuations can be difficult to benchmark against.

- *Illiquidity Risk* – Ground rent leases can be difficult to buy and sell without suffering a discount. In exceptional circumstances, a fund may limit or suspend trading due to extreme market conditions or high levels of redemptions/withdrawals to protect an investor’s funds.

Return Characteristics

Ground rent assets receive return through both capital appreciation and income from the ground rents themselves. The expected return is generally shown through the yield received on an asset, which accounts for the asset price today and the expected future value based on the cashflows.

Historically, ground rent yields regularly exceeded c. 3% for those with good quality leasehold counterparties, in high-demand sectors and/or prime locations such as the southeast and central London. In recent years, due to increased demand and a decreased supply of good quality assets yields have compressed to between c. 2-3%, which has benefitted those who previously held the asset class, however, has made investment into the asset class more difficult, increasing drawdown times from funds.

Providers in the market

Manager	Fund	Size	Inception
Aberdeen Standard	Ground Rent Fund	c. £400m	2012
Alpha Real Capital	Index Linked Income Fund	c. £1.7bn	
PGIM	UK Ground Lease Fund	c. £700m	2006
Aviva	REaLM Ground Rent Fund	c. £800m	2011

Social Supported Housing

Overview

Social supported housing is purpose built, permanent accommodation for vulnerable individuals with physical and or psychological difficulties, which as a result means they are unable to live and work independently. Subsequently, individuals in this situation receive housing benefits from the central government, with The Care Act (2014) creating a statutory duty for the local government to provide long term, safe and secure accommodation within the community. In these purpose built properties, an annually inflation indexed lease is agreed with a housing association, who are responsible for the administrative tasks (e.g. collecting housing benefits from the tenants) as well as ensuring that care is provided to the tenant.

Previously, these individuals have been homed in accommodation such as hospitals, where they were likely to have shared accommodation with other individuals with similar conditions. However, this is rarely the most appropriate course of action given the fact that privacy and tailored care can be required for each individual. In addition, hospital care is be expensive and at times may not be the best solution on a cost basis as well as appropriateness. Mencap[1]estimates that by 2030 around 60,000 individuals will need this specialised form of accommodation, increasing from c. 39,000 in 2015 – based on this there is a large undersupply of purpose built properties in the market currently, and the demand is unlikely to slow down given the lengthy period of time that individuals would need accommodation for.

Benefits

- The income received is ultimately funded by the UK central government, which clearly represents security. That said, this income is collected via housing associations which themselves carry credit risk. There is also a risk that the government may reduce housing benefits.
- Social Supported Housing has strong and direct ESG credentials, predominantly within a social capacity where providing care and housing to individuals in this situation can have a real and tangible benefit to both the individuals and the wider community.
- Due to a shortage of supply in this type of accommodation, there is strong demand in the market. In addition, the UK government has formally backed some leases for a period (i.e. 10 out of 25 years) to ensure they have uptake.
- The demand for the accommodation is dependent on the number of people who are in need of it, rather than the wider macro-economic and market environment. As such, demand can be seen as relatively uncorrelated to the market.

Risks

[1] https://www.mencap.org.uk/sites/default/files/2018-04/2018.052%20Housing%20report_FINAL_WEB.pdf

- *Illiquidity Risk* – Due to the bespoke nature of the social supported housing assets it can be difficult to buy and sell without suffering a discount. A fund may also include additional liquidity restrictions to ensure that a fair return is achieved by holding onto assets for an appropriate duration or to restrict trading under certain market conditions.

- *Political Risk* – The return assumptions of an investment are based on the current benefits offered by the government, which could be changed or amended and adversely affect the return on investment.

- *Administrative Risk* – The administration of the social supported housing is carried out by not-for-profit housing associations. If administered poorly, there may be an increased likelihood that they are unable to meet payments or in worst case scenarios go bankrupt.

- *Construction & Development Risk* – Due to the bespoke nature of the assets, they may need to be built or developed. If the construction and/or development of an asset is delayed or requires significant changes, the asset value might be materially affected.

- *Property Market Risk* – The underlying assets might be subject to changes in the wider property market. If property markets undergo a period of distress, the asset values may fall.

Return Characteristics

The underlying assets are expected to receive a return through both capital appreciation and income from the individual leases. As this is relatively new asset class, historic performance is not yet available. However, funds currently raising are targeting a cash yield of c. 5-6% p.a.

Providers in the market

Manager	Fund	Size	Inception
Henley IM	SIPUT	c. £400m	2017
Man Group	Community Housing Fund	TBC	2020
Cheyne	Impact Real Estate Trust	£150m	2020
Triplepoint	Social Housing REIT plc	c.£500m	2017
Schroders	Social Housing	c. £50m	2019
PGIM	PGIM Real Estate UK Affordable Housing Fund	TBC	2020

Infrastructure Debt

Overview

Infrastructure is the fundamental, physical systems and facilities that are essential to societies and countries in the operation of their economy and provision of services. Historically, infrastructure assets were largely publically owned. However, as time has progressed there has been an increase in ownership from the private sector as governments looked to provide alternative means of encouraging and improving infrastructure investment.

Infrastructure investing can be grouped into two underlying investment types; equity and debt. Infrastructure equity refers to investments that own the asset outright, with the owner expected to manage the planning, construction and operation of the assets. Infrastructure debt refers to investors who provide financing, usually in the form of a loan, to equity owners, who cannot cover the total cost of the asset. In return, debt investors are usually provided with fixed income alongside the initial capital invested. Infrastructure debt thus reduces the risks associated with equity investment, alongside adding further protection through agreements made with the equity holders such as limiting the counterparty taking out further debt or limiting further drawdowns if the asset falls behind key objectives.

Infrastructure assets are usually characterised by a distinct set of traits that differentiate them from asset classes such as general equity, debt financing or property including high barriers to entry, economies of scale, regulated market and industries, inelastic demand for services and a long-lifespan. These overall characteristics give assets that can produce stable, regular cashflows once operational, with returns that are uncorrelated to the wider market.

Infrastructure assets are normally grouped into a handful of categories relating to their use or service; subsequently each has unique factors that affect the construction, operation and investment into the asset:

- Transportation – covering roads, rail networks, bridges, airports and ports;
- Utility and energy – covering water, power generation and energy distribution networks;
- Communications – covering telecommunication networks; and
- Social – typically covering education, health, recreation and security (e.g. prisons, courts and police stations)

For infrastructure debt, it is important to consider the underlying assets that any loans are made against and the potential risks and headwinds that the owner may face based on current and future economic and regulatory conditions.

Market Summary

Due to the size of investment needed to build and operate certain infrastructure assets (can easily reach into the £billions), most equity owners will use debt financing. This process of using leverage on the equity side creates the opportunity for greater equity returns.

Globally, private investment into infrastructure can exceed £100bn each year, with funds continually raising capital to meet the ready supply of opportunities. Private infrastructure debt investment has historically been through bank financing, with c. 80-90% [2]continuing through this method over 2016-2018. However, more recently institutional investment has risen, with 19 European based funds raising c. €5.4bn over the two years to the end of 2019.

Recently, at a sector level, renewable infrastructure has seen increased focus as governments and investors become more conscious of the use of non-renewable energy sources and the impact that these have on climate change. In more developed economies, telecommunications investment has also seen a significant rise as customer demand increased internet speeds and upgraded technologies, such as 5G mobile connection.

Benefits

- Debt agreements with equity holders will receive fixed income repayments that are contractual at expected times. If the equity holder defaults on repayment, the arrangement may include clauses that take effect such as the equity holder not being able to take out any more debt financing or limiting dividend payments until the matter is resolved. The repayments may also include some inflation linkage.

- The underlying assets are likely to be either essential in use or have inelastic demand, meaning that even in the periods of low economic activity, the counterparty should be receiving income and be able to make repayments.

- Of the small amount of defaults that occur, the recovery rate is usually high. In comparison to corporate bonds, the expected loss on infrastructure debt is usually lower.

- UK investment grade infrastructure debt is often linked to inflation (RPI or CPI).

[2] https://www.ubs.com/global/en/asset-management/insights/asset-class-research/real-assets/2019/top-infrastructure-trends-for-2020.

Risks

- *Counterparty Risk* – The counterparty (usually the infrastructure equity owner) to the debt agreement may default and not meet their obligations. As highlighted investment managers may include clauses that look to limit the occurrence of this and engage with those with high credit ratings.

  Similarly, the credit rating of the counterparty may change and affect the price of the bond. Investment managers may therefore look to only invest in counterparties who have higher credit ratings.

- *Valuation Risk* – The value of an infrastructure assets (including debt) is the opinion of the valuers based on several assumptions. Infrastructure assets are largely illiquid and traded infrequently, so valuations can be difficult to benchmark against and know the true market value.

- *Illiquidity Risk* – Infrastructure assets are less liquid than assets traded on public markets. Subsequently, investors may not be able to disinvest quickly without suffering a market discount. Market conditions may also restrict the sale of an asset as there might be no available purchaser.

- *Interest Rate Risk* – The underlying contractual repayments of the debt agreement might be linked to the rate of interest. A change in the level of interest could lead to a material change in valuation of the debt.

Return Characteristics

The return received on an infrastructure debt investment will be dependent on the counterparty, sector and underlying asset, alongside the seniority of the debt. The majority of the return received over and above corporate bonds comes from the illiquidity premium that infrastructure debt has due it being harder to trade and having long life span compared to regular corporate debt. Accounting for all of this, the return on infrastructure debt usually lies between LIBOR (or equivalent) + 1.5-3.0% p.a. for senior debt.

Providers in the market

Manager	Fund	Size	Inception	Comments
Macquarie	UK Inflation Linked Infrastructure Debt 2	c. £3bn	Fund 1 in 2011	Fund closed in June and may reopen next year
Allianz	Infrastructure Debt Core	TBC	TBC	European and North America allocations available
Whitehelm Capital	Infrastructure Debt Partners I	c. €500m	2020	Expected final close in summer 2020. Targets defensive, non-cyclical infrastructure

Conclusion

Each asset class is expected to deliver slightly different returns depending on the precise area of the market. Social supported housing would be expected to deliver returns of c. 4-7% p.a. while ground rents and infrastructure debt would be closer to c. 2-3% p.a. The expected return on the IOF was c. 4% p.a., although it may be questioned whether this level of return was achievable over the next few years.

All three asset classes would provide similar inflation linkage. This would of course limit the funds to UK assets only. While this is common for property and ground rents, this would limit the opportunity set somewhat for infrastructure debt, with fewer transactions in the market.

All three asset classes are also relatively illiquid, although ground rents and social supported housing tend to invest using open ended funds, whereas infrastructure debt would almost certainly be a closed ended fund (usually with 15+ year lock up).

Recommendation

The Sub-Committee must consider the diversification benefits from each asset class as well as governance requirements of adding further mandates. Given each asset class is relatively illiquid and restricted to UK only assets, there would be a benefit to replacing the IOF allocation with two mandates, for example allocating 5% to each.

While the Fund does not have any direct exposure to any of these asset classes, there is expected to be some infrastructure debt in the Aberdeen Standard Multi Asset Credit Fund. The Fund also has infrastructure equity exposure in c. 7.5% of the total Fund assets, invested with Partners Group and Aviva.

Given this, we feel an asset allocation mix of ground rents and social supported housing would provide the best outcome in terms of risk, return, diversification and liquidity. While both ground rents and social supported living are largely linked to the UK property market, the level of collateralisation in ground rents makes it significantly protected from market falls, while supported living can be protected (to an extent) by securing an element of government backed leases.

Next steps

The Sub-Committee should consider this proposed allocation, and if agreed, look at possible managers and funds to implement. Given the risk/return characteristics available from social supported housing can vary by strategy type, depending on the specific area of the market it is targeting, we suggest that the exact allocation between both asset classes is considered alongside a review of possible funds. We will also consider the extent of inflation linkage available for different products when considering the allocation split, as well as ultimately selecting the right funds.

Deloitte.

This document is confidential and it is not to be copied or made available to any other party. Deloitte Total Reward and Benefits Limited does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte Total Reward and Benefits Limited engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte Total Reward and Benefits Limited is registered in England and Wales with registered number 03981512 and its registered office at Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom.

Deloitte Total Reward and Benefits Limited is a subsidiary of Deloitte LLP, the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

© 2020 Deloitte Total Reward and Benefits Limited. All rights reserved.