Newham Pension Fund
2018/19 Annual Report

AUDITED

Pension Scheme Registration number 10165250

Contents

Member's Introduction

Chair's comments

I have been the Chair of the Investment and Accounts Committee ('IAC') since the local elections in May 2018 having previously served on the IAC for many years. The IAC has been a passionate advocate of the Local Government Pension Scheme (LGPS) and under my role as Chair continue to champion and promote membership especially amongst lower income groups that provide vital public services so that they and their loved ones will get the retirement benefits they deserve. This was demonstrated by the improvement in scheme membership rates increasing to 13.2% during the year helped on by auto-enrolment in February 2019.

However, the IAC understand that in a period of austerity any benefits should be sustainable and to that end the Fund has made great progress in closing its funding gap well ahead of its recovery plan.

The value of the Newham LGPS ("The Fund's") assets amid a volatile year on the markets closed 2018/19, up 9% from last year, at £1.44bn the highest ever. The value of liabilities also reduced during the year increasing the funding level to an impressive 98% at year end, up over 5% from the previous year and significantly ahead of the Fund's 20 year deficit recovery plan.

The PIRC annual league table on LGPS performance 2018/19 has the Fund ranked in the top three out of 64 UK LGPS schemes and top two in the below £2.5bn category cementing the Fund's place as one of the highest performing schemes in the UK having achieved 5th and 1st place in 2014 and 2016 respectively.

During the year there was further focus on consolidating the exceptional gains achieved in recent years ahead of the next triennial valuation date on 31st March 2019 that sets contribution rates 2020/21 onwards. The IAC supported by officers and advisers made decisive progress implementing its investment strategy: scaling back riskier equity exposure and increasing investment in more stable asset types such as private debt/equity, infrastructure (particularly renewables) and protective assets such as index linked bonds that also generate additional income as the Fund continues to mature.

There has been a large influx of new members on the IAC following the local elections and a key priority has been to put in place a robust training and development program and to support the IAC appointed an independent adviser a continual professional development coordinator. The IAC's commitment to continually improve its governance paid off during 2018/19 where the Fund was a finalist in the Local Authority Pension Fund (LAPF) Investment Awards 2018 in the following categories; Collaboration Award, Scheme Governance Award and Best Approach to ESG.

The IAC has worked closely with the London CIV (LCIV) to help shape new strategies that are more closely aligned with the Fund's investment strategy. In the meantime, the Fund has collaborated with other LGPS Funds to replicate the cost-saving benefits of the pooling. Decisions regarding the transfer of assets to the LCIV continue to be made on "value for money" grounds where there is alignment and without compromising on the IAC's principles on responsible investment. Discussions with the LCIV have been constructive particularly following the change in LCIV leadership and the IAC are hopeful that the Fund is moving to a position where assets can start to be transferred where there is a strategic alignment.

During 2018/19 much work has gone into exploring social and affordable housing as an asset class and whether there is a fiduciary case for making an investment while helping to make a social impact. The IAC and advisers established sound investment case did indeed exist and in the absence of a relevant strategy in the LCIV. The IAC have agreed mandates in this area and competitive searches for a suitable manager have commenced.

The IAC has upheld its vanguard policy on prohibiting direct investments in tobacco centric holdings on investment grounds which is being increasingly adopted by other leading pension schemes. The Fund continues to invest in renewables that more than offset the small indirect investment the Fund holds in energy companies through its passive index investments. The IAC is working through how it might reduce its carbon exposure still further but any policy shift in this area is being worked through carefully by the IAC to assess the fiduciary impact. The IAC strongly believes that good long term investment goes ‘hand in hand’ with strong governance and responsible investment and this is embedded in its Investment Strategy Statement.

The Investment and Accounts was re-constituted as the Pensions Committee at the Council’s Annual Meeting on 16th May 2019.

Councillor John Gray

Chair of the Investment and Accounts Committee

It has been a pleasure to have worked with the Councillor Gray who stepped down from his role as Chair in May 2019 and I fully support the out-going Chair’s comments.

Councillor Nareser Osei

Chair of the Pensions Committee

Highlights of 2018/19

- **LGPS sector recognition**

The Committee's commitment to enhancing the knowledge and skills of its Members was recognised by becoming a finalist for the LAPF Investment Awards 2018 in three categories; Collaboration Award, Scheme Governance Award and Best Approach to ESG.

- **Funding level value reached the highest recorded for Newham**

Despite the challenging economic environment, the funding in the highest ever recorded at £1.44bn, and an estimated funding level now at 98%. A full performance report is on page 23.

- **Investment Strategy – Real Assets**

The Real Assets class has been identified as having low correlation to traditional equity and bond markets. The Fund has appointed investment managers for its Real Assets managers in collaboration with LB Havering and investments commenced in mid-2018/19. This mandate is not currently available through the LCIV. This asset classes will provide long term diversification from other asset classes and attractive risk adjusted returns.

- **Investment Strategy – Structured Equity**

The Fund has also implemented an equity hedging strategy in 2018/19 to provide protection from a downturn in equity values that are currently on high historic high price earning multiples.

- **Strategy Panels and Investment Models**

The Committee continues its efforts to increase transparency, improve returns and reduce costs. The quarterly strategy panels have helped strengthen the investment decision making process enabling the Committee to be more resilient and tactical. The investment decision making process has been enhanced by the macro-economic forecasts and modelling of the Fund's investment portfolio by the scheme's economic adviser.

- **Environmental, Social and Governance (ESG) Review**

The Scheme Investment Adviser has carried out a detailed assessment of the Fund's current Social Responsible Investment policy (SRI) and where it might be strengthened. Committee members have also received ESG training. The Funds overall exposure to fossil fuel has reduced from 4.0% at 31 March 2016 to 1.2% at 31 March 2018 (www.gofossilfree.org).

- **Appointment of Actuarial Services**

The Fund tendered for the actuarial services contract. Following a tendering process, interest was received from a number of leading providers in the field. A winning tender emerged and an appointment was made.

- **MIFID II**

The Fund has updated its MIFID II compliance to reflect the changes in key personnel.

- **Auto-enrolment**

The final phase of auto-enrolment for Newham took place in February 2019 and many of those enrolled have remained in the scheme.

The Fund's outlook for 2019/20

- **Preparation for 2019 valuation**

Every three years the Council and other employers in the LGPS are required to have an actuarial valuation of its Pension Fund. The 2019 triennial valuation sets the employer rate and will come into effect in 2020/21. Work is undertaken collaboratively between the Fund's actuary, LPP and Newham Council. The Section 13 GAD report made mention of the duration for funding deficit recovery period which actuaries will review.

- **Investment Strategy – Local Social Housing Schemes**

The Fund is exploring opportunities within local social and affordable housing as these mandates are currently not available with the LCIV. It is hoped that in time the LCIV will offer this asset class.

- **Investment Strategy – Absolute Return Bond Fund**

The Fund is also exploring short term relatively low risk bond funds to enhance returns whilst monies are waiting to be deployed into long term assets. The LCIV is not expected to offer this type of fund in the short term.

- **Pre-funding Strategy**

The Council sought to prepay LGPS contributions for 12 months from April 2019 to March 2020. This was agreed and savings generated from prefunding have been incorporated within the Council's Budget Strategy 2019/20.

- **The Committee's Terms of Reference**

Committee is to be reconstituted from the Investment and Accounts Committee to the Pensions Committee, in accordance with the revised terms of reference. It aligns the Council with good practice as set out in the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- **Independent Adviser**

In recognition of the number of new members on the Committee and a new Chair it was felt that their training and development would be enhanced by appointing a new adviser to specifically support them in this capacity.

- **Pooling of Assets & Collaborative Working**

The Fund is actively engaged with the LCIV – the Chair attends the LCIV General Meetings and votes on motions there and holds quarterly meetings with them alongside officers. The Fund is reviewing the investment opportunities available within the LCIV and where suitable products do not exist to deliver the Fund's investment strategy it will collaborate with other funds to keep fees to a minimum.

LPGS 2013 (as amended)

The LGPS regulations 2013 came into effect on 1 April 2014. The key changes under the new scheme are set out in the table below:

	LGPS 2008	LGPS 2013
Basis of Pension	Final Salary	Career Average Revalued Earnings (CARE)
Accrual Rate	1/60th	1/49th
Revaluation Rate	Based on Final Salary	Consumer Prices Index (CPI)
Pensionable Pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Contribution Flexibility	No	Yes – 50:50 option where members pay 50% contributions for 50% of the pension benefit
Normal Pension Age	65	Linked to the State Pension Age
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	No change - trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	No change - 3 x Pensionable Pay
Indexation of Pension in Payment	CPI (RPI for pre-2011 increases)	CPI

Employee Contribution Table 2018/19

Employee contribution rates are tiered as shown in the table below and contribution rates for part time members are based on actual pensionable pay, rather than full time equivalent pay. The 50:50 Scheme provides contribution flexibility for members. For more information about member benefits, changes to the scheme and the impact of the changes on your pension, please see www.yourpension.org.uk/newham or contact LPP.

Salary Band £	Employee Contribution rate %	
	Main Section	50/50 Section
0 – 14,100	5.5	2.75
14,101 – 22,000	5.8	2.90
22,001 – 35,700	6.5	3.25
35,701 – 45,200	6.8	3.40
45,201 – 63,100	8.5	4.25
63,101 – 89,400	9.9	4.95
89,401 – 105,200	10.5	5.25
105,201 – 157,800	11.4	5.70
157,801 +	12.5	6.25

Fund Governance & Statutory Information

Fund Governance

The Fund is part of the LGPS. The benefits paid out and the scheme regulations are set nationally, but the Fund is managed and administered locally. As administering authority, the London Borough of Newham (LBN) has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Investment and Accounts Committee, which is the formal decision making body for the Fund.

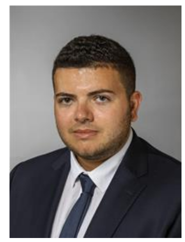
Investment and Accounts Committee

The Committee consists of eight Councillor Members and co-opted trade union representatives. The Councillor members from 3 May 2018 were:


Chair - Councillor
John Gray (5/5)


Vice Chair – Councillor
Nareser Osei (4/5)


Councillor
James Asser (4/5)


Councillor
Joshua Garfield (4/5)


Councillor
Anamul Islam (1/5)


Councillor
Carleene Lee-Phakoe
(1/5)


Councillor
John Whitworth (5/5)


Councillor
Tonii Wilson (2/5)

Co-opted trade union representatives during 2018/19 were Brenda Bedminster (Unite) Iain Hale (NUT), Gloria Hanson (Unison) and Stella Ikanik (GMB).

The Committee meets quarterly to discuss investment strategy, legislation changes and developments that may affect the Fund, and to review the performance of the fund managers. The Committee may also arrange meetings on an ad hoc basis as required, and attend training sessions throughout the year. During 2018/19 the Committee met 5 times (excluding training sessions) – the number of meetings attended by each member is shown above.

Local Pensions Board

The Local Pensions Board (LPB) provides support to the Committee and helps strengthen overall fund governance, increase transparency and compliance with LGPS regulations.

The LPB consists of four members consisting of two employer and two employee representatives. The members during 2018/19 were:

- Laurence Weeks
- Cllr Salim Patel
- Annette Hirons
- Anil Nagpal

Management and Advisors

The work of the Committee is supported by a number of officers, advisors and external managers as set out below.

Responsible Officers

Pensions and Treasury team in the oneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

Conrad Hall	Corporate Director of Resources	020 3373 4219
Stephen Wild	Head of Pensions and Treasury	020 3373 3881
Rakesh Rajan	Pension Fund Manager	020 3373 6595

The oneSource Exchequer and Transactional Service monitor and manage the pension's contractors. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Sarah Bryant	Director of Exchequer & Transactional services	017 0843 2233
Ian Weavers	Pensions Manager	020 3373 8408

Scheme Administrator

LBN contracts out its benefits administration to LPP in accordance with the council's best value arrangements. LPP maintain pension scheme membership records and provide advice, benefits calculations and estimates.

LPP
2nd Floor, 169 Union Street
London SE1 0LL
020 7369 6105

Custodian Bank

The Fund uses Northern Trust as its custodian to hold and safeguard the Fund's assets. The custodian acts as the Fund's bank, settles transactions and is responsible for investment income collection.

Northern Trust
50 Bank Street,
Canary Wharf,
London, E14 5NT

In addition to acting as the Fund's custodian, Northern Trust provides performance analysis, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis. Pensions and Investment Research consultants Ltd (PIRC) is used to monitor the Fund against the LGPS universe.

Investment Managers used by the Fund

Day to day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). During 2018/19, the Fund used the following external managers:

Fund Manager	Mandate	Contact Details
Aberdeen Standard	Fixed income	Bow Bells House, 1 Bread Street, London, EC4M 9HH
Baring English Growth	Private equity	3rd Floor, 11 Strand, London, WC2N 5HR
BlueBay	Private debt	11 Grosvenor Street, London, W1K 3JR
Brightwood	Private debt	15 Stanhope Gate, London, W1K 1LN
Brockton	Property unit trust	89 Wardour St, Soho, London W1F 0UA
CBRE	Property unit trust	3rd Floor, One New Change London, EC4M 9AF
Fiera	Real assets	7th Floor, 16 Berkeley Street, London, W1J 8DZ
HarbourVest	Private equity	Berkeley Square House - 8th Floor, Berkeley Square, London, W1J 6DB
KGAL	Real assets	27 Bush Lane, London, EC4R 0AA
Legal & General	Passive equities and passive bonds	One Coleman Street London, EC2R 5AA
Longview	Unconstrained Global Equity Active	Thames Court, 1 Queenhithe, London, EC4V 3RL
Man FRM	Managed Alternatives	Riverbank House, 2 Swan Lane, London, EC4R 3AD
Morgan Stanley	Diversified Alternatives	25 Cabot Square, Floor 07, Canary Wharf, London, E14 4QA
Permira	Private Debt	80 Pall Mall, London, SW1Y 5ES
River and Mercantile	Structured Equity	30 Coleman St, London EC2R 5AL
Robeco	High Yield Credit	Augustine House, 6a Austin Friars, London, EC2N 2HA

Actuary

Barnett Waddingham
163 West George Street
Glasgow G2 2JJ

Investment Advisor

Barnett Waddingham
Chalfont Court
Hill Avenue
Amersham HP6 5BB

Economic Advisor

Fathom Financial Consulting
47 Bevenden Street
London N1 6BH

External Auditor

Ernst & Young LLP
400 Capability Green
Luton LU1 3LU

Bankers

Lloyds TSB
City Office, PO Box 72
Bailey Drive, Gillingham Business Park
Kent, ME8 0LS

AVC Providers

Equitable Life
Walton Street
Aylesbury
Buckinghamshire
HP21 7QW

Clerical Medical
PO box 28121
15 Dalkeith Road
Edinburgh
EH16 9AS

Legal Advisors

The Fund receives legal advice from London Borough of Newham's in-house legal team who in turn have taken specialist advice from:

Sackers and Partners
20 Gresham St
London, EC2V 7JE

Bevan Brittan
Fleet Place House, 2 Fleet Place
London, EC4M 7RF

Asset Pool Operator

London CIV
4th Floor, 22 Lavington Street, London, SE1 0NZ

Subscription bodies

The Fund is a member of the Pensions and Lifetime Savings Association (PLSA), the Local Authority Pension Fund Forum (LAPFF), the Institutional Investors Group on Climate Change (IIGCC), Pensions & Investment Research Consultants (PIRC) and the London Pension Fund Forum (LPFF).

Risk Management

The Fund's main risk is that its assets fall short of its liabilities to the extent 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 increase the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

Responsibility for the Fund's risk management strategy rests with the Investment and Accounts Committee.

In order to manage risks a Pension Fund Risk Register is maintained and reviewed regularly. Risks identified have been reduced through planned actions. The Risk Register is managed by the Director of Exchequer & Transactional Services and the Head of Pensions and Treasury with risks assigned to "Risk Owners".

The Fund's approach to risk management is covered in the following policies:

- Investment Strategy Statement (ISS)
- Funding Strategy Statement (FSS)
- Socially Responsible Investment (SRI) Policy
- Governance Policy

Key risks

Risk	Risk Rating	Responsible Officer	Mitigations
Administration Risks			
3rd parties undertaking outsourced administration work are unable to facilitate timely and accurate updating of service records. Inaccuracies in service records may impact on actuarial valuations, calculations of pension benefits and on notifications to starters and leavers.	Medium	Director of Exchequer & Transactional Services	Actuary undertakes data cleansing on service records as part of the triennial revaluation which should identify the extent of any inaccuracies.
Loss of funds through fraud or misappropriation by 3rd parties could lead to negative impact on reputation of the Fund as well as financial loss	High	Head of Pensions and Treasury & Director of Exchequer and Transactional Services	Third parties regulated by the FCA. Separation of duties and independent reconciliation procedures in place. Review of third party internal control reports undertaken by Pensions Finance Team. Periodic internal audits of Pensions Finance and Exchequer & Transactional teams.
Funding Risks			
Scheme members live longer leading to higher liabilities	Medium	Head of Pensions and Treasury & Director of Exchequer and Transactional Services	Review at each triennial valuation
Assumed levels of inflation and interest rates may be inaccurate leading to higher than expected liabilities.	Medium	Head of Pensions and Treasury	Review at each triennial valuation
Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by other employers.	Medium	Director of Exchequer and Transactional Services	Transferring admission bodies required to have a bond or guarantor in place. Regular monitoring of employers.
Investment Risks			
Fund managers fail to achieve agreed returns	Medium	Head of Pensions and Treasury	Independent monitoring of fund manager performance. Fund manager performance is reviewed quarterly.
Regulation Risks			
Introduction of European Directive MiFID II results are a restriction of Fund’s investment options.	Low	Head of Pensions and Treasury	The Fund has successfully opted up with all managers and third parties as required by the deadline.

Controls Assurance Reports

Fund Manager	Report	Assurance Obtained	Reporting Accountant
Aberdeen Standard	ISAE 3402	Reasonable assurance	KPMG LLP
BlueBay	ISAE 3402	Reasonable assurance	PWC LLP
CBRE	ISAE 3402	Reasonable assurance	KPMG LLP
Fiera	ISAE 3402	Reasonable assurance	Deloitte LLP
Harbourvest	Private Equity Fund Administration System	Reasonable assurance	Ernst & Young LLP
Legal and General	ISAE 3402	Reasonable assurance	KPMG LLP
Longview	ISAE 3000	Reasonable assurance	Ernst & Young LLP
Man FRM	ISAE 3402	Reasonable assurance	Ernst & Young LLP
Morgan Stanley	SSAE 18	Reasonable assurance	Deloitte & Touche LLP
Permira	ISAE 3402	Reasonable assurance	Ernst & Young LLP
River and Mercantile	ISAE 3402	Reasonable assurance	RSM Risk assurance LLP
Robeco	ISAE 3402	Reasonable assurance	KPMG LLP
Custodian	**Report**	**Assurance Obtained**	**Reporting Accountant**
Northern Trust	ISAE 3402	Reasonable assurance	KPMG LLP

Financial Performance

Revenue Income and Expenditure

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Contributions	58,847	60,387	60,401	54,467	54,727
Pensions	(52,870)	(52,842)	(56,809)	(61,035)	(59,469)
Net additions/(withdrawals) from dealings with members	5,977	7,545	3,592	(6,568)	(4,742)
Management expense	(5,279)	(5,205)	(4,413)	(5,309)	(5,452)
Net investment returns	12,810	15,426	16,359	18,216	22,743
Change in Market Value	149,139	20,834	194,307	6,611	95,176
Net increase/(decrease) in the Fund	162,647	38,600	209,845	12,950	107,726

Net Asset Statement

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
Fixed interest securities	0	0	62,287	45,546	84,219
Equities	339,694	349,447	451,979	476,499	401,854
Pooled investments	435,143	321,393	453,128	424,129	456,681
Pooled property	98,497	86,926	95,113	131,197	144,973
Private equity / infrastructure	65,567	70,512	37,283	65,404	135,036
Diversified	75,548	47,181	58,489	62,883	58,329
Cash deposits	49,856	216,697	164,043	74,768	102,568
London CIV	0	150	150	150	150
Other	867	2,618	5,201	46,107	870
Total investment assets	1,065,172	1,094,924	1,327,673	1,326,683	1,384,681
Current assets	3,505	11,351	6,576	5,499	53,193
Current liabilities	(1,786)	(784)	(18,913)	(3,896)	(1,863)
Total net assets available to the Fund	1,066,891	1,105,491	1,315,336	1,328,286	1,436,011

- Current assets grew in 2018/19 due to a large cash redemption from the Longview Holdings, this was to crystallise gains that had been made and to reduce overall equity holdings in line with the strategic asset allocation.
- The last triennial revaluation was completed in 2016/17, the funding level at that time was 85% compared to 73% at the 2013 revaluation. The next triennial valuation will be produced during 2019/20 with revised contribution rates being effective from April 2020.
- Since 2017/18 pensions paid exceeds the contributions.
- Net investment returns continue to increase; this is due to the IAC realigning the strategic asset allocation to income generating assets.
- Officers and the IAC closely monitor investment performance with the aid of independent investment advisers to ensure that the Fund's investments are being managed effectively.
- Most contributions were received by employers in a timely manner and interest was charged for any late payments.

2018/19 Outturn

CONTRIBUTIONS RECEIVED

	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Employees	12,301	12,640	339	12,640
Employers	40,075	39,230	(845)	39,230
Transfers in	3,728	2,857	(871)	3,250
Total	56,104	54,727	(1,377)	55,120

BENEFITS PAID

	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Pensions	(42,788)	(44,052)	(1,264)	(45,370)
Lump sum retirements	(10,025)	(9,940)	85	(10,240)
Death benefits	(1,272)	(1,039)	233	(1,070)
Transfers out	(7,500)	(4,117)	3,383	(4,240)
Refunds	(767)	(321)	446	(330)
Total	(62,352)	(59,470)	2,883	(61,250)

- The pension's variance is due to the increased number of pensioners and GMB equalisation payments.

ADMINISTRATION

	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Employees	(58)	(61)	(3)	(62)
Legal	(78)	(34)	44	40
Support services (internal recharges)	(58)	(58)	0	60
Service contracts	(774)	(462)	312	475
Subscriptions	(25)	(23)	2	30
Other	(30)	8	38	30
Total	(1,023)	(630)	393	573

- During 2018/19 a number of high value contracts were awarded and licensing purchased, these required legal review. Some of the additional costs were one-off; the budget did not reflect that.

Oversight and Governance

	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Employees	(210)	(204)	6	(210)
Legal	(75)	(49)	26	(50)
Support services (internal recharges)	(38)	(38)	0	(39)
Investment advisory services	(180)	(171)	9	(177)
Governance and compliance	0	0	0	0
External audit	(21)	(12)	9	(12)
Actuarial fees	(35)	(33)	2	(34)
Pooling	0	0	0	0
Other	(9)	(11)	(3)	(12)
Total	(568)	(518)	49	(534)

Investment Management

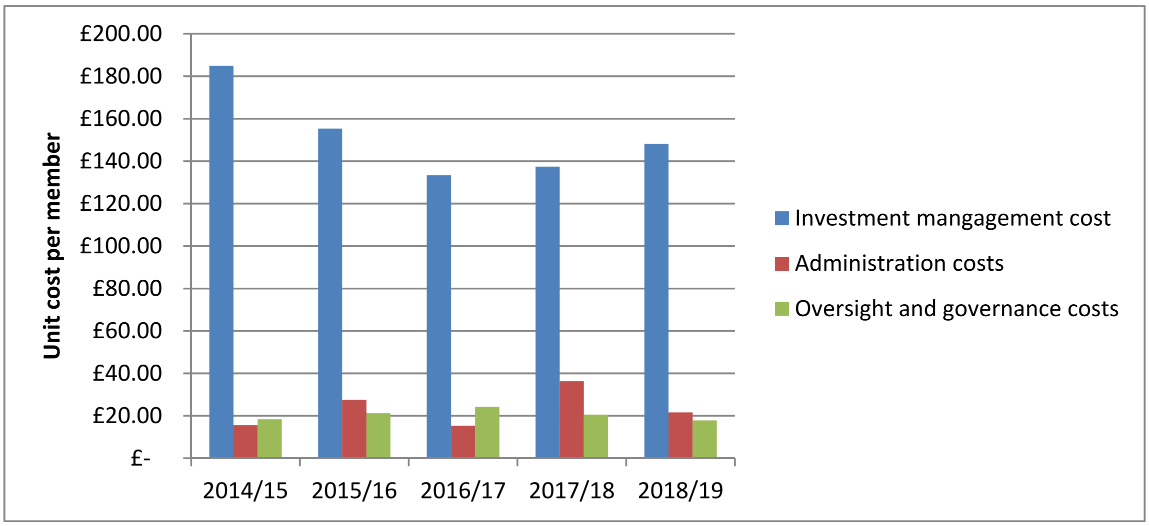
	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Management fees	(4,047)	(4,026)	21	(4,350)
Transactions costs	(130)	(133)	(3)	150
Custodian Fees	(140)	(145)	(5)	150
Total	(4,317)	(4,304)	13	(4,050)

Income

	2018/19 Budget	2018/19 Actual	Variance	2019/20 Budget
	£000	£000	£000	£000
Fixed interest securities	2,500	2,575	75	2,500
Equities	8,500	9,208	708	8,000
Pooled investments	3,300	3,353	53	3,500
Pooled property	3,400	3,489	89	3,500
Real assets	0	4	4	0
Diversified	300	347	47	400
Cash deposits	406	767	361	500
Private debt	3,000	3,323	323	3,500
Taxes on income	(398)	(322)	76	(400)
Total	21,008	22,744	1,736	21,500
Net cash inflow during the year	8,852	12,549	3,698	11,359

Unit cost per member

Total membership no.	24,114	25,490	25,516	27,327	29,057
Process	2014/15	2015/16	2016/17	2017/18	2018/19
Investment management costs					
Total cost (£000)	4,459	3,959	3,403	3,754	4,304
Cost per member	£ 184.93	£ 155.31	£ 133.37	£ 137.37	£148.11
Administration costs					
Total cost (£000)	377	702	392	993	630
Cost per member £	£ 15.63	£ 27.55	£ 15.36	£ 36.35	£ 21.67
Oversight and governance costs					
Total cost (£000)	443	544	618	562	519
Cost per member £	£ 18.37	£ 21.32	£ 24.23	£ 20.58	£ 17.86



Analysis of asset pooling costs

	2018/19	Cumulative
	£000	**£000**
Set up costs:		
Share purchase		150
Implementation charge		50
Annual charge	25	100
Development funding charge	65	140
Total set up costs	**90**	**440**
Fees	15	15
Total fees	15	15

	2015/16	2016/17	2017/18	2018/19
	£000	**£000**	**£000**	**£000**
Set up costs	225	25	100	90
Fee savings				(126)
Net savings realised	225	25	100	(36)

ONGOING INVESTMENT MANAGEMENT COSTS

	Asset Pool		Non-asset Pool		Fund total	
	Indirect costs		Indirect costs			
	£000	BPS	£000	BPS	£000	BPS
Asset pool shared costs						
Ad valorum	-	-	4,026	29	4,026	29
Transaction costs	-	-	9	-	9	-
Commissions	-	-	107	1	107	1
Taxes and stamp duty	-	-	17	-	17	-
Custody	-	-	145	1	145	1
Total			**4,304**	**31**	**4,304**	**31**

Asset category	Opening Value £000	%	Closing value £000	%	Performance over one year %	Local target
Asset pool managed investments						
London CIV shareholding	150		150		-	N/A
Passive listed equity	235,876	17.8	238,231	17.2	1.01	Regional FTSE = 3.88%
Gilts	60,412	4.6	81,244	5.9	2.79	Index linked gilts = 4.4%
Total pooled investments	**296,438**	**22.3**	**319,625**	**23.1**		
Non-asset pool managed investments						
Active listed equity	476,498	35.9	401,854	29.0	17.78	MSCI World Index = 11.98%
Structured equity	0	0.0	34,192	2.5	0.85	Fund return = 0.85%
US Treasuries	45,546	3.4	50,027	3.6	13.91	Fund return
Corporate bonds	106,413	8.0	110,284	8.0	3.60	Barclays global aggregate = 3.29%
High yield bonds	0	0.0	5,189	0.4	3.78	Barclays UK HY = 11.26%
Private debt	30,096	2.3	55,902	4.0		7%
Property	131,197	9.9	144,973	10.5	10.23	9%
Venture capital	35,308	2.7	39,965	2.9	17.23	RPI + 4% = 6.44%
Venture capital - renewables	0	0.0	39,169	2.8	-	6.0-8.0
Cash	74,768	5.6	41,568	3.0	-	0
Temporary deposits	0	0.0	61,000	4.4	0.08	0.7%
Diversified alternatives	62,883	4.7	58,329	4.2	0.43	3 month LIBOR + 4.2% = 4.99%
Derivatives	3,992	0.3	934	0.1	-	Not measured
Hedge funds	21,429	1.6	21,734	1.6	1.42	CPI + 3.1% = 5%
Other	42,113	3.2	(64)	0.0	-	Not measured
Total non-pooled investments	**1,030,244**	**77.7**	**1,065,056**	**76.9**		
Total assets	**1,326,683**	**100.0**	**1,384,681**	**100.0**	**8.96**	

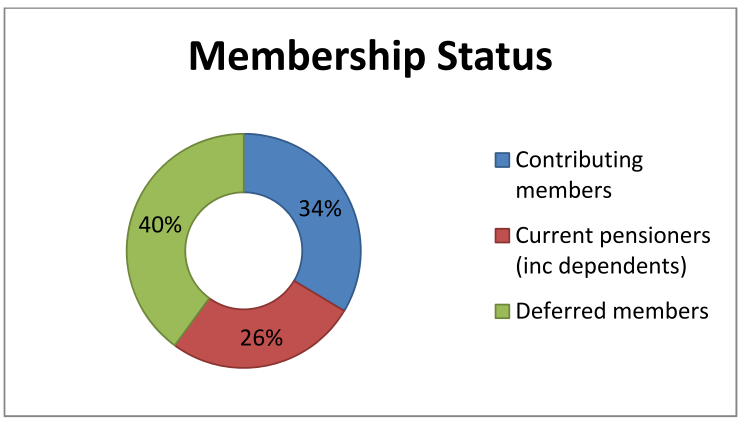
Fund Membership

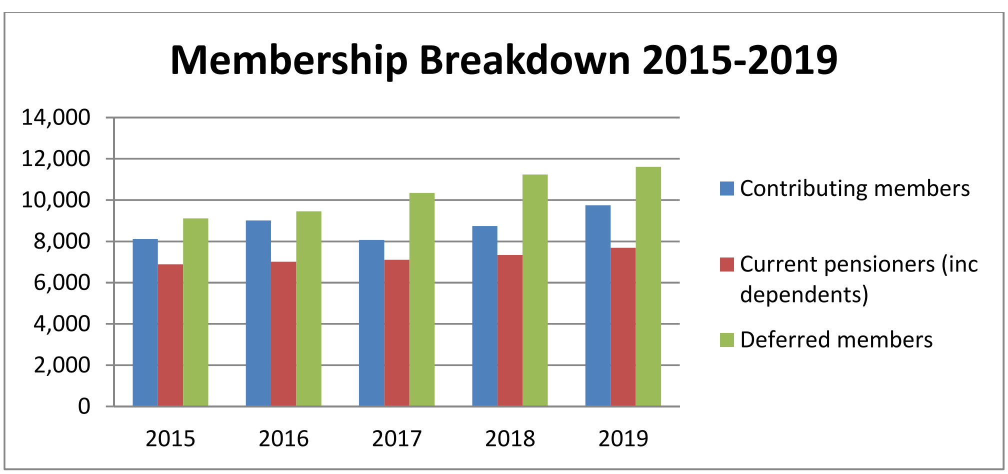
The Fund contracts out its benefits administration to LPP, a wholly owned subsidiary of the LPFA and Lancashire Pension Fund in accordance with the council's best value arrangements. The contract is managed and monitored for gathering assurance over the effective and efficient delivery of these operations by oneSource Exchequer and Transactional Services.

LPP continue to maintain pension scheme membership records and provide advice, benefits calculations and estimates.

Membership statistics 2015 – 2019

Membership Numbers as at 31 March	2015	2016	2017	2018	2019
Contributing members	8,117	9,021	8,069	8,741	9,755
Current pensioners (inc. dependents)	6,887	7,011	7,104	7,343	7,688
Deferred pensioners	9,110	9,458	10,343	11,243	11,614
Total	**24,114**	**25,490**	**25,516**	**27,327**	**29,057**

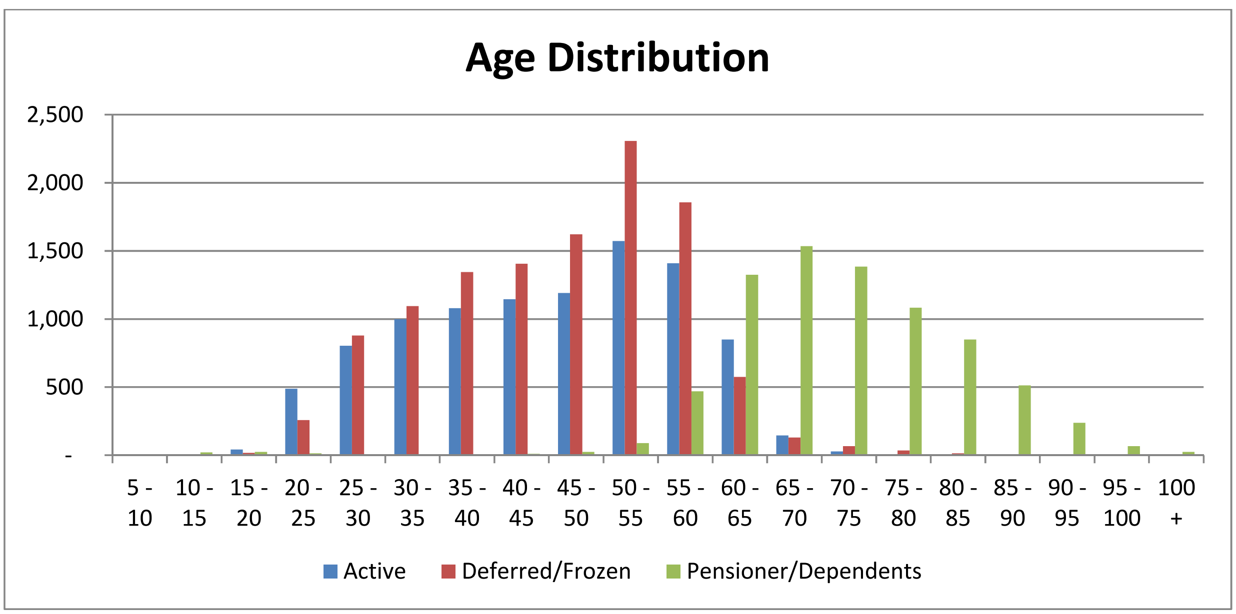




The Fund's communication campaign has been a boost to membership in recent years especially this year where the increase has been significant. The Committee recognised a decline in active membership and launched a communications campaign with the aim of improving membership levels, especially amongst lower paid and part time staff, where take-up is lowest. The positive impact of this communication campaign is evident from the increase in contributing membership. During 2018/19 the increase in active members was due to auto enrolment.

Membership Age Profile at 31 March 2019

Bands	Active	Deferred/Frozen	Pensioner/Dependents
5-10	-	-	5
10-15	-	-	21
15-20	42	18	25
20-25	488	258	13
25-30	804	879	3
30-35	999	1,095	4
35-40	1,080	1,345	5
40-45	1,145	1,406	10
45-50	1,191	1,622	24
50-55	1,573	2,307	89
55-60	1,409	1,857	470
60-65	849	574	1,325
65-70	145	131	1,535
70-75	28	66	1,385
75-80	2	36	1,083
80-85	-	13	849
85-90	-	4	513
90-95	-	3	238
95-100	-	-	67
100+	-	-	24
Total	9,755	11,614	7,688



Fund Employers

London Borough of Newham is the administering authority for the Fund. Organisations, known as admitted and scheduled bodies may also participate in the Fund - scheduled bodies have a right to be incorporated, whereas admitted bodies require the agreement of the administering authority.

Analysis of employers in the Fund

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled body	27	2	29
Admitted body	23	8	31
Total	**51**	**10**	**61**

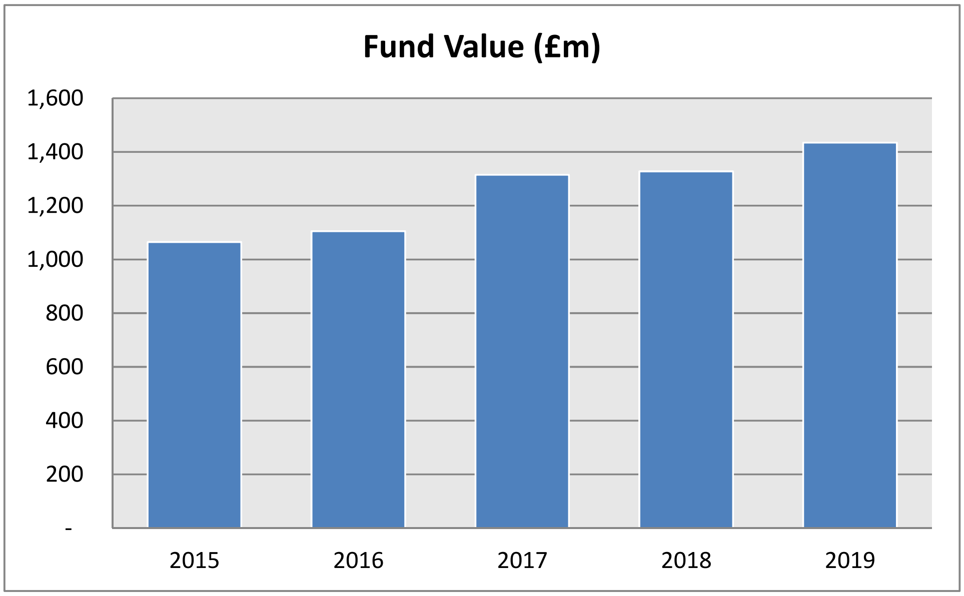
Budget 2018/19

The Pension Fund Outturn for 2018/19 and budget for 2019/20 in accordance with Regulation 34(3) of the Local Government Pension Scheme.

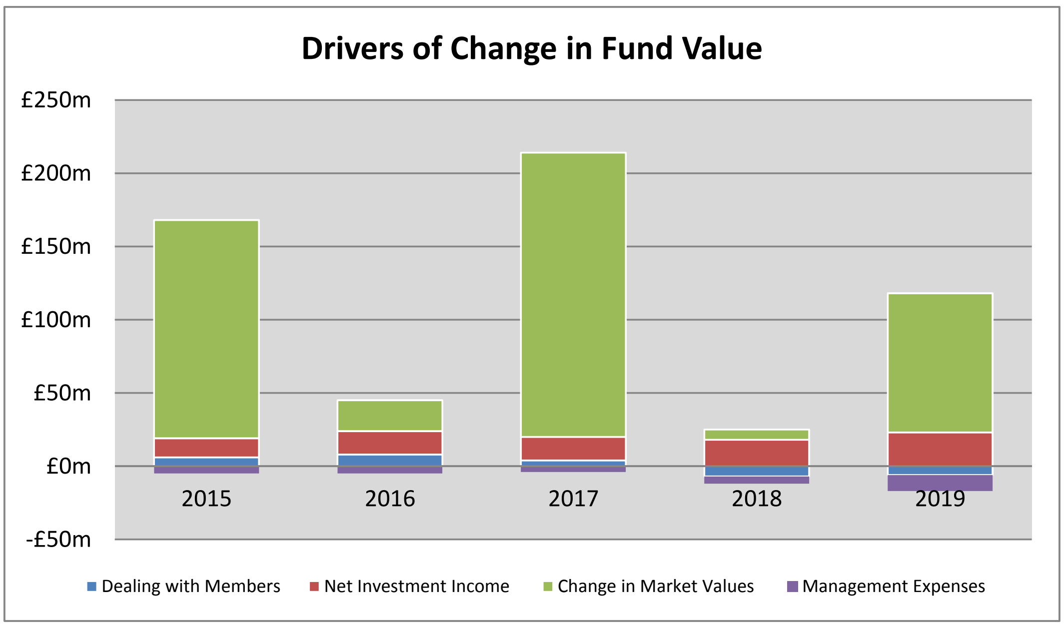
Pension Fund Budget	2018/19 Actual	2019/20 Budget	2020/21 Budget	2021/22 Budget
	£000	£000	£000	£000
Members	(12,640)	(12,700)	(12,800)	(12,900)
Employers	(39,230)	(39,300)	(39,400)	(39,500)
Transfers In	(2,857)	(2,900)	(2,900)	(2,900)
	(54,727)	(54,900)	(55,100)	(55,300)
Pensions	44,052	46,300	48,600	51,000
Retirement Benefit Lump Sums	9,940	10,200	10,500	10,800
Death Benefits	1,039	1,100	1,100	1,100
Transfer Out	4,438	5,000	5,000	5,000
	59,470	62,600	65,200	67,900
Net deductions from dealing with members	4,742	7,700	10,100	12,600
Administration	630	700	700	700
Oversight & Governance	519	600	600	600
Investment Management Expenses	4,304	4,600	5,000	5,400
Management expenses	5,452	5,900	6,300	6,700
Investment Income	(23,066)	(24,200)	(25,400)	(26,700)
Taxes on Income	322	400	400	400
Return on Investments	(22,744)	(23,800)	(25,000)	(26,300)
Net Budget	(12,549)	(10,200)	(8,600)	(7,000)
Local pension board - within Oversight and Governance	5	5	5	5

Fund Value

Overall, the Fund's net asset value has increased by £107m to £1.44 billion during the year which continues the rising trend over the past four years.



The increase in the Fund's value was due mainly to net investment income of £22.9m and change in market value of £95.1m, offset by dealings with members and management expenses. The chart below shows how the four main components have contributed to the Fund's value since 2014/15.



The cash flow generated from dealings with members (i.e. contributions received and benefits paid) is now negative. This was anticipated by the Fund which is now investing in higher yielding assets to compensate for this shortfall. The change in market value is explained in the following section on investment performance.

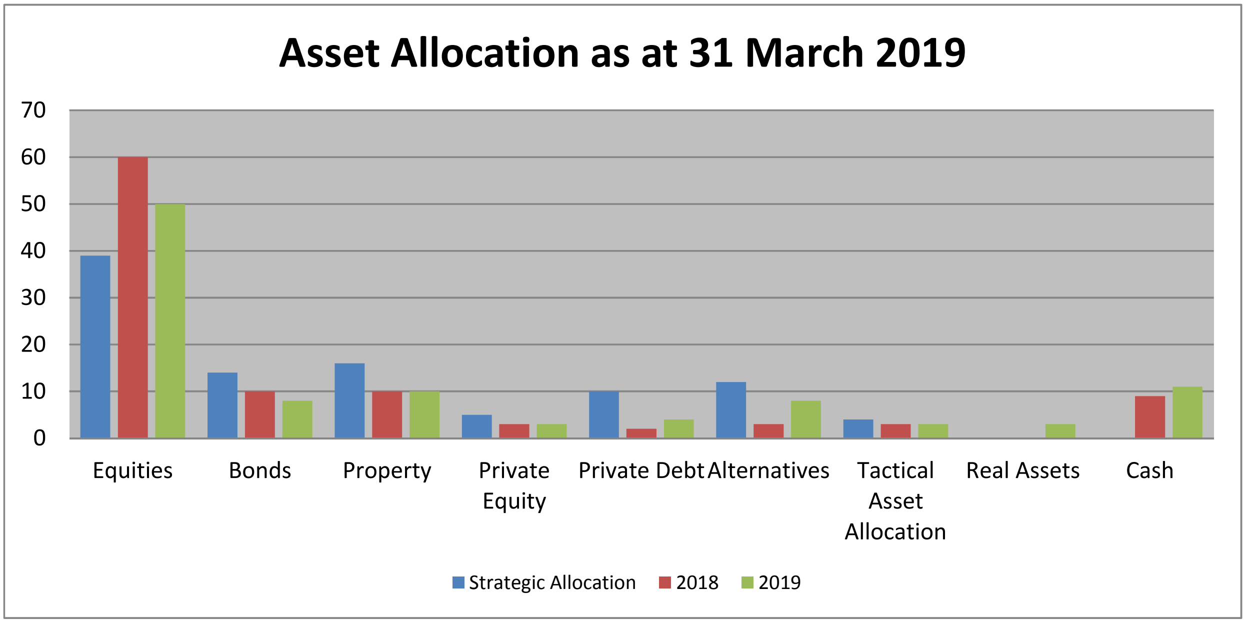
Investment Performance

The Fund's invested assets closed the year at £1.44 billion, outstandingly up from last year. Overall, the Fund's performance of +3.95% fell short of the benchmark return of +4.69%. Details of how individual managers and asset classes have performed are included in the next section.

Strategic Asset Allocation

The long term funding objective of the Fund is to become fully funded within the agreed deficit recovery period of 20 years. The Fund's strategic asset allocation has been designed to meet this objective, whilst ensuring sufficient resources are available to meet liabilities as they fall due and employer contributions are kept as stable as possible.

The chart below shows the strategic asset allocation for 2018/19 and the actual allocation of assets at year end.



The Fund is in the process of moving assets into new asset classes so at the end of the year there were mismatches between actual and strategic allocations as new mandates were approved late in the year.

The Strategic Asset Allocation is reflected in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). Compliance with the ISS is monitored regularly and reported quarterly to the Committee. Management's view is that the variances to the Strategic Asset Allocation will come back in line following implementation of the investment strategy. They are not significant and pose no additional risk to the Fund over and above what the ISS allows.

Analysis of fund assets at the reporting date

Asset type	UK £m	Non-UK £m	Total £m
Equities	310	607	917
Bond pooled investment vehicle	34	115	149
Alternatives/private debt	33	182	215
Cash and cash equivalents	81	22	103
Total	**458**	**926**	**1,384**

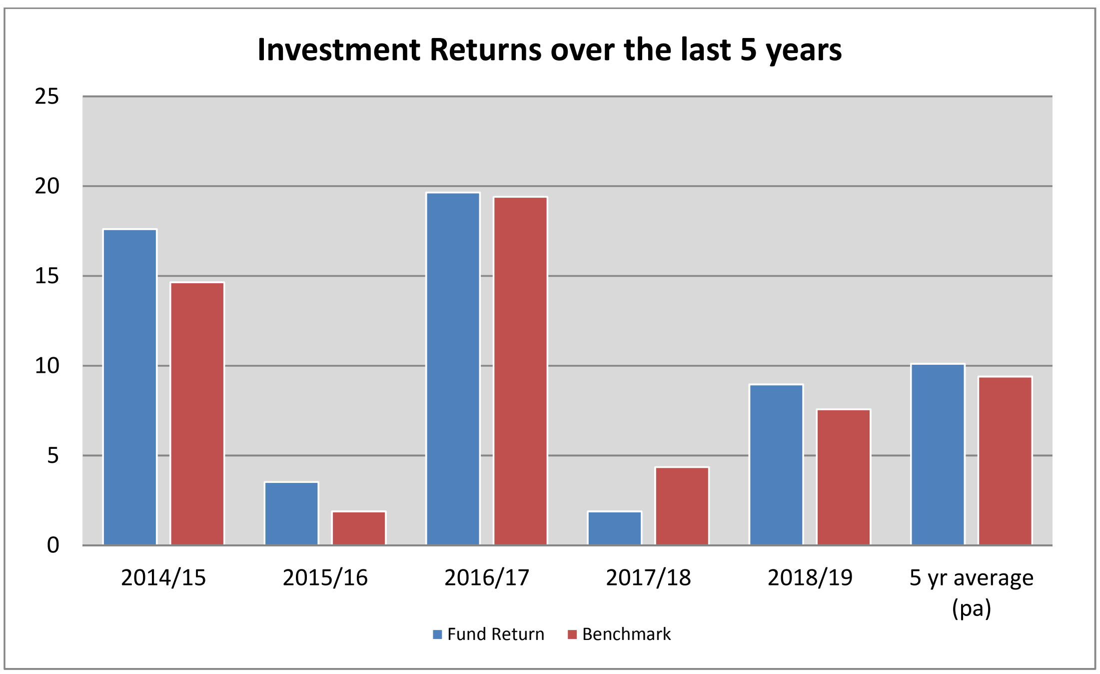
Analysis of investment income accrued during the reporting period

Asset type	UK £m	Non-UK £m	Total £m
Cash and cash equivalents	0.6	0.2	0.8
Diversified alternatives	-	0.3	0.3
Equities	2.4	6.7	9.1
Fixed interest unit trust	1.4	1.2	2.6
Pooled fixed income	-	3.3	3.3
Pooled property	3.2	0.3	3.5
Private debt	2.0	1.3	3.3
Total	**9.6**	**13.3**	**22.9**

Investment Performance

Overall, the Fund's investments generated a return of 8.96% against a benchmark of 7.58%. There has also been a strategical shift with the move into alternative assets and a focus on diversification. Information on investment performance is provided by the Fund's custodian, Northern Trust.

The chart below shows the investment performance for the last five years



The actuarial valuation estimated returns of 5.4% per annum (in market value terms) over the three year period from the Fund's 2016 valuation. Investment returns have been better than assumed at the 2016 triennial valuation leaving the Fund in a strong position for the 2019 valuation. More information on the Fund's triennial valuation can be found in the Actuarial Statement.

Investment Review 2018/19 – Barnett Waddingham

Barnett Waddingham advises the Investment and Accounts Committee (IAC) on the Fund's strategic asset allocation and assist in the monitoring of the investment managers. The purpose of this report is to review the economic environment over the 12 months to 31 March 2019, as well as to briefly analyse how the Fund's investment managers performed over the period. The data in this report has been sourced from Northern Trust and the Fund's investment managers.

Economic Environment

Financial markets entered the second quarter of 2018 following steep falls in equity markets during February 2018 and staged a gradual recovery between February and September. Markets were boosted by strong US economic growth which reached its highest level since 2014 in the second quarter of the year. In particular, tax relief for US companies repatriating cash from foreign subsidiaries led to record levels of mergers and acquisitions and share buybacks during the first half of 2018.

However, in October, markets stumbled again as a result of tighter financial conditions in the US. When the Fed went through with its planned rate rise in December, it resulted in the worst market reaction to a rate rise since 1994. Global growth had slowed sharply in the second half of 2018 and continued to struggle in the first quarter of 2019. The IMF which had forecasted global growth of 3.9% in 2018 and 2019 in its April 2018 report had downgraded its estimates to 3.7% and 3.5% respectively by January 2019. Europe felt the brunt of the slowdown with Italy falling into recession and Germany avoiding a recession by the narrowest of margins. Multiple indicators of Chinese growth also fell sharply, although official GDP growth data was largely unaffected.

Markets feared that continuing rate rises would tip the US economy into recession and were relieved when Jerome Powell announced his decision to pause before further rises took place.

Concerns about the pace of monetary tightening were compounded with fears of a global trade war. Over the second quarter of 2018 the U.S. announced several rounds of further tariffs, largely directed against China, which were met by equally sized retaliatory measures. By 30 September 2018, tariffs had been announced on more than $250 billion of US imports from China, with a further $267 billion threatened in the event that China continued to retaliate. Markets relaxed somewhat on 1 December when the US and China agreed a 90 day truce, delaying the onset of the 1 January tariffs to 1 March 2019 to allow for a period of negotiations. This deadline has since been repeatedly extended as negotiations continue.

In the UK, the year was dominated by the Brexit negotiations. In November 2018, Theresa May presented a draft Withdrawal Agreement to the country. The government was unable to pass the deal through the House of Commons during the rest of the period, leading to an ultimately failed leadership challenge against the Prime Minister. Unable to pass the deal, an agreement was reached with the European Union to extend the Article 50 process by two weeks to 12 April 2019. This allowed time for a further round of negotiations which extended the deadline until 31 October 2019, unless an agreement can be reached before this date.

In the early months of 2019, central banks moved to pause their plans to increase interest rates.

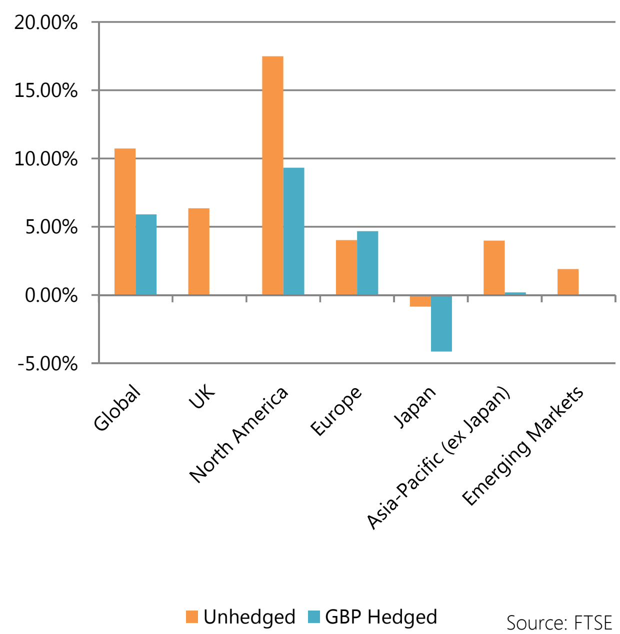
- The European Central Bank (ECB) kept its main lending rate at 0.0% throughout the period and although it extended the length of its quantitative easing (QE) programme, it also ended the programme in December 2018.
- In August 2018 the Bank of England raised rates to 0.75%, the second such rise since the Global Financial Crisis. UK CPI which stood as high as 3% in January 2018 fell back to 1.8% in January 2019.

- The Fed continued to tighten monetary policy over the 12 months to 31 March 2019, raising interest rates three times, and ended the period with the rate set at 2.5%. The Fed also continued to reduce its balance sheet, shrinking its assets by around $430 billion over the period. However in January 2019 the Fed announced that it was pausing any further increases in interest rates as a result of slowing global growth and falling inflation.

Equities

Against this backdrop, market returns from traditional asset classes were largely positive in absolute terms over the year to 31 March 2019.
Overall, global equities performed strongly over the year to 31 March 2019, generating 5.9% in local currency terms. Returns were highly variable across geographic regions. There was a significant differential between the best (North America: 9.3%) and worst (Japan: -4.1%) performing regions (in local currency terms).

Regional Equity returns in the 12 months to 31 March 2016



Source: FTSE

Legal & General passive equity

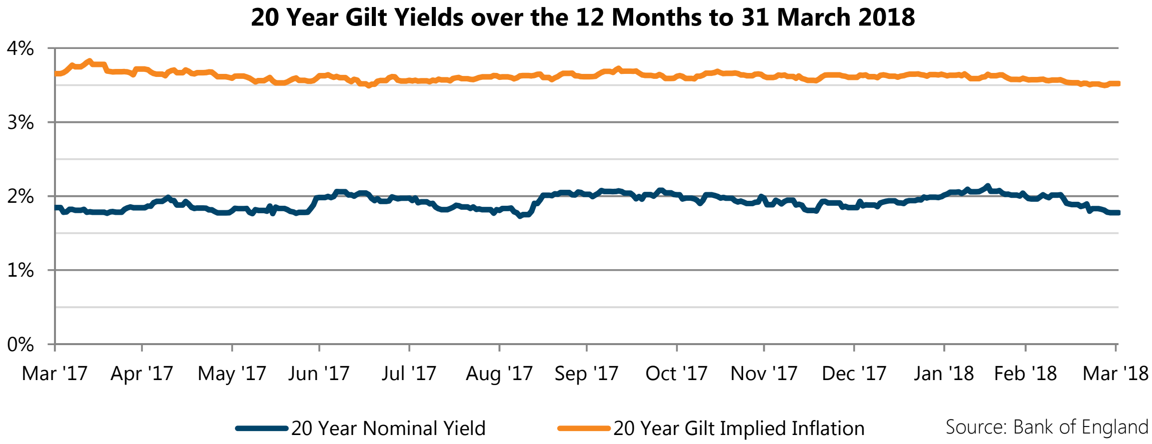
At the end of the year under review the assets invested with Legal & General were split across five regional index tracking funds. These aim to closely track the performance of the underlying indices. Returns were relatively low over the 12 months to 31 March 2019, mainly due to the poor equity performance in the fourth quarter of 2018. The Funds tracked the indices well over the 12 months to 31 March 2019 with the overall Fund returning 3.80% versus an index return of 3.94%.

Longview active equity

This Fund is actively managed and seeks to generate returns in excess of its benchmark (MSCI World). Longview delivered a return of 17.8% over the year to 31 March 2019 outperforming the benchmark by 5.8% against the benchmark and the Fund remains 3.2% p.a. ahead of its benchmark since inception. Around three quarters of the assets with Longview were invested in North American Equities, with outperformance over the long term predominantly driven by stock selection.

Bonds

The UK yield curve flattened with longer-term yields falling faster than shorter-term yields over the year. The net impact was a positive return (3.7%) for UK fixed interest gilts (all stocks). Inflation expectations increased, particularly for shorter terms meaning that UK index-linked gilts (all stocks) also delivered a positive return (5.5%) over the year. UK corporate bond spreads (all stocks) widened by around 0.2% over the year.



ABERDEEN BONDS

Aberdeen Standard Investments manage the Aberdeen World Opportunistic Bond Fund. Its objective is to outperform a global bond index by 2% to 3% p.a. gross of fees, over rolling 5 year periods. The Fund outperformed this index by 0.3% in the 12 months to the end of March and continues to outperform in the longer term, however, returns remain behind the target level of outperformance.

LEGAL & GENERAL INDEX LINKED GILTS

Around 6% of the Fund's assets were invested in Legal & General's Under 15 Year Index-Linked Gilts Index Fund, which performed in line with its benchmark, returning 4.4% over the period.

Alternatives

CBRE PROPERTY

The IPD All Balanced Fund Index rose 4.9% over the 12 months to 31 March 2019.

The Fund's assets are invested in UK and global property Funds. The UK Fund seeks to outperform the AREF/IPD UK QPFI All Balanced Property Fund Index by 0.75% p.a. over rolling three year periods, whilst the Global Fund has an objective of between 9% p.a. and 11% p.a. over rolling three year periods. The combined portfolio returned 10.2% over 12 months which compares with returns of the UK index of 5.6%.

MORGAN STANLEY ALTERNATIVES

The Fund also invests assets with Morgan Stanley across a wide range of alternative asset classes, including private markets, real estate, hedge funds and senior loans, diversifying the Fund's investment strategy, providing alternate sources of return.

The Morgan Stanley Alternatives portfolio produced a gross return of 0.4% over the 12 months to 31 March 2018, underperforming its benchmark return of 5.0%. Returns over a five year period were 2.5% p.a. against the benchmark of 4.8% pa.

The investment strategy review concluded that the Morgan Stanley approach did not provide the level of transparency sought by the IAC. Furthermore, in an effort to align the alternatives holdings with a framework that was more closely aligned with the Governments pooling proposals alternative ways of structuring this holding have been agreed. As a result Morgan Stanley are managing the portfolio on a care and maintenance basis to avoid incurring additional costs associated with trading positions which may not be required in future.

HARBOURVEST PRIVATE EQUITY

Harbourvest seek to generate returns on the Fund's assets by investing in private equity funds which, in turn, invest in unlisted companies.

Performance over the 12 months to 31 March 2019 was 17.2%, outperforming its benchmark return of 6.4%. However the returns relative to the benchmark have been volatile. The portfolio has returned 9.9% p.a. since inception, around 2.8% p.a. ahead of the benchmark of inflation + 4% p.a.

PRIVATE DEBT (PERMIRA, BLUEBAY & BRIGHTWOOD)

The private debt portfolio is split between Permira, Bluebay and Brightwood. Each manager takes a different approach and access broadly different parts the private debt market, diversifying the Fund's portfolio. These funds are closed ended in nature (i.e. cannot be sold until they mature) and are still in the early stages of their development. Consequently, current performance numbers are not a true reflection of the likely outcomes of the funds.

MAN LIQUID ALTERNATIVES

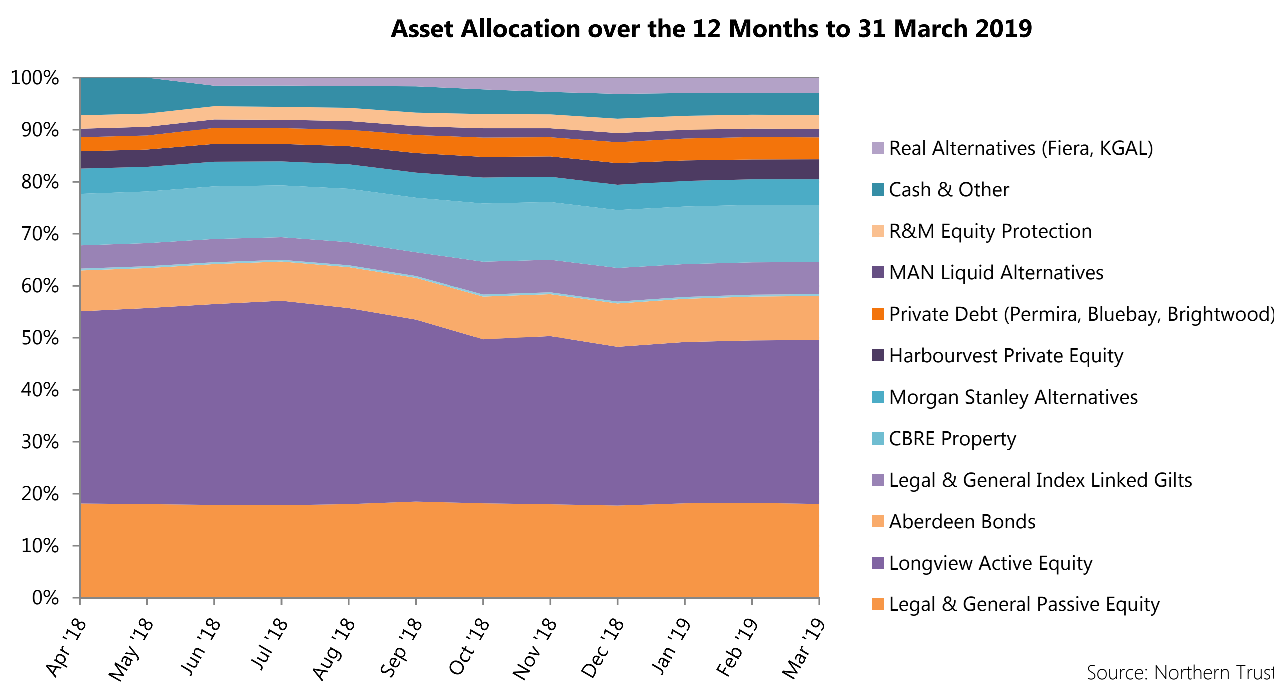
At 31 March 2019 £22m (2%) of the Fund's assets were invested in a liquid alternatives portfolio with MAN Group, which primarily invests in hedge funds. The Fund returned 1.4% over the 12 months to 31 March 2019, underperforming its benchmark of CPI+3.1% by around 3.6%.

REAL ALTERNATIVES (FIERA & KGAL)

The real alternatives portfolio was added to the strategy in June 2018 and will make up 4.5% of the Scheme's benchmark asset allocation when fully funded. It is split equally between the Fiera Agriculture fund, Fiera Infrastructure fund and KGAL. The funds have a target return of 7-8% p.a. net of fees. As with the private debt assets, performance numbers at this stage of the investment life are not representative of expected performance.

ASSET ALLOCATION

The change in allocation over the period is shown the chart below.



Actuarial Statement 2018 /19

Introduction

The last full triennial valuation of the London Borough of Newham Pension Fund (the Fund) was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

2016 valuation results

The 2016 valuation certified a primary rate of 14.5% of pensionable pay. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. In addition, further "secondary" contributions were required in order to pay off the Fund's deficit by no later than 31 March 2036. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2016, over the three years to 31 March 2020 was estimated to be as follows:

Secondary contributions	2017/18	2018/19	2019/20
Average as a % of payroll	5.6%	5.5%	5.3%
Total monetary amounts	£10.2m	£10.2m	£10.2m

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period, details of which can be found in the formal report on the actuarial valuation dated March 2017.

Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £1,098m which represented 85% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Assumptions

The assumptions used to value the liabilities at 31 March 2016 are summarised below:

Assumption	31 March 2016
Discount rate	5.4% p.a.
Pension increases	2.4% p.a.
Salary increases	2.4% p.a. until 31 March 2020 and 3.9% p.a. thereafter

Assumption	31 March 2016
Mortality	Members - S2PA tables with a multiplier of 100% for males and 95% for females and projected improvements in line with the 2015 CMI model allowing for a long term rate of improvement of 1.5% p.a. Dependents - 120% of the S2DFA tables for females and 145% of the S2PMA tables for males and projected improvements in line with the 2015 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased slightly due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we expect an improvement in funding level since 31 March 2016 though there may be a higher primary rate due to the expectation of incorporating more prudence into the valuation funding assumptions.

The next actuarial valuation is due as at 31 March 2019 and the resulting contribution rates required to be paid by the employers will take effect from 1 April 2020.

We will continue to monitor the financial position of the Fund on a regular basis.

Barry McKay FFA
Associate, Barnett Waddingham LLP

Scheme Administration Report

LPP introduced a new operating model for Pensions Administration which went live at the beginning of April 2018. This introduced significant changes to the way we manage our services.

This new operating model created three main service hubs:

- Member Services
- Engagement; and
- Business Development.

In particular, the new operating model was designed to provide greater resilience and ultimately give employers and members an improved service and experience. As a result of the volume of change at the start of the new fiscal year, there were some initial challenges and dips in productivity which were more significant than originally anticipated.

On time processing in all categories of work was 90.33%. To put this into perspective, in March 2019 LPP completed 98.84% of cases on time, 42% of which were completed ahead of the agreed contractual timescale.

At the time of writing this report Annual Benefit Statements (ABS) have not been issued to members for this year. Both deferred and active member ABS's are on track to be issued before the statutory deadline of 31st August.

There were a total of 27 complaints received during the year, broken down by quarter below.

Quarter	Number of complaints
Q1	**9**
Q2	**7**
Q3	**6**
Q4	**5**

James Curtis
Operations Manager

LGPS Regulatory Update

1. Amendment regulations released taking effect 14 May

As reported last year the Ministry of Housing and Communities and Local Government (MHCLG) released amendment regulations on 19 April 2018 to have effect from 14 May 2018. The main effect being the option for with deferred benefits prior to 1/4/2014 being able to access their benefits albeit with reductions likely to apply from age 55. All affected scheme members were notified within the disclosure timeframe. An anomaly where members who had left prior to 1 April 1998 had the option to take the benefits either at 55 or normal pension age, the declared intention was to allow all members to claim their benefits at any point from 55 and this was rectified in the Miscellaneous regs (see bullet point 2 in section B).

2. Miscellaneous regs 2018

On 18 December 2018, MHCLG also laid The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 [2018/1366] before Parliament. The Regulations come into force on 10 January 2019. However, some of the provisions were backdated effect to 5 December 2005. This picked up the changes to the scheme to take into account the Walker v Inospec ruling referred to in the 2018 update.

The key changes are as follows:

- With effect from 10 January 2019, MHCLG have power to issue guidance to funds on the administration and management of the Scheme. Before issuing (or revising previously given guidance), MHCLG must consult with such persons as they consider appropriate. Funds will be legally required to follow any such guidance. MHCLG have confirmed that they intend to issue guidance to clarify the interpretation of regulations. They do not intend to issue guidance to change regulations.
- With effect from 17 April 2018, members who left before 1 April 1998 are allowed to elect to draw their deferred benefits at any point between age 55 and their NRD. The Government did intend to make the change effective from 14 May 2018, but do not see an issue with the effective date remaining as 17 April 2018.
- With effect from 17 April 2018, members who left before 1 April 1998 are no longer required to have left all local government employment should they wish to draw the deferred benefits between 55 and their NRD. The Government did intend to make the change effective from 17 April 2018.
- We must calculate the survivor pension to a surviving civil partner or to a survivor of a same-sex marriage as if the couple were in an opposite-sex marriage and the deceased member was male. The amendments have effect back to 5 December 2005 (for civil partners) and to 13 March 2014 (for same-sex marriages).

3. Due diligence (Pension liberation scams)

We are all aware of the risk of pension scams when dealing with transfer out requests. This is particularly around striking the right balance between protecting members/scheme and from obstructing legitimate transfer requests.

In 2015, a group of pension professionals from a range of different organisations came together to form the Pension Liberation Industry Group. In March 2015, the group created A Code of Good Practice. The code sets out the recommended transfer-out due diligence process. This includes flowcharts and template letters.

On 22 June 2018, the group (now calling itself as the Pension Scams Industry Group) published a new version of this code. The key changes are as follows:

(1) Promotion of calling members as part of due diligence information collecting

(2) Expanding protection to include referring insistent customers to The Pensions Advisory Service (TPAS) for impartial guidance which will help them to better understand the risks
(3) Recent legal developments
(4) Addition of detailed guidance on Action Fraud reporting and encouraging providers and schemes to report potential scams
(5) Expanded template letters
(6) Example case studies

Our current due diligence process is modelled on the updated Code of Practice.

4. AVC

The Local Government Association released a technical guide covering AVC's clarifying options available for members depending on when they commenced their AVC's and left the scheme. This covers the link to Freedom and Choice.

5. APC's/ARCs

On 15 March 2019 the MHCLG issued new factors for Additional Regular Contributions and Additional Pension Contributions to take effect from 1 April 2019. This required us to contact any member who was purchasing any added pension and give them the choice to continue to purchase the pension at the increased cost or to cease payments and have the partial purchase to 31 March 2019.

6. Club Memorandum

With effect of the 1 April 2019, the cabinet office issued a revised version of the Club Memorandum. This has direct impact on the transfers within the public sector both into and from the LGPS, systems and calculations were amended accordingly.

7. GAD factors

On 6th September 2018 in a written ministerial Statement the Chief Secretary to the Treasury, Elizabeth Truss the plan to reduce the SCAPE discount rate to CPI +2.4% (from CPI +2.8%). This has led to an amendment to a whole series of factors that have direct impact on the pension calculations: As amended factors have been released this has been updated onto the calculation system.

8. Late retirement

Following a series of complaints when the Government last changed the late retirement factors, short consultation was released on 28 March 2019 that closed on 17 April 2019 with a suggested new calculation process to avoid a 'cliff edge' effect we expected that this would follow as actual changes with immediate effect but no further movement

9. Fair deal

A consultation on 'fair deal' the consultation contains proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government's October 2013 Fair Deal guidance that applies in relation to transfers from central government. The consultation closed on 4 April 2019. We await the release of actual amendment regulations.

10. Cost Management

On 21st December 2018 the Scheme advisory board gave notice that review of the public sector scheme wide cost cap required improvements to the LGPS to be produced to take effect from 1 April 2019, arrangements to remove tier 3 ill health, improve death in service benefits, improved contribution rates for the lowest paid and better early retirement factors were planned. However HM Treasury placed all public sector improvement on Pause on 30 January following the age discrimination case, the Scheme advisory board has requested that the LGPS improvements could be brought into effect but we are still currently paused.

11. Exit cap

On the 10th April 2019 the Government launched called 'Restricting exit payments in the public sector: consultation on implementation of the regulations'. The 12-week consultation closes on 3 July 2019. This is revisiting a consultation from 3 years ago. Many of the concerns from the initial consultation remain; not least how the pension strain is calculated (it would not necessarily what an employer is charged by the Fund).

12. Move to 4 year valuation

The Government have announced n 8th May 2019 that they plan to move the LPGS to a 4 yearly valuation cycle to co-inside with the unfunded public sector schemes, this consultation closes on 31 July 2019.

13. Confidentiality of Person Data

LPP has developed a robust control framework to help ensure that all the requirements of the GDPR were met in a timely manner and which will also serve as a defence in the event of litigation. LPP became fully GDPR complaint ahead of the 25th of May 2018 deadline and provided all clients and employers with the relevant paperwork to aid their own compliance.

We also aim to adhere to a code of conduct which would bring the additional benefits of:

- improving transparency and accountability - enabling individuals to distinguish the organisations that meet the requirements of the law and they can trust with their personal data;
- providing mitigation against enforcement action;
- improving standards by establishing best practice; and
- investigate innovative solutions to high risk areas including data minimisation and pseudonymisation

One year on from GDPR and LPP are now in the process of expanding the GDPR compliance project by reviewing all policies created for GDPR and ensuring they are still fit for purpose. LPP recently ran a data protection awareness week at the end of January 2019 raising staff's general awareness of data protection as a whole, this was received well within the business and we highlighted processes and procedures that should be followed when handling personal data. LPP are also in the process of expanding the data protection action plan which focuses on areas of high risk processes or procedures which can be adapted to ensure compliance with the regulations and to mitigate any future incidents. As part of the action plan LPP have also engaged an external supplier to conduct a cultural review of administration staff and how LPP process personal data which has now been completed.

14. Accuracy of Data

Each end of year the Data Management Team reviews its systems and processes and implements improvements for the next end of year process. Every year LPP raise a number of queries with our employers such as missing leavers, joiners, change of hours and pay queries. In most instances the queries are reducing year on year, however we will continue to identify errors and educate employers prior to the queries being created. To this end we have listened to employers and have improved our templates and literature to ensure the data you supply continues to reduce the number of queries that we will raise with yourselves.

WORKFLOW SUMMARY

The table below shows a summary of the total cases received and completed for the year 1 April 2018 to 31 March 2019. Further graphical representation of this information is shown on the following pages.

Description	Received	Completed	On Time	On Time %
Joiners	2,299	2,484	2,369	95.37%
Transfers In	320	316	267	84.49%
Transfer Out	401	373	338	90.62%
Estimates - Members	789	768	653	85.03%
Estimates - Employers	281	287	271	94.43%
Retirements	894	819	760	92.80%
Deferred Benefits	925	933	800	85.74%
Refunds	876	877	745	84.95%
Deaths	467	477	400	83.86%
Correspondence	1,557	1,612	1,534	95.16%
Additional Contributions	13	6	6	100.00%
Divorce	38	37	36	97.30%
Totals	**8,660**	**8,989**	**8,179**	**90.99%**

LPP currently have 3.5 staff working on Newham administration with a ratio of 1 member of staff to 9,755 active members. The team completed a total of 11,924 cases including other contractual cases outside of the top 10 for the period 1st April 2018 to 31st March 2019 which is an average of 3,407 cases per staff member

CASES COMPLETED

Of the 8,179 cases completed on time 4,131 were completed early as detailed below;

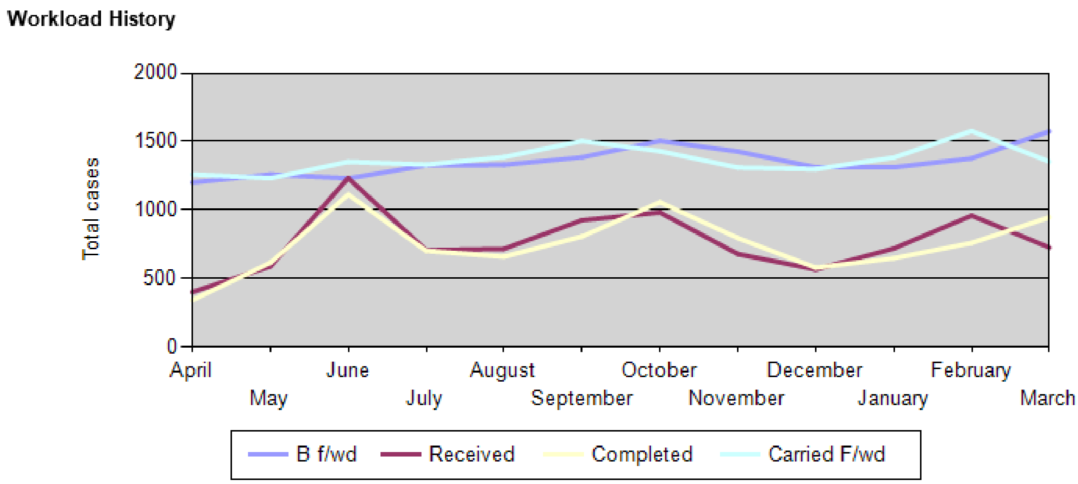
Description	1 Day Early	2 Days Early	3 Days Early	4+ Days Early
Joiners	281	46	50	1,182
Transfers In	25	1	3	188
Transfer Out	26	5	14	107
Estimates - Members	77	4	19	84
Estimates - Employers	25	1	6	57
Retirements	96	7	19	85
Deferred Benefits	47	20	21	199
Refunds	117	7	25	128
Deaths	26	14	15	145
Correspondence	202	46	57	740
Additional Contributions	1	1	0	4
Divorce	1	0	3	7
Totals	**924**	**152**	**230**	**2,825**

ILL HEALTH AND EMPLOYER CONSENTS

Reason	Total
Ill- Health – Tier 1	16
Ill Health Tier 2	4
Ill health Tier 3	3
Flexible Retirement	7
Redundancy	16

WORKLOAD HISTORY

The graph below shows monthly history of cases received and completed, together with carried and brought forward details.



DISPUTE RESOLUTION PROCEDURE

There was 1 Dispute resolutions received during the period 1st April 2018 to 31st March 2019. The case was in relation to potential ill health retirement. The appeal was not upheld.

Where a member is unsure of their benefit entitlement or has problems with their benefits, the Local Pensions Partnership (LPP) should be contacted. If a member is not satisfied with any decision they have a right to ask for it to be re-examined under the formal complaints procedure, which is officially called 'internal dispute resolution procedure'. The formal complaints procedure has 2 stages and full details can be obtained from LPP by either phone on 020 7369 6118 or by writing to Local Pensions Partnership, PO Box 1383, Preston, PR2 0WR.

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Financial Sustainability.
- To manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- To approve the Newham Pension Fund Accounts.

The Responsibilities of the Director of Financial Sustainability

The Director of Financial Sustainability is responsible for the preparation of the Authority's Pension Fund Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom is required to present fairly the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2019.

In preparing the Pension Fund Accounts, the Director of Financial Sustainability has:

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

The Director of Financial Sustainability has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with the Accounts and Audit Regulations 2016, I certify that the Accounts set out on pages 40 to 72 of the Annual Pension Report present a true and fair view of the financial position of the Fund at 31st March 2019 and its income and expenditure for the year ended 31st March 2019.

Date:

13 January 2020

Signature:

Conrad Hall

Conrad Hall
Corporate Director of Resources

Auditors Report

INDEPENDENT AUDITOR’S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF NEWHAM ON THE PENSION FUND FINANCIAL STATEMENTS

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2019, which comprise the Fund Account , the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Newham for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/ 19.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Newham, and its compliance with applicable law and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/ 19.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Members Introduction, Fund Governance and Statutory Information, Performance Reviews and Actuarial Statement, Investment Strategy Statement, Funding Strategy Statement, Policy Statements, and Governance Statement.

We conducted our work in accordance with Auditor Guidance Note 07- Auditor Reporting, issued by the National Audit Office. Our report on the administering authority’s full annual statement of accounts describes the basis of our opinions on those financial statements.

Kevin Suter
Ernst + Young LLP

Kevin Suter (Key Audit Partner)
Ernst and Young LLP, (Local Auditor)
Southampton
10 January 2020

2018/19 Pension Fund Accounts

2017/18 £000		Notes	2018/19 £000
	Dealings with members, employers and others directly involved in the fund:		
50,467	Contributions	7	51,870
4,000	Transfers in from other pension funds	8	2,857
54,467			**54,727**
(52,768)	Benefits	9	(55,031)
(8,267)	Payments to and on account of leavers	10	(4,438)
(61,035)			**(59,469)**
(6,568)	**Net withdrawals from dealing with members**		**(4,742)**
(5,309)	Management expenses	11	(5,452)
(11,877)	**Net withdrawals including fund management expenses**		**(10,194)**
	Returns on investments		
18,614	Investment income	12	23,066
(398)	Taxes on income		(323)
6,611	Profit and losses on disposal of investments and changes in the market value of investments	14a	95,176
24,827	**Net return on investments**		**117,919**
12,950	**Net increase in the assets available for benefits during the year**		**107,725**
1,315,336	**Opening net assets of the Fund**		**1,328,286**
1,328,286	**Closing net assets of the Fund**		**1,436,011**

Net Asset Statement

2017/18 £000		Notes	2018/19 £000
1,253,077	Investment assets	14a	1,285,865
(1,162)	Investment liabilities	14a	(3,752)
74,768	Cash deposits	14a	102,568
1,326,683	**Total invested assets**		**1,384,681**
5,499	Current assets	21	53,193
(3,896)	Current liabilities		(1,863)
1,603	**Net current assets**		**51,330**
1,328,286	**Net assets of the Fund available to fund benefits at 31 March**		**1,436,011**

Notes to the Pension Fund Accounts

Note 1: Description of Fund

The London Borough of Newham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Newham. The Local Authority is the reporting entity for this Fund.

The following description of the Fund is a summary only, for more detail reference should be made to the Fund's Annual Report 2018/19.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

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

It is a contributory defined benefit pension scheme administered by the London Borough of Newham to provide pensions and other benefits for pensionable employees of the London Borough of Newham and a range of other scheduled and admitted bodies within the borough. Teachers are not members as they are included within other national pension schemes.

The Fund is overseen by the Investment and Accounts Committee (the Committee), of the London Borough of Newham supported by the Local Pension Board ('the Board').

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the scheme, or to make personal arrangements outside the scheme.

During 2018/19 5 new employers joined the Fund.

Organisations participating in the Fund include:

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

There are a total of 61 employer organisations (see note 19) within the Fund including the Local Authority itself and 10 employers without active members. Membership details are as set out below:

31 March 2018 Original*	Membership	31 March 2018 restated	31 March 2019
46	Number of employers with active members	46	51
	NUMBER OF EMPLOYEES IN SCHEME		
7,073	London Borough of Newham	6,156	5,558
2,214	Other employers	2,585	4,197
9,287	**Total**	**8,741**	**9,755**
	NUMBER OF PENSIONERS		
7,018	London Borough of Newham	7,003	7,257
331	Other employers	340	431
7,349	**Total**	**7,343**	**7,688**
	NUMBER OF DEFERRED MEMBERS		
9,380	London Borough of Newham	10,007	10,188
1,038	Other employers	1,236	1,426
10,418	**Total**	**11,243**	**11,614**
27,054		**27,327**	**29,057**

*The 2017/18 membership numbers were updated by the administration provider as there was an error in the reporting function.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers contributions which are set based on triennial actuarial funding valuations. The last full valuation of the Fund was at 31 March 2016. Currently, employer contribution rates range from 12% to 25.5% of pensionable pay, the average employer rate is 20.5%.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided including early retirement, disability pensions and death benefits. For more details, please refer to the Fund's scheme handbook available from http://www.yourpension.org.uk/handr/Newham-Publications.aspx.

Note 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its year-end position as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* ("the code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19 by the Pension Fund.

The accounts report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take account of the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Fund has opted to disclose this information in Note 20.

The 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 are accounted for on an accruals basis as follows;

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.

- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contribution in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (note 8).

c) Investment income

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

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

- 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 Asset Statement (NAS) as a current financial asset.

- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the NAS as current liabilities, providing that payment has been approved.

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. 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) Management expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), all items of expenditure are charged to the Fund on an accruals basis as follows:

Administrative expenses

All staff costs of the pension administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance costs

All staff costs associated with oversight and governance are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

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

Where an investment manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account. In 2018/19 £0.861m of fees are based on such estimates (2017/18 £1.057m).

Private Equity management fees are estimated by taking a portion of the total management fees of the private equity partnership based on the percentage of the Fund holdings with the partnership. In 2018/19 £0.5m of fees is based on such estimates (2017/18: £0.4m).

Net assets statement

g) Financial assets

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

The values of investments as shown in the NAS have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

h) 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 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.

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.

j) Cash and cash equivalents

Cash comprises cash in hand in terms of temporary deposits, amounts held by the Fund's external managers and invested in money market funds.

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.

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the NAS is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of 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 promised retirement benefits by way of a note to the NAS (Note 20).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the fund. AVCs are not included in the accounts in accordance with section 4(1) (b) of The LGPS (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the NAS but are disclosed by way of narrative in the notes.

Note 4: Critical judgements in applying accounting policies

Pension fund liability

The liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported. Estimates and assumptions are made taking into account historical experience, current trends and future expectations. The items in the NAS for which there is a significant risk of material adjustment in the following year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the present value of total pension obligation in individual 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 £44m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £4.4m, and • a one year increase in assumed life expectancy would increase the liability by approximately £88m.
Private equity investments (Note 16)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines 2012*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investment in the financial statements is £135m. There is a risk that this investment may be under or overstated in the accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
Diversified alternative funds (Note 16)	The fund of funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the fund of funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total diversified alternative fund value in the financial statements is £58m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 5% around the net asset values on which the hedge fund of funds valuation is based. This equates to a tolerance of +/- £2.9m.

Note 6: Events after the Reporting Date

There have been no events occurring after the reporting date that would have a material impact upon the Fund accounts.

Note 7: Contributions Receivable

2017/18 £000	By Category	2018/19 £000
12,301	**Employees contributions**	**12,640**
	Employers contributions:	
26,448	Normal contributions	28,077
10,030	Deficit recovery contributions	9,583
1,688	Augmentation contributions	1,570
38,166	**Total Employers contributions**	**39,230**
50,467	**Total**	**51,870**

2017/18 £000	By Authority	2018/19 £000
40,948	Administering Authority	35,041
2,910	Admitted Body	6,755
6,609	Scheduled Body	10,074
50,467	**Total**	**51,870**

Note 8: Transfers in from other Pension Funds

2017/18 £000		2018/19 £000
4,000	Individual transfers	2,857
4,000	**Total**	**2,857**

Note 9: Benefits Payable

2017/18	By Category	2018/19
£000		£000
(41,949)	Pensions	(44,052)
(9,547)	Commutation and lump sum retirement benefits	(9,940)
(1,272)	Lump sum death benefits	(1,039)
(52,768)	**Total**	**(55,031)**

	By Authority	
£000		£000
(50,588)	Administering Authority	(52,129)
(512)	Admitted bodies	(927)
(1,668)	Scheduled bodies	(1,975)
(52,768)	**Total**	**(55,031)**

Note 10: Payments to and on account of leavers

2017/18		2018/19
£000		£000
(256)	Refunds to members leaving service	(321)
(8,011)	Individual transfers	(4,117)
(8,267)	**Total**	**(4,438)**

Note 11: Management Expenses

2017/18		2018/19
£000		£000
(993)	Administrative costs	(630)
(3,754)	Investment management expenses	(4,304)
(562)	Oversight and governance costs	(518)
(5,309)	**Total**	**(5,452)**

Note 11a: Investment Management Expenses

Investment management expenses are further analysed below in line with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).*

2017/18		2018/19
£000		£000
(3,586)	Management fees*	(4,026)
(168)	Custody fees	(145)
-	Transaction fees**	(133)
(3,754)	**Total**	**(4,304)**

*Management fees increased due to the Fund entering into new asset classes for private debt, real assets and structured equity.
**Previous year transaction fees were included with management fees as information was not readily available at that time.

Note 12: Investment Income

2017/18		2018/19
£000		£000
1,340	Fixed interest unit trust	2,575
30	Index linked	-
8,953	Equity dividends	9,208
3,347	Pooled property investments	3,489
3,354	Pooled fixed income	3,353
40	Private equity	-
677	Private debt	3,323
-	Real assets	4
361	Diversified alternatives	347
512	Interest on cash deposits	767
18,614	**Total**	**23,066**

Note 13: External Audit Costs

2017/18		2018/19
£000		£000
(21)	Payable in respect of external audit	(16)
(21)	**Total**	**(16)**

Audit costs form part of the management expenses (Note 11), they are shown here to provide more information.

Note 14a: Reconciliation of Movements in Investments and Derivatives

	Market value as at 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2019
	£000	**£000**	**£000**	**£000**	**£000**
Equities	476,499	101,981	(250,584)	73,958	401,854
Fixed interest securities	45,546	69,775	(35,111)	4,009	84,219
Pooled investments	424,129	27,328	-	5,224	456,681
Pooled property investments	131,197	10,727	(7,171)	10,220	144,973
Private equity/debt & real assets	65,404	77,012	(13,740)	6,360	135,036
Diversified alternatives	62,883	25,138	(34,263)	4,571	58,329
London collective investment vehicle	150	-	-	-	150
	1,205,808	**311,961**	**(340,869)**	**104,342**	**1,281,242**
Derivative contracts:					
Forward currency contracts	3,991	6,637	(2,353)	(7,339)	936
	1,209,799	**318,598**	**(343,222)**	**97,003**	**1,282,178**
Other Investment balances:					
Cash deposits	74,768			(1,150)	102,568
Investment income due	2,589			-	2,534
Amount receivable for sales of investments	40,536			(278)	854
Amounts payable for purchases of investments	(720)			(159)	(3,457)
Spot FX Contracts	(289)			(240)	4
	1,326,683			**95,176**	**1,384,681**

	Market value as at 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market value as at 31 March 2018
	£000	**£000**	**£000**	**£000**	**£000**
Equities	451,979	156,285	(132,841)	1,076	476,499
Fixed Interest Securities	62,287	127,107	(128,985)	(14,863)	45,546
Pooled Investments	453,128	377,583	(415,855)	9,273	424,129
Pooled property Investments	95,113	61,190	(27,770)	2,664	131,197
Private equity/debt	37,283	40,277	(15,302)	3,146	65,404
Diversified alternatives	58,489	26,661	(19,579)	(2,688)	62,883
London collective investment vehicle	150	-	-	-	150
	1,158,429	789,103	(740,332)	(1,392)	**1,205,808**
Derivative contracts:					
Forward currency contracts	1,959	2,775	(7,692)	6,949	3,991
	1,160,388	**791,878**	**(748,024)**	**5,557**	**1,209,799**
Other Investment balances:					
Cash deposits	164,043			1,290	74,768
Investment income due	2,202			-	2,589
Amount receivable for sales of investments	1,034			286	40,536
Amounts payable for purchases of investments	-			205	(720)
Spot FX Contracts	6			(727)	(289)
	1,327,673			**6,611**	**1,326,683**

Note 14b: Analysis of Investments

Market Value as at 31 March 2018 £000	Analysis of Investments	Market Value as at 31 March 2019 £000
	Equities	
66,192	UK quoted	47,346
410,307	Overseas quoted	354,508
476,499		**401,854**
	Fixed interest securities	
-	UK public sector quoted	34,192
45,546	Overseas public sector quoted	50,027
45,546		**84,219**
	Pooled funds - additional analysis	
161,250	UK Equity unit trusts	182,882
106,413	Overseas fixed interest unit trusts	115,473
135,037	Overseas equity unit trusts	136,592
21,429	Overseas managed alternatives	21,734
424,129		**456,681**
	Pooled property investments	
83,459	UK pooled property investments	79,302
47,738	Overseas pooled property investments	65,671
131,197		**144,973**
	Private equity/debt & real assets	
35,308	Overseas private equity	39,965
30,096	Private debt	55,902
-	Real assets	39,169
65,404		**135,036**
	Diversified alternatives	
62,883	Diversified alternatives	58,329
62,883		**58,329**
	London collective investment vehicle	
150	London collective investment vehicle	150
150		**150**
	Cash and cash equivalents	
67,452	UK Cash and Bank Deposits	19,267
7,316	Overseas Cash and Bank Deposits	22,301
-	Temporary Deposits	61,000
74,768		**102,568**

Market Value as at 31 March 2018 £000	Analysis of Investments	Market Value as at 31 March 2019 £000
	Other investment assets	
4,144	Forward currency contracts	1,229
-	Spot FX contracts	4
2,589	Investment income due	2,535
40,536	Amount receivable for sales	854
47,269		**4,622**
	Investment liabilities	
(153)	Derivative liabilities	(295)
(289)	Spot currency contracts	-
(720)	Amounts payable for purchases	(3,457)
(1,162)		**(3,752)**
1,326,683	**Total investment assets**	**1,384,681**

Investments analysed by fund manager

Market value as at 31 March 2018 £000	%	Fund manager	%	Market value as at 31 March 2019 £000
		Investments managed outside of the London CIV asset pool		
198,008	14.9	Aberdeen Standard	11.8	163,925
22	-	Baring	-	22
4,612	0.3	Bluebay	1.2	16,430
6,312	0.5	Brightwood	0.5	7,278
5,219	0.4	Brockton	0.3	3,919
126,992	9.6	CBRE	10.2	141,591
-	-	Fiera Capital	2.3	31,835
43,441	3.3	HarbourVest	3.7	50,925
-	-	In-house temporary cash deposits	4.4	61,000
-	-	Kgal Capital	0.5	7,342
150	-	London Collective Investment Vehicle	-	150
483,443	36.4	Longview	30.1	417,011
21,429	1.6	Man FRM	1.6	21,734
65,146	4.9	Morgan Stanley	4.7	65,488
20,884	1.7	Northern Trust cash deposits	0.2	3,017
19,733	1.5	Permira	2.4	33,052
35,000	2.6	River & Mercantile	2.6	35,295
-	-	Robeco	0.4	5,189
		Investments aligned with London CIV asset pool		
296,292	22.3	Legal and General (LGIM)	23.1	319,478
1,326,683	**100**	**Total**	**100**	**1,384,681**

Individual investments exceeding 5% of net assets

	Market value as at 31 March 2018	% of total fund	Market value as at 31 March 2019	% of total fund
	£000	%	£000	%
Aberdeen World Opportunistic Bond	106,413	8.02	110,284	7.97
LGIM - <15YR Index-linked gilts	60,412	4.55	81,244	5.87
	166,825		**191,528**	

Note 14c: Stock Lending

The Fund does not carry out stock lending directly, and is an investor of a pooled fund with the passive equity manager, LGIM, who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the Funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stock lending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the Funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2019, the value of quoted equities on loan was £137m (2017/18: £135m). These equities continue to be recognised in the Fund's financial statements.

Note 15: Analysis of Derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

The Fund currently has exposure to forward currency contracts and the purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates. The Fund managers who use forward currency contracts are Aberdeen Standard and Morgan Stanley. A breakdown of forward contracts held by the Fund as at 31 March 2019 is given below:

Open forward currency contracts

Settlements	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to one month	GBP	54,828	USD	(69,899)	1,224	(14)
Up to one month	USD	3,523	GBP	(2,733)	5	(36)
One to six months	GBP	3,406	EUR	(3,945)	-	(2)
One to six months	GBP	39,154	USD	(51,521)	-	(243)
Open forward currency contracts at 31 March 2019					**1,229**	**(295)**
Net forward currency contracts at 31 March 2019						**934**
Prior year comparative						
Open forward currency contracts at 31 March 2018					**4,144**	**(153)**
Net forward currency contracts at 31 March 2018						**3,991**

Note 16: Fair Value – Basis of Valuation

All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Overseas bond options	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled investments-overseas unit trusts	Level 2	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments-property funds	Level 3	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
Pooled investments-hedge funds	Level 3	Closing bid price where bid and offer are published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
Private (Unquoted) equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)*	• Earnings before interest, tax, depreciation and amortisation multiple • Revenue multiple • Discount for lack of marketability • Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed valuation range (+/-)	Value as 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments-hedge funds	10%	23,383	25,722	21,045
Private equity	20%	39,965	47,958	31,972
Property funds	10%	111,257	122,382	100,131
Private debt*	10%	55,902	61,492	50,311
Real assets**	15%	39,169	45,044	33,293
Total		**269,676**	**302,598**	**236,753**

*Private debt is combined totals of the following managers; Bluebay, Brightwood & Permira
**Real assets is combined totals of the following managers; Fiera & KGAL

Note 16a: Fair Value Hierarchy

Assets and liabilities have been classified three levels, according to the quality and reliability of information used to determine fair values.

Level 1 –where the fair values are derived from adjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2 – Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3 – Assets and liabilities 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.

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

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	435,039	577,761	269,676	1,282,476
Assets at amortised cost	103,178	2,778	-	105,956
Financial liabilities at fair value through profit and loss	-	(3,751)	-	(3,751)
Net financial assets	**538,217**	**576,788**	**269,676**	**1,384,681**

	Quoted market price	Using observable inputs	With significant observable inputs	
Values at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	507,130	521,478	183,913	1,212,521
Assets at amortised cost	74,742	40,582	-	115,324
Financial liabilities at fair value through profit and loss	-	(1,162)	-	(1,162)
Net financial assets	**581,872**	**560,898**	**183,913**	**1,326,683**

Note 16b: Reconciliation of Fair Value Measurements within Level 3

	Market Value as at 31/03/2018 £000	Transfers in/out of level 3 £000	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses) £000	Market Value as at 31/03/2019 £000
Pooled investments-hedge funds	17,318	-	9,661	(4,753)	(513)	1,670	23,383
Private equity	35,307	-	6,065	(8,936)	2,111	5,418	39,965
Property funds	101,192	-	8,106	(7,172)	7,696	1,435	111,257
Private debt	30,096	-	31,122	(4,804)	(1,094)	582	55,902
Real assets	-	-	39,826	-	(657)	-	39,169
Total	**183,913**	-	**94,779**	**(25,663)**	**7,543**	**9,105**	**269,676**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the Fund of account.

Note 17: Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

Market value as at 31 March 2018				Market value as at 31 March 2019		
Fair value through profit and loss £000	**Assets at amortised cost £000**	**Liabilities at amortised cost £000**		**Fair value through profit and loss £000**	**Assets at amortised cost £000**	**Liabilities at amortised cost £000**
			Financial assets			
476,499	-	-	Equities	401,854	-	-
45,546	-	-	Fixed Interest Securities	84,219	-	-
424,129	-	-	Pooled funds	456,681	-	-
131,197	-	-	Pooled property Investments	144,973	-	-
65,404	-	-	Private equity/debt & real assets	135,036	-	-
62,883	-	-	Diversified alternatives	58,329	-	-
150	-	-	London collective investment vehicle	150	-	-
-	76,368	-	Cash and cash equivalents	-	153,286	-
4,144	-	-	Derivatives	1,229	-	-
-	-	-	Spot currency contracts	4	-	-
2,589	-	-	Loans and receivables	2,534	-	-
40,536	-	-	Amounts receivable for sales	854	-	-
-	3,032	-	Sundry debtors and prepayments	-	568	-
1,253,077	**79,400**	**-**	**Total Financial Assets**	**1,285,863**	**153,854**	**-**
			Financial liabilities			
(153)	-	-	Derivatives	(295)	-	-
-	-	(720)	Sundry creditors	-	-	(1,863)
(289)	-	(3,896)	Spot currency contracts	-	-	(3,457)
(442)	**0**	**(4,616)**	**Total Financial liabilities**	**(295)**	**0**	**(5,320)**
1,252,635	**79,400**	**(4,616)**	**Total**	**1,285,568**	**153,854**	**(5,320)**

Note 17a: Net Gains and Losses on Financial Instruments

31 March 2018 £000		31 March 2019 £000
	Financial Assets	
(1,392)	Fair value through profit and loss	104,340
1,781	Loans and receivables	-
	Financial Liabilities	
6,949	Fair value through profit and loss	(7,339)
(727)	Loans and receivables	(1,825)
6,611	**Total**	**95,176**

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 18: Nature and Extent of Risks arising from Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Investment and Accounts Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss emanating from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis, and manage any identified risk in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter (OTC) equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

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

Other price risk – sensitivity analysis

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for 2019/20, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%.

Asset type	Market value as at 31 March 2019 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Cash and cash equivalents	102,568	112,825	92,311
Investment portfolio assets:			
UK quoted equities	47,346	52,080	42,611
Overseas quoted equities	354,508	389,959	319,057
UK public sector quoted	34,192	37,611	30,773
Overseas public sector quoted	50,027	55,029	45,024
UK equity unit trust	182,882	201,171	164,594
Overseas fixed interest unit trusts	115,473	127,020	103,926
Overseas equity unit trusts	136,592	150,251	122,933
Overseas managed alternatives	21,734	23,907	19,560
UK pooled property investments	79,302	87,233	71,372
Overseas pooled property investments	65,671	72,238	59,104
Overseas private equity	39,965	43,962	35,969
Private debt	55,902	61,492	50,311
Real assets	39,169	43,086	35,252
Overseas diversified alternatives	58,329	64,162	52,497
London Collective Investment Vehicle	150	165	135
Other investment assets	4,622	5,084	4,160
Investment liabilities	(3,752)	(4,127)	(3,376)
Total investment assets	**1,384,681**	**1,523,149**	**1,246,212**

Asset type	Market value as at 31 March 2018 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Cash and cash equivalents	74,768	82,245	67,291
Investment portfolio assets:			
UK quoted equities	66,192	72,811	59,573
Overseas quoted equities	410,306	451,337	369,275
Overseas public sector quoted	45,546	50,101	40,991
UK equity unit trust	161,251	177,376	145,126
Overseas fixed interest unit trusts	106,413	117,054	95,772
Overseas equity unit trusts	135,037	148,541	121,533
Overseas managed alternatives	21,429	23,572	19,286
UK pooled property investments	83,459	91,805	75,113
Overseas pooled property investments	47,738	52,512	42,964
Overseas private equity	35,308	38,839	31,777
Private debt	30,096	33,106	27,086
Overseas diversified alternatives	62,883	69,171	56,595
London Collective Investment Vehicle	150	165	135
Forward currency contracts	4,144	4,558	3,730
Investment income due	2,589	2,846	2,328
Amounts receivable for sales	40,536	44,591	36,483
Investment liabilities	(1,162)	(1,277)	(1,045)
Total investment assets	**1,326,683**	**1,459,353**	**1,194,013**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate 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's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate – risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset type	Market value as at 31 March 2019 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	102,568	103,594	101,542
Fixed interest securities	199,692	201,689	197,695
Cash balances	50,718	51,225	50,211
Total	**352,978**	**356,508**	**349,448**

Asset type	Market value as at 31 March 2018 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	74,768	75,516	74,021
Fixed interest securities	151,959	153,479	150,439
Cash balances	1,599	1,615	1,583
Total	**228,326**	**230,610**	**226,043**

Interest Receivable

Asset type	Market value as at 31 March 2019 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	767	775	760
Fixed interest securities	1,907	1,926	1,888
Total	**2,674**	**2,701**	**2,648**

Asset type	Market value as at 31 March 2018 £000	Value on 1% price increase £000	Value on 1% price decrease £000
Cash and Cash equivalents	512	518	507
Fixed interest securities	1,772	1,789	1,754
Total	**2,284**	**2,307**	**2,261**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. A 10% 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 as follows.

Asset type	Market value as at 31 March 2019 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Overseas quoted equities	354,508	389,959	319,057
Overseas public sector quoted	50,027	55,029	45,024
Overseas fixed interest unit trusts	115,473	127,020	103,926
Overseas equity unit trusts	136,592	150,251	122,933
Overseas managed alternatives	21,734	23,907	19,560
Overseas pooled property investments	65,671	72,238	59,104
Overseas private debt	55,902	61,492	50,311
Total	**799,907**	**879,896**	**719,915**

Asset type	Market value as at 31 March 2018 £000	Value on 10% price increase £000	Value on 10% price decrease £000
Overseas quoted equities	410,306	451,337	369,275
Overseas public sector quoted	45,546	50,101	40,991
Overseas fixed interest unit trusts	106,413	117,054	95,772
Overseas equity unit trusts	135,037	148,541	121,533
Overseas managed alternatives	21,429	23,571	19,286
Overseas pooled property investments	47,738	52,512	42,964
Overseas private debt	30,096	33,106	27,087
Total	**796,565**	**876,222**	**716,908**

a) **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. 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. The Fund has also set limits as to the maximum sum placed on deposit with individual financial institutions. In addition, the Fund invests an agreed percentage of its Funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency, as shown below.

Summary	Rating	Asset value as at 31 March 2018 £000	Asset value as at 31 March 2019 £000
Held with Custodian			
Northern Trust Global Investments (NTGI) Cash Fund	AAA	46,701	-
Northern Trust custody cash accounts	AAA	28,067	41,568
Money market funds			
BNP Paribas		-	27,100
Federated Prime Rate	AAA	1,124	17,940
Standard Life	AAA	10	5,600
Bank current accounts			
Lloyds	AAA	465	78
Total		**76,367**	**92,286**

The Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. All contributions due at 31 March 2019 and 31 March 2018 (£1.91m and £0.87m respectively) were received in the first two months of the respective financial year.

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's cash holding under its treasury management arrangements at 31 March 2019 was £56.3m (31 March 2018: £76.4m).

The Fund also has access to an overdraft facility for short-term cash needs (up to seven days). This facility is only used to meet timing differences on pension payments. As at 31 March 2019 the balance on this facility stood at £0 (31 March 2018: £0). The Fund last used the overdraft facility in January 2019.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of liquid assets represented 79.8% of the total Fund value (31 March 2018: £85.2% of the total Fund assets).

b) **Refinancing risk**

The key risk is that the Authority will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

Note 19: Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the authority tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring addition employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 85% funded (73% at the March 2013 valuation). This corresponded to a deficit of £201m (2013 valuation: £298m) at that time.

Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer.

The contribution rates for each employer are as follows.

	Name of Body	Scheduled or Admitted	Contribution Rates %	Employee Contribution 2017/18 £000s	Employee Contribution 2018/19 £000s	Employer Contribution 2017/18 £000s	Employer Contribution 2018/19 £000s
1.	Active Newham	Admitted	17.6	13	11	115	112
2.	Agate Momentum Trust	Scheduled	18.6	8	56	27	177
3.	Better Together	Admitted	12.0	9	11	17	20
4.	Big Education Trust (formally School 21)	Scheduled	12.0	72	74	137	138
5.	Birkin Services	Admitted	17.7	-	-	2	1
6.	Bobby Moore Academy	Scheduled	12.0	6	27	11	67
7.	Boleyn Trust	Scheduled	23.8	141	318	471	1,216
8.	Brampton Manor Primary School	Scheduled	23.5	73	77	253	273
9.	Britannia Education Trust	Scheduled	22.1	17	23	55	92
10.	Burnt Mill Academy Trust	Scheduled	24.1	42	41	140	161
11.	Carpenters TMO	Admitted	15.0	6	-	1	(4)
12.	Change Grow Live	Admitted	14.7	4	5	9	10
13.	Chobham Academy	Scheduled	12.0	58	67	113	137
14.	Churchill	Admitted	25.3	1	2	9	11
15.	Community Schools Trust	Scheduled	19.3	50	102	145	307
16.	Compass – Sarah Bonnell**	Admitted	14.7	-	2	-	7
17.	Early Start	Admitted	14.5	15	62	32	144
18.	East London Arts and Music School*	Scheduled	-	-	-	1	-
19.	East London Science School	Scheduled	15.9	28	44	59	114
20.	Education Links Free School	Scheduled	13.5	7	13	15	30
21.	EKO Trust	Scheduled	15.1	120	137	275	341
22.	Enabled Living	Admitted	18.5	40	54	132	166
23.	Every Child**	Admitted	15.9	-	71	0	182
24.	FM Conway*	Admitted	-	-	-	(204)	-
25.	iXact	Admitted	20.2	86	118	305	417
26.	Juniper**	Admitted	20.3	-	716	-	1,974
27.	Langdon Academy	Scheduled	23.5	112	96	417	365
28.	Language Shop**	Admitted	12.0	-	25	-	43
29.	Leading Learning Trust	Scheduled	17.2	78	81	221	225
30.	Learning in Harmony MAT	Scheduled	19.8	193	214	631	708
31.	London Academy of Excellence	Scheduled	12.0	19	20	36	37

32.	London Borough of Newham	Administering Authority	20.5	9,829	8,340	31,119	26,701
33.	London Design and Engineering	Scheduled	12.0	21	32	37	58
34.	London Network for Pest Solution	Admitted	14.7	19	30	45	71
35.	Lunchtime Company*	Admitted	15.8	-	-	(50)	-
36.	Mint	Admitted	20.4	91	133	327	490
37.	Mitie	Admitted	20.2	6	4	17	13
38.	New Vision Trust	Scheduled	17.5	20	185	72	624
39.	Newham College of Further Education	Scheduled	16.7	375	409	912	969
40.	Newham Collegiate	Scheduled	18.4	5	20	14	56
41.	Newham Community Schools Trust**	Scheduled	19.3	-	57	-	168
42.	Newham Partnership Working	Admitted	20.2	181	171	530	471
43.	NewVic	Scheduled	14.2	161	170	349	370
44.	Oasis Academy	Scheduled	12.0	11	17	21	33
45.	Olive Dining	Admitted	22.4	6	114	37	37
46.	Our Lady of Grace MAT	Scheduled	25.5	59	72	248	294
47.	Pabulum	Admitted	22.9	2	15	8	64
48.	PRS	Admitted	17.1	118	120	380	390
49.	RM Education	Admitted	12.0	5	12	38	55
50.	Stratford Academy	Scheduled	15.6	44	53	111	135
51.	Tapscott Leading Trust	Scheduled	19.7	63	132	216	445
52.	The Good Support Company	Admitted	19.3	81	85	305	311
53.	Wilson Jones	Admitted	14.5	3	3	8	7
Total* **				**12,301**	**12,640**	**38,166**	**39,230**

* employers had no active members in either 2017/18 or 2018/19

** new employers in 2018/19

*** table does not add down due to rounding.

The following employers have no active members, nor have they made any contributions to the Fund in either 2017/18 or 2018/19 but do have deferred, pensioner, dependent or frozen members;

- Community Links
- David Webster Ltd
- East London Waste Authority
- Greenwich Leisure Ltd
- Independent Housing Ombudsman
- Magistrates Court
- Newco Enterprises
- Stratford Renaissance Partnership
- Thames Gateway London Partnership

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows;

Financial assumptions in the 2016 Actuarial Valuation

	Assumed returns at 2016
Gilts	2.4%
Other bonds	3.3%
Cash / temporary investments	1.8%
Equities	7.4%
Property	13%
Infrastructure	5.4%
Alternative assets – LIBOR + 4%	5.8%
Discount rate	5.4%
Pay increases	3.9%
Pension increases	2.4%

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was as follows.

Life expectancy from age 65		31 March 2019	31 March 2018
Retiring today	Males	21.6	22.6
	Females	24.0	25.2
Retiring in 20 years	Males	23.3	24.8
	Females	25.8	27.5

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option

Less than 1% of active members (evenly distributed across age, service length and salary range) have taken up the 50:50 option.

Note 20: Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

2017/18		2018/19
£m		£m
(2,298.3)	Present value of promised retirement benefits	(2,377.4)
1,327.4	Fair value of scheme assets (bid value)	1,434.5
970.9	**Net Liability**	**942.9**

The liability includes an allowance has been made for the recent Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively. The estimated impact on the total liabilities at 31 March 2019 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation as at 31 March 2019.

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

Assumptions used	**2017/18**	**2018/19**
	%	**%**
Pension increases	2.3	2.4
Salary increase rate	3.8	3.9
Discount rate	2.55	2.4

Note 21: Current Assets

2017/18		**2018/19**
£000		**£000**
223	Contributions due – employees	458
645	Contributions due – employers	1,449
1,545	Sundry debtors	-
1,487	Prepayments	568
1,599	Cash balances	50,718
5,499	**Total Current Assets**	**53,193**

Note 22: Additional Voluntary Contributions

Market Value at 31 March 2018		**Market Value at 31 March 2019**
£000		**£000**
665	Clerical Medical	736
208	Equitable Life	195
873	**Total**	**931**

AVC contributions of £0.089m were paid directly to Clerical Medical during the year (£0.052m 2017/18). There have been no further contributions to Equitable Life in 2018/19 or 2017/18.

These amounts are not included in the Fund accounts in accordance with Regulation 4 (1) (b) of the LGPS (management and Investment of funds) Regulations 2016.

Note 23: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham, the amounts are fully reclaimed.

2017/18		**2018/19**
£000		**£000**
318	Payments on behalf of London Borough of Newham	315
318	**Total**	**315**

Note 24: Related Parties

The Fund is administered by the London Borough of Newham. During the reporting period, the Council incurred costs of £0.84m (2017/18: £0.92m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses (see Note 11). As at 31 March 2019 the Fund owed the Council £0.86m (2017/18: £2.83m).

Of the Investment and Accounts Committee members there is one active member of the LGPS, Joshua Garfield and three deferred members; Councillor John Gray (Chair), Councillor James Asser and Councillor John Whitworth.

Note 24a: Key Management Personnel

Key management personnel are members of the pension fund committee, the Interim Director of Financial Sustainability, the Director of Exchequer and Transactional Services and the Head of Pensions & Treasury for oneSource. Total remuneration payable to key management personnel which is recharged to the Fund is set out below:

2017/18 £000		2018/19 £000
37	Short-term benefits	38
1,039	Post-employment benefits	1,094
1,076	**Total**	**1,132**

Note 25: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments for private debt, property, private equity and diversified alternatives at 31 March 2019 totalled £135m (31 March 2018: £142m). There are no contingent liabilities to report.

Three admitted body employers in the Fund hold insurance bonds and ten admitted bodies have a guarantee in place with the Authority to guard against the possibility of being unable to meet the pension obligations. These bonds/guarantees are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No such defaults have occurred in 2018/19 (2017/18: nil).

New admitted bodies may be required to put an insurance bond in place if stipulated in the actuary's report. Admissions to the Fund are considered by the Investment and Accounts Committee.

Investment Strategy Statement 2018/19

1. Introduction

1.1 This is the third Investment Strategy Statement (ISS) adopted by the London Borough of Newham (LBN) Pension Fund ("the Fund") and reflects the conclusions drawn from the strategy review undertaken in 2015 and 2016.

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 LBN is required to publish this ISS. It replaces the ISS adopted last year which in turn replaced the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how it meets each of 6 objectives aimed at improving the investment and governance of the Fund.

Although this ISS is new, the objectives behind it form the basis for robust investment and governance of the Fund's assets and, as such, have not caused LBN to make significant changes to their governance framework.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

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

We deal with each of these in turn below.

1.3 The Investment & Accounts Committee (IAC) of LBN oversees the management of the Fund's assets. Although not trustees, the Members of the IAC owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the IAC within the Council's Constitution (8.07 2) 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 Financial Sustainability to determine as set out in the officers' scheme of delegation.
- Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.

1.5 The IAC shall be a member of the Local Authority Pension Fund Forum.

The IAC has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset class.
- 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

- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Director of Financial Sustainability and the appointed consultants and actuaries support the IAC. The day-to-day management of the Fund's assets is delegated to investment managers. Elements of the fund allocation in the property and diversified alternatives portfolio are managed in-house with adviser support.

1.6 This ISS will be reviewed at least once a year, 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 FSS.

1.7 Under the previous Regulations the Statement of Investment Principles required to state how it complies 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. In addition, Appendix B includes a disclosure of the Fund's policy on how the IAC discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the IAC is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the IAC recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.3 This approach to diversification has seen the Fund dividing its assets across 4 broad categories; equities, bonds, real assets (i.e. assets with some form of link to inflation) and absolute return strategies. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

2.4 The main risk the IAC are concerned with is to ensure the long-term ability of the Fund to meet pension, and other benefit obligations, as they fall due is met. As a result the IAC place 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 IAC considers excessive.

Whilst the Fund currently has a surplus of income over expenditure the IAC is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the IAC takes the view that their investment decisions, including those involving diversification, in the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the IAC 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 future its return objective. In addition to keeping their investment strategy and policy under regular review the IAC will keep this ISS under review to ensure that it reflects the approaches being taken.

2.6 The table in Section 5.3 provides detail on the asset allocation.

2.7 Changes to the European Directive governing the treatment of investors by investment managers saw LBN (along with other local authorities in the UK) opt to be treated as a professional client for the purposes of MIFID II. This was done during the year and enabled the Fund's investment strategy to continue without requiring any change.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments LBN takes into account a number of factors:

- Prospective return
- Risk, including macro-economic risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against. In addition the Funding Strategy Statement implies a performance target for the Fund as a whole (CPI + 3.0% p.a.)

3.4 The IAC monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the IAC will also compare the Fund asset performance with those of similar funds.

3.5 The IAC relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The IAC recognises that there are a number of risks involved in the investment of the assets of the Pension Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the 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 the levels of diversification within the existing policy.

4.3 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.

4.4 Solvency and mismatching risk:

- 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.

4.5 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

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Environmental, Social and Governance ('ESG') risk:

- It is recognised that ESG and ethical issues have the potential to impact on the long term financial viability of an organisation. The IAC monitors both developments within the investment environment and the voting of its appointed managers, supported through regular reporting from the Fund's custodian on the voting and engagement activity of its investment managers.

4.8 Funding of the Fund is based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within section 7 of the Funding Strategy Statement. The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and 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

4.9 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 LBN.
LBN and the IAC are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of LBN to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial deficit and the impact this has on contributions.

4.10 LBN and the IAC are 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 IAC carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The IAC is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the IAC uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the IAC also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return in excess of CPI +3.0% p.a. and the Fund's Independent Adviser has confirmed that the current long-term investment strategy is expected to produce an investment return in excess of this amount. The investment strategy is considered to have a low degree of volatility and currently targets volatility of 10% over the medium-term.

4.12 When reviewing the investment strategy on a quarterly basis the IAC considers advice from their Investment and Economic 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.

4.13 At each review of the ISS the assumptions on risk and return and their impact on asset allocation will be reviewed.

4.14 The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of directly held derivatives for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

5. Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles.

5.1 LBN 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.

5.2 In this regard the Fund has indicated to the Government in its submission in 2016 that when opportunities to have assets within the investment strategy managed by an appropriate pooling partner it will give these consideration.

LBN and the IAC are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the pooling partner for the management of the majority of the Fund assets in the longer term, the IAC recognises that transitioning from the current structure to the pooling partner will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.3 The table below shows the assets the Fund anticipates will be invested with the pooling partner, when the appropriate management becomes available, and those which it expects to sit outside of those managed by their pooling partner.

Asset Class	Fund Current Allocation	IAC Approved SAA
	%	%
Fixed Income	12	14
- Investment Grade	8	4
- Inflation linked debt	4	5
- Global High Yield	0	5
Equities	55	39
Property	9	16
- Property Funds	9	13
- Infrastructure	0	3
Alternatives (ultimately pooled)	5	15
- Private Equity	3	5
- Private Debt	2	10
Alternatives (pooling not anticipated)	7	12
- Diversified / Liquid Alternative funds	7	12
Tactical Asset Allocation (pooling not anticipated)	9	4
Cash	3	0

5.4 The IAC is in the process of transitioning the assets from the current holdings above to the long term strategic asset allocation approved by the IAC shown in the table above. This transition process takes into account market conditions and investment opportunities. Until the transition is complete asset allocations will lie in the range between the two columns in the table above with a margin of +/- 1% on each to allow for the impact of market movements.

5.5 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the IAC, and in particular whether a collective investment option is appropriate.

5.6 More information on the preferred pooling partner and its operation is included in Appendix C of this statement.

6. Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A full of review of the Fund's approach to Socially Responsible Investment was completed in 2012/13. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The SRI Policy is publically available and will be reviewed as deemed appropriate.

6.2 As a responsible investor the LBN Pension Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all Companies in which it invests. Whilst there has been a great deal of emphasis on the relationship of business, financial and economic factors to investment performance, the impact on returns of less tangible non-financial and reputational factors is more difficult to identify. Nevertheless it is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers. By having a good public image, the morale of the workforce will be higher, thus making it easier to attract and retain quality employees. The Fund considers that the pursuit of high corporate social responsibility standards by Companies will lead to higher returns in the long term. A good public image may help to increase sales volumes. An improved financial standing will improve credit ratings, thus allowing a company to attract lower cost funding. By addressing outside factors, the company is able to demonstrate an above average standard of management competence which will improve the long term potential and sustainability of the organisation. At the very least the Fund expects the Companies in which it invests to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

6.3 In furtherance of this stance the Fund will support standards of best practice by Companies in both the disclosure and management of corporate social responsibility issues consistent with the Fund's fiduciary responsibilities. To this end the Fund will pursue a policy of active shareholder engagement with companies using its own efforts, those of its Fund managers and alliances with other investors. To this end the Fund is a member of, and engages with, the Local Authority Pension Fund Forum, Institutional Investors Group on Climate Change and Pensions and Life Savings Association.

6.4 On occasions the Chair and Members of the IAC has attended company AGMs to raise questions on matters concerning socially responsible issues, such as labour standards. There is potential for a company to improve its reputation and financial standing from positive engagement by addressing issues that if ignored, may be detrimental to the organisations long term standing.

6.5 The Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification. Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds and in keeping with LBN's public health agenda. Fund managers are required to have policies regarding ESG issues and to monitor their compliance with those policies.

7. Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

7.1 The Fund is committed to making full use of its shareholder rights, and this is also covered in its SRI Policy. The Fund's policy on voting rights is based on the Cadbury, Greenbury and Hampel codes, as well as the stock exchange combined code, and the principles of protecting shareholder rights, minimising risk and enhancing value.

7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), Pensions and Lifetime Savings Association of Pension Funds (PLSA) and the Association of British Insurers (ABI).

8. Feedback on this statement

8.1 Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:
Conrad Hall, Corporate Director of Resources
Newham Dockside, 1000 Dockside Road, London E16 2QU
Email: conrad.hall@newham.gov.uk

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

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 also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood 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 seen as supporting 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 organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The council has delegated the management and administration of the pension fund to the IAC, which meets at least quarterly. The responsibilities of the IAC are described in paragraph 1.4 of the Investment Strategy Statement.

The IAC is made up of elected members of the Council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The IAC obtains and considers advice from and is supported by the Director of Financial Sustainability, One Source Finance and as necessary from the Fund's appointed actuary, investment managers and advisors. A review of the investment advice received by the Fund was completed in 2014/15, to ensure it continues to be fit for purpose in the changing investment and legislative environment.

The IAC has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the IAC annually and progress is monitored on a quarterly basis.

Several of the IAC members have extensive experience of dealing with Investment matters and training is made available to new IAC members. IAC Members are required to undertake a minimum of three days of investment training a year – there is an on-going programme of training available to members. The IAC has adopted the CIPFA Knowledge and Skills Framework.

Principle 2 - Clear objectives

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

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the Investment Strategy Statement. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

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

Full Compliance

The IAC has, in conjunction with its advisers, agreed an Investment Strategy that is related to the Fund's liabilities. An actuarial valuation of the fund takes place every three years, with the next triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The Investment Allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 5.3 of the Investment Strategy Statement.

During 2014/15, the Fund established an Admitted/Scheduled Body policy, which will outline its approach to assessing the strength of the covenant for participating employers and the risk assessment undertaken when new employers wish to join the Fund.

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 also periodically make a formal assessment of their own effectiveness as a

decision-making body and report on this to scheme members.

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Barnett Waddingham, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

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 OJEU procedures.

The IAC monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the IAC receive quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is included in the Fund's annual report.

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 paragraph 7.1 of the Investment Strategy Statement and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in 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 outlined in paragraph 7.2 of the Investment Strategy Statement and in the Fund's SRI Policy.

A full of review of the SRI polices of current Fund Managers and their compliance with the Financial Reporting Council's Stewardship Code was completed in 2012/13, and the results were reported to the IAC in March 2013.

This Investment Strategy Statement and the SRI Policy are both publically available to all scheme members.

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

Links to the Governance Compliance Statement, the Investment Strategy Statement, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and 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 seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the Investment Strategy Statement, which outlines the terms of reference of the IAC.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The IAC actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses
- Corporate and other issues
- Investment Process compliance and changes and;
- Changes in personnel (joiners and leavers).

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to IAC members via the Council's intranet site.

All the Fund's equity, fixed income and diversified managers have signed up to the FRC Stewardship Code including:

- Aberdeen Asset Management (Fixed Income) Legal and General (Equities and Fixed Income) Longview Partners (Equities)
- Morgan Stanley (Diversified Alternatives) CBRE (Property)
- Permira (Private Debt)
- Brightwood (Private Debt)
- BlueBay (Private Debt)

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The IAC encourages its fund managers to have effective policies addressing potential conflicts of interest.

IAC members are also required to make declarations of interest prior to all IAC meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Reports from fund managers on voting and engagement activity are received and will be reported to the IAC members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the IAC at the subsequent IAC meeting.

Fund manager Internal Control reports are monitored, with breaches reported back to the IAC.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any non-compliance.

Where possible, the Fund seeks to exercise its voting rights attached to its non- UK equity holdings by delegation through Power of Attorneys.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the Investment Strategy Statement and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement: Appendix C – Risk Register

Risk assessment completed by	Stephen Wild	Head of Pensions and Treasury	Conrad Hall	Corporate Director of Resources	March 2019

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
1	**Business Objective**: **To ensure that the Fund plans its finances effectively to deliver its strategic priorities.**						
	Poor governance and lack of professional advice or poor advice giving rise to detrimental decision making, leading to loss of investment opportunities and adverse performance.	Conrad Hall	Knowledge and skills training for members of the IAC	100%	31/03/2020	Stephen Wild	1
			Review of the Investment Strategy Statement, Funding Strategy Statement, State of the Nations document	100%	31/03/2020	Stephen Wild	
			Scrutiny and support from the Local Pensions Board	100%	31/03/2020	Stephen Wild	
			Monitoring of advice received from Investment Advisor and Macro-Economic Advisor	100%	31/03/2020	Stephen Wild	
2	**Business Objective**: **To ensure that the Fund is in sound financial health**						
	Fund's actuary's assumptions at the Triennial valuation not realised - giving rise to a larger deficit and therefore requirement for higher employer contributions.	Conrad Hall	Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification.	100%	31/03/2020	Stephen Wild	2
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild	
			Developments monitored via Fund's Actuary – next triennial valuation being completed in 2019	50%	31/03/2020	Stephen Wild	
			Deficit monitoring of contributions	80%	31/03/2020	Stephen Wild	
3	**Business Objective**: **To ensure that the Fund is in sound financial health.**						
	Declining active membership leading to negative cash flow from dealings with members, requiring assets to be realised to meet liabilities.	Conrad Hall	Strategic asset allocation re-aligned towards higher yielding assets to increase investment income.	80%	31/03/2020	Stephen Wild	2
			Cash flow forecasting and modelling.	100%	31/03/2020	Stephen Wild	
			Promotional campaign for LBN staff; auto enrolment from October 2017	100%	31/03/2020	Sarah Bryant	

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
4	**Business Objective**	**To ensure that the Fund is in sound financial health**					
	Risk employer goes into default, deficit on termination, change of status, financial risk.	Conrad Hall	Actuarial assessment completed for all new admission requests to assess level of risk	100%	31/03/2020	Sarah Bryant	1
			Bonds or suitable guarantees put in place to protect the Fund in case of default	100%	31/03/2020	Sarah Bryant	
			Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly.	100%	31/03/2020	Sarah Bryant	
5	**Business Objective**	**To ensure that the Fund is in sound financial health**					
	Assets and liabilities impacted by investment performance - assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore requirement for higher contributions	Conrad Hall	Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings.	100%	31/03/2020	Stephen Wild	1
			Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark	100%	31/03/2020	Stephen Wild	
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild	
6	**Business Objective**	**To ensure the Fund has effective methods for paying people and organisations**					
	Poor administration by the Pension Fund, employers and payroll providers in the Fund giving rise to inaccurate data with financial and reputational consequences, actuary to set contribution rates with high margin of error.	Conrad Hall	Annual monitoring of membership records, valuation checks	100%	31/03/2020	Sarah Bryant	1
			Annual reconciliation between payroll and scheme membership data,	100%	31/03/2020	Sarah Bryant	
			Triennial Data Cleansing exercise and actuary data report	100%	31/03/2020	Sarah Bryant	

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
7	**Business Objective** — **Ensure that the Fund has a robust approach to managing its risk and has good internal control**						
	The Pension Fund relies on third party providers for its investment management, administration and custodial services and any poor performance will adversely impact on the Fund.	Conrad Hall	Adequate contract monitoring to ensure performance standards and financial security of external providers.	80%	31/03/2020	Stephen Wild	2
			Fund managers reviewed by investment advisor.	100%	31/03/2020	Stephen Wild	
			Monitoring of audited accounts to ensure consistent asset valuation.	100%	31/03/2020	Stephen Wild	
			Monitoring of LGPS pool: LCIV	100%	31/03/2020	Stephen Wild	
8	**Business Objective** — **Ensure that the Fund has a robust approach to managing its risk and has good internal control**						
	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education	Conrad Hall	Life Certificate check on all pensioners in receipt of Cheques/Giro's all pensioners living abroad and all those over the age of 80	100%	31/03/2020	Sarah Bryant	1
			Participate in the National Fraud Initiative	100%	31/03/2020	Sarah Bryant	
			Reclaim amounts over £100.00 that have been overpaid	100%	31/03/2020	Sarah Bryant	
9	**Business Objective** — **Ensure that the Fund has a robust approach to managing its risk and has good internal control**						
	Failure to comply with existing or new legislation due to lack of specialist knowledge, inability to apply new legislation correctly, etc.	Conrad Hall	Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc.	100%	31/03/2020	Sarah Bryant Stephen Wild	1
10	**Business Objective** — **Ensure that the Fund has a robust approach to managing its risk and has good internal control**						
	Changes to regulations which could be detrimental to the Pension Fund	Conrad Hall	Active participation in consultations.	100%	31/03/2020	Stephen Wild	1
			Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach.	100%	31/03/2020	Stephen Wild	

Risk No.	Details of Risk, Including Consequences	Risk Owner	Controls	% Complete	Date of Next Review	Control Owner	Assessment of Risk
11	**Business Objective**	**To ensure the Fund has effective methods for paying people and organisations**					
	Financial and reputational risk of being invested in companies with poor ESG/SRI records	Conrad Hall	Preparation of Socially Responsible Investment Policy.	100%	31/03/2020	Stephen Wild	1
12	**Business Objective**	**To ensure the Fund has effective methods for paying people and organisations**					
	Poor investment performance arising from asset allocation or individual fund managers requiring higher employer contributions to compensate.	Conrad Hall	Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark	80%	31/03/2020	Stephen Wild	2
			Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings.	100%	31/03/2020	Stephen Wild	
			Quarterly valuation update to monitor returns against triennial valuation assumptions.	100%	31/03/2020	Stephen Wild	
13	**Business Objective**	**To ensure that the Fund's financial & external reporting complies with requirements and meets the need of users and local people**					
	Failure to comply with financial regulations and accounting standards may lead to adverse external audit report.	Conrad Hall	Recruitment and training of professionally qualified and experienced accounting staff.	100%	31/03/2020	Stephen Wild	1
			Staff to engage in continuing professional development, attending courses as appropriate.	100%	31/03/2020	Stephen Wild	
14	**Business Objective**	**To ensure that the Fund's financial & external reporting complies with requirements and meets the need of users and local people**					
	Poor communication with stakeholders giving rise to disaffection and actions against Council	Conrad Hall	Preparation of Fund's Communications Policy.	50%	31/03/2020	Stephen Wild	2
			Annual Report on Pension Fund - summary version sent to all active members	100%	31/03/2020	Stephen Wild	
			Annual General Meeting - all employers and other key stakeholders invited to attend	100%	31/03/2020	Stephen Wild	
			Union representation on the Committee	80%	31/03/2020	Stephen Wild	

Funding Strategy Statement 2018/19

1. Introduction

This Statement has been prepared by London Borough of Newham (LBN) (the Administering Authority) to set out the funding strategy for the London Borough of Newham Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the Regulations") and the guidance papers issued in September 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

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

After consultation with all relevant interested parties involved with the Fund the administering authority will review and finalise the Strategic Asset Allocation and benchmarking exercise and publish their funding strategy.

In reviewing the FSS, the administering authority must also have regard for:

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund and the Investment Strategy Statement

The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

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

The Scheme is a defined benefit arrangement with a final salary element for service accrued prior to 1 April 2014 and career average revalued earnings ('CARE') benefits accruing on and after this date. There is also a '50:50' option under which members can elect to pay 50% of the contribution rate to accrue 50% of the benefits. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations which also require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate certifying required contributions to be paid by the employers within the Fund.

Contributions to the Fund should be set so as to ensure solvency and long-term cost efficiency of the fund whilst supporting the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made.

Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to ensure the solvency and long-term cost efficiency of the Fund are met; and
- to take a prudent longer-term view of funding those liabilities.

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

3. Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013, Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 as amended.

4. Responsibilities of the key parties

14.1 The Administering Authority

The administering authority is required to:

- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS 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 valuation process in consultation with the fund's actuary
- prepare and maintain an FSS and an SIP/ISS, both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

14.2 The Investment & Accounts Committee of the London Borough of Newham

The Investment & Accounts Committee of the London Borough of Newham oversees the management of the fund's assets. Although not trustees, the Members of the Investment & Accounts Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the fund, as well as to the contributors and beneficiaries of the fund. The terms of reference for the Investment & Accounts Committee within the Council's Constitution are:

- to make all decisions under Regulations made pursuant to Section 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of the Exchequer and Transactional Services to determine as set out in the officers scheme of delegation;
- approval of the authority's statement of accounts in accordance with the relevant Accounts and Audit Regulations made from time to time;
- the Committee shall be a member of the Local Authority Pension Fund Forum.

The Investment & Accounts Committee has responsibility for:

- determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes;
- appointing the investment managers, an independent custodian, the actuary and any external consultants considered necessary;
- reviewing on a regular basis the investment managers' performance against benchmarks, and satisfying themselves as to the managers expertise and the quality of their internal systems and controls;
- monitoring compliance with the SIP/ ISS and reviewing its contents;
- reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights;
- considering application for admitted body status and determining deficit recovery periods if approval is considered appropriate;
- determining deficit recovery periods in relation to newly formed scheduled bodies taking into consideration all relevant factors including any potential risk that may be associated with time limited guaranteed funding such as in the case of academy employers; and
- considering local matters in so far as they may impact on the risk to the Pension Fund and its constituent employers.

14.3 The Executive Director of Financial Sustainability

The Executive Director of Financial Sustainability and the appointed Consultants and Actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

14.4 The Individual Employer:

The Individual Employer is required to:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the permitted regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.
- pay any exit payments on ceasing participation in the fund.

14.5 The Fund actuary

The Fund actuary should:

- 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 LGPS 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 to the administering authority on bonds or other forms of security against the financial effect on the fund 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 that may be of relevance to his or her role in advising the fund.

5. Solvency Issues and Target Funding Levels

14.6 The funding objective

The LGPS Regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises and express the desirability of maintaining as nearly constant a primary employer contribution rate as possible.

The administering authorities therefore prudentially seek to achieve an appropriate balance, in the light of actuarial advice, to ensure the income stream from contributions and investments achieves the ultimate aim of ensuring that the administering authority can meet its liabilities to pay pension benefits as and when they fall due over the life of the pension scheme.

Under Section 13(4) (c) of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund and long-term cost efficiency of the scheme so far as relating to the pension fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by
- a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

14.7 Determination of the funding target and recovery period

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

Underlying these assumptions are the following:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.
- solvency issues for different employer bodies
- As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme.

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

The Administering Authority, following consultation with the participating employers, has adopted the following general CIPFA guidance objectives for setting the individual employer contribution rates:

- the need to set appropriate employer contribution levels and deficit recovery periods
- the underlying investment strategy of the assets backing the liabilities of these employers
- the financial standing of those employers (and where applicable, the parent company or any guarantor) and:
- their ability to meet the cost of current membership
- their longer-term commitment to fund any deficit, including any
- potential deficit at exit; and
- their ability to insure against default
- the short- and long-term effects of high contribution rates on the non-local- authority employers in terms of their financial viability.

For the Fund a maximum deficit recovery period of 20 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see the above guidance and Deficit Recovery Plan below).

Where a deficit is transferred to a new employer, or a deficit emerges over the period the employer participates in the scheme, a deficit recovery period of no longer than the shorter of the length of the contract (representing the expected future life of the employer in the Fund), with a maximum of 10 years will be applied, or other shorter period as may be determined by the Fund's actuary. For example for a short term contractor this is likely to be considered as the maximum length of the contract.

Employer specific deficit recovery periods have previously been agreed for Newham 6th Form College and Newham College of Further Education of a maximum of 10 years in each case. The other employers in the Fund where a maximum 10 year recovery period also currently applies are:

- Active Newham
- Better Together
- Birkin Services
- Churchill
- Early Start
- iXact
- Enabled Living
- Every Child
- Language Shop
- Mint
- NCFE
- Pabulum
- PRS
- Olive Dining
- RM Education
- The Good Support Company
- Wilson Jones

On the cessation of any employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Similarly, and in accordance with recent changes to the LGPS (Amendment) Regulations 2018, an exit credit will be paid to an employer if there is a surplus determined by the termination assessment. There is no tax charge on this exit credit. Details of the approach to be adopted for admission bodies are covered in the Admission Bodies Policy. For all other employers any assessment on termination will be decided by the Fund Actuary reflecting the nature of the employer within the Fund and any remaining liabilities that may then fall due to other employers.

The administering authority may also reduce the current deficit recovery period where it considers the risk of non-payment of pension fund contributions has altered. Usually this will follow a valuation assessment by the Fund Actuary.

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

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

14.8 Deficit recovery plan

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

Additional contributions will be expressed as a level percentage of pensionable payroll or a series of one or more cash payments.

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

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

14.9 The normal cost of the scheme (primary contribution rate)

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

6. Link to investment policy set out in the Investment Strategy Statement

The results of the 2016 valuation show the liabilities to be 85% covered by the current assets, with the funding deficit of 15% being covered by future deficit contributions due from employers.

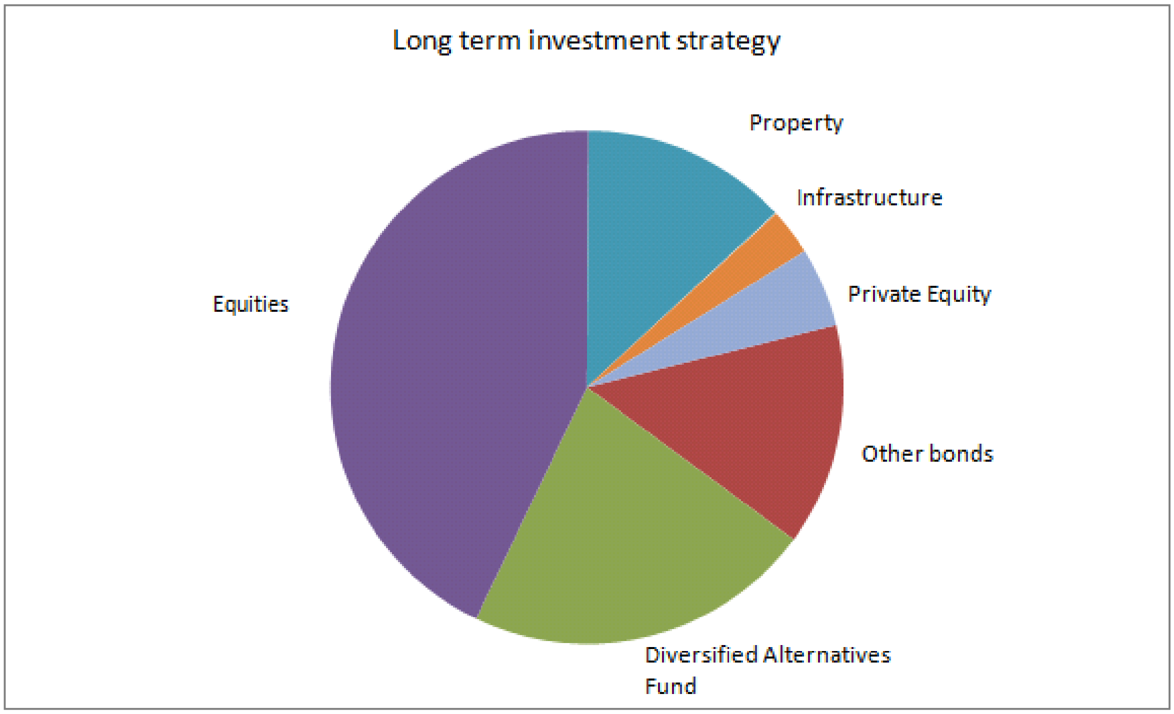
In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the Fund, as set out in the SIP/ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index- linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio should minimise fluctuations in the Fund's on-going funding level between successive actuarial valuations.

The Fund's SIP identifies the following asset classes which are deemed suitable for the scheme. The Fund has chosen a specific benchmark in order to determine the appropriate balance between different types of asset. The Fund invests through a range of pooled funds as well as directly in shares and has a mix of passive and active management. Stock selection is delegated to Investment Managers who may vary their allocation within set bands and must re-balance to the benchmark quarterly.

The strategic asset mix for the Fund is in Graph 1 below:



The benchmark adopted reflects the circumstances of the Newham Fund in terms of its liability profile and solvency level. Although the Fund is relatively mature (i.e. there are relatively high numbers of pensioners compared to contributing numbers) it is cash positive.

This position is likely to be maintained over the medium term of at least 10 years. As a result the Fund is able to take a long-term perspective investing in real assets such as equities and property to increase the value of the Fund rather than bonds which can produce a steady income stream.

The benchmark per asset class is in Table 1 -Target Returns for Asset Class below:

Future Assumed Returns at 2016		**Risk Adjusted Discount Rate Weighting (rounded)**
Equities	7.4% per annum	48%

Other Bonds	3.3% per annum	14%
Diversified Alternatives Fund	5.8% per annum	22%
Property	5.9% per annum	13%
Infrastructure	5.4% per annum	3%

7. Identification of risks and counter-measures

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

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2016 valuation assumptions.

The following key risks to the funding strategy have been identified:

14.10 Financial

The main financial risks are:

- Investment risk – the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:
- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice taken and acted upon counterparty failure.

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income – yield curve, credit risks, duration risk and market risks
- alternative assets – liquidity risk, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risks
- macroeconomic risks.

The Fund and its Fund's investment advisers shall monitor such aspects to ensure that all assumptions are justified.

14.11 Liability Risk

The main demographic risks are that:

- Longevity horizon continues to expand
- There is a deteriorating pattern of early retirements.
- Inflation increase faster than allowed for
- Wage and salary inflation increase faster than allowed for.

In the event that significant changes become apparent between valuations, the Fund, following advice from the actuary, shall notify participating employers of the anticipated impact on costs that will emerge at the next valuation.

14.12 Employer Risk

Risks that arise from the ever-changing mix of employers; Examples being from

- short-term and ceasing employers
- the potential for a shortfall in payments and/or
- orphaned liabilities.

14.13 Liquidity/maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. Changes result in workforce reductions will reduce membership, reduce contributions and possibly prematurely increase retirements, some examples are;

- The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS
- transfers of responsibility between different public sector bodies
- scheme changes that might lead to increased opt-outs
- the implications of spending cuts
- all of these will result in workforce reductions that will reduce membership, reduce contributions and
- prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.

14.14 Governance Risk

Key risks are that:

- The Administering Authority remains unaware of structural changes in employer membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority is not advised of an employer closing to new entrants
- An employer ceases to exist with insufficient funding or adequacy of a bond.

The Fund's policy is to engage in regular communication with employers, enabling a regular review of financial standing and other issues.

14.15 Regulatory and compliance risks

The key risks are:

- Changes to Regulations, e.g. more favourable benefits packages, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements or Regulations governing the Scheme

The Fund shall keep abreast of potential changes. The actuary will be asked to assess the impact of changes and if significant, employers shall be notified.

8. Consultations and Publication

LGPS Regulations with regard to the FSS, in effect, provide that the written statement setting out an administering authority's funding strategy can only be considered after consultation with such persons as the authority considers appropriate.

The Administering Authority has set out its plans to deal with the employers of the Fund. It will also inform their Local pension Board of the valuation process and explain the outcomes.

9. Monitoring and Review

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

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

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

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

FSS Appendix 1 - Actuarial Valuation as at 31 March 2016

The following sets out the method and assumptions used in calculating the funding target and recovery plan.

Method

The method we have adopted for employers open to new staff at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost we calculate the contribution rate which meets the cost of one year of benefit accrual.

For employers that are closed to new staff we have used the Attained Age Method. The key feature of this method is that we assess the average contribution required to fund the benefits earned until retirement.

Financial assumptions

At this valuation we have used a market related funding model. The key features of the model are as follows:

Assumed future levels of retail price inflation are derived by considering the difference between index-linked gilt and fixed-interest gilt yields at the valuation date, as published by the Bank of England.

Pay increases are assumed to exceed future retail price inflation based on past experience and expectations of future experience.

Pension increases are assumed to be in line with CPI rather than RPI. It is assumed that CPI will be 0.8% per annum less than RPI, consistent with the historical average.

Investments return (discount rate)

The expected future return from equities is based on dividend yields at the valuation date in addition to an allowance for real capital growth in asset values.

Rather than take "spot" yields and market values of assets at the valuation date we have used smoothed yields and asset values spanning the 6 month period around the valuation date.

The discount rate used to discount future payments to and from the Fund and so determine the value placed on the liabilities reflects the risk adjusted expected return that will be earned by the actual investment strategy adopted by the Fund.

Individual Employers

It is important to consider how the financial assumptions in particular impact on individual participating employers. The general Fund practice, as set out in the FSS is to allocate investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, the same actuarial assumptions have been adopted regardless of the individual employer liability profiles.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation. This is derived by considering the difference in yields from conventional and index linked gilts using the Bank of England Inflation Curve.

Pay Inflation

As benefits accrued prior to 1 April 2014 are linked to pay levels at retirement, an assumption has to be made about future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. At this valuation we have adopted a lower salary increase assumption, at 1.5% per annum above CPI. However, we have allowed for a short- term overlay for salaries to rise in line with CPI over the period to 31 March 2020.

Pension increases
As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% pa below RPI.

Mortality and other statistical assumptions
These are as described in the 2016 initial results report.

Summary of key assumptions for the 2016 actuarial valuation

Financial Assumptions	2016	2013
Discount Rate	5.4% per annum	6.0% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.4% per annum (RPI less 0.9%)	2.7% per annum
Pension and Deferred Pension Increases	2.4% per annum (RPI less 0.9%)	2.7% per annum
Short Term Pay Increases	In line with CPI assumption for the 4 years to 31 March 2020	In line with CPI assumption for the 2 years to 31 March 2015
Long Term Pay Increases	3.9% per annum (CPI plus 1.5% per annum)	4.5% per annum (CPI plus 1.8% per annum)

Socially Responsible Investment Policy 2018/19

1. Introduction

The Investment and Accounts Committee ("the Committee") is aware of its fiduciary responsibility to obtain the best possible financial return on investments, within acceptable levels of risk. This is the Committee's principle concern when making investment decisions on behalf of the Newham Pension Fund.

However, the Committee is committed to being a responsible investor and supports the view that effective management of environmental, social and governance (ESG) issues is a necessary part of achieving good financial performance and long term growth in the companies in which it invests, and will lead to greater returns in the long term.

It is the Committee's view that companies that fail to effectively manage good governance and social and environmental risks can incur higher operating costs (e.g. through lawsuits, fines, impact on staff recruitment and retention etc.) and loss of consumer and investor confidence, negatively impacting on shareholder value. Conversely, good corporate governance and social and environmental practice can help to enhance the reputation of companies, which in turn has a favourable effect on financial performance and long term sustainability.

The Committee's responsibility for reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights is laid out in the Fund's Investment Strategy Statement (ISS). As part of fulfilling this responsibility, the Fund has developed this Socially Responsible Investment Policy (SRI) which outlines its approach to the management of ESG issues within its investment portfolio.

2. Shareholder Rights and Voting Activities

The Fund wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. At the very least, companies are expected to comply with all applicable laws and regulations in home markets and to conform to local best practice when operating overseas.

The Fund is committed to making full use of its shareholders rights. The Fund delegates the exercise of these rights to its fund managers. Fund managers are expected to vote in an appropriate and informed manner and report their voting actions back to the Committee. Where possible, the fund seeks to exercise voting rights attached to its non-UK equity holdings by delegation through Power of Attorneys. The Fund receives a monthly report from its Custodian on the voting activities of fund managers, and this is circulated to all Committee members via a restricted SharePoint site.

In addition to voting, the Fund works in partnership with its custodian to return value back to the Fund through class actions where shareholder value has been lost through fraudulent or irresponsible corporate behaviour.

3. Shareholder Engagement

The Fund also delegates ESG engagement with and monitoring of investee companies to fund managers. Fund managers are expected to report back to the Committee on the activities they undertake, and report any breaches by investee companies.

Fund managers are encouraged to have their own policies on the inclusion of ESG issues in their investment decisions and management, and to report back to the Committee on how these policies are implemented.

ESG issues will be included as a standing item at meetings with fund managers.

Fund Manager internal control reports are monitored, with breaches reported back to the Committee.

4. Restrictions on Investments

As stated in the ISS, the Fund will consider excluding certain types of investment from its actively managed portfolios, following appropriate advice on the implications for performance and diversification.

However, the Fund avoids placing excessive restrictions on its external fund managers, recognising that this could reduce the accountability of those managers, impact financial performance and limit opportunities for improving company behaviour through active shareholder engagement.

Fund managers are instructed not to invest segregated elements of their portfolio in companies that generate over half of their income from tobacco products on investment prospects grounds.

5. Compliance with Codes and Principles

As part of its ISS, the Fund publishes details of its compliance with both the Myner's principles and the FRC Stewardship Code, both of which include principles on responsible ownership and the monitoring of investee companies.

The Fund is supportive of the UN Principles of Responsible Investment (UNPRI), which seek to provide a framework by which investors can incorporate ESG issues into their decision making and ownership practices. Fund Managers are encouraged to be UNPRI signatories or are required to explain areas of non-compliance.

6. Collaboration

The Fund recognises that its influence on individual companies can be enhanced through collaboration with other institutional shareholders, and will collaborate on ESG and voting issues where appropriate and possible.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF's aim is to maximise their influence as shareholders while promoting corporate social responsibility and high standards of governance among companies in which they invest. The LAPFF comprises 65 UK public funds which engage as a united front with investee companies on issues such as climate change, child labour and breaches of best practice including the UK Code on Corporate Governance. Executive remuneration is an important governance issue for LAPFF and is focused on the subject of incorporating non-financial performance metrics into long term reward.

The LAPFF provides ad hoc briefings on companies where contentious votes are due or there are serious corporate governance failings or concerns. Where these relate to companies within the Fund's portfolio, these concerns are raised with the relevant fund manager and appropriate action is taken. Where LAPFF issue a voting direction on a particular issue, fund managers will be expected to comply with this or explain any deviance.

The Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC), one of the core objectives of which is to engage in dialogue on environmental issues.

7. Feedback

Any feedback on this SRI Policy is welcomed. If you have any comments or wish to discuss any issues then please contact
Conrad Hall, Corporate Director of Resources
Newham Dockside, 1000 Dockside Road, London, E16 2QU
Email : conrad.hall@newham.gov.uk

Communication Policy 2018/19

Introduction
The London Borough of Newham is the Administering Authority for the Newham Pension Fund (the Fund). The Council is committed to providing a consistent high quality service to its members and other stakeholders.

This Communications Policy Statement has been prepared with the aim of enhancing the understanding, transparency and visibility of the Fund. This Policy Statement will be reviewed on an annual basis.

Each stakeholder group has different communication requirements and the Fund aims to use the most appropriate methods for its various audiences.

This document sets out the Fund's Communication Policy and the methods used to communicate with its stakeholders.

There are six distinct stakeholder groups with whom the Fund needs to communicate; these are:

1. Members of the Pension Fund
2. Investment Committee Members
3. Prospective scheme members
4. Trade Unions
5. Scheme employers
6. Pension Fund Officers

1. Members of the Pension Fund

The Internet
Policy Statements plus the Annual Accounts are published on the Council's web-site. A dedicated web-site for the Fund has been set-up which contains a range of information including Scheme details and will contain a secure member area for Committee Members. There will also be links to other organisations relevant to members of the Pension Fund e.g. The London Pensions Partnership (LPP), who undertake the Schemes administration, and scheme employers.

The current intranet site provides access to the Fund's statutory documentation, the Accounts, Annual Report, Investment Strategy Statement, Governance Statement and the Funding Strategy Statement.

Benefit Statements
Annual Benefit Statements are sent to members of the Fund and deferred beneficiaries by the end of September.

Scheme Literature
The Human Resources Directorate of the Council arranges the production of scheme literature either directly or via LPP. The literature is made available to employers and scheme members. Copies of this literature are accessible via the Fund's web-site www.newham.gov.uk

Pay Advice
The payroll sections from each of the Scheme employers issue monthly pay advice. These can be used to communicate specific messages and for other purposes such as requesting a prompt notification of change of address. The pay advice is also used to communicate details of annual pension increases. Details of Annual Pension paid and the tax deducted are notified by P60 to Pensioners and the Inland Revenue.

Annual General Meeting
A General Meetings is held each year to discuss issues concerning the Fund. The meeting will be open to all Committee Members, Union Representatives and employers. It will seek to provide an update on the legislation and regulation changes within the LGPS.

General Correspondence
The Fund utilises both surface mail and e-mail to receive and send correspondence.

Telephone Help Line
Scheme members can access a telephone help line to deal with any queries relating to their Pension and this is widely publicised in Scheme literature. The telephone number for LPP is 020 7369 6105.

Pensions Road-shows
Several road shows are conducted throughout the year by Fund staff and LPP.

Pre-Retirement Seminars
Several pre-retirement seminars are conducted annually by Fund staff and LPP. Details of future events can be located on the Fund's website.

2. Investment Committee Members

The Committee oversees the management of the Fund's assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to council-tax payers, who would ultimately have to meet any shortfall in the Assets of the Fund, as well as to the contributors and beneficiaries of the Fund. Whilst appointments to the Committee are annual, several Members have served for a number of years, helping to build up knowledge and understanding of the pensions market. This, together with the Members wide range of Council and Professional expertise, ensures that decisions are fully scrutinised.

Committee Meetings
Committee meetings take place quarterly. The performance of the Fund's Investments is a standing item. Issues with Fund managers are addresses on an exception basis, with meetings with the Fund managers generally held outside of the Committee.

Members also receive a variety of reports from the Director of Financial Sustainability on matters requiring decisions. These reports along with agendas and minutes of the Investment Committee meetings are available via the Fund's web-site.

IT Resources
Members have Internet access to electronic resources, which allow for the monitoring of various aspects of the Fund e.g. proxy voting, and corporate and Socially Responsible Investment issues.

Where there is a requirement for a decision outside of the normal committee cycle an email vote is not appropriate an emergency Committee Meeting will be required.

Training
Committee Members are required to undertake a minimum of three days training per year. The Fund's investment managers, advisors and other experts, such as the Local Authority Pension Fund Forum, provide a range of events which members can attend. The commitment to training is recognised within the Fund's annual Business Plan. Opportunities also exist for knowledge building with special events being organised by officers.

Members receive notification of training events via Email. Booking arrangements are managed by Member Services. New members can receive an induction to the Fund.

Trade Unions
Representatives of Unison, UNITE and NUT unions are invited to attend all meetings. As observers they have no voting rights. The current representatives are also members of the Scheme.

3. Prospective Scheme Members

Scheme Booklet
All new prospective Scheme members will be provided with a Scheme booklet upon appointment. The booklet is issued by LPP.

Website
LPP have a web-site which contains specific information for those who have yet to join the Fund. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

Non Joiner Campaigns
LPP send out periodic letters to all non-contributors. In the future the Fund will request formal notification of non-joiners from Scheme employers. This information will be used to market the Scheme to specific groups and if necessary developing dedicated literature and campaigns.

Pension Road-shows
As well as being a valuable aid for pensioners and current scheme members, road shows are used to target specific non-members enabling them to make an informed choice with regards to their pension provision. Road shows are available on request via LPP.

Pay Advice
Prospective Scheme members will be identified via payroll, and pay advice containing marketing information will be used in specific campaigns carried out in conjunction with Scheme employers. Pay advice will also be used to inform members employed by the Council and prospective Scheme members of changes to the Scheme.

4. Trade Unions
Trade Unions are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

The Fund works closely with the Trade Unions to ensure the Scheme is transparent and easily understood. Upon request, branch officers will be provided with training.

5. Scheme Employers
Alongside the Council the following employer organisations are partners in the Pension Fund:

Scheduled Bodies:

- Agate Momentum Trust
- Big Education Trust
- Bobby Moore Academy
- Boleyn Trust
- Brampton Manor Academy
- Britannia Education Trust
- Burnt Mill Academy Trust
- Chobham Academy
- Community Schools Trust
- East London Arts and Music
- East London Science School
- Education Links Free School
- Langdon Academy
- Learning in Harmony MAT
- London Academy of Excellence
- London Design & Engineering
- Leading Learning Trust
- Newham Collegiate
- Newham College of Further Education
- NewVic
- Oasis Academy
- Our Lady of Grace MAT
- Stratford Academy
- Tapscott Leading Trust

(Community Links Academy Trust)
- EKO Trust

Admitted bodies:

- Active Newham
- Better Together
- Birkin Services
- Carpenters TMO
- Churchill
- Change Grow Live
- Early Start
- Enabled Living
- iXact
- London Network for Pest Solution
- Mint
- MITIE
- Newham Partnership Working
- Olive Dining
- Pabulum
- Public Realm Services
- RM Education
- The Good Support Group
- Wilson Jones

Pension Fund Officers

Team Meetings
The Head of Pensions and Treasury host regular team meetings with the Fund's finance and administration staff. If required, issues can be escalated through the Chief Finance Officer to Chief Officers.

Senior Finance Staff Management Team Meetings
The Head of Pensions and Treasury is a member of the Senior Finance Staff Management Team and attend regular meetings convened by the Chief Finance Officer. This enables the Chief Finance Officer to be kept up to date with current issues affecting the Fund.

Fund Management Meetings
Annual meetings are arranged with all Fund Managers within the Fund. Where required advisor representation may be requested.

Intranet
All office-based staff has access to the intranet. This provides timely information on a wide range of matters including documentation and LGPS circulars directly to their place of work.

Induction
New members of staff receive an induction session and each receives an induction /personnel manual.

Internet
Internet access has been made available to office based staff.

Emails
Where contact needs to be made with all scheme members, letters will be used rather than emails.

Data Protection
To protect any personal information held on computer, The London Borough of Newham is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact Ian Gibbs.

The Administering Authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Newsletters

Newsletters are issued periodically by LPP. In the event of changes to the Fund’s Regulations then specific notices are also issued.

Main Contacts

The contact details of the Pension Fund’s main service providers can be found in the Pension Fund Statement of Accounts.

Taxation

Investments of the Fund are exempt from Capital Gains Tax but tax on UK Dividends is irrecoverable. All Value Added Tax paid is recoverable. There is a liability for Income Tax at 20% for pensions compounded into a lump sum.

Governance Statement 2018/19

This statement has been prepared in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 2014 (the LGPS Regulations).

The statement describes the governance structures and arrangements that the London Borough of Newham has put in place in its capacity as administrating authority for the Newham Pension Fund.

The statement will be subject to review and revised versions will be published following any material changes in the Council's policy that influences this statement.

The London Borough of Newham delegates the function of maintaining the Pension Fund to the Committee.

The terms of reference for the Committee within the Council's Constitution (8.06) are:

1. Composition & Quorum

1.1 The Committee shall comprise of 8 elected Members.

1.2 The Committee shall be subject to the rules on political balance.

1.3 The quorum of the Committee shall be three.

1.4 Members of the Committee may be required to attend appropriate training from time to time. The Director of the Exchequer and Transactional Services shall inform the relevant whips of attendance by Members at such training.

2. Terms of Reference

2.1 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 the Exchequer and Transactional Services to determine as set out in the officers' scheme of delegation.

2.2 Consideration and approval of the authority statement of accounts in accordance with the relevant Accounts & Audit Regulations made from time to time.

2.3 Consideration of the findings of the Council review of the system of internal control.

2.4 Approving the Statement of Internal Control.

2.5 Consideration of the external auditors annual audit letter before it is published.

2.6 The Committee shall be a member of the Local Authority Pension Fund Forum.

3. Delegations

3.1 The Committee shall be entitled to set up sub-committees and delegate any of their functions to such sub-committees or officers of the Council.

4. Procedure

4.1 The business of the Committee shall be carried out in accordance with the Constitution.

4.2 The Committee shall be entitled to determine whether certain training is desirable or compulsory for all Members or certain positions. Where the Committee deems training compulsory, Members shall not be entitled to sit on the Committee until they have attended such training.

4.3 A copy of the Council's constitution is available on the Council's web-site at www.newham.gov.uk alternatively by writing to the Chief Executive at Newham Dockside, 1000 Dockside Road, London E16 2QU.

5. Committee Meetings
5.1 The Committee meets on a quarterly basis with support provided by the Executive Director of Financial Sustainability and independent Advisors. At these meetings Members are provided with a quarterly report on the performance of the Newham Pension Fund (the Fund), along with a Business Plan Update. Presentations are received from Fund Managers (on an exceptions basis only) and Advisors.

5.2 Representatives from the Trade Unions are invited to participate in the meeting; however they are not permitted to vote. Representatives of the other employing authorities are permitted to attend but they are not permitted to participate without prior approval of the Chair. Members of the public are also permitted to attend but are not permitted to participate without prior approval of the Chair.

The Committee has responsibility for:
- determining an overall investment strategy and strategic asset allocation, with regards to diversification and the suitability of asset classes;
- appointing the investment managers, an independent custodian, the actuary and any external consultants considered necessary;
- reviewing on a regular basis (quarterly) the investment managers' performance against benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls;
- reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights;
- agreeing the Communications Policy, Governance Statement and the Annual Business plan;
- monitoring compliance with legislation and best practice;
- determining the admission policy and agreements, including the deficit recovery period of Admitted and Scheduled Bodies;
- setting principles and statements in relation to the Fund's Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS), monitoring compliance and reviewing them;
- ensuring that equality issues are addressed in the development of policies and the provision of services and are appropriately monitored.

5.3 The Committee has delegated the responsibility to the Executive Director of Financial Sustainability:
- The Committee has delegated responsibility to the Executive Director of Financial Sustainability for all decisions relating to the administration of the Superannuation Fund, crediting contributions, dividends and interest, realising and making investments to manage the Fund's cash flow up to a limit of £5 million, providing notices to members, arranging for periodical valuations and keeping audited accounts.
- to exercise all powers and duties of the Council as an employer in respect of contracted-out persons under the Pensions Schemes Act 1993;
- for approval of early and ill-health retirements;
- to exercise and perform any powers and duties under this Act which fall to be exercised or performed by the Council by virtue of its being an employer (powers and duties relating to stakeholder pensions) under The Welfare Reform and Pensions Act 1999.

6. Members and Officers Knowledge and Skills
6.1 Member and officer knowledge and skills are recognised as important, and a range of measures are in place to equip members to undertake their role. This is a major factor in the governance arrangements of the Fund in ensuring Committee members and officers have the relevant skills and knowledge. The Fund applies the CIPFA Knowledge and Skills Framework to achieve this objective.

6.2 Six areas of knowledge and skills have been identified as core technical requirements for those associated with LGPS pension funds:
- pensions legislation and governance context;

- pension accounting and auditing standards;
- financial services procurement and relationship management;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practices.

6.3 It is not the intention that Committee members should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

6.4 Officers advising members and implementing decisions should have a more detailed knowledge appropriate to their duties. Officers are expected to demonstrate their professional competency against the framework through appropriate 'continuing professional development' (CPD) arrangements'.

6.5 Each year a questionnaire is sent out to Members to identify key areas that training can be arranged to address. From the questionnaire a bespoke training schedule is established and agreed by the Committee.

6.6 The Fund includes in its annual report and accounts details of the knowledge and skills development undertaken by its Committee members. It is being proposed that it will become a regulatory requirement for funds to explain their compliance with the CIPFA framework and in particular cover:

- how the framework has been applied;
- what assessment of training needs has been undertaken; and
- what training has been delivered against the identified training needs.

Compliance with guidelines issued by DCLG

1. Structure

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

The Fund is fully compliant with this principle.

The Council, as Administering Authority, delegates its function in maintaining the Fund to the Committee. At the annual meeting, the Council agrees to the appointment of the members to the committee.

The Committee have delegated the day to day administration of the Fund to the Director of the Exchequer and Transactional Services.

The Fund's administration is outsourced to the Local Pensions Partnership (LPP). The Committee receives regular reports on their scheme administration to ensure that best practice standards are met and targeted; although, this is an area where the committee intends to further develop its compliance with this principle.

The Committee will periodically review the committee's governance arrangements and the effective use of its advisers to ensure sound decision making.

1.2 That representatives of participating Local Government Pension Scheme (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.

The Fund is partially compliant with this principle

The Committee meetings are open meetings and therefore the other LGPS employers are able to attend and can participate in the discussions with permission of the Chair.

Invitations to attend the annual general meeting were sent to the employers within the Fund.

Invitations to attend the committee meetings are sent to the various unions that represent 'active' members of the fund.

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

The Council has not established a secondary committee or panel. The monitoring and review activities performed by the officers and the Investment Advisor, combined with meetings of the Committee make the establishment of a separate group unnecessary.

1.4 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.

The Council has not established a secondary committee or panel.

2. Representation

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

- employing authorities (including non-scheme employers, e.g. admitted bodies)
- scheme members (including deferred and pensioner scheme members
- independent professional observers

- expert advisers (on an ad-hoc basis).

The Fund is partially compliant with this principle.

The committee meetings are open and therefore the other employers are able to attend, although specific invitations are not sent to these employers. All unions are invited to attend the committee meetings to represent the scheme members (including pensioners and deferred members).

The Fund maintains a risk register that identifies all the main risks and actions taken to mitigate them in accordance with sound risk management principles. The Council also operates a comprehensive statement of internal controls for all its operations, including the fund as well as a service continuity plan.

The Committee seeks to obtain advice from Fund's economic advisor, Fathom, as well as a range of other professional advisors.

2.2 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.

The Fund is partially compliant with this principle.

All lay members on the committee are sent committee papers with dates of the meetings. These papers and dates are also published on the Council's web-site. Training events has been offered to elected councillors and trade union representatives only. Other employers are informed of forthcoming training events and consideration would be given if a request to attend an event were received.

3. Selection and role of lay members

3.1 That the 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

The Fund is fully compliant with this principle.

All committee members are fully aware of their status, role and function. Each new member is provided with an induction pack covering their responsibilities as well as opportunities for training. Where technical pension matters are discussed at committee meetings, proper explanation is given in the report and by the external Investment advisors when introducing their reports.

3.2 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.

The Fund is fully compliant with this principle.

This is captured in the meeting minutes.

4. Voting

4.1 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.

The Fund is fully compliant with this principle.
There are eight councillors who sit on the investment committee, all from the majority party and all of whom have equal voting rights. Union representatives are invited to participate in the

discussions but have no voting rights. Committee members have decided that, as legal responsibility is vested with Newham Council as administering authority, voting rights should remain with councillors. However, councillors are empowered to co-opt non-councillors with full voting rights.

5. Training/Facility Time/Expenses

5.1 That in relating 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**.**

The Fund is fully compliant with this principle.

Training for councilors and board members is organised as and when required. As meetings take place in the evenings, councillors receive allowances in accordance with the Council's allowances' policy, board members receives. Training and development took place during 2017/18 to ensure that Members of the Committee and the Local Pension Board were fully briefed in the decisions they were taking at the time and a log of training and development is maintained

The Investments and Accounts Committee Member Training and Development 2018/19

Date	Training Session	Attendees
21st – 23rd May 2018	PLSA LA Conference	Cllr John Gray
14th June 2018	Quarterly Strategy Review Meeting	Cllr John Gray Cllr Joshua Garfield Cllr Veronica Oakeshott Cllr John Whitworth
27th July 2018	Training on Admission of Employers to the LGPS Scheme	Cllr John Gray Cllr Veronica Oakeshott Cllr Nareser Osei Cllr Joshua Garfield Cllr James Asser Cllr John Whitworth
5th – 7th September 2018	Local Government Chronicle Investment Conference	Cllr John Gray
13th September 2018	Quarterly Strategy Review Meeting	Cllr John Gray Cllr Joshua Garfield Cllr Nareser Osei Cllr John Whitworth Cllr James Asser
26th September 2018	Introduction to the LGPS	Cllr Nareser Osei
31st October 2018	Professional Pensions Investment Conference	Cllr John Gray
13th November 2018	CIPFA training for IAC members	Cllr John Gray Cllr Nareser Osei Cllr Joshua Garfield Cllr James Asser Cllr John Whitworth
17th November 2018	Pension Chairs/ Local Infrastructure meeting	Cllr John Gray

19th November 2018	Quarterly Strategy Review Meeting	Cllr John Gray Cllr Joshua Garfield Cllr Nareser Osei Cllr John Whitworth
21st November 2018	LCIV Quarterly meeting	Cllr John Gray
22nd November 2018	Training for Member of the Investment and Accounts and Audit Board	Cllr John Gray Cllr James Asser Cllr Joshua Garfield Cllr Nareser Osei Cllr John Whitworth
7th December 2018	Fathom’s Q4 Monetary Policy Forum	Cllr Joshua Garfield
29th January 2019	Actuarial training	Cllr John Gray Cllr Nareser Osei Cllr Joshua Garfield Cllr John Whitworth Cllr Charleene Lee-Phakoe
6th February 2019	Investment Manager Selection training	Cllr John Gray Cllr Nareser Osei Cllr Joshua Garfield
12th February 2019	LCIV Quarterly meeting	Cllr John Gray
15th February 2019	Fathom Brexit presentation	Cllr John Gray Cllr Joshua Garfield Cllr John Whitworth
19th February 2019	Quarterly Strategy Review Meeting	Cllr John Gray Cllr Nareser Osei Cllr Joshua Garfield Cllr Charleene Lee-Phakoe
21st March 2019	Newham AGM	Cllr John Gray Cllr Tonii Wilson Cllr Nareser Osei Cllr Joshua Garfield Cllr James Asser Cllr John Whitworth Cllr Charleene Lee-Phakoe

5.2 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.

The Fund is fully compliant with this principle.

The policy applies to all members of the committee.

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

The Fund is fully compliant with this principle.

6. Meetings (frequency / quorum)

6.1 That an administering authority’s main committee or committees meet at least quarterly.

The Fund is fully compliant with this principle.

The committee meets on a quarterly basis.

6.2 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.

The Fund has not established a secondary committee or panel.

6.3 That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interest of key stakeholders can be represented.

The Fund is partially compliant with this principle.

The committee meetings are open and stakeholders are able to raise issues before a meeting that can be discussed by the committee during the meeting. Stakeholders are permitted to participate in discussions with the permission of the Chair.

7. Access

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

The Fund is fully compliant with this principle.

All members on the committee have equal access to committee papers, documents and advice. Committee papers are also accessible on the council web-site.

8. Scope

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

The Fund is fully compliant with this principle
The committee considers and makes decisions on general scheme and other administrative issues as well as the management and investment of the funds under its supervision.

9. Publicity

9.1 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.

The Fund is fully compliant with this principle.
This statement will be published on the Council's web-site and will be included in the Pension Fund Annual Report prepared under Regulation 55 (4) of the Local Government Pension Scheme Regulations 2014.

Glossary

Accounting period - The period of time covered by the Council's accounts. The Council's financial year is from the period 1st April to the following 31st March.

Accounting policies – The specific principles, bases, conventions, rules, and practices applied by the Council in preparing and presenting the financial statements.

Accounting standards - A set of rules explaining how accounts are to be kept (See 'International Financial Reporting Standards').

Accrual - The recognition of income and expenditure in the year that they occur and not when any cash is received or paid.

Active member - Current employee who is contributing to a pension scheme.

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.

Admission Agreement - an agreement made between the administering authority, a Scheme employer and a contracted company to allow the contractor to become part of the LGPS.

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.

Balance Sheet - A statement of all the assets, liabilities and other balances of the Council at the end of an accounting period.

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

Billing Authority – Refers to a local authority that is responsible for the collection of tax, both on behalf of itself and local authorities in its area.

Budget - A forecast of future expenditure plans for the Council. Detailed revenue budgets are prepared for each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised throughout the year for changes as necessary.

Career Average Revalued Earnings (CARE) - from 1 April 2014 the LGPS became a Career Average Revalued Earnings Scheme. The pension built up from 1 April 2014 is based on a CARE scheme basis and the pension built up prior to 1 April 2014 is linked to Final Salary.

Cash equivalents – Highly liquid, safe investments that can easily be converted into cash.

Chartered Institute of Public Finance and Accountancy (CIPFA) – A professional accountancy body, specialising in the Public Sector. It promotes best practice by issuing guidelines and Codes of Practice.

Collective Investment Vehicle (CIV) - is any entity that allows investors to pool their money and invest the pooled funds, rather than buying securities directly as individuals

Contingent Liability - Where possible "one-off" future liabilities or losses are identified but the level of uncertainty is such that the establishment of a provision is not appropriate.

Consumer Price Index (CPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The CPI includes some financial services in the basket of goods not included in the RPI.

Creditors - Amount of money owed by the Council for goods and services received, also referred to as Payables.

Death Grant - an amount paid to a current or former member's estate or nominated beneficiaries in the event of death in service, death after retirement or death of a deferred beneficiary

Debtors - Amount of money owed to the Council by individuals, and organisations, also referred to as Receivables.

Deferred Benefits (may be called preserved benefits) - benefits retained in the pension fund when a member leaves without an entitlement to the immediate payment of those benefits. If a transfer of benefits does not take place before hand, deferred benefits are usually paid from the member's normal retirement date.

Defined Benefit Scheme - A pension scheme which defines benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Deferred Income – Receipt in Advance – This represents a receipt received as part of entering into a building lease. The credit is being released over the term of the lease.

Deferred Liabilities – These are future payments that the Council is contractually obliged to pay in future years. These liabilities relate to Private Finance Initiative (PFI) schemes.

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

Discretion - this is the power given by LGPS regulations to enable Scheme employers or administering authorities to choose how they will apply the Scheme rules in respect of certain provisions.

Employer 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.

Fair Value - In relation to the value of financial instruments, it is the amount for which an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Instrument Adjustment Account - This represents the balance of deferred discounts relating to the premature redemption of Public Works Loans Board (PWLB) debt.

Fixed interest securities – 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.

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.

Infrastructure Assets – Inalienable assets, expenditure on which is only recoverable by continued use of the asset created. There is no prospect of sale or alternative use. Examples include roads, bridges, and tunnels.

Intangible Assets - Non-financial long-term assets that do not have physical substance but are identifiable and controlled by the Council, i.e. purchased software licences.

Interest Rate Risk - The uncertainty of interest paid/received on variable rate instruments and the effect of fluctuations in interest rates on the fair value of an instrument.

Internal Disputes Resolution Procedure (IDRP) – a complaints procedure governed by regulation providing any current or former scheme member with the opportunity to settle any dispute or complaint they may have in respect of any decision made regarding their entitlements under scheme rules.

International Financial Reporting Standards (IFRS) – The set of international accounting standards issued by the International Accounting Standards Board (IASB). Local Authorities are required to produce accounts based on IFRS.

Investment Properties – Those properties that are held solely to earn rentals and/ or for capital appreciation, rather than for the delivery of services.

Levy - Payments to bodies such as the Environment Agency. The cost of these bodies is funded by local authorities in the area concerned based on their Council Tax base and is met from the General Fund.

Long-Term Assets - Assets that yield benefit to the Council and the services it provides for a period of more than one year.

Minimum Revenue Provision (MRP) - The amount that has to be charged to revenue to provide for the redemption of debt. Not applicable to the HRA.

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.

Provisions - Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

Rates and Adjustment Certificate - a certificate issued by the Actuary following a valuation of the Fund which sets out the employer contribution rates payable by each of the associated scheme bodies.

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

Reserves - Amounts set aside which do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances which every Council must maintain as a matter of prudence.

Retail Price Index (RPI) – Measures the average change in retail prices of a basket of goods and services purchased by most UK households, to provide an indication of the rate of inflation. The RPI includes mortgage interest payments and council tax in the basket of goods not included in the CPI.

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.

Soft Loan - Loans given at less than market/commercial rates to community or not-for-profit organisations.

Triennial Valuation - Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Council on the fund's financial position and recommended employers' contribution rates.

Unrealised gains/ losses - The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Value For Money (VFM) – This term is used to describe the relationship between the economy, efficiency, and effectiveness (known as the 'three Es') of a service, function or activity. Value for money is high when there is an optimum balance between all three.

Acronyms

AAC Annual Allowance Charge
ACT Advance Corporation Tax
AGS Annual Governance Statement
AVC Additional Voluntary Contribution
BCE Benefit Crystallisation Event
CARE Career Average Revalued Earnings
CEP Contributions Equivalent Premium
CETV Cash Equivalent Transfer Value
CIV Collective Investment Vehicle
CLG Communities and Local Government
CPI Consumer Prices Index
FSS Funding Strategy Statement
GAD Government Actuary's Department
GMP Guaranteed Minimum Pension
HMRC Her Majesty's Revenue & Customs
IAC Investment and Accounts Committee
IAS International Accounting Standard
IDRP Internal Disputes Resolution Procedure
IFA Inter-fund Adjustment
IFRS International Financial Reporting Standards
ILA Individual Lifetime Allowance
LBN London Borough of Newham
LGE Local Government Employers

LGPC Local Government Pensions Committee
LPS Local Government Pension Scheme
LCIV London Collective Investment Vehicle
LPP Local Pensions Partnership
(N)NDR (National) Non-Domestic Rates
NPV Net Present Value
NRA Normal Retirement Age
NRD Normal Retirement Date
PSLA Pensions and Lifetime Savings Association
ISS Investment Strategy Statement
SLA Standard Lifetime Allowance
SPA State Pension Age
RPI Retail Price Index
VAT Value Added Tax