Newham London

# Newham Pension Fund Annual Report 2017/18

Pension Scheme Registration number 10165250

# Contents


## Member's Introduction 3

Chair's comments 3
The Fund's outlook for 2018/19 6
LPGS 2013 (as amended) 7

## Fund Governance & Statutory Information 8

Fund Governance 8
Management and Advisors 9
Fund Membership 11
Fund Employers 14

## Performance Reviews & Actuarial Statement 15

Budget 2017/18 15
Financial Performance 16
Investment Performance 17
Investment Review 2017/18 – Barnett Waddingham 19
Actuarial Statement 2017/18 24

## Financial Statements 30

Statement of Responsibilities 30
Auditors Report 31

## Policy Statements 63

Investment Strategy Statement 2017/18 63
Funding Strategy Statement 2017/18 83
Socially Responsible Investment Policy 2017/18 95
Communication Policy 2017/18 97
Governance Statement 2017/18 102
Glossary 110

# Member's Introduction

## Chair's comments

I am pleased to report that the Newham Pension Fund ("the Fund") received further recognition in 2017 by winning the prestigious LAPF Investment Award for Secure Income Strategy. The Fund was also finalist in two categories for the Professional Pensions Scheme Awards 2017: Fund of the Year and Trustee Development Award. This was in recognition that the Fund: had met challenging performance objectives, quality of its communication with its members and employing authorities, and the professionalism, dedication shown by members of the Investment and Accounts Committee ("the Committee"), the Chief Finance Officer and supporting officers in OneSource.

The size of the Fund's assets relative to the size of the Council's budget and payroll make it clear that contributions are no longer the most effective way to control deficits. The Committee concluded long ago that deploying an effective investment strategy is much more important. The Fund's investment strategy has tilted toward protecting the exceptional gains achieved in recent years in the face of increased volatility in financial markets. The strategy aims to make the investment portfolio less dependent on a single source of return, by increasing the allocation to 'alternative assets' that are less prone to changes from volatile equity markets and providing a source of additional income as the Fund matures.

The Committee's focus during 2016/17 was implementing its revised investment strategy shift to 'alternative assets' such as the appointment of best in class fund managers to operate mandates covering private debt, real asset and liquid alternatives. Further investment was also made in global property and in the existing private equity mandate to maintain the Fund's long-term exposure. Additional allocations were made in indexed linked bonds and steps were taken to reduce overweight exposure in North America. To help manage volatility in the equity position ahead of the next actuarial valuation and so help reduce the impact a market downturn may have on contributions, the Fund has implemented equity hedging strategies.

These steps have already helped maintain the value of the Fund's assets during a very volatile year on the markets, closing the financial year 2017/18 marginally up from last year at £1.33bn. However the value of liabilities reduced slightly during the year elevating funding level to an estimated 94% at year end, within touching distance of being fully funded and firmly ahead of its 20 year deficit recovery plan.

The Committee supports asset pooling and is working with the London CIV (LCIV) to provide the appropriate building blocks necessary to deliver the Fund's investment strategy. In the meantime, the Fund has sought to collaborate with other Local Government Pension Scheme (LGPS) Funds to replicate the cost-saving benefits of the pooling. Decisions regarding the transfer of assets to the LCIV will be made on value for money grounds and without compromising on the Committee's principles on responsible investment. The Committee is proud of its policy on prohibiting direct investments in tobacco centric holdings and now invests in low carbon renewables that more than offset the small amount of direct investment the Fund holds in traditional energy companies.

Under this committee's stewardship the majority of the Fund's employers were able to maintain a stable contribution rate following the last valuation. The Council was also able to reduce the deficit recovery payments by £8.9m in 2017/18 releasing much needed resources to use on local priorities.

The structure of the employer base continued to change e.g. increased numbers of academies and small businesses during 2017/18 which has impacted the demand on administration and risk management. We have dealt with that by commissioning Local Pension Partnership (LPP) to manage this extra work load and the Committee overhauled its policies on the admission to the LGPS in light of changing regulation.  Furthermore the Committee approved a draft handbook to help employers understand their responsibilities to the LGPS.  The Committee has been supported in its work by the now fully operational Local Pensions Board tasked with scrutinising the Fund's activities. The Board members are integrated into the Committee's own training programmes and this is helping members to work together more effectively and improve governance of the scheme.

The Committee membership will change significantly at the next local elections and immense effort has been made to ensure that the new membership is helped to come up to speed as soon as possible. To that end, this Committee has developed a living 'State of the Nation' paper that encapsulates its core investment beliefs and aims, implementation of the investment strategy and the journey taken to get where we are.  Furthermore the business plan for 2018/19 has been set so that the Fund's operations are not compromised while the new committee members get up to speed.  Briefing and member development plans are being developed and will be expedited as soon as the new members are announced.

I have enjoyed immensely my tenure as Chair of this Committee and I am proud of what this Committee has achieved and commend its members, officers and advisers for their hard work and dedication they have made. Special thanks to Cllr Ted Sparrowhawk whose support and guidance to me was invaluable. I wish the new Chair and the Committee the very best in dealing with the challenges that lie ahead and maintaining an affordable LGPS that will enable employees to receive a decent living pension on retirement.

**Councillor Forhad Hussain**
**Chair of the Investment and Accounts Committee**

It has been a pleasure to have worked with the Councillor Hussain who stepped down from his role as Chair in May 2018. Having served as member of the Investment and Accounts Committee during his term I fully support the out-going Chair's comments.

**Councillor John Gray**
**Chair of the Investment and Accounts Committee**

Highlights of 2017/18

- **LGPS sector recognition**

The Fund won the LAPF Investment Award for Secure Income Strategy 2017 and was finalist for the Professional Pensions Scheme Awards 2017: Fund of the Year.

The Committee's commitment to enhancing the knowledge and skills of its Members was recognised by becoming a finalist for Trustee Development Awards at the Professional Pensions Pension Scheme of the Year Awards 2017.

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

Despite the challenging economic environment, the funding in the highest ever recorded, and a funding level now at 94%. A full performance report is on page 15.

- **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).

- **Investment Strategy**

The Fund has appointed investment managers for its Private Debt and High Yield Credit mandates. Both asset classes will provide additional income as the Fund matures, long term diversification from other asset classes and attractive risk adjusted returns. The LCIV will not have a sub fund available in illiquid private debt until later in 2018/19. The Fund is now fully invested in a LGPS diversified alternatives managed platform in collaboration with Cornwall and Clwyd pension funds. This will support the Fund's aim to de risk by reducing reliance on equities that are at record high values and maybe entering a period of heightened volatility.

- **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 and enabled 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.

- **Pensions Administration**

The Fund's employer admission policy, practices and admission agreements have been introduced. This is to ensure that a greater understanding of process, costs and responsibilities are known by both those letting a contract and those applying to join the Fund. LPP have been contracted to manage admitted bodies and strengthen employer risk management arrangements in collaboration with partner Boroughs in oneSource to keep costs down.

- **Appointment of Economic Adviser**

The Fund tendered for the macro-economic advisory services contract. Interest was received from a number of leading providers in this field. A winning tender emerged and an appointment has been made.

# The Fund's outlook for 2018/19

- **Actuary procurement**

The Fund is working on a joint procurement exercise with Havering Pension Fund to procure the actuarial services from the LGPS National Framework. The specifications and evaluation will be carried independently as both Funds have particular requirements and therefore any appointment of services will be independent of each other.

- **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 valuation sets the employer rate and will come into effect in 2020/21.

- **Real Assets Mandate**

The Real Assets class has been identified as having low correlation to traditional equity and bond markets. The Fund has selected two managers for this mandate and investment will commence in the early part of 2018/19.

- **Structured Equity**

The Fund is in the process of implementing an equity hedging strategy to provide protection from a downturn in equity values.

- **Local Infrastructure Scheme**

The Fund plans to appoint a manager to deliver a Local Infrastructure Scheme. Proposals are being developed for the Committee to approve.

- **Pooling of Assets & Collaborative Working**

The Fund carried out its own evaluation of asset pools and the LCIV remains the preferred partner. No investments have been transferred to the LCIV pending outcome of their own investment review and once their investment strategy is aligned with that of the Fund's. In the meantime the Fund continues to collaborate with other funds to deliver its investment strategy and 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 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 the LPP.

| Salary Band £ | Employee Contribution rate % | |
|---|---|---|
| | Main Section | 50/50 Section |
| 0 – 14,100 | 5.50 | 2.75 |
| 14,101 – 22,000 | 5.80 | 2.90 |
| 22,001 – 35,700 | 6.50 | 3.25 |
| 35,701 – 45,200 | 6.80 | 3.40 |
| 45,201 – 63,100 | 8.50 | 4.25 |
| 63,101 – 89,400 | 9.90 | 4.95 |
| 89,401 – 105,200 | 10.50 | 5.25 |
| 105,201 – 157,800 | 11.40 | 5.70 |
| 157,801 + | 12.50 | 6.25 |

# Fund Governance & Statutory Information

## Fund Governance

The Fund is part of the Local Government Pension Scheme (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 during 2017/18 were:

Chair - Councillor
Forhad Hussain (6/7)

Vice Chair - Councillor
Ted Sparrowhawk (7/7)

Councillor
Lester Hudson (4/7)

Councillor
Andrew Baikie (4/7)

Councillor
John Gray (4/7)

Councillor
Tahmina Rahman (5/7)

Councillor
Tonii Wilson* (5/7)

Councillor
Zuber Gulamussen*
(1/7)

Co-opted trade union representatives during 2017/18 were Brenda Bedminster (Unite) Iain Hale (NUT), Gloria Hanson (Unison) and Tim Linehan (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 2017/18 the Committee met 7 times (excluding training sessions) – the number of meetings attended by each member is shown above.

*Following a membership change at the Council's last AGM on 20 March 2018, Councillor Zuber Gulamussen and Councillor Tonii Wilson were elected to the Committee, taking over from Councillor Seyi Akiwowo and Farah Nazeer.

### Local Pensions Board

The Local Pensions Board (LPB) provides valuable contribution to support the Committee and help 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 2017/18 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.

| | | |
|---|---|---|
| Dave Baldock | Interim Chief Finance Officer (LBN) | 020 3373 3498 |
| Stephen Wild | Head of Pensions and Treasury (oneSource) | 020 3373 3881 |
| Rakesh Rajan | Pension Fund Manager (oneSource) | 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.

| | | |
|---|---|---|
| Ian Weavers | Pensions Manager (oneSource) | 020 3373 8408 |

## Scheme Administrators

LBN contracts out its benefits administration to the London Pensions Partnership (LPP) in accordance with the council's best value arrangements. The 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 2017/18, the Fund used the following external managers:

| Fund Manager | Mandate | Contact Details |
|---|---|---|
| **Aberdeen Standard** | Fixed Income Active | 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 |
| **HarbourVest** | Private Equity | Berkeley Square House - 8th Floor, Berkeley Square, London, W1J 6DB |
| **Legal & General** | Passive Equities and passive bonds | One Coleman Street London, EC2R 5AA |
| **London CIV** | Pending allocation | 59½ Southwark Street , London SE1 0AL |
| **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 |

## 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

## 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 Provider

**Clerical Medical**
PO box 174
Walton Street
Aylesbury
Bucks, HP21 7YP

### 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**
20 Gresham Street
London, EC2V 7JE

**Bevan Brittan**
Fleet Place House
2 Fleet Place
Holborn Viaduct
London, EC4M 7RF

### 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) and the London Pension Fund Forum (LPFF).

### Risk Management

The Fund recognises the inherent risks involved in many of its activities and its governance arrangements are designed to ensure that risk management is undertaken at the highest level.

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

These policies are included below, and are also available online (www.newham.gov.uk).

The latest risk register is included as part of the ISS it is regularly reviewed and updated. When the strategic asset allocation is revised the FSS is updated accordingly.

Benefits Administration: Robust internal controls ensure that any third party operation risk such as late payments of benefits is immediately highlighted. Additional areas of risk are in breach of Data Protection or failure to comply with Disclosure of Information requirements. The impact of this risk would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

## Fund Membership

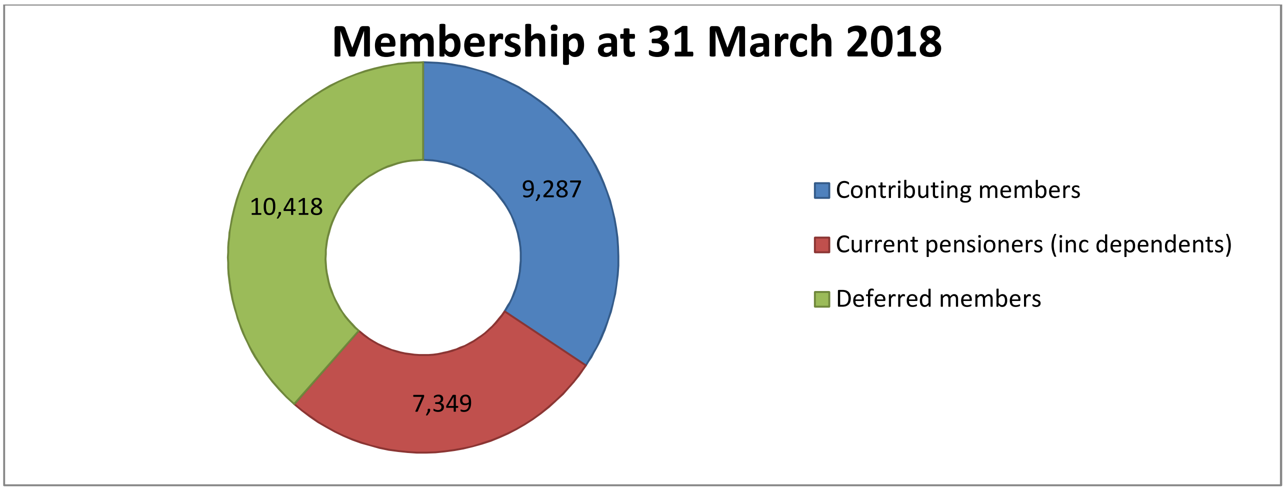
The Fund contracts out its benefits administration to LPP, a wholly owned subsidiary of the LPFA and Lancashire Pension Fund in accordance with the council's best value arrangements. The contract is managed and monitored for gathering assurance over the effective and efficient delivery of these operations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

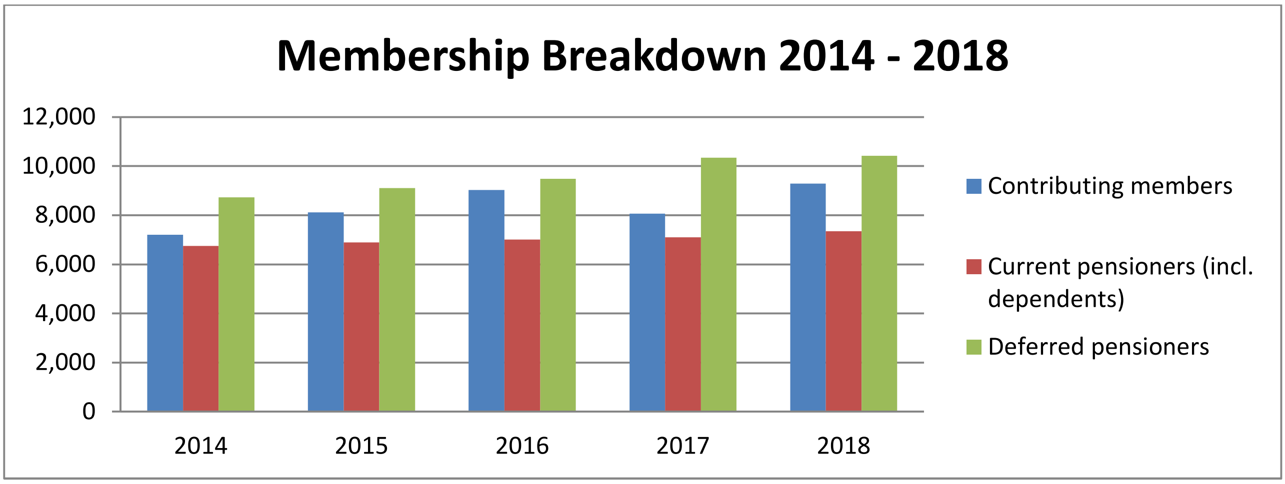
LPP continue to maintain pension scheme membership records and provide advice, benefits calculations and estimates.

The Fund had a total of 27,054 members as at 31 March 2018, an increase of 1,538 in overall membership since 31 March 2017.

## Membership statistics 2014 – 2018

| Membership Numbers as at 31 March | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Contributing members | 7,203 | 8,117 | 9,021 | 8,069 | 9,287 |
| Current pensioners (inc. dependents) | 6,746 | 6,887 | 7,011 | 7,104 | 7,349 |
| Deferred pensioners | 8,730 | 9,110 | 9,458 | 10,343 | 10,418 |
| **Total** | **22,679** | **24,114** | **25,490** | **25,516** | **27,054** |



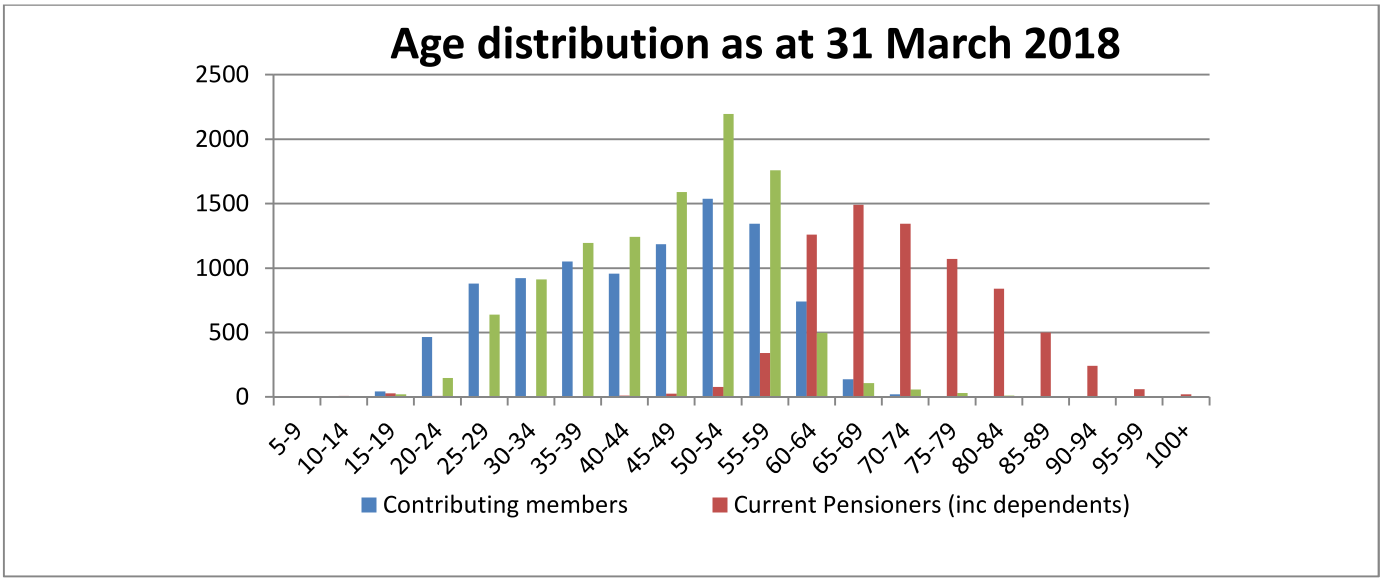

The Fund's communication campaign has been a boost to membership in recent years especially this year where the increase has been significant. The Committee recognised a decline in active membership and launched a communications campaign with the aim of improving membership levels, especially amongst 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.

## Membership Age Profile at 31 March 2018

### As at 31 March 2018

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Contributing Members | 0 | 0 | 0 | 45 | 467 | 878 | 923 | 1,056 | 956 | 1,190 | 1,535 |
| Deferred and Frozen Members | 0 | 0 | 0 | 22 | 150 | 641 | 911 | 1,205 | 1,243 | 1,596 | 2,196 |
| Pensioner Members (inc dependents) | 0 | 4 | 8 | 28 | 9 | 5 | 2 | 5 | 11 | 27 | 78 |

| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Contributing Members | 1,344 | 735 | 136 | 21 | 1 | 0 | 0 | 0 | 0 | 0 | 9,287 |
| Deferred and Frozen Members | 1,757 | 487 | 104 | 59 | 31 | 11 | 2 | 3 | 0 | 0 | 10,418 |
| Pensioner Members (inc dependents) | 346 | 1,273 | 1,486 | 1,340 | 1,069 | 838 | 498 | 240 | 60 | 22 | 7,349 |




### As at 31 March 2017

| Status (age in years) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Contributing Members | 0 | 0 | 0 | 44 | 355 | 720 | 709 | 889 | 823 | 1,120 | 1,397 |
| Deferred and Frozen Members | 0 | 0 | 0 | 29 | 192 | 654 | 922 | 1,150 | 1,267 | 1,705 | 2,224 |
| Pensioner Members (inc dependents) | 0 | 3 | 11 | 20 | 10 | 2 | 1 | 6 | 9 | 28 | 93 |

| Status (age in years) | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Contributing Members | 1,224 | 617 | 117 | 12 | 0 | 0 | 0 | 0 | 0 | 0 | 8,027 |
| Deferred and Frozen Members | 1,615 | 415 | 93 | 64 | 17 | 10 | 3 | 1 | 0 | 0 | 10,361 |
| Pensioner Members (inc dependents) | 348 | 1,210 | 1,458 | 1,311 | 1,039 | 815 | 471 | 221 | 53 | 19 | 7,128 |

# Fund Employers

LBN 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 | 25 | 1 | 27 |
| Admitted body | 18 | 7 | 29 |
| **Total** | **44** | **8** | **57** |

The rates of contribution paid by employers are determined by the Fund's actuary, in line with LGPS regulations. The rates paid in 2017/18 were set by the 2016 valuation for the 3 year period to 2020/21.

## Total Employer Contributions 2014-2018

| By year | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Employer contributions (£m) | 39.0 | 44.8 | 45.4 | 45.2 | 38.1 |

Employer contributions reduced by £7m in 2017/18 due to the fall in the deficit contribution of £9m following the 2016 valuation and an increase of £2m in normal contributions due in part from increased active membership. A breakdown of contributions by employer is included in the notes to the accounts within the financial statements. Most contributions were received by employers in a timely manner and interest was charged on three underpayments.

# Budget 2017/18

The Pension Fund Outturn for 2017/18 and budget for 2018/19 in accordance with Regulation 34(3) of the Local Government Pension Scheme.

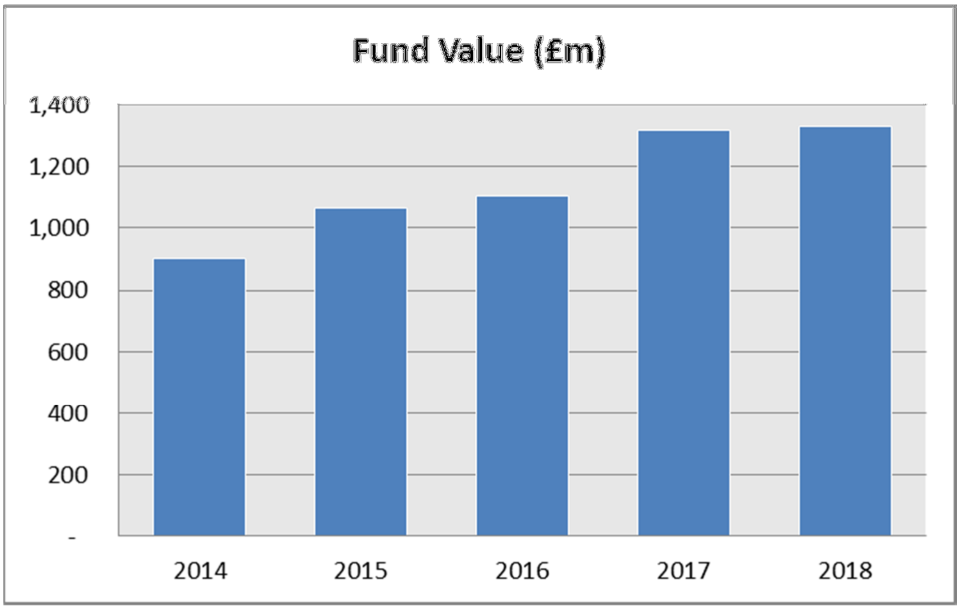
| Pension Fund Budget | 2017/18 Actual | 2018/19 Budget | 2019/20 Budget | 2020/21 Budget |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Members | (12,301) | (12,301) | (12,301) | (12,301) |
| Employers | (38,166) | (40,075) | (40,075) | (40,075) |
| Transfers In | (4,000) | (3,728) | (3,728) | (3,728) |
| | **(54,467)** | **(56,104)** | **(56,104)** | **(56,104)** |
| | | | | |
| Pensions | 41,949 | 42,788 | 43,644 | 44,517 |
| Retirement Benefit Lump Sums | 9,547 | 10,025 | 10,225 | 10,430 |
| Death Benefits | 1,272 | 1,272 | 1,272 | 1,272 |
| Transfer Out | 8,267 | 8,267 | 8,267 | 8,267 |
| | **61,035** | **62,351** | **63,408** | **64,485** |
| | | | | |
| **Net additions from dealing with members** | **6,567** | **6,247** | **7,304** | **8,381** |
| | | | | |
| Administration | 993 | 1,023 | 1,054 | 1,085 |
| Oversight & Governance | 562 | 568 | 574 | 579 |
| Investment Management Expenses * | 3,754 | 4,317 | 4,317 | 4,317 |
| **Management expenses** | **5,309** | **5,908** | **5,944** | **5,982** |
| | | | | |
| Investment Income ** | (18,614) | (21,406) | (21,406) | (21,406) |
| Taxes on Income | 398 | 398 | 398 | 398 |
| **Return on Investments** | **(18,216)** | **(21,008)** | **(21,008)** | **(21,008)** |
| | | | | |
| **Net Budget** | **(6,340)** | **(8,853)** | **(7,761)** | **(6,646)** |

* Increase in expenses relates to new fees expected to be incurred from the new investments.

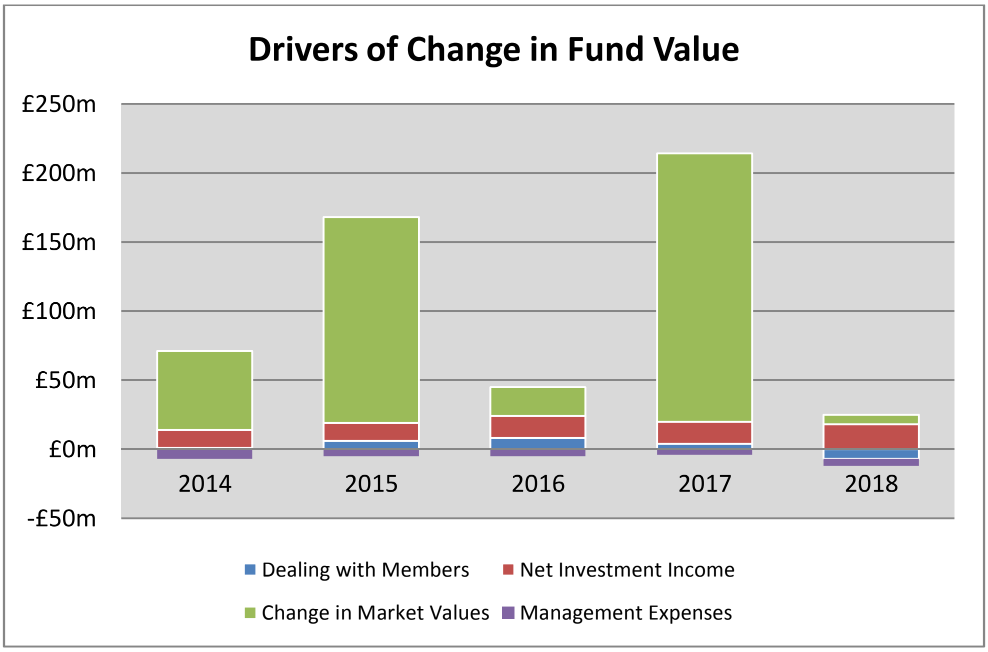
** Increase in income due to increased investment in new asset classes

# Financial Performance

Overall, the Fund's net asset value has increased by £13m to £1.33 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 £18.6m and change in market value of £6.6m, 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 2013/14.




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.

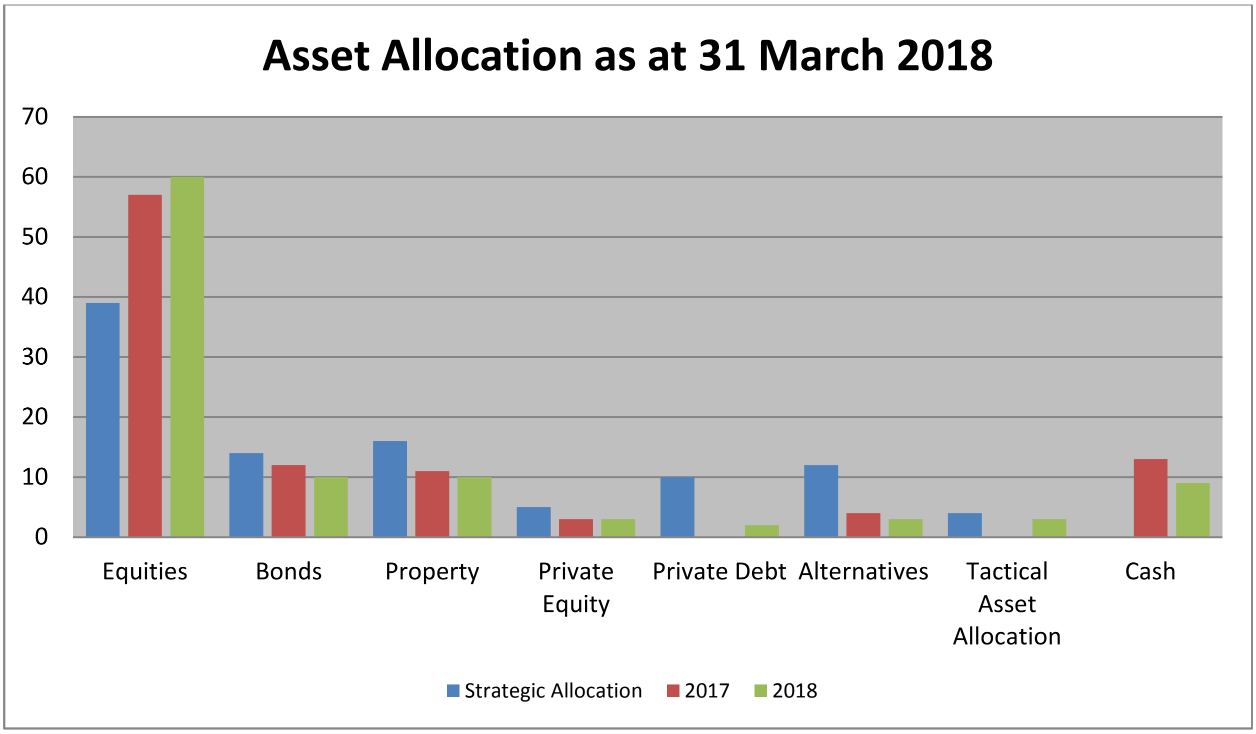
# Investment Performance

The Fund's invested assets closed the year at £1.33 billion, marginally up from last year. Overall, the Fund's performance of +1.89% fell short of the benchmark return of +4.36%. 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 2017/18 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 pension 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 | 311 | 639 | 950 |
| Bond pooled investment vehicle | 0 | 106 | 106 |
| Alternatives/private debt | 41 | 109 | 150 |
| Cash and cash equivalents | 114 | 7 | 121 |
| **Total** | **466** | **861** | **1,327** |

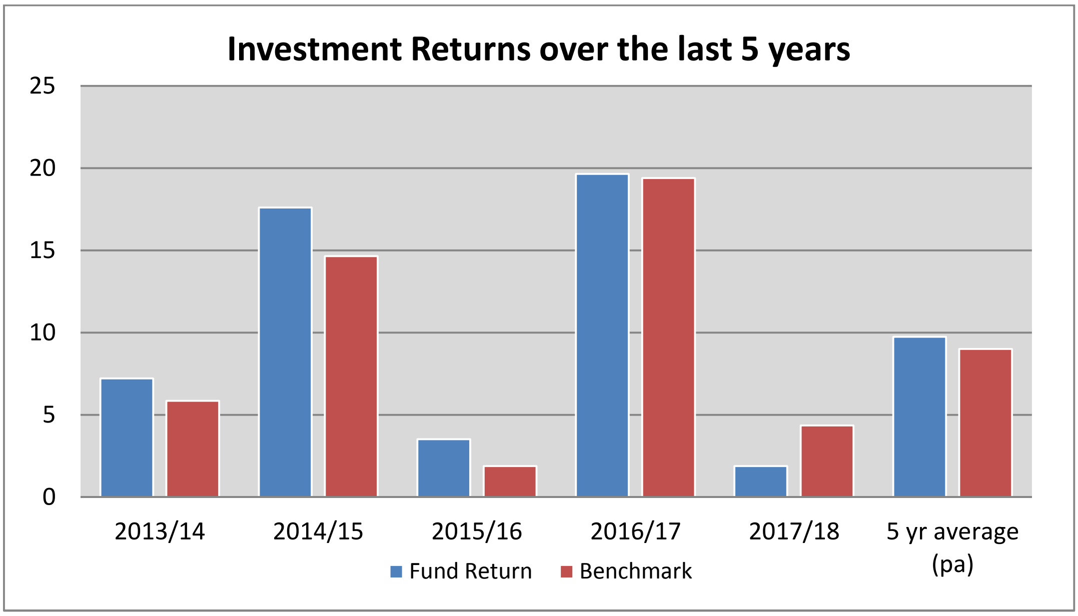
## Analysis of investment income accrued during the reporting period

| Asset type | UK £m | Non-UK £m | Total £m |
|---|---|---|---|
| Cash and cash equivalents | - | 0.5 | 0.5 |
| Diversified alternatives | 0.4 | - | 0.4 |
| Equities | 2.6 | 6.4 | 9.0 |
| Fixed interest unit trust | - | 1.3 | 1.3 |
| Index linked | - | - | - |
| Pooled fixed income | - | 3.4 | 3.4 |
| Pooled property | 3.1 | 0.2 | 3.3 |
| Private equity | 0.7 | - | - |
| **Total** | **6.8** | **11.8** | **18.6** |

## Investment Performance

Overall, the Fund's investments generated a small negative return of 1.89% against a benchmark of -4.36% due to the current economic climate. 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 on page 24.

# Investment Review 2017/18 – Barnett Waddingham

Barnett Waddingham advise 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 2018, 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

The early part of the period was influenced by Donald Trump's inauguration in January 2017, with his promised tax and spending reforms boosting US economic growth expectations and helping support the rally in US markets throughout the remainder of 2017.

On 22 December, these much debated US tax reforms were signed into law, leading some US companies to revise up their earnings forecasts for the coming year and providing a further boost to US markets.

However, stable growth in markets came to an abrupt end in late January 2018. The S&P 500 fell over 5% in the first full week of February, having already fallen nearly 4% the previous week. It appeared that markets reacted to the possibility of increased wage and price inflation in the US, potentially leading to a faster than expected path of interest rate rises. Also playing a part in the rise in investor uncertainty were comments made by outgoing Federal Reserve Chair, Janet Yellen, that asset price levels in the US looked 'elevated'.

At the start of March 2018, Donald Trump introduced the first of his long-promised tariffs on imports into the US, penalties of 25% and 10% imposed respectively on imports of steel and aluminium. The politics behind the announcement soon became clear, with China conspicuously absent from the list of countries initially exempted from the tariffs. The metal tariffs were followed by the announcement of a plan to impose tariffs on $60 billion of imports from China, leading to a fall of over 6% in the S&P 500 during the penultimate week of March.

Strong returns in the early part of January 2018 helped the S&P 500 Index post a return of only -2% over the first quarter of 2018 as a whole despite the Index falling by 6.5% during February and March. The increase in volatility showing up in one measure of market volatility, the "VIX", which increased from an all-time record low in November of 9.1 to 37.3 in February, its highest level since 2015.

As has often been the case, the patterns in the US stock market set the stage for markets across the globe. Strong positive returns from nearly all markets over the period to January 2018 were followed by falls across the board in February and March.

In the UK, the year was dominated by the Brexit negotiations. Theresa May triggered Article 50 on 29 March 2017, beginning the two year process of the UK leaving the EU and marking the start of negotiations. The announcement had been heavily advertised over the preceding months and markets barely moved. On 19 March 2018, the two parties agreed a 21 month transition period following the 2019 leaving date. Partially as a result of progress on Brexit talks and the agreement of this extension, sterling strengthened against all major currencies except the Euro over the year to 31 March 2018.

Political uncertainty continued in Europe throughout 2017. Dutch, German and Austrian elections passed without much incident as traditional parties triumphed, despite gains for insurgent populist parties.  A number of other elections produced much more surprising results, but none produced a sizeable reaction from markets.

In France, Emmanuel Macron and his newly formed party "La République En Marche!" triumphed in the presidential and parliamentary elections, while a snap general election in the UK saw the Conservative party lose its majority but retain its control of government following a coalition with the Democratic Unionist Party.  The Italian elections of March 2018 saw the 5 Star Movement gain 32% of the vote, to become comfortably the largest single party in only its second general election.

By contrast, political developments in Asia saw existing leaders strengthen their positions. Japan's Prime Minister, Shinzō Abe, called a general election for 22 October 2017, which he won with a landslide majority.  This helped the Nikkei 225 to an 11.8% local currency return over the final quarter of 2017, passing a 21 year high.  China's Communist Party announced the scrapping of the two term presidential limit, paving the way for Xi Jinping to continue as President indefinitely.

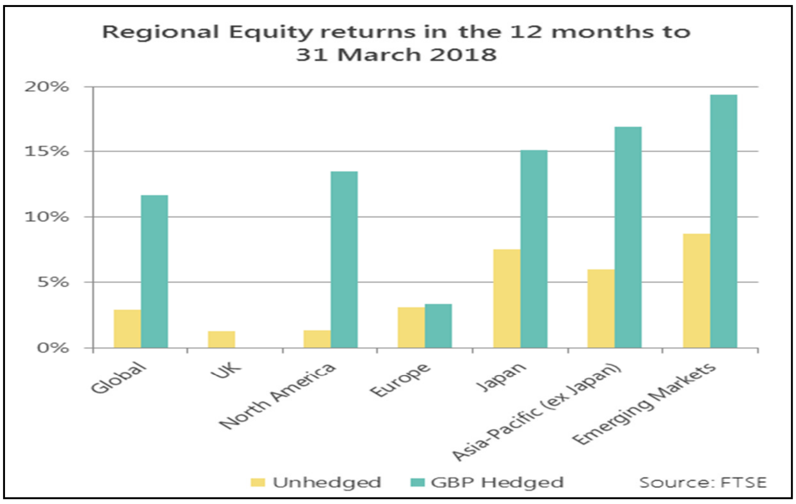
The 12 months to 31 March 2018 saw the US and UK tighten their central bank monetary policies and the ECB started to slow down its asset purchase programme.
The European Central Bank (ECB) kept its main lending rate at 0.0% throughout the period and although it extended its quantitative easing (QE) programme, it also announced a reduction in the rate of purchases to €30bn per month, effective from January 2018 to September 2018.

On 2 November 2017, the Bank of England (BoE) raised rates for the first time since the Global Financial Crisis, the increase to 0.5% being in line with market expectations.  UK CPI exceeded 3% in November but fell back to 2.7% as the effect of the post-referendum sterling devaluation passed through the economy.

The Fed continued to tighten monetary policy over the year to 31 March 2018, by raising interest rates three times, and ended the period with the rate being in the region of 1.75%. Due to the modest pace of the rate hikes and the Fed's communication with the market, the majority of the impact of each raise was priced into markets and immediate reaction muted. During the third quarter of 2017, the Fed also announced plans to begin reducing its balance sheet.  Jerome Powell replaced Janet Yellen as Chair of the Federal Reserve on 5 February 2018 and conducted his first meeting in March.

## Equities

Against this backdrop, market returns from traditional asset classes were largely positive in absolute terms over the year to 31 March 2018, with bonds producing modest positive returns.
Overall, global equities performed strongly over the year to 31 March 2018, generating 11.7% in local currency terms. Returns were positive across all geographical regions, but there was a significant differential of 18.2% between the best (Emerging Markets: 19.4%) and worst (UK: 1.2%) performing regions (in local currency terms).



## 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. All of these funds continue to successfully track their respective indices, with strong returns in the 12 months to 31 March 2018.
The Fund switched assets out of the United States Equity Fund into the Japan and Emerging Markets Equity Funds on 24 January 2018. To approximate the actual returns experienced, performance from 31 March 2017 to 31 January 2018 is shown rather than 1 year figures for the US Equity Fund. Similarly the performance from 31 January 2018 to 31 March 2018 is shown for the Japan and Emerging Markets Equity Funds rather than 1 year returns. All 5 Year returns are shown to 31 March 2018.

| Legal & General Fund | Benchmark Allocation % | 1 Year % | 5 Years % p.a. |
|---|---|---|---|
| UK Equity<br>FTSE All Share GBP | 26 | 1.3<br>1.3 | 6.8<br>6.6 |
| US Equity<br>FT: AWI North America | 0 | 19.0<br>18.9 | n/a<br>n/a |
| Europe (ex UK) Equity<br>FT: Developed Europe ex UK | 21 | 3.9<br>2.5 | 10.1<br>9.9 |
| Asia-Pacific (ex Japan) Developed Equity<br>FT: Developed Asia Pac x Jp | 25 | 2.1<br>1.9 | 6.6<br>6.5 |
| Japan Equity<br>FT AW: Japan | 17 | -1.9<br>-2.0 | n/a<br>n/a |
| Emerging Markets (GBP Hgd)<br>FTSE Emerging Markets | 11 | -5.4<br>-5.5 | n/a<br>n/a |
| **Total Mandate** | **100** | **5.6** | **10.9** |

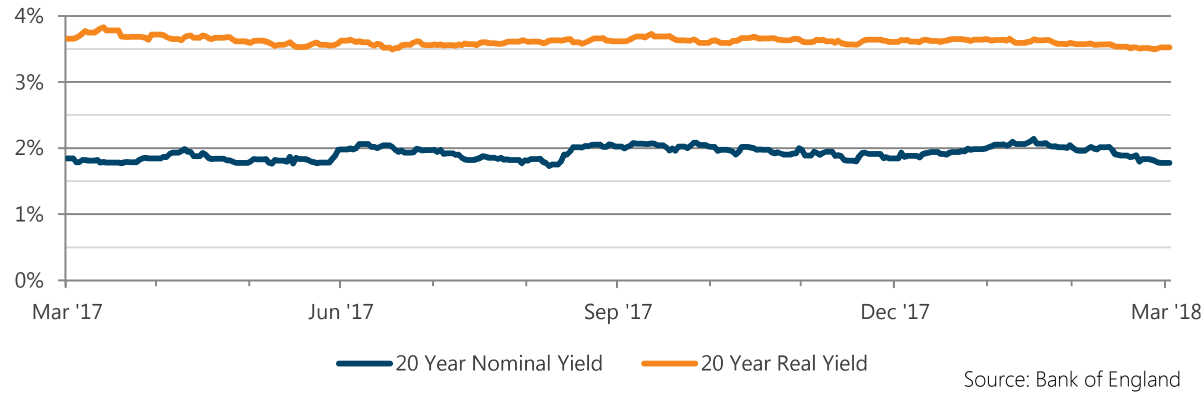
## Longview active equity

This was the Fund's largest investment at the end of March 2018 - it is actively managed and seeks to generate returns in excess of its benchmark (MSCI World). Longview delivered a return of 1.9% over the year to 31 March 2018 outperforming the benchmark by 0.7% against the benchmark and the Fund remains 3.1% p.a. ahead of its benchmark since inception. More than two thirds 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 shorter term yields rising and longer term yields falling over the year. The net impact was a small positive return (0.5%) for UK fixed interest gilts (all stocks). Inflation expectations fell marginally over the year, although the fall in yields meant that UK index-linked gilts (all stocks) also delivered a small positive return (0.5%) over the year. Corporate bond spreads were broadly unchanged over the year.

20 Year Gilt Yields over the 12 Months to 31 March 2018




Source: Bank of England

## Aberdeen bonds

At 31 March 2018 broadly 15% of the Fund's assets were invested in the Aberdeen World Opportunistic Bond Fund, managed by Aberdeen Standard Investments. 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 0.9% 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. The holding in this Fund is expected to reduce as the Fund moves to its new investment allocation.

## Legal & General index linked gilts

Around 5% of the Fund's assets were invested in Legal & General's Under 15 Year Index-Linked Gilts Index Fund, which successfully tracked its benchmark over the period.

## Alternatives

### CBRE property

The IPD UK All Property Index was up 10% over the eleven months to 28 February 2018; data for March was not available at the time of writing.

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 4.3% over 12 months and 5.2% p.a. over three years gross of fees. This compares with returns of the UK index of 10.1% and 8.1% p.a. respectively.

The C reviewed the way in which the property portfolio is structured and moved the mandate back to being actively managed with effect from 31 March 2017.

### 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 3.8% over the 12 months to 31 March 2018, lagging its benchmark return of 4.6%. Returns over a five year period were 3.3% p.a. against the benchmark of 4.7% 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 2018 was 1.6%, which was weak relative to the benchmark and historic returns, though this can be partly attributed to the stage in the lifecycle of the portfolio. The portfolios has returned 9.1% p.a. since inception, around 2% p.a. ahead of the benchmark of inflation + 4% p.a.

### Private debt (Permira, Bluebay & Brightwood)

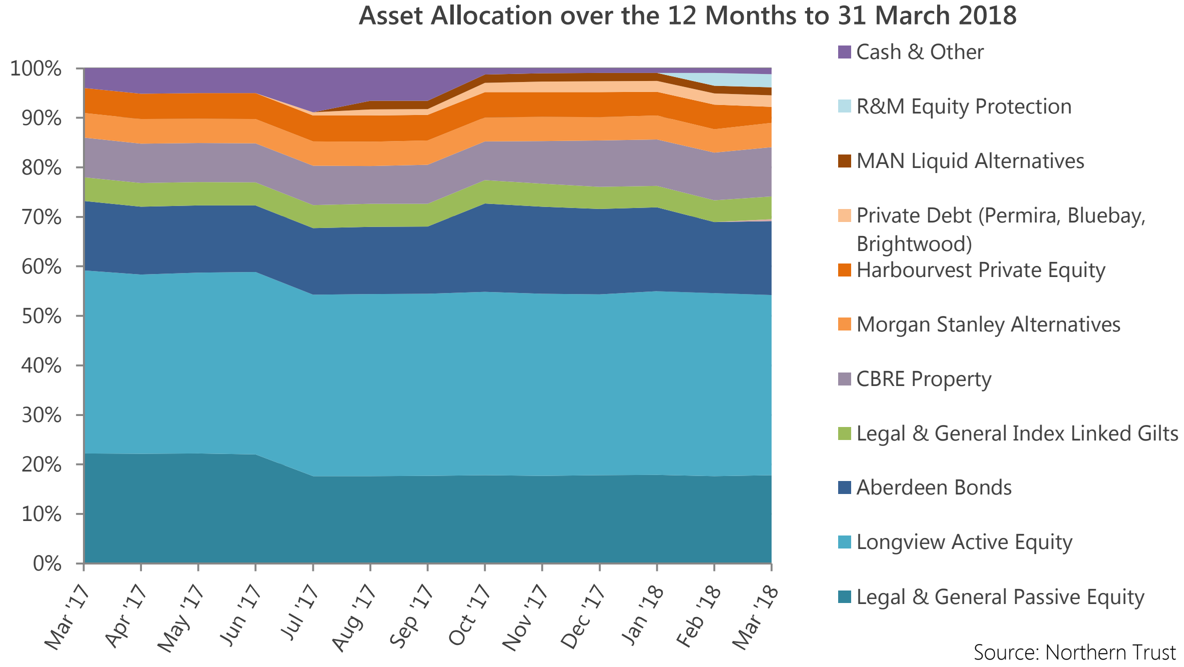
Over the period, the IAC committed assets to a private debt portfolio split equally between Permira, Bluebay and Brightwood. Each manager takes a different approach and access broadly different parts the private debt market, diversifying the Fund's portfolio.

### MAN liquid alternatives

At 31 March 2018 £21m (2%) of the Fund's assets were invested in a liquid alternatives portfolio with MAN Group, which primarily invests in hedge funds.

## Asset allocation

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



# Actuarial Statement 2017/18

## 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 by Regulation 62 of the Local Government Pension Scheme Regulations 2013 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 benefits 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.<br>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 that the funding level should be slightly higher than at 31 March 2016 although the ongoing cost is likely to have increased due to lower real discount rates.

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.

**Graeme Muir FFA**
**Partner, Barnett Waddingham LLP**

## Scheme Administration Report

On time processing in all categories of work has again exceeded 97% with an overall percentage of 99.22%. LPP also continue to process cases ahead of agreed contractual timescale with in excess of 66% of cases are being completed in advance of contractual timescales.

At the time of writing this report Annual Benefit Statements (ABS) have not been issued to members for this year. Deferred members ABS are due to go out by the 31st May 2018 and Active members ABS are due to go out by the 31st August 2018. LPP aim to be on target to meet both deadlines.

Customer satisfaction levels continue to be excellent. Only 3 complaints were received during the year, from those 3 complaints only 1 was a valid but was dealt swiftly.

**James Wilday**
**Head of Business Development and Improvement, LPP**

## LGPS Regulatory Update

**1 Amendment regulations release 19 April 2018 – to take effect 14 May 2018**

The Ministry of Housing and Communities and Local Government (MHCLG) released amendment regulations on 19 April 2018 to have effect from 14 May 2018, and whilst most of these amendments were of a technical nature the headlines are:

- Members who left with entitlement to deferred benefits prior to 1 April 2014 will be able to claim their pension from 55 albeit with reductions. This will include pension credit members and tier 3 ill health awards.
- Requirement for each fund to keep and publish a list of all admission agreement.
- Payment of an exit credit where an employer exits (ceases to employ any employees who are eligible for LGPS benefits), if on the termination assessment they are in credit a payment must be made to the employer.
- AVC's entered pre and post 1 April 2014 to be aligned.

**2 Brewster**

A court ruling from last year's update relating to a widow of a Local Government employee in the Northern Ireland Local Government Pension Scheme was made on the treatment of nomination forms for payments of dependant partner pensions has found in the members favour. We still anticipate that a minor change to the LGPS regulations will follow to cover cases where a member left before April 2014 to allow the Authority to have discretion to authorise a payment where a clear dependant partner exists - this is covered by the current regulations.

**3 Walker**

A Supreme Court ruling for a case labelled Walker v Innospec, In July, the Supreme Court handed down a judgment which has potential implications for pension schemes who offer differing survivors' pension benefits depending on whether their relationship with the originating member was a civil partnership, same sex marriage or opposite sex marriage.

The Equality Act 2010 contains an exception which made it legal for pension schemes to discriminate in the survivor benefits it offered, saying that pension schemes did not have to provide civil partners with pension benefits relating to membership accrued prior to the introduction of civil partnerships in December 2005.
The Supreme Court found that this exception was incompatible with EU law.

The case relates to a member (Mr. Walker) whose pension scheme, making use of the exception in the Equality Act 2010, would have only provided his civil partner with a survivor's pension based on his membership from 5 December 2005 upon his death. By contrast if Mr. Walker had been married to a woman, a survivor's benefit payable based on his entire membership would have been payable on his death. Following the judgment, we understand that Government lawyers are considering the possible impacts the ruling will have on the survivor pension rights offered by public service pension schemes, including the LGPS.

**4 LTA increase**

The Government increased the Lifetime allowance in line with Inflation from 6 April 2018 to the current allowance is now £1,030,000.

**5 AA no change**

There was no change to the Annual Allowance threshold of £40,000, with tapered arrangements for any member with threshold income in excess of £150,000 to a minimum of £10,000. The LPP will contact any member over or close to these limits in September and offer a drop-in session to explain the figures provided, we are finding that more scheme members are finding that they are attracting tax charges and would expect this to continue while the levels are at these levels.

**6 Exit payments**

The Government announced almost 2 years ago that they intend to introduce both a cap on all exit payments and a recovery of exit payments where a member who leaves a public-sector post on a salary in excess of £80,000 is re-employed within 1 year.

It was expected that these would be included in the amendment regulations however these have not been included in the amendment regulations discussed above, we understand this is still expected by MHCLG but no timetable has been provided.

**7 Dashboard**

Early versions of the pensions dashboard have been prepared, the approach is still that the for Defined Contributions schemes to go live in 2019 with the Public Sector and other Defined Benefit schemes following later, it has not been confirmed whether it will be compulsory.

**8 AE/Re-enrolment**

Automatic Enrolment has now been running since October 2012, with many Local Government employers now reaching their 3-year anniversary. At this point any member who has opted out of the pension scheme and is aged between 22 and State Pension age is required to be brought back into the pension scheme (they can still choose to opt out but need to make that decision once they have the details of the pension scheme from the pension provider).

Any new employers being set up are now treated as reaching their staging date on commencing employment, therefore, new academy's need to comply with Auto Enrolment as soon as they are established.

**9 Judges/Firefighters**

Both these cases were heard early in 2017 with the Judiciary winning their case and the firefighters losing their case. However, the Government appealed the judiciary decision and the Fire Brigade Union equally intending to appeal their case. It is not clear whether either decision could lead to any amendment to the LGPS for members who would reach 65 before 31 March 2022.

Eversheds have produced a bulletin covering the detail of the legal challenges, which is attached as an appendix to this report.

Workflow summary

The table below shows a summary of the total cases received and completed for the year 1 April 2017 to 31 March 2018. Further graphical representation of this information is shown on the following tables.

| Description | Received | Completed | On Time | On Time % |
|---|---|---|---|---|
| Joiners | 776 | 757 | 757 | 100 |
| Transfers In/Out | 909 | 829 | 829 | 100 |
| Retirements/Deaths | 1,021 | 950 | 950 | 100 |
| Deferred/Refunds | 1,338 | 995 | 995 | 100 |
| Estimates | 1,099 | 1,060 | 1,060 | 100 |
| Other - contractual | 4,392 | 4,306 | 4,237 | 98.40 |
| **Totals** | **9,535** | **8,897** | **8,828** | **99.22** |

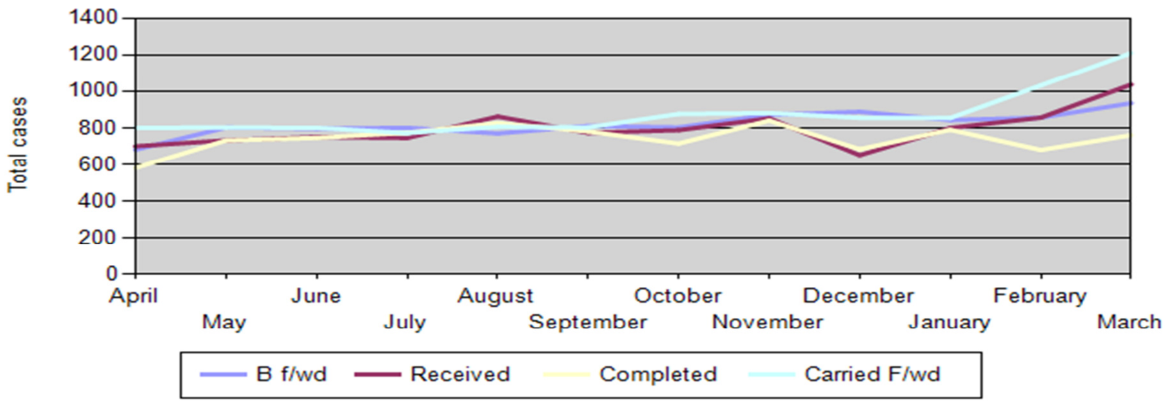
**Cases completed**

Of the 8,828 cases completed on time 5,882 were completed early as detailed below

| Description | 1 Day Early | 2 Days Early | 3 Days Early | 4+ Days Early |
|---|---|---|---|---|
| Joiners | 18 | 206 | 186 | 224 |
| Transfers In/Out | 4 | 2 | 1 | 710 |
| Retirement/Deaths | 262 | 97 | 14 | 60 |
| Deferred/Refunds | 159 | 64 | 17 | 405 |
| Estimates | 265 | 78 | 21 | 129 |
| Other - contractual | 341 | 73 | 21 | 2,525 |
| **Totals** | **1,049** | **520** | **260** | **4,053** |

**Workload History**

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



## Dispute resolution procedure

There were 7 Dispute resolutions received during the period 1st April 2017 to 31st March 2018. 7 of the 6 cases were in relation to potential ill health retirement cases and 1 was in respect of Ill health tier 3 review. Only 2 appeals were successful, 4 were rejected and there is 1 case still pending.

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 the LPP by either phone on 020 7369 6118 or by writing to Local Pensions Partnership, 2nd Floor, and 169 Union Street, London, SE1 0LL.

# Statement of Responsibilities

## The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this case, the responsible officer is the Chief Finance Officer.
- Manage its affairs in order to generate an economic, efficient and effective use of resources and to safeguard its assets; and
- Approve the Newham Pension Fund Accounts.

## The Responsibilities of the Chief Finance Officer

The Chief Finance Officer is ultimately responsible for the preparation of the Authority's Pension Fund Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the Pension Fund Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the aforementioned Code of Practice.

The Chief Finance Officer 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 (England) Regulations 2015, I certify that the accounts gives a true and fair view of the financial position of the Fund at 31st March 2018 and its income and expenditure for the year ended 31st March 2018.

Signature:

**D Baldock**
**Interim Chief Finance Officer**

Date: 25/3/19

# Auditors Report

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

We have examined the pension fund financial statements for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 27.

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 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

**Respective responsibilities of the Chief Finance Officer and the auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, 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 2017/18.

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, and Policy Statements.

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
27 March 2019

# 2017/18 PENSION FUND ACCOUNTS

| 2016/17 £000 | | Notes | 2017/18 £000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the Fund:** | | |
| 57,055 | Contributions | 7 | 50,467 |
| 3,346 | Transfers in from other pension funds | 8 | 4,000 |
| **60,401** | | | **54,467** |
| (49,176) | Benefits | 9 | (52,768) |
| (7,633) | Payments to and on account of leavers | 10 | (8,267) |
| **(56,809)** | | | **(61,035)** |
| **3,592** | **Net deductions from dealing with members** | | **(6,568)** |
| (4,413) | Management expenses | 11 | (5,309) |
| | **Returns on investments** | | |
| 16,597 | Investment income | 12 | 18,614 |
| (238) | Taxes on income | 13 | (398) |
| 194,307 | Profit and losses on disposal of investments and changes in the market value of investments | 14a | 6,611 |
| **210,666** | **Net return on investments** | | **24,827** |
| **209,845** | **Net increase in the assets available for benefits during the year** | | **12,950** |
| **1,105,491** | **Opening net assets of the fund** | | **1,315,336** |
| **1,315,336** | **Closing net assets of the fund** | | **1,328,286** |

## Net Asset Statement

| 2016/17 £000 | | Notes | 2017/18 £000 |
|---|---|---|---|
| 1,163,630 | Investment assets | 14a | 1,251,915 |
| 164,043 | Cash deposits | 14a | 74,768 |
| **1,327,673** | **Total invested assets** | | **1,326,683** |
| 6,576 | Current assets | 21 | 5,499 |
| (18,913) | Current liabilities | 22 | (3,896) |
| **(12,337)** | **Net current assets** | | **1,603** |
| **1,315,336** | **Net assets of the fund available to fund benefits at 31 March** | | **1,328,286** |

# NOTES TO THE PENSION FUND

## Note 1: Description of Fund

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

The following description of the fund is a summary only, for more detail reference should be made to the Fund's Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme ('LGPS') Regulations.

### a) General

The scheme 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, police officers and firefighters are not members as they are included within other national pension schemes.

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

### b) Governance

The Authority has delegated management of the Fund to the Committee who decide on the investment policy most suitable to meet the liabilities of the Fund and have ultimate responsibility of the investment policy. The Committee is made up of eight Members, each of whom has equal voting rights and three co-opted members, who do not have voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Chief Finance Officer and seeks advice, where necessary, from the Fund's appointed investment advisors, fund managers and the actuary.

In line with the provision of the Public Service Pension Act 2013 the Authority has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Committee. Two members of the Board are active members of the LGPS pension scheme.

### c) 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 2017/18 12 new employers joined the Fund.
Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

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

There are 57 employer organisations (see Note 19) within the Fund including the Local Authority itself, as detailed below.

| Membership | 31 March 2017 | 31 March 2018 |
|---|---|---|
| Number of employers with active members | 40 | 46 |
| Number of employees in scheme | | |
| London Borough of Newham | 6,878 | 7,073 |
| Other employers | 1,149 | 2,214 |
| **Total** | **8,027** | **9,287** |
| Number of pensioners | | |
| London Borough of Newham | 6,826 | 7,018 |
| Other employers | 302 | 331 |
| **Total** | **7,128** | **7,349** |
| Deferred pensioners | | |
| London Borough of Newham | 9,429 | 9,380 |
| Other employers | 932 | 1,038 |
| **Total** | **10,361** | **10,418** |
| | **25,516** | **27,054** |

### d) 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 2018. 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 full pensionable pay. The 2016 valuation has been completed; new employer contribution rates came into effect on 1 April 2017.

### e) Benefits

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

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| **Pension** | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| **Lump sum** | Automatic lump sum of 3 x annual pension.<br>In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum.<br>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

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 under the scheme 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.

**f) Investment Principles**

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Fund. The Investment Strategy Statement is available on the Fund's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

http://www.yourpension.org.uk/handr/Newham-Publications/Newham-Fund-Members.aspx
The Committee has delegated management of the Fund's investments to external investment managers (see Note 14b) appointed in accordance with the above Regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

## Note 2: Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* (the code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

A new standard has been introduced but not yet adopted IFRS9 *Financial Instruments* (related to the classification and measurement of financial assets after initial recognition) as amended in the 2018/19 code. The code requires implementation of disclosure from 1 April 2018, changes are not considered to have a material effect on accounts for 2017/18.

The accounts summarise the transactions of the Fund and 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.

## Note 3: Summary of Significant Accounting Policies

### Fund account – revenue recognition

**a) Contribution income**
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund's actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

**b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The LGPS Regulations 2013 (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

#### c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

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 (NAS) as an investment 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 NAS as an investment asset.

Movement in the net market value of investments and changes in the net market value of investments 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.

#### e) Taxation

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

#### f) Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. These are detailed as:

### Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged 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 oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The costs of obtaining investment advice from external advisors are included in oversight and governance costs.

### Investment management expenses

All investment management expenses are accounted for on an accruals basis. 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 NAS 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 2017/18 £1,056,644 of fees is based on such estimates (2016/17: £1,206,932).

## Net assets statement

### g) Financial assets

Financial assets are included in the NAS on a best available pricing 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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

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**

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

**l) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's 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. The Fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.
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 23).

**n) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Authority to charge administrations costs to the Fund. A proportion of the relevant Authority costs have been charged to the Fund on the basis of actual time spent on Pension Fund business.

## Note 4: Critical Judgements in applying accounting policies

### Pension fund liability

The Fund's liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

## 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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the NAS at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Actuarial present value of promised retirement benefits** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension 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 net pension liability of changes in individual assumptions can be measured. For instance:<br>• a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £43m<br>• a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £4.2m, and<br>• a one year increase in assumed life expectancy would increase the liability by approximately £85m. |
| **Private equity** | 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 65.4m. There is a risk that this investment may be under or overstated in the accounts. |
| **Diversified Alternative Fund** | 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 £35.3m. 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 +/- £3m. |

## 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

| **2016/17 £000** | **By Category** | **2017/18 £000** |
|---|---|---|
| 11,901 | Employees contributions | 12,301 |
| **11,901** | **Employees contributions** | **12,301** |
| 24,730 | Normal contributions | 26,448 |
| 18,959 | Deficit recovery contributions | 10,030 |
| 1,465 | Augmentation contributions | 1,688 |
| **45,154** | **Total Employers contributions** | **38,166** |
| **57,055** | **Total** | **50,467** |

| **2016/17 £000** | **By Authority** | **2017/18 £000** |
|---|---|---|
| 51,156 | Administering Authority | 40,948 |
| 1,407 | Admitted Body | 2,910 |
| 4,492 | Scheduled Body | 6,609 |
| **57,055** | **Total** | **50,467** |

## Note 8: Transfers in from other Pension Funds

| **2016/17 £000** | | **2017/18 £000** |
|---|---|---|
| 3,346 | Individual transfers | 4,000 |
| **3,346** | **Total** | **4,000** |

## Note 9: Benefits Payable

| **2016/17 £000** | **By category** | **2017/18 £000** |
|---|---|---|
| (40,256) | Pensions | (41,949) |
| (7,447) | Commutation and lump sum retirement benefits | (9,547) |
| (1,473) | Lump sum death benefits | (1,272) |
| **(49,176)** | **Total** | **(52,768)** |

| **2016/17 £000** | **By authority** | **2017/18 £000** |
|---|---|---|
| (46,771) | Administering Authority | (50,588) |
| (465) | Admitted bodies | (512) |
| (1,940) | Scheduled bodies | (1,668) |
| **(49,176)** | **Total** | **(52,768)** |

## Note 10: Payments to and on account of leavers

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (293) | Refunds to members leaving service | (256) |
| (7,340) | Individual transfers | (8,011) |
| **(7,633)** | **Total** | **(8,267)** |

## Note 11: Management Expenses

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (392) | Administrative costs | (993) |
| (3,403) | Investment management expenses | (3,754) |
| (618) | Oversight and governance costs | (562) |
| **(4,413)** | **Total** | **(5,309)** |

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (see Note 14a).

## 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 edition).*

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (3,284) | Management Expenses | (3,586) |
| (119) | Custody fees | (168) |
| **(3,403)** | **Total** | **(3,754)** |

## Note 12: Investment Income

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| 4,032 | Overseas fixed interest unit trust | 1,340 |
| - | Index linked | 30 |
| 8,571 | Equity dividends | 8,953 |
| 3,022 | Pooled property investments | 3,347 |
| - | Pooled fixed income* | 3,354 |
| - | Private equity | 40 |
| - | Private debt | 677 |
| (45) | Diversified alternatives | 361 |
| 1,017 | Interest on cash deposits | 512 |
| **16,597** | **Total** | **18,614** |

*Pooled fixed income has largely increased in 17/18 as prior year it was included within equity dividends.

## Note 13: Taxes on Income

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| (238) | Withholding tax | (398) |
| **(238)** | **Total** | **(398)** |

## Note 14a: Reconciliation of Movements in Investments and Derivatives

| | 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** |
| 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** |

| | Market value as at 31 March 2016 | 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 2017 |
|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| Equities | 349,447 | 81,850 | (79,747) | 100,428 | 451,978 |
| Fixed Interest Securities | - | 127,812 | (61,055) | (4,470) | 62,287 |
| Pooled Investments | 321,393 | 543,294 | (479,449) | 67,891 | 453,129 |
| Pooled property Investments | 86,926 | 8,911 | (3,409) | 2,685 | 95,113 |
| Overseas private equity/infrastructure | 70,512 | 4,874 | (43,139) | 5,036 | 37,283 |
| Overseas diversified alternatives | 47,181 | 22,947 | (22,467) | 10,828 | 58,489 |
| London collective investment vehicle | 150 | - | - | - | 150 |
| | **875,609** | 789,688 | (689,266) | 182,398 | **1,158,429** |
| Forward currency contracts | 423 | 14,334 | (6,063) | (6,735) | 1,959 |
| | **876,032** | **804,022** | **(695,329)** | **175,663** | **1,160,388** |
| Other Investment balances: | | | | | |
| Cash deposits | 216,697 | | | 19,873 | 164,043 |
| Investment income due | 2,195 | | | | 2,202 |
| Amount receivable for sales of investments | - | | | (2) | 1,034 |
| Spot FX Contracts | - | | | (1,191) | 6 |
| | **1,094,924** | | | **194,307** | **1,327,673** |

## Note 14b: Analysis of Investments

| Market Value as at 31 March 2017 £000 | Analysis of Investments | Market Value as at 31 March 2018 £000 |
|---|---|---|
| | **Equities** | |
| 70,369 | UK quoted | 66,192 |
| 381,608 | Overseas quoted | 410,306 |
| **451,977** | | **476,498** |
| | **Fixed interest securities** | |
| 62,287 | Overseas public sector quoted | 45,546 |
| **62,287** | | **45,546** |
| | **Pooled funds - additional analysis** | |
| 119,021 | UK Equity unit trusts | 161,251 |
| 109,540 | Overseas fixed interest unit trusts | 106,413 |
| 224,568 | Overseas equity unit trusts | 135,037 |
| - | Overseas managed alternatives | 21,429 |
| **453,129** | | **424,130** |
| | **Pooled property investments** | |
| 78,800 | UK pooled property investments | 83,459 |
| 16,313 | Overseas pooled property investments | 47,738 |
| **95,113** | | **131,197** |
| | **Private equity/debt** | |
| 37,283 | Overseas private equity | 35,308 |
| - | Private debt | 30,096 |
| **37,283** | | **65,404** |
| | **Diversified alternatives** | |
| 58,489 | Diversified alternatives | 62,883 |
| **58,489** | | **62,883** |
| | **London collective investment vehicle** | |
| 150 | London collective investment vehicle | 150 |
| **150** | | **150** |
| | **Cash and cash equivalents** | |
| 89,265 | UK Cash and Bank Deposits | 67,452 |
| 74,779 | Overseas Cash and Bank Deposits | 7,316 |
| **164,044** | | **74,768** |
| | **Other investment assets** | |
| 1,959 | Forward currency contracts | 4,144 |
| 6 | Spot FX Contracts | - |
| 2,202 | Investment income due | 2,589 |
| 1,034 | Amount receivable for sales | 40,536 |

| Market Value as at 31 March 2017 £000 | Analysis of Investments | Market Value as at 31 March 2018 £000 |
|---|---|---|
| **5,201** | | **47,269** |
| | **Investment liabilities** | |
| - | Derivative liabilities | (153) |
| - | Spot currency contracts | (289) |
| - | Amounts payable for purchases | (720) |
| **-** | | **(1,162)** |
| **1,327,673** | **Total investment assets** | **1,326,683** |

NB: the presentation of Note 14b has been updated in 2017/18 to better reflect the asset classes, and enable direct comparison to the custodian reporting – this does not affect the amounts within the accounts.

### Investments analysed by fund manager

| Market value as at 31 March 2017 £000 | % | Fund manager | % | Market value as at 31 March 2018 £000 |
|---|---|---|---|---|
| 175,399 | 13.2 | Aberdeen Standard | 14.9 | 198,008 |
| 16 | - | Baring | - | 22 |
| - | - | Bluebay | 0.3 | 4,612 |
| - | - | Brightwood | 0.5 | 6,312 |
| - | - | Brockton | 0.4 | 5,219 |
| 99,927 | 7.5 | CBRE | 9.6 | 126,992 |
| 66,229 | 5.0 | HarbourVest | 3.3 | 43,441 |
| 39,000 | 2.9 | In-house temporary cash deposits | - | - |
| 343,589 | 25.9 | Legal and General (LGIM) | 22.3 | 296,292 |
| 150 | - | London Collective Investment Vehicle | - | 150 |
| 473,906 | 35.7 | Longview | 36.4 | 483,443 |
| - | - | Man FRM | 1.6 | 21,429 |
| 62,989 | 4.7 | Morgan Stanley | 4.9 | 65,146 |
| 66,468 | 5.1 | Northern Trust cash deposits | 1.7 | 20,884 |
| - | - | Permira | 1.5 | 19,733 |
| - | - | River & Mercantile | 2.6 | 35,000 |
| **1,327,673** | **100** | **Total** | **100** | **1,326,683** |

### Individual investments exceeding 5% of net assets

| Fund manager | Asset name | MV at 31 March 2018 £000 | Percentage of fund % |
|---|---|---|---|
| Aberdeen Standard | World Opportunistic Bond | 106,413 | 8 |

## Note 14c: Property Holdings

The Fund's investment in property portfolio comprises investments in pooled property funds and no directly owned properties.

## Note 14d: Stock Lending

The Fund does not carry out stock lending directly, the Fund is an investor of a pooled fund with the passive equity manager, Legal and General Investment Management (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 2018, the value of quoted equities on loan was £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.

**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 | 121,211 | USD | (164,758) | 3,806 | (6) |
| Up to one month | USD | 100,416 | GBP | (71,383) | 320 | (145) |
| One to six months | GBP | 50,163 | USD | (70,580) | 18 | - |
| One to six months | GBP | 1,880 | EUR | (2,141) | - | (2) |
| **Open forward currency contracts at 31 March 2018** | | | | | **4,144** | **(153)** |
| **Net forward currency contracts at 31 March 2018** | | | | | | **3,991** |
| **Prior year comparative** | | | | | | |
| Open forward currency contracts at 31 March 2017 | | | | | **1,959** | **-** |
| Net forward currency contracts at 31 March 2017 | | | | | | **1,959** |

## Note 16: Fair Value – Basis of Valuation

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

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| 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 | Fixed income securities are priced based on evaluated prices provided by independent pricing services. | 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 and property funds | Level 2 | Closing bid price where bid and offer are published | NAV-based pricing set on a forward pricing basis | Not required |
| 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)* | EBITDA multiple<br>Revenue multiple<br>Discount for lack of marketability<br>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 2018.

| Description of asset | Assessed valuation range (+/) | Value as 31 March 2018 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | | £000 | £000 | £000 |
| Pooled investments-hedge funds | 5% | 17,318 | 18,184 | 16,452 |
| Private equity | 10% | 35,307 | 38,838 | 31,776 |
| Property funds | 10% | 101,192 | 111,311 | 91,073 |
| Private debt* | 0.2% | 30,096 | 30,156 | 30,036 |
| **Total** | | **183,913** | **198,489** | **169,337** |

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

## Note 16a: Fair Value Hierarchy

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

**Level 1 –** Assets and liabilities at level 1 are those where the fair values are derived from adjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 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 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 |
| Loans and receivables | 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** |

| | Quoted market price | Using observable inputs | With significant observable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2017** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through profit and loss | 519,821 | 754,441 | 54,754 | 1,329,016 |
| Loans and receivables | 124,834 | 1,034 | - | 125,868 |
| Financial liabilities at fair value through profit and loss | - | (127,211) | - | (127,211) |
| **Net financial assets** | **644,655** | **628,264** | **54,754** | **1,327,673** |

# Note 16b: Fair Value Hierarchy

| | Market Value as at 31/03/2017 £000 | Transfers in/out of level 3 £000 | Purchases £000 | Sales £000 | Unrealised gains (losses) £000 | Realised gains (losses) £000 | Market Value as at 31/03/2018 £000 |
|---|---|---|---|---|---|---|---|
| Pooled investments-hedge funds | 17,472 | - | 6,700 | (6,391) | (2,246) | 1,783 | 17,318 |
| Private equity | 37,283 | - | 5,475 | (10,989) | (2,830) | 6,368 | 35,307 |
| Property funds | 88,442 | - | 39,763 | (27,770) | (9,276) | 10,033 | 101,192 |
| Private debt | - | - | 34,801 | (4,313) | (392) | - | 30,096 |
| **Total** | **143,197** | - | **86,739** | **(49,463)** | **(14,744)** | **18,184** | **183,913** |

(a) 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 NAS heading.

| Market value as at 31 March 2017 | | | | Market value as at 31 March 2018 | | |
|---|---|---|---|---|---|---|
| **Fair value through profit and loss £000** | **Loans and receivables £000** | **Financial liabilities at amortised cost £000** | | **Fair value through profit and loss £000** | **Loans and receivables £000** | **Financial liabilities at amortised cost £000** |
| | | | **Financial assets** | | | |
| 451,978 | - | - | Equities | 476,498 | - | - |
| 62,287 | - | - | Fixed Interest Securities | 45,546 | - | - |
| 453,129 | - | - | Pooled funds | 424,130 | - | - |
| 95,113 | - | - | Pooled property Investments | 131,197 | - | - |
| 37,283 | - | - | Private equity/debt | 65,404 | - | - |
| 58,489 | - | - | Diversified alternatives | 62,883 | - | - |
| 150 | - | - | London Collective Investment Vehicle | 150 | - | - |
| - | 171,574 | - | Cash and cash equivalents | | 74,768 | - |
| 1,959 | - | - | Forward currency contracts | 4,144 | - | - |
| 6 | - | - | Spot currency contracts | | - | - |
| 2,202 | - | - | Investment income due | 2,589 | - | - |
| 1,034 | - | - | Amounts receivable for sales | 40,536 | - | - |
| - | 1,116 | - | Current Assets | | 5,034 | - |
| **1,163,630** | **172,690** | **-** | **Total Financial Assets** | **1,253,077** | **79,802** | **-** |
| | | | **Financial liabilities** | | | |
| - | - | - | Derivative liabilities | (153) | - | - |
| - | - | - | Amounts payable for purchases | | - | (720) |
| - | - | (20,984) | Spot currency contracts | (289) | (3,896) | |
| **-** | **-** | **(20,984)** | **Total Financial liabilities** | **(442)** | **(3,896)** | **(720)** |
| **1,163,630** | **172,690** | **(20,984)** | **Total** | **1,252,635** | **75,906** | **(720)** |

## Note 17a: Net Gains and Losses on Financial Instruments

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 175,663 | Fair value through profit and loss | 5,557 |
| 18,644 | Loans and receivables | 1,054 |
| **194,307** | **Total** | **6,611** |

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 Authority manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions 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 general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

#### Price risk

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

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

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 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** |

| Asset type | Market value as at 31 March 2017 £000 | Value on 10% price increase £000 | Value on 10% price decrease £000 |
|---|---|---|---|
| Cash and cash equivalents | 164,043 | 180,447 | 147,639 |
| **Investment portfolio assets:** | | | |
| UK quoted equities | 70,369 | 77,406 | 63,332 |
| Overseas quoted equities | 381,608 | 419,769 | 343,448 |
| Overseas public sector quoted | 62,287 | 68,516 | 56,058 |
| Overseas fixed income unit trusts | 109,540 | 120,494 | 98,586 |
| UK equity unit trust | 119,021 | 130,923 | 107,119 |
| Overseas equity unit trusts | 224,568 | 247,024 | 202,111 |
| UK pooled property investments | 78,800 | 86,680 | 70,920 |
| Overseas pooled property investments | 16,313 | 17,944 | 14,682 |
| Overseas private equity | 37,283 | 41,012 | 33,555 |
| London Collective Investment Vehicle | 150 | 165 | 135 |
| Overseas diversified alternatives | 58,489 | 64,338 | 52,640 |
| Forward currency contracts | 1,959 | 2,155 | 1,763 |
| Spot FX contracts | 7 | 8 | 6 |
| Investment income due | 2,202 | 2,422 | 1,982 |
| Amounts receivable for sales | 1,034 | 1,137 | 930 |
| **Total investment assets** | **1,327,673** | **1,460,440** | **1,194,906** |

### 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 interest rate risk is routinely monitored by the Authority and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

| | Market value as at 31 March 2018 £000 | Value on 1% price increase £000 | Value on 1% price decrease £000 |
|---|---|---|---|
| **Asset type** | | | |
| Cash and Cash equivalents | 74,768 | 75,516 | 74,020 |
| Fixed interest securities | 106,413 | 107,478 | 105,349 |
| Cash balances | 1,599 | 1,615 | 1,583 |
| **Total** | **182,780** | **184,609** | **180,952** |

| | Market value as at 31 March 2017 £000 | Value on 1% price increase £000 | Value on 1% price decrease £000 |
|---|---|---|---|
| **Asset type** | | | |
| Cash and Cash equivalents | 164,043 | 165,683 | 162,403 |
| Fixed interest securities | 62,287 | 62,910 | 61,664 |
| Cash balances | 4,570 | 4,616 | 4,538 |
| **Total** | **230,900** | **233,209** | **228,605** |

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 15). The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

| 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** |

| Asset type | Market value as at 31 March 2017 £000 | Value on 10% price increase £000 | Value on 10% price decrease £000 |
|---|---|---|---|
| Overseas quoted equities | 381,609 | 419,770 | 343,449 |
| Overseas public sector quoted | 62,287 | 68,516 | 56,058 |
| Overseas fixed interest unit trusts | 109,541 | 120,495 | 98,586 |
| Overseas equity unit trusts | 224,568 | 247,023 | 202,110 |
| Overseas pooled property investments | 16,313 | 17,944 | 14,682 |
| **Total** | **794,318** | **873,748** | **714,885** |

### 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.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

| Summary | Rating | Asset value as at 31 March 2017 £000 | Asset value as at 31 March 2018 £000 |
|---|---|---|---|
| **Held with Custodian** | | | |
| Northern Trust Global Investments (NTGI) Cash Fund | AAA | 112,120 | 46,701 |
| Northern Trust custody cash accounts | AAA | 3,722 | 28,067 |
| **Money market funds** | | | |
| Federated Prime Rate | AAA | 614 | 1,124 |
| Standard Life | AAA | 3,740 | 10 |
| **Bank deposit accounts** | | | |
| Cash (externally held) | | 4,062 | - |
| **Bank current accounts** | | | |
| Lloyds | AAA | - | 465 |
| **Total** | | **124,258** | **76,367** |

**Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates and the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Authority has immediate access to its Pension Fund cash holdings.

The Fund also has access to a £0.5m 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 2018 the balance on this facility stood at £0 (31 March 2017: £0). As these borrowings are of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

**b) Refinancing risk**

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

# Note 19: Funding Arrangements

In line with regulation 57(1) (d) of 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 the administering Authority considers 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. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. 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.

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 2016/17 £000s | Employee Contribution 2017/18 £000s | Employer Contribution 2016/17 £000s | Employer Contribution 2017/18 £000s |
|---|---|---|---|---|---|---|---|
| 1. | Active Newham | Admitted | 17.6 | 18 | 13 | 46 | 115 |
| 2. | Agate Momentum Trust | Scheduled | 18.6 | - | 8 | - | 27 |
| 3. | Better Together | Admitted | 12.0 | 6 | 9 | 10 | 17 |
| 4. | Birkin Services | Admitted | 17.7 | 2 | - | 10 | 2 |
| 5. | Bobby Moore Academy | Scheduled | 12.0 | - | 6 | - | 11 |
| 6. | Boleyn Trust | Scheduled | 23.8 | 13 | 141 | 41 | 471 |
| 7. | Brampton Manor Primary School | Scheduled | 23.5 | 65 | 73 | 220 | 253 |
| 8. | Britannia Education Trust | Scheduled | 22.1 | - | 17 | - | 55 |
| 9. | Burnt Mill Academy Trust | Scheduled | 24.1 | - | 42 | - | 140 |
| 10. | Carpenters TMO | Admitted | 15.0 | - | 6 | 28 | 1 |
| 11. | Change Grow Live | Admitted | 14.7 | 4 | 5 | 9 | 9 |
| 12. | Chobham Academy | Scheduled | 12.0 | 63 | 58 | 120 | 113 |
| 13. | Churchill | Admitted | 25.3 | 2 | 1 | 11 | 9 |
| 14. | Community Schools Trust | Scheduled | 19.3 | 15 | 50 | 48 | 145 |
| 15. | Education Links Free School | Scheduled | 13.5 | - | 7 | - | 15 |
| 16. | Early Start | Admitted | 14.5 | - | 15 | - | 32 |
| 17. | East London Arts and Music School* | Scheduled | 12.0 | 5 | - | 10 | 1 |
| 18. | East London Science School | Scheduled | 15.9 | 14 | 28 | 22 | 59 |
| 19. | EKO Trust | Scheduled | 15.1 | 32 | 120 | 98 | 275 |
| 20. | Enabled Living | Admitted | 18.5 | - | 40 | - | 132 |
| 21. | FM Conway* | Admitted | - | - | - | - | (204) |
| 22. | iXact | Admitted | 20.2 | - | 86 | - | 305 |
| 23. | Langdon Academy | Scheduled | 23.5 | 104 | 112 | 387 | 417 |
| 24. | London Borough of Newham | Administering Authority | 20.5 | 10,413 | 9,829 | 40,744 | 31,119 |
| 25. | Leading Learning Trust | Scheduled | 17.2 | 65 | 78 | 201 | 221 |
| 26. | Learning in Harmony MAT | Scheduled | 19.8 | 160 | 193 | 524 | 631 |
| 27. | London Academy of Excellence | Scheduled | 12.0 | 17 | 19 | 34 | 36 |
| 28. | London Design and Engineering | Scheduled | 12.0 | 6 | 21 | 11 | 37 |
| 29. | London Network for Pest Solution | Admitted | 14.7 | 2 | 19 | 5 | 45 |
| 30. | Lunchtime Company* | Admitted | 15.8 | - | - | 50 | (50) |
| 31. | Mint | Admitted | 20.4 | - | 91 | - | 327 |
| 32. | Mitie | Admitted | 20.2 | 6 | 6 | 15 | 17 |

| Name of Body | Scheduled or Admitted | Contribution Rates % | Employee Contribution 2016/17 £000s | Employee Contribution 2017/18 £000s | Employer Contribution 2016/17 £000s | Employer Contribution 2017/18 £000s |
|---|---|---|---|---|---|---|
| 33. Newham College of Further Education | Scheduled | 16.7 | 326 | 375 | 812 | 912 |
| 34. Newham Collegiate | Scheduled | 18.4 | - | 5 | - | 14 |
| 35. NewVic | Scheduled | 14.2 | 153 | 161 | 284 | 349 |
| 36. New Vision MAT | Scheduled | 20.1 | - | 20 | - | 72 |
| 37. Newham Partnership Working | Admitted | 20.2 | 198 | 181 | 742 | 530 |
| 38. Oasis Academy | Scheduled | 12.0 | 6 | 11 | 12 | 21 |
| 39. Olive Dining | Admitted | 22.4 | 9 | 6 | 39 | 37 |
| 40. Our Lady of Grace MAT | Scheduled | 25.5 | 53 | 59 | 220 | 248 |
| 41. Pabulum | Admitted | 22.9 | 4 | 2 | 14 | 8 |
| 42. Public Realm | Admitted | 17.1 | 34 | 118 | 92 | 380 |
| 43. RM Education | Admitted | 12.0 | 5 | 5 | 16 | 38 |
| 44. School 21 | Scheduled | 12.0 | 57 | 72 | 106 | 137 |
| 45. Stratford Academy | Scheduled | 15.6 | 37 | 44 | 150 | 111 |
| 46. Tapscott Leading Trust | Scheduled | 19.7 | - | 63 | - | 216 |
| 47. The Good Support Company | Admitted | 19.3 | - | 81 | - | 305 |
| 48. Wilson Jones | Admitted | 14.5 | 3 | 3 | 15 | 8 |
| **Total** | | | **11,901** | **12,301** | **45,154** | **38,166** |

* these employers had no active members in 2017/18.
NB: The 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 2016/17 or 2017/18 but do have deferred, pensioner, dependant or frozen members;

- 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

| | | |
|---|---|---|
| Investment Return (Discount rate) | 5.4% | Based on 20-year bond returns extrapolated to reflec the duration of the Fund's liabilities |
| Inflation | 3.0% | Assumed to be CPI |
| Salary increases | 3.9% | 1.5% pa over CPI |
| Pension increases | 2.4% | In line with CPI - assumed be 0.9% less than RPI |

### Mortality assumptions

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

| Mortality assumption at age 65 | Male | Female |
|---|---|---|
| Current pensioners | 22.4 years | 24.9 years |
| Future pensioners (assumed current age 45) | 24.6 years | 27.2 years |

### Historic mortality assumptions

Life expectancy for the year ended 31 March 2016 is based on Series Pensioners Amounts (S1PA) actuarial tables. The allowances for future life expectancy are as follows.

| Prospective pensioners | Current pensioners |
|---|---|
| Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015 | Year of birth, medium cohort and 1.5% per annum minimum improvement from 2015 |

### Commutation assumptions

It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension.

## 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.

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| (2,274.7) | Present value of promised retirement benefits | (2,298.3) |
| 1,333.7 | Fair value of scheme assets (bid value) | 1,327.4 |
| **941.0** | **Net Liability** | **970.9** |

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.

| Assumptions used | 2016/17 | 2017/18 |
|---|---|---|
| | % | % |
| Inflations/pension increase rate assumption | 2.7 | 2.3 |
| Salary increase rate | 4.2 | 3.8 |
| Discount rate | 2.8 | 2.55 |

## Note 21: Current Assets

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| 153 | Contributions due – employees | 223 |
| 433 | Contributions due – employers | 645 |
| 1,420 | Sundry debtors | 3,032 |
| 4,570 | Cash and cash equivalents | 1,599 |
| **6,576** | **Total Current Assets** | **5,499** |

The contributions due all related to March 2018 (which became payable on 20 April 2018).

### Analysis of debtors

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| 890 | Local authorities | 890 |
| 1,116 | Public corporations and trading funds | 3,010 |
| **2,006** | **Total Debtors** | **3,900** |

## Note 22: Current Liabilities

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (18,913) | Sundry creditors | (3,896) |
| **(18,913)** | **Total Current Liabilities** | **(3,896)** |

### Analysis of creditors

| 2016/17 | | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (17,716) | Local Authorities | (2,831) |
| (1,197) | Public corporations and trading funds | (1,065) |
| **(18,913)** | **Total Creditors** | **(3,896)** |

## Note 23: Additional Voluntary Contributions

| Market Value at 31 March 2017 | | Market Value at 31 March 2018 |
|---|---|---|
| £000 | | £000 |
| 754 | Clerical Medical | 665 |
| 228 | Equitable Life | 208 |
| **982** | **Total** | **873** |

AVC contributions of £0.052m were paid directly to Clerical Medical during the year (£0.062m 2016/17). There have been no further contributions to Equitable Life in 2017/18 or

2016/17.

## Note 24: Agency Services

The Fund pays discretionary awards to the former teachers of the London Borough of Newham. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below:

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 324 | Payments on behalf of London Borough of Newham | 318 |
| **324** | **Total** | **318** |

## Note 25: Related Parties

The Fund is administered by the London Borough of Newham. Consequently there is a strong relationship between the Authority and the Fund.

The following key management personnel are members of the Fund; Chief Finance Officer, Director of Exchequer and Transactional Services and Head of Pensions & Treasury for OneSource.

During the reporting period, the Authority incurred costs of £0.92m (2016/17: £0.72m) 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 2018 the Council owed the Pension Fund £0.89m and the Pension Fund owed the Council £2.83m. (2016/17: £17.7m).

### Governance

The Transitional Provisions, Savings and Amendment Regulations 2014 removes access to the LGPS from 1 April 2014 for councillors and elected mayors in England and for the Mayor of London and members of the London Assembly.

Councillors, elected mayors, the Mayor of London and members of the London Assembly who were members of the LGPS on 31 March 2014 will retain access to the LGPS up to the end of their current term of office only (or to age 75 if earlier). They will retain the benefits accrued until the end of their term of office, which for Newham councillors was 22 May 2014.

There are four deferred members of the LGPS of the Committee; Councillor Forhad Hussain, Councillor Andrew Baikie, Councillor John Gray and Councillor Lester Hudson. No additional remuneration beyond their salary is paid to members of the Committee.

Each member of the Committee is required to declare their interests at each meeting. Support is provided to the Committee by the Board.

## Note 26: Contingent Assets

The following admitted bodies have a guarantee in place with the Authority to guard against the possibility of being unable to meet their pension obligations. This guarantee will only be drawn upon in the event of an employer default.

- Active Newham
- Better Together
- Change, Grow, Live
- Early Start
- Enabled Living
- The Good Support Company
- iXact
- London Network for Pest Solutions
- Mint
- Public Realm Services

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

# Note 27: Contingent Liabilities and Contractual Commitments

Outstanding capital commitments for Private debt, Property, Private equity and Diversified alternatives at 31 March 2018 totalled £142m (31 March 2017: £73m). There are no contingent liabilities to report.

# Investment Strategy Statement 2017/18

## 1. Introduction

1.1 This is the second 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 ("the Committee") of LBN 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 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 Committee 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 Chief Finance Officer 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.
- The Committee shall be a member of the Local Authority Pension Fund Forum

The 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, 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 Chief Finance Officer and the appointed consultants and actuaries support the Committee. 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.

1.5 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.

1.6 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 Committee 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 Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee 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 Committee 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 Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

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

At all times the Committee 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 Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

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

2.6 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 Committee 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 Committee will also compare the Fund asset performance with those of similar funds.

3.5 The Committee 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 Committee 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 Committee 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 Committee 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 Committee 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 Committee 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 Committee 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 Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee 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 Committee 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 Committee 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 Committee 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 Committee is in the process of transitioning the assets from the current holdings above to the long term strategic asset allocation approved by the Committee 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 Committee, 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 Committee 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).

## Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

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## 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 Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the Investment Strategy Statement.

The Committee 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 Committee obtains and considers advice from and is supported by the Chief Finance Officer, 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 Committee 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 Committee annually and progress is monitored on a quarterly basis.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members. Committee 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 Committee 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 Committee 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 Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.3 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 Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee 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 Committee 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 Committee.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Committee 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
- Investment Process compliance and changes
- Changes in personnel (joiners and leavers)
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to Committee 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)
- Baring English Growth (Private equity)
- BlueBay (Private Debt)
- Brightwood (Private Debt)
- Brockton (Property)
- CBRE (Property)
- Legal and General (Equities and Fixed Income)
- Longview Partners (Equities)
- Morgan Stanley (Diversified Alternatives)
- Permira (Private Debt)
- River and Mercantile (Structured equity)

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

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

Committee members are also required to make declarations of interest prior to all Committee 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 Committee members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the Committee at the subsequent Committee meeting.

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

## 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 | Deborah Hindson | Director of Financial Sustainability | March 2018 |
|---|---|---|---|---|---|

| 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. | Deborah Hindson | Knowledge and skills training for members of the Committee | 100% | 31/03/2019 | Stephen Wild | 1 |
| | | | Review of the Investment Strategy Statement, Funding Strategy Statement, State of the Nations document | 100% | 31/03/2019 | Stephen Wild | |
| | | | Scrutiny and support from the Local Pensions Board | 100% | 31/03/2019 | Sarah Bryant | |
| | | | Monitoring of advice received from Investment Advisor and Macro-Economic Advisor | 100% | 31/03/2019 | 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. | Deborah Hindson | Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. | 100% | 31/03/2019 | Stephen Wild | 2 |
| | | | Quarterly valuation update to monitor returns against triennial valuation assumptions. | 100% | 31/03/2019 | Stephen Wild | |
| | | | Developments monitored via Fund’s Actuary – next triennial valuation being completed in 2019 | 50% | 31/03/2019 | Stephen Wild | |
| | | | Deficit monitoring of contributions | 80% | 31/03/2019 | Stephen Wild | |

| Risk No. | Details of Risk, Including Consequences | Risk Owner | Controls | % Complete | Date of Next Review | Control Owner | Assessment of Risk |
|---|---|---|---|---|---|---|---|
| 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. | Deborah Hindson | Strategic asset allocation re-aligned towards higher yielding assets to increase investment income. | 80% | 31/03/2019 | Stephen Wild | 2 |
| | | | Cash flow forecasting and modelling. | 100% | 31/03/2019 | Stephen Wild | |
| | | | Promotional campaign for LBN staff; auto enrolment from October 2017 | 100% | 31/03/2019 | Sarah Bryant | |
| 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. | Deborah Hindson | Actuarial assessment completed for all new admission requests to assess level of risk | 100% | 31/03/2019 | Sarah Bryant | 1 |
| | | | Bonds or suitable guarantees put in place to protect the Fund in case of default | 100% | 31/03/2019 | Sarah Bryant | |
| | | | Funding level of each employer assessed as part of triennial valuation, and contribution rates set accordingly. | 100% | 31/03/2019 | 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 | Deborah Hindson | Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings. | 100% | 31/03/2019 | Stephen Wild | 1 |
| | | | Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark | 100% | 31/03/2019 | Stephen Wild | |
| | | | Quarterly valuation update to monitor returns against triennial valuation | 100% | 31/03/2019 | Stephen Wild | |

| Risk No. | Details of Risk, Including Consequences | Risk Owner | Controls | % Complete | Date of Next Review | Control Owner | Assessment of Risk |
|---|---|---|---|---|---|---|---|
| | | | assumptions. | | | | |
| 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. | Deborah Hindson | Annual monitoring of membership records, valuation checks | 100% | 31/03/2019 | Sarah Bryant | 1 |
| | | | Annual reconciliation between payroll and scheme membership data, | 100% | 31/03/2019 | Sarah Bryant | |
| | | | Triennial Data Cleansing exercise and actuary data report | 100% | 31/03/2019 | Sarah Bryant | |
| 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. | Deborah Hindson | Adequate contract monitoring to ensure performance standards and financial security of external providers. | 80% | 31/03/2019 | Stephen Wild | 2 |
| | | | Fund managers reviewed by investment advisor. | 100% | 31/03/2019 | Stephen Wild | |
| | | | Monitoring of audited accounts to ensure consistent asset valuation. | 100% | 31/03/2019 | Stephen Wild | |
| | | | Monitoring of LGPS pool: LCIV | 100% | 31/03/2019 | 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 | Deborah Hindson | 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% | 31/03/2019 | Sarah Bryant | 1 |
| | | | Participate in the National Fraud Initiative | 100% | 31/03/2019 | Sarah Bryant | |

| Risk No. | Details of Risk, Including Consequences | Risk Owner | Controls | % Complete | Date of Next Review | Control Owner | Assessment of Risk |
|---|---|---|---|---|---|---|---|
| | | | Reclaim amounts over £100.00 that have been overpaid | 100% | 31/03/2019 | 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. | Deborah Hindson | Monitoring of regulations to ensure correct application, use of specialist advisors, compliance with regulatory codes, etc. | 100% | 31/03/2019 | 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 | Deborah Hindson | Active participation in consultations. | 100% | 31/03/2019 | Stephen Wild | 1 |
| | | | Use of specialist advisors to prepare for/respond to regulation changes. Proactive approach. | 100% | 31/03/2019 | Stephen Wild | |
| 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 | Deborah Hindson | Preparation of Socially Responsible Investment Policy. | 100% | 31/03/2019 | 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. | Deborah Hindson | Monitoring of Investment Managers' performance, with meetings held on an exceptions basis where performance is below benchmark | 80% | 31/03/2019 | Stephen Wild | 2 |
| | | | Strategic asset allocation designed to achieve appropriate balance between capital protection and diversification. Reviewed at quarterly strategy meetings. | 100% | 31/03/2019 | Stephen Wild | |

| Risk No. | Details of Risk, Including Consequences | | Risk Owner | Controls | % Complete | Date of Next Review | Control Owner | Assessment of Risk |
|---|---|---|---|---|---|---|---|---|
| | | | | Quarterly valuation update to monitor returns against triennial valuation assumptions. | 100% | 31/03/2019 | 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. | | Deborah Hindson | Recruitment and training of professionally qualified and experienced accounting staff. | 100% | 31/03/2019 | Stephen Wild | 1 |
| | | | | Staff to engage in continuing professional development, attending courses as appropriate. | 100% | 31/03/2019 | 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 | | Deborah Hindson | Preparation of Fund's Communications Policy. | 50% | 31/03/2019 | Sarah Bryant | 2 |
| | | | | Annual Report on Pension Fund - summary version sent to all active members | 100% | 31/03/2019 | Stephen Wild | |
| | | | | Annual General Meeting - all employers and other key stakeholders invited to attend | 100% | 31/03/2019 | Stephen Wild | |
| | | | | Union representation on the Committee | 80% | 31/03/2019 | Sarah Bryant | |

# Funding Strategy Statement 2017/18

## 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

### 4.1 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.

### 4.2 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.

### 4.3 The Director of Financial Sustainability

The 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.

### 4.4 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.

### 4.5 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

### 5.1 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.

### 5.2 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
- Churchill
- Change Grow Live (CGL)
- MITIE
- Newham Partnership Working
- Olive Dining
- RM Education
- 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. 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.

### 5.3 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.

### 5.4 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 Statement of Investment Principles or 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.

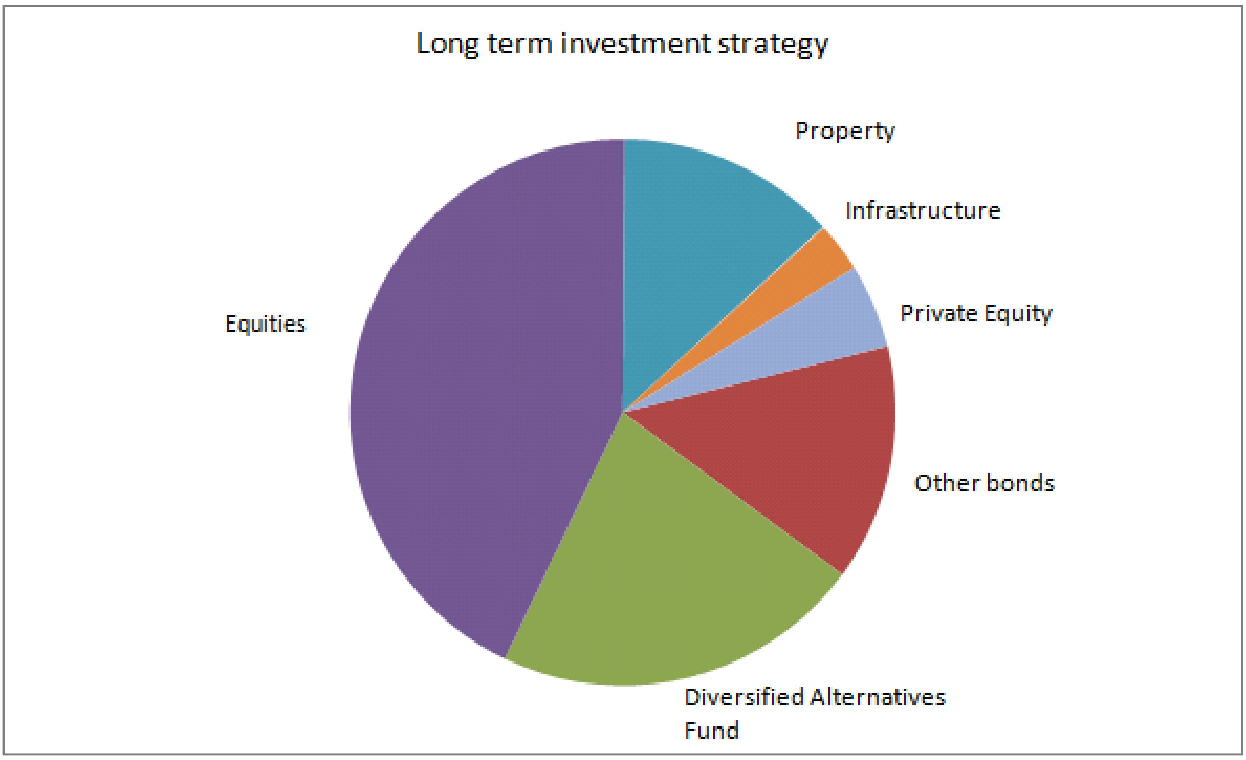
In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the Fund, as set out in the SIP/ISS.

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:

### 7.1 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.

### 7.2 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.

### 7.3 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.

### 7.4 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.

### 7.5 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.

### 7.6 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 2017/18

## 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

Dave Baldock
Interim Chief Finance Officer
Newham Dockside, 1000 Dockside Road, London, E16 2QU
Email dave.baldock@newham.gov.uk

# Communication Policy 2017/18

**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 the 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 the LPP is 020 7369 6105.

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

**Pre-Retirement Seminars**
Several pre-retirement seminars are conducted annually by Fund staff and the 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 the LPP.

**Website**
The LPP's web-site 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**
The 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 the 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
- Bobby Moore Academy
- Boleyn Trust
- Brampton Manor Academy
- Britannia Education Trust
- East London Arts and Music
- East London Science School
- Education Links Free School (Community Links Academy Trust)
- EKO Trust
- Forest Gate (Community Schools Trust)
- 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
- Pilot Schools

- Royal Docks Support
- School 21
- St. Angela's
- Stratford Academy
- Tapscott Leading 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 Holdings
- 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 the 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 2017/18

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 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 Director of Financial Sustainability:

- The Committee has delegated responsibility to the 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 seek 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 2017/18

| Date | Training Session | Attendees |
|---|---|---|
| 9th May 2017 | Fathom's Economic and Markets Outlook Q2 | Cllr Forhad Hussain<br>Cllr Lester Hudson<br>Cllr Tonii Wilson<br>Cllr Zuber Gulamussen |
| 11th May 2017 | LCIV Global Equity Information Day | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk |
| 18th May 2017 | Bluebay Annual Investor Day | Cllr Forhad Hussain |
| 22nd May 2017 | IIGCC AGM | Cllr Tonii Wilson |
| 26th May 2017 | CBRE Local Infrastructure | Cllr Forhad Hussain<br>Cllr Lester Hudson<br>Cllr Ted Sparrowhawk |
| 14th June 2017 | Quarterly Strategy Review Meeting | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Lester Hudson<br>Cllr Zuber Gulamussen |
| 2nd August 2017 | Fathom's Economic and Markets Outlook Q3 | Cllr Lester Hudson |
| 7th September 2017 | Mifid 2 Training | Cllr Ted Sparrowhawk<br>Cllr Andrew Baikie<br>Cllr John Gray<br>Cllr Tahmina Rahman<br>Cllr Tonii Wilson |
| 14th September 2017 | Quarterly Strategy Review Meeting | Cllr Forhad Hussain<br>Cllr Lester Hudson<br>Cllr Tahmina Rahman<br>Cllr Zuber Gulamussen<br>Cllr Tonii Wilson |
| 18-20th October 2017 | PLSA Conference | Cllr Forhad Hussain |

| | | |
|---|---|---|
| 31st October 2017 | Fathom's Economic and Markets Outlook Q4 | Cllr Lester Hudson |
| 7th November 2017 | ESG workshop | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Andrew Baikie<br>Cllr Tonii Wilson |
| 14th November 2017 | Quarterly Strategy Review Meeting | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Andrew Baikie<br>Cllr Lester Hudson<br>Cllr Tonii Wilson |
| 22nd November 2017 | The CIPFA Annual Pensions Conference: Diving into LGPS Pools | Cllr Forhad Hussain |
| 21st December 2017 | Private Equity - Education Session | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Lester Hudson<br>Cllr Tahmina Rahman |
| 8th January 2018 | Bfinance – Real Assets | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk |
| 19th January 2018 | Quarterly Strategy Review Meeting | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Andrew Baikie<br>Cllr Lester Hudson<br>Cllr Tonii Wilson |
| 29th January 2018 | Private Equity Workshop | Cllr Forhad Hussain<br>Cllr Ted Sparrowhawk<br>Cllr Andrew Baikie<br>Cllr Tahmina Rahman<br>Cllr Zuber Gulamussen |
| 20th February 2018 | Longview Client Conference | Cllr Forhad Hussain<br>Cllr Lester Hudson |
| 7-9th March 2018 | PLSA Investor Conference | Cllr Forhad Hussain |
| 20th March 2018 | Fathom's Economic and Markets Outlook Q1 | Cllr Lester Hudson |

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.

General Fund (GF) - The Council's main revenue account from which is met the cost of providing most of the Council's services.

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.

National Non-Domestic Rates (NNDR) Pool - Non-Domestic Rates (Business Rates) are paid into a central pool controlled by Government. This money is then redistributed to councils on the basis of resident population.

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.

Public Works Loans Board (PWLB) - Central Government agency which funds much of local government borrowing.

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
DWP Department of Work & Pensions
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
SeRCOP Service Reporting Code of Practice
VAT Value Added Tax