Public Document Pack

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LOCAL PENSION BOARD

Thursday, 20th July, 2017 at 7.30 pm in the Room 2, Civic Centre, Silver Street, Enfield, EN1 3XA

Membership:

Councillors: Donald McGowan (Chair), Robert Hayward, Dino Lemonides (Cabinet Member for Finance & Efficiency) and Paul Bishop (Vice Chair)

AGENDA – PART 1

1. APOLOGIES

2. STANDING ITEMS (Pages 1 - 14)

a. Risk Register
b. Register of Breaches of the Law
c. Conflicts of Interest Register (Declaration of Interests)

3. DRAFT PENSION FUND ACCOUNTS AND EXTERNAL AUDIT PLAN (Pages 15 - 74)

To receive a report from Paul Reddaway.

4. PP&IC BUSINESS PLAN 2017-2021 (Pages 75 - 80)

To receive a report on the PP&IC Business Plan. - Councillor Toby Simon and Paul Reddaway

5. PENSION POLICY AND INVESTMENT UPDATE (Pages 81 - 88)

To receive an update on pension policy and investment. – Councillor Toby Simon and Paul Reddaway

6. UPDATE ON THE LONDON CIV (Pages 89 - 98)

To receive an update from Paul Reddaway.

7. **COMMUNICATION STRATEGY** (To Follow)

To receive a report on the Pensions Communication Strategy.

8. **SAB SURVEY RESPONSE** (Pages 99 - 104)

To receive a report on the SAB Survey from Paul Reddaway.

London Borough of Enfield Pension Fund Risk Register

1. Objectives

The objectives of the Risk Register are to:-

- identify key risks to the achievement of the Fund's objectives
- consider the risks identified
- assess the significance of the risks

2. Risk Assessment

Identified risks are assessed separately and for each the following is determined:-

- the likelihood of the risk materialising
- the severity of the impact/potential consequences if it does occur.

Risks are evaluated on a sliding scale of 1-10 with 10 the highest value i.e. highest likelihood/most severe impact/consequences. The risk evaluation tables overleaf have been used in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the likelihood value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register itself.

Summary and Prioritisation of Pension Fund Risks

Risk Ranking	Risk	Likelihood	Impact	Risk Rating
1	Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client	3	6	18
2	Life events relating to Scheme members are not processed and recorded completely	3	5	15
3	Standing data and permanent records are not accurate	3	5	15
4	Inappropriate investment strategy is adopted	2	7	14
5	Fund assets are not sufficient to meet its obligations and liabilities	2	7	14
6	Failure to adhere to relevant statutory regulations	2	7	14
7	Those charged with governance are unable to fulfil their responsibilities effectively	2	7	14
8	Pension Fund systems and data may not be secure and appropriately maintained	2	7	14
9	Investment Manager may not have appropriate control framework in place	2	6	12
10	Pension Fund investments may not be accurately valued	3	4	12
11	An effective performance management framework is not in place	2	6	12
12	Failure to communicate adequately with all relevant stakeholders	3	3	9
13	Pension Fund objectives are not defined and agreed	1	6	6
14	Pension Fund accounts are not accurately maintained	2	3	6
15	Custody arrangement may not be sufficient to safeguard Pension Funds assets	1	6	6
16	Information may not be provided to stakeholders as required	2	3	6
17	Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with the Scheme rules	1	4	4

The Risk Evaluation Tables: Likelihood	
1	None
2	Negligible never happened to the Fund but has in similar Funds
3	Extremely unlikely within the next 12 months, but feasible within a 5 year cycle
4	Unlikely within the next 12 months, but probable within a 5 year cycle
5	Unlikely within the next 12 months, but expected within a 5 year cycle
6	Feasible within the next 12 months, but confidently expected within a 5 year cycle
7	Feasible within the next 12 months
8	Probable within the next 12 months
9	Confidently expected the next 12 months
10	(Almost) certain within the next 12 months

The Risk Evaluation Tables: Impact	
1	None
2	Negligible
3	Minor and can be contained
4	Noticeable impact
5	Reasonable impact in a single financial period or in the short-term but can be contained
6	Potentially significant – threat which could cause some damage in the short-term
7	Major – potential to cause significant damage in the short and medium without threatening the survival of the Fund
8	Could seriously weaken the survival of the Fund without threatening its short term survival
9	Significant threat to the survival of the Fund
10	Catastrophic

Pension Fund – Governance and Strategy: **Failure to manage the Fund effectively for the benefit of all stakeholders**								
Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Risk Note**
13	Pension Fund objectives are not defined and agreed	2	6	12	Objectives defined in the Funding Strategy Statement and approved by the Pension Policy & Investment Committee (PPIC)	Ensure objectives and funding strategy are regularly reviewed	Pension Policy & Investment Committee (PPIC) Director of FRSC	Ongoing
4	Inappropriate investment strategy is adopted	2	7	14	➢ The Investment Strategy is in accordance with LGPS investment regulations. ➢ The Investment Strategy is documented, reviewed and approved by the PP&IC ➢ The Strategy takes into account the Fund's liabilities ➢ A regular review takes place of the Fund's asset allocation strategy by the PP&IC ➢ An external advisor provides specialist guidance to the PP&IC on the investment strategy	Ensure the Asset Liability Study to be conducted by the Actuary following the 2016 valuation is considered by the Pension Board in reviewing both the Fund Strategy and asset allocation	Pension Policy & Investment Committee (PPIC) Director of FRSC	Feb 2017 will review following the 2016 valuation

Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Timescale**
11	An effective performance management framework is not in place	2	6	12	* A performance management framework involving quarterly performance reports to the Investment Sub Committee is in place * Poor performance is highlighted and addressed directly by the PP&IC and ultimately the Pension Board	Existing arrangements are sufficient and will continue	Pension Policy & Investment Committee (PP&IC) Director of FR&SC	Ongoing
5	Fund assets are not sufficient to meet its obligations and liabilities	2	7	14	* Fund assets are kept under regular review as part of the Fund's performance management framework * Fund assets are subject to regular assessment through Actuarial valuations * The Fund's Investment Strategy is regularly reviewed to determine whether any action needs to be taken to change the Fund's asset allocation strategy	Review and respond to the proposed Asset Liability Study	Pension Policy & Investment Committee (PP&IC) Director of FRSC	Ongoing
14	Pension Fund Accounts are not accurately maintained	2	3	6	*Pension Fund management and administration processes are maintained in accordance with the IFRS & financial regulations * Regular reconciliations are carried out between in-house records and those maintained by external custodian and investment managers * Internal Audits are carried out on an annual basis * External Audit review the Pension Fund's accounts annually	Continue to respond promptly to Audit recommendations	Investments Manager Head of Finance Pension Investment	Ongoing

Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Timescale**
6	Failure to adhere to relevant statutory regulations including updates from LGPS	2	7	14	An established process exists to inform both the Investments and Pensions Section of statutory requirements and any changes to these Sufficient resources are in place to implement LGPS changes while continuing to administer the scheme Membership of relevant Pensions professional groups ensures any potential changes in statutory requirements are registered before the implementation dates	Continue to monitor statutory requirements via the DCLG website and Pension Groups meetings	Head of Finance Pensions Investment Pensions Manager	Ongoing
12	Failure to communicate adequately with all relevant stakeholders	3	3	9	*A communications strategy is in place Website has been updated *Performance of the Fund is regularly reported to the PP&IC * The Pension Board contains representatives of the LBE Trade Unions employee & Scheduled Bodies. Regular communication takes place Benefit Illustrations are sent annually to contributing and deferred Fund members	Existing arrangements to be maintained	Pensions Manager	Ongoing

Risk Rank	Risk	Likeli-hood	Impact	Risk Rating	Current Controls	Additional Control Identified/Required	Responsibility	Timescale
7	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively	2	7	14	A training policy is in place which requires Members to receive continuing training and all new Members to attend the Local Government Employers training course The Fund subscribes to relevant professional bodies e.g. LAPFF, NAPF and sends representatives to major conferences The PP&IC is very experienced and knowledgeable and monitors the performance of the Fund and Scheme in a robust manner	Training received to be reviewed annually as part of the approval process of the Trustee Training and Activities Budget.	Head of Finance Pensions Investment	Ongoing

Investments: Internally and Externally Managed **Assets managed by or on behalf of the Pension Fund may not be securely held**								
Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Timescale**
15	Custody arrangements may not be sufficient to safeguard Pension Funds assets	1	6	6	Complete and authorised agreements are in place with external custodian External custodian's compliance with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations	Continue existing processes	Head of Finance Pensions Investment	On 1st July The Fund change custodian to Northern Trust. Monthly reconciliation is fully in place for 17/18
9	Investment Manager may not have appropriate control framework in place to protect Pension Fund assets	3	6	18	Complete and authorised client agreements are in place Client portfolios are managed in accordance with investment objectives External custodian's compliance with ICAEW's Audit and Assurance Faculty's guidance on internal controls of service organisations Fund Managers maintain an appropriate risk management framework to minimise the level of risk to Pension Fund assets.	Potential training session for Members on Fund Manager control of Fund assets Confirm Fund Managers' risk management arrangements	Head of Finance Pensions Investment	Ongoing

Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Timescale**
1	Investment decisions and portfolio management may not maximise client returns or be performed in accordance with instructions given by the client	3	6	18	Daily cash settlements are made with external custodian to maximise returns on cash holdings Investment transactions are properly authorised and executed and monitored via in-house system Investment Management fees are monitored	Continue to monitor via existing processes	Investments Manager	Ongoing
13	Pension Fund investments may not be accurately valued	3	4	12	Investments are valued using current prices obtained from independent pricing sources.	Existing process is appropriate	PPIC, Investments Manager	Ongoing

Pension Administration: Processes and Systems

Failure to ensure that all payments due to and from the Fund are made and accounted for fully in timely manner

Risk Rank	Risk	Likeli-hood	Impact	Risk Rating	Current Controls	Additional Control Identified/Required	Responsibility	Timescale
17	Contributions to the Fund are not received, processed and recorded completely and accurately in accordance with the Scheme rules	1	4	4	Sufficient resources are in place, structured appropriately, to carry out the necessary transaction processing A procedure to identify any non payment of contributions is in place. A procedure for invoicing employers for augmentation payments is in place. Internal Audit reviews take place on a regular basis and External Audit review the Accounts annually.	Report to Pension Board on effectiveness of revised arrangements	Head of Finance Pension Fund Investments	Reconciled every month to ensure timeliness of receipt. Also audit planned for payroll auditors
2	Life events relating to Scheme members e.g. joining the Scheme, transfers in and out and retirements are not processed and recorded completely in accordance with the Scheme rules	3	5	15	Procedure notes describing all key processes are in place. Induction and training procedures are in place . Adequate staff resources are in post . An overview of pensions administration is maintained by the Pension Board	Continue to monitor effectiveness of Section training programme	Pensions Manager	Ongoing

Risk Rank	Risk	Likeli-hood	Impact	Risk Rating	Current Controls	Additional Control Identified/Required	Responsibility	Timescale
3	Standing data and permanent records are not accurate or do not reflect changes of circumstances	3	5	15	Business processes are in place to identify changes to standing data Records are supported by appropriate documentation; input and output checks are undertaken; reconciliation occurs to source records once input Documentation is maintained in line with agreed policy Data matching exercises (National Fraud Initiative) identifies discrepancies	Continue existing processes	Pensions Manager	Ongoing
8	Pension Fund systems and data may not be secure and appropriately maintained	3	5	15	Authentication controls including regular password changes and robust user administration procedures are in place Access rights are restricted Pension system is protected against viruses and other system threats Software is regularly updated to ensure LGPS requirements are met	Continue to monitor effectiveness of existing processes	Pensions Manager	Ongoing

Risk Rank	**Risk**	**Likeli-hood**	**Impact**	**Risk Rating**	**Current Controls**	**Additional Control Identified/Required**	**Responsibility**	**Timescale**
	Information may not be provided to stakeholders as required	2	3	6	Process is in place for producing and distributing information to Scheme members Any complaints are dealt with promptly	Continue to monitor effectiveness of existing processes	Pensions Manager	Ongoing

MUNICIPAL YEAR 2017/18 – REPORT NO.

MEETING TITLE AND DATE:
Pension Board
Committee: 20th July 2017

REPORT OF:
Executive Director of Finance, Resources & Customer Services

Contact:
Paul reddaway: 0208 379 4730

AGENDA PART 1	**ITEM :**
Subject: 2016/17 Annual Statement of Pension Fund Accounts.	

Cabinet Member Consulted:
Cllr McGowan

1. EXECUTIVE SUMMARY

1.1 This report presents the Draft (unaudited) Annual Statement of Pension Fund Accounts for the 2016/17 financial year for Members' information.

2. RECOMMENDATIONS

It is recommended that pension Fund Notes:-

2.1 The Draft Statement of Accounts for 2016/17, including the Group Accounts, were completed by the 30th June statutory deadline and were authorised for issue by the Executive Director of Finance, Resources and Customer Services.

2.2 That, in accordance with the Accounts and Audit Regulations, the final audited Statement of Accounts will be presented for approval to the pension Board on 28th September 2017 after which they will be published with the audit opinion.

2.3 At the time of publication of this report, the Pension Fund Accounts have been prepared on valuation best estimates and it is anticipated that they will be updated for final valuations which will be available before the start of the Pension Fund Audit in August.

3. THE PROCESS FOR APPROVING THE ANNUAL STATEMENT OF ACCOUNTS

3.1 The Accounts and Audit Regulations require local authorities to prepare their annual Statement of Accounts to 31st March for each year as soon as practicable after the year end.

3.2 The Regulations require the Responsible Finance Officer to certify Draft Statement of Accounts by 30th June. In Enfield the Responsible Finance Officer is the Executive Director of Finance, Resources and Customer Services. Following their consideration of the Auditor's Report, Members are required to approve the Final (Audited) Statement of Accounts so that these can be published no later than 30th September.

3.3 The Draft Statement of Accounts as certified by the Executive Director of Finance, Resources and Customer Services is attached for Members' information. The reporting of the Draft Accounts to Members, whilst not mandatory, is considered good practice and gives Members time to consider any queries and objections.

3.4 Whilst the Executive Director of Finance, Resources and Customer Services is responsible for the preparation of the Statement, Members' role is to demonstrate their ownership of the Financial Statements and their confidence in the Executive Director of Finance, Resources and Customer Services in the processes through which he maintains the accounting records and prepares the statements.

3.5 Under Section 4.1 of the Audit Committee Protocol on Conduct and Objection to the Draft Statement of Accounts, any member wishing to make a query or objection to the Draft Accounts should do so in writing and serve it to the Section 151 Officer 15 days before the meeting on 1st September.

4. THE STATEMENT OF ACCOUNTS 2016/17

4.1 The Accounts and Audit Regulations stipulate what is to be included in the Statement of Accounts. In order to achieve this on a consistent basis across all local authorities, the Chartered Institute of Public Finance and Accountancy (CIPFA) produces a Code of Practice that defines proper accounting practices for local authorities. The Code is based on International Financial Reporting Standards (IFRS).

4.2 The accounts are subject to public inspection from the 3rd July to 11th August 2017. During this period, members of the public may inspect the Draft Accounts and all related documents and take copies of these accordingly. They can also ask the Auditor questions and object to the Council's accounts asking the Auditor to issue a report in the public interest (under Section 27 of the Local Audit & Accountability Act 2014) and/or apply to the court for a declaration that an item in the accounts is contrary to law (under Section 28 of the Local Audit & Accountability Act 2014).

4.3 The Statement of Accounts need to be re-certified by the Executive Director of Finance, Resources and Customer Services after they have been reviewed by the external auditor and re-presented to the Audit Committee on 28th September for approval along with the external auditor's report. After approval, the Statement of Accounts must be published by 30th September along with the audit opinion.

5. SIGNIFICANT MATTERS CONTAINED IN THE 2016/17 STATEMENT OF ACCOUNTS

5.1.1.1 The key issues reflected in the Pension Fund Statement of Accounts are:

- The Pension Fund has grown by 17.6%
- The 2016 valuation reported an 87% level of funding (compared to 85% in 2013). The Actuary has updated the valuation up to 96% based on the current markets as at March 2017.
- The Fund's cash flow position at member transactions level reflects the increased number of retirements, hence reduced contributions and increased pension payments.

- The Accounts were prepared in conjunction with the Fund's custodian Northern Trust appointed in July 2016 reliance was also put on figures from our former custodian State Street. The 2017/18 accounts will be produced using Northern trust's accountancy service; this will help facility the earlier closedown requirements for the 2017/18 accounts (31 May 2018) – as part of this process quarterly accounts will be produced.
- The statement of accounts also reflect the CIPFA code of practice requirement on cost transparency these changes were already included in the 2015/16 accounts. management costs fell during the year despite rising market values.
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6. ALTERNATIVE OPTIONS CONSIDERED

Under the Accounts and Audit Regulations, Member approval to the Statement of Accounts is not required until after the Statement has been reviewed by the external auditor. However, earlier consideration and review by members is consistent with good corporate governance practice.

7. REASONS FOR RECOMMENDATIONS

The presentation of the Draft Accounts to Members, whilst not mandatory, is considered good practice and gives Members time to consider the accounts and raise any queries and objections

8. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

8.1 Financial Implications

Financial implications are implicit in the body of the report.

8.2 Legal Implications

The Council has a statutory duty to arrange for the proper administration of its financial affairs and a fiduciary duty to taxpayers with regards to its use of and accounting for public monies. This report assists in the discharge of those duties.

8.3 Property Implications

Not applicable in this report.

9. KEY RISKS

The Statement of Accounts must be prepared and approved in accordance with statutory regulations.

10. IMPACT ON COUNCIL PRIORITIES

10.1 **Fairness for All** – The recommendations in the report fully accord with this Council priority.

10.2 **Growth and Sustainability** – The recommendations in the report fully accord with this Council priority.

10.3 **Strong Communities** – The recommendations in the report fully accord with this Council priority.

11. EQUALITIES IMPACT IMPLICATIONS

Not directly applicable in this report

12. PERFORMANCE MANAGEMENT IMPLICATIONS

The report provides evidence of sound financial management, planning and efficient use of resources.

13. PUBLIC HEALTH IMPLICATIONS

There are no public health implications directly related to this Report.

PENSION FUND ACCOUNTS

Introduction

The London Borough of Enfield Pension Fund (‘the Fund’) is part of the Local Government Pension Scheme and is administered by the London Borough of Enfield (‘The Council’). The Fund was established to provide benefits for employees that include retirement pensions, widows pensions, death grants and other lump sum payments.

The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972, the Local Government Pension Scheme (Members, Contributions and Benefits) Regulations 2007, Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transition) Regulations 2008.

In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

The introduction of the new LGPS 2014 Scheme (amended) on the 1 April 2014 came into effect under the Local Government Pension Scheme Regulations 2013 covering new arrangements for membership, contributions and benefits and the administration of the Scheme.

The Local Government Pension Scheme (Management &the Investment of Funds) Regulation 2016 which replaced the Statement of Investment Principles (SIP) with the Investment Strategy Statement (ISS).

The London Borough of Enfield is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS.

Since 1 April 2014 the employee contribution rates now applying are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund Actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

The last such valuation was as at 31 March 2016. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Enfield Fund Annual Report 2016/17.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

From the 1 April 2014 the new LGPS 2014 Scheme came into effect. This changed the structure from a defined benefit to a career average revalued earnings scheme and aligns LGPS retirement age with an individual’s state pension age. The key benefits of the new scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.

PENSION FUND ACCOUNTS

. FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Note	2016/17 £000s	2015/16 £000s
Contributions and benefits			
- Contributions receivable	**2**	40,681	43,338
- Transfers in	**3**	181	1,038
		40,862	**44,376**
- Benefits payable	**4**	(39,854)	(36,184)
- Payments to and on account of leavers	**5**	(1,038)	(612)
		(40,892)	**(36,796)**
Net additions from dealings with members		**(30)**	**7,580**
Management expenses	**6**	**(8,111)**	**(9,391)**
Returns on investments			
- Investment income	**7**	10,171	9,582
- Taxation	**8**	(75)	(186)
- Changes in market value	**9**	159,306	20,571
Net returns on investments		**169,402**	**29,967**
Net change in assets available for benefits during the year		161,261	28,156
Opening net assets brought forward at 1 April		916,311	888,155
Net assets carried forward as at 31 March		**1,077,572**	**916,311**

NET ASSETS STATEMENT AS AT 31 MARCH 2017

	Notes	2016/17 £000s	2015/16 £000s
Investment assets		1,021,421	893,553
Investment liabilities		(21)	(14,585)
	9	**1,021,400**	**878,968**
Cash deposits		54,406	36,781
Other investment balances		1,415	1,758
	9	**1,077,221**	**917,507**
Current assets	**14**	714	446
Current liabilities	**15**	(363)	(1,642)
Net assets available to fund benefits as at 31 March		**1,077,572**	**916,311**

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Policy & Investment Committee. They do not take account of obligations to pay pensions and benefits which fall due after the year end of the Fund year.

Signed

James Rolfe
Director of Finance,
Resources and Customer Services

Date: 30th June 2017

Notes to the Financial Statement –index

1. Statement of accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Local Government Pension Scheme (LGPS) (Benefits, Membership and Contributions) Regulations 2007 and LGPS (Management and Investment of Funds) Regulations 2009.

The financial statements summarise the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 21 of these accounts.

Accounting Policies – revenue recognition

a) Contributions income

Normal contributions, both from members and employers, are accounted for on an accruals basis, at the percentage rate recommended by the Fund 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 pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in-year but unpaid will be classed as a current financial asset.

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 Local Government Pension Scheme Regulations.

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 (AVC) to purchase scheme benefits are accounted for on a receipts basis and are included as Transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfers agreements.

c) Investment income

i) Interest 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.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting is disclosed in the Net Assets Statement as current financial asset.

iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting is disclosed in the Net Assets Statement as a current financial asset.

vi) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income or expenses and comprise all realised and unrealised gains/losses during the year.
Realised profit/losses are recognised upon the sale of investments during the year.

Fund account – expense items

d) Benefits payable
Pensions and lump benefits payable include all known to be due in respect of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. 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
Management Expenses are disclosed in accordance with the CIPFA guidance: Accounting for LGPS Management Expenses.

Administrative expenses
All administrative expenses are accounted for on an accruals basis. Relevant officer costs and other overheads are apportioned to the Fund. Costs include relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight & governance costs
All oversight and governance expenses are accounted for on an accrual basis. Al staff costs associated with governance and oversight are charged to the Fund. The cost of obtaining investment advice from external advisors and performance monitoring including subscriptions to professional bodies and training costs

Investment management expenses
All investment management expenses are accounted for on an accruals basis as follows:

- 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 on either a monthly or quarterly basis.
- The exceptions to this are fees in relation to Private equity funds which are based on amounts committed to each fund.
- Fees in connection with some pooled investments are contained within the unit price, and are not separately disclosed.
- The cost of obtaining investment advice from external consultants is included in investment management charges.
- Where actual costs have not been received by balance sheet date, to Fund level an estimation process has been applied.

Net Asset Statement

i) Investments
Investments are shown in the Net Assets Statement at fair value as at the reporting date. A financial asset is recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.:

- **Market -quoted investments**

Valued by reference to their bid price at the close of business on 31 March 2015. Pooled investment vehicles are stated at the bid price as quoted by the relevant fund managers, which reflect the underlying investments. In the case of single priced pooled investment vehicles, the closing single price is used as the best estimate of fair value.

- **Unquoted investments**

The estimate of fair value after taking the advice of the Fund's investment manager. Unquoted securities are valued by fund managers on the basis of latest dealings, professional valuations and financial information at the year end. In the case of private equity limited company funds, the investments are valued at latest values which are previous quarter (generally end of December) values, updated for new investment and distributions. For private equity direct investments the price taken is that as provided by the Fund Manager, which reflect the prices at the latest round of financing if available, or book cost, unless impaired when this value is reduced. The Fund takes assurance in the audited accounts of the fund manager and there Internal Control Statements.

- **Derivatives contracts**

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.
Derivatives contract assets are measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts and included in any change in the market value.

- **Investment income**

Dividends and interest have been accounted for on an accruals basis at the amortised cost. Investment income on overseas investments has been converted into sterling at the rate of exchange on settlement day.

- **Overseas investments**

Investments held in foreign currencies have been converted into sterling at the rate ruling on 31 March 2016.

- **Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

- **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 in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into Sterling at the rate ruling on 31 March 2016.

Private Equity Fund of Funds

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Enfield Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The audit of valuations involves tests of internal control to enable the external auditor (KPMG) to issue an unqualified opinion of those financial statements. No auditing or SEC regulatory rules over investment advisors in the United States require any additional work or reporting on internal controls, nor does their audit work performed extend to any time period beyond the date of the audited financial statements. Thus, there is no report from auditors regarding internal control procedures. For funds held with the Enfield portfolio there have been no material changes in internal controls subsequent to the audit date and the procedures performed in valuing the funds' investments have been applied consistently quarter by quarter.

- **Limited Partnerships**

An appropriate valuation methodology is selected for each underlying investment and common methodologies include:

- Applying an EBITDA multiple using comparable multiples reflected in the market valuations of quoted companies or
- recent transactions used for valuing underlying investments which are operating companies.
- A capitalisation rate using comparable capitalisation rates from recent property transactions, applied to the net rental income of the underlying investment for investment properties.
- Applying either of the above methodologies, as appropriate, to forecast income and a forecast multiple or rate, and then recognising a proportion of the future expected profit using either a discounted cash flow with an appropriate discount rate or a time-weighted proportion under a variation of the percentage-of-completion method.

- **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits. 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.

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

Financial liabilities are recognised on the Net Asset's Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Financial Assets
Financial assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument.
Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- fair value through profit or loss - assets that are held for trading.

Debtors and Creditors
Except where otherwise stated, the Accounts have been prepared on an accruals basis i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The main exception to this is transfers in and out of the fund which are accounted for on a cash basis.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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2. Contributions receivable

Summary	2016/17 £000s	2015/16 £000s
Employees' contributions	9,614	10,009
Employers' contributions	31,067	33,329
	40,681	**43,338**

Contributions are further analysed as follows:

a. Employees' contributions- Analysed by employees' status:

	2016/17 £000s	2015/16 £000s
Administrating Authority	8,128	8,886
Scheduled Bodies	1,326	1,072
Admitted Bodies	160	51
	9,614	**10,009**

b. Employers' contributions **-** Analysed by employers' status:

	2016/17 £000s	2015/16 £000s
Administrating Authority	26,973	30,777
Scheduled Bodies	3,516	2,364
Admitted Bodies	578	188
	31,067	**33,329**

c. Employers' contributions – analysed by types of contributions:

	2016/17 £000s	2015/16 £000s
Employers' normal contributions	22,833	23,493
Employers' deficit contributions	6,870	7,184
Employers' other contributions	1,364	2,652
	31,067	**33,329**

Employers' other contributions represent the costs of early retirement, and are recognised fully in the year that the cost is incurred.

Deficit contributions represent amounts in relation to past service accruals as determined by the scheme actuary.

3. Transfers from other funds

The transfers represent the payments received by the Fund in relation to individual members' transfers of benefits into the Fund.

	2016/17 £000s	2015/16 £000s
Individual transfers	181	1,038
Bulk transfers	-	-
	181	**1,038**

PENSION FUND ACCOUNTS

4. Benefits payable

Benefits payable consist of pension payments and lump sums payable upon retirement and death.

By category	2016/17 £000s	2015/16 £000s
Pensions	(30,239)	(27,967)
Lump sum retirement/death benefits	(9,615)	(8,217)
	(39,854)	**(36,184)**

Pensions by employer:	2016/17 £000s	2015/16 £000s
Administrating Authority	(28,876)	(26,557)
Scheduled	(1,189)	(1,223)
Admitted	(174)	(187)
	(30,239)	**(27,967)**

Lump sum retirement/death benefits by employer:	2016/17 £000s	2015/16 £000s
Administrating Authority	(8,696)	(8,217)
Scheduled	(600)	-
Admitted	(319)	-
	(9,615)	**(8,217)**

5. Payments to and on account of leavers

Transfers represent the payments made by the Fund in relation to members' transfers of benefits out of the Fund.

	2016/17 £000s	2015/16 £000s
Transfers to other schemes	(909)	(511)
Contribution refunds	(129)	(101)
	(1,038)	**(612)**

6. Management expenses

	2016/17 £000s	2015/16 £000s
Administration expenses	(747)	(788)
Oversight and governance	(270)	(326)
Investment management expense see note 6a	(7,094)	(8,277)
	(8,111)	**(9,391)**

6a. Investment management expenses

	2016/17 £000s	2015/16 £000s
Management fees invoiced	(1,691)	(1,261)
Fees within unit price	(5,008)	(6,706)
Custody fees	(73)	(18)
Transaction expenses	(322)	(147)
Other costs	-	(145)
	(7,094)	**(8,277)**

7. Investment income

	2016/17 £000s	2015/16 £000s
Fixed interest and index linked securities	3,834	4,577
Equities and unit trusts	4,307	3,541
Property unit trusts	1,616	1,125
Interest on cash and other	414	339
	10,171	**9,582**

8. Taxation

Reciprocal arrangements exist between the UK and many countries for the recovery of varying proportions of locally deducted tax. The timing of the recovery of this ‘withholding tax’ can vary between countries. Certain withholding tax on overseas investment income is not recoverable and is shown as a tax charge.

9. Investment assets

Asset Class	Note	Market value 1st April 2015 £000s	Purchases at cost and derivative payments £000s	Sales proceeds & derivative receipts £000s	Fees & Charges deducted from Market value £000s	Change in market value on investments £000s	Market value 31st March 2016 £000s
Fixed income securities & ILB	**9a**	**151,146**	11,329	(7,086)	-	(3,747)	**151,642**
Derivatives	**9b**	**(96)**	130,178	(129,700)		(582)	**(200)**
Equities	**9c**	**139,397**	57,060	(50,025)	-	(4,075)	**142,357**
Equity - unit trusts	**9d**	**227,424**	-	-	(621)	(313)	**226,490**
Property unit trusts	**9e**	**59,984**	-	-	(347)	5,121	**64,758**
Property	**9f**	**12,519**	-	(6,547)	(150)	1,102	**6,924**
Private equity	**9g**	**45,124**	6,137	(8,893)	(745)	5,456	**47,079**
Infrastructure fund	**9h**	**17,280**	70	(6,519)	(171)	7,013	**17,673**
Alternative investments	**9i**	**213,298**	27,000	(23,620)	(4,672)	10,239	**222,245**
		866,076	**231,774**	**(232,390)**	**(6,706)**	**20,214**	**878,968**
Cash and deposits	**9j**	**19,070**				357	**36,781**
Other investment balances	**9k**	**2,445**					**1,758**
Investment assets		**887,591**				**20,571**	**917,507**

Asset Class	Note	Market value 1st April 2016 £000s	Purchases at cost and derivative payments £000s	Sales proceeds & derivative receipts £000s	Fees & Charges deducted from Market value £000s	Change in market value on investments £000s	Market value 31st March 2017 £000s
Fixed income securities & ILB	9a	**151,642**	100,328	-99,253	0	14,683	**167,400**
Derivatives	9b	**(200)**	43,076	-43,076	0	441	**241**
Equities	9c	**142,357**	65,735	-65,093	0	39,278	**182,277**
Equity - unit trusts	9d	**226,490**	41,000	-41,396	-683	73,266	**298,677**
Property unit trusts	9e	**64,758**	0	0	-338	1,905	**66,325**
Property	9f	**6,924**	2,000	0	-200	2,097	**10,821**
Private equity	9g	**47,079**	6,965	-9,156	-867	12,552	**56,573**
Infrastructure fund	9h	**17,673**	0	-16,260	-125	-1,288	**0**
Alternative investments	9i	**222,245**	10,000	-8,440	-2,796	18,077	**239,086**
		878,968	269,104	-282,674	-5,009	161,011	**1,021,400**
Cash and deposits	9j	**36,781**				(1,705)	**54,406**
Other investment balances	9k	**1,758**					**1,415**
Investment assets		**917,507**				**159,306**	**1,077,221**

Page 31

PENSION FUND ACCOUNTS

9a. Total fixed income securities

	2017 £000s	2016 £000s
Fixed interest securities	80,870	72,258
Index linked securities	86,530	79,384
	167,400	**151,642**

Fixed interest securities

	2017 £000s	2016 £000s
Government securities – UK	6,258	2,525
Government securities – overseas	3,589	6,727
Corporate bonds – UK	34,963	60,636
Corporate bonds – overseas	36,060	2,370
	80,870	**72,258**

Index linked securities

	2017 £000s	2016 £000s
Government securities – UK	-	76,884
Government securities – overseas	-	2,276
Corporate bonds		224
		79,384

Index linked securities Pooled funds

	2017 £000s	2016 £000s
Government securities – UK	86,530	-
	86,530	**-**

9b. Derivative contracts

The Pension Board permits the use of derivatives in the Western Asset Management global bond portfolio.

A summary of derivatives held is set out below:

	2017 £000s	2016 £000s
Assets		
Futures	168	13
Forward foreign exchange currency contracts	94	14,372
	262	**14,385**
Liabilities		
Futures	(9)	(5)
Forward foreign exchange currency contracts	(12)	(14,580)
	(21)	**(14,585)**
Net assets		
Futures	159	8
Forward foreign exchange currency contracts	82	(208)
	241	**(200)**

Futures
Futures contracts held at the year-end are detailed further below:

Values at 31 March 2017	Economic Exposure £000s	Expiration date	Asset £000s	Liability £000s	Net asset/ (liability) £000s
Assets					
UK Fixed income futures	10,717	Less than a year	160		160
Overseas fixed income futures	3,839	Less than a year	8		8
Liabilities					
Overseas fixed income futures	(1,413)	Less than a year		(9)	(9)
Total futures			**168**	**(9)**	**159**

Values at 31 March 2016	£000s	£000s	£000s
Total futures	**13**	**(5)**	**8**

Foreign exchange contracts
Foreign Exchange contracts held at the year-end are detailed further below:

Values at 31 March 2017 Settlements	Currency bought	Local value	Currency sold	Local value	Liability £000s	Asset £000s
One to 6 months	JPY	132,430	USD	(1,161)	24	-
One to 6 months	GBP	2,415	USD	(3,010)	15	(5)
One to 6 months	GBP	2,357	EUR	(2,727)	22	-
One to 6 months	USD	790	GBP	(638)	-	(7)
One to 6 months	GBP	953	JPY	(132,202)	4	-
One to 6 months	GBP	1,643	SEK	(18,010)	29	-
					94	**(12)**

Values at 31 March 2016		£000s	£000s
	(14,372)	**(14,580)**	**(208)**

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.

a) Futures
The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency
In order to maintain appropriate diversification and to take advantage of overseas investment returns, the fund's bond portfolio uses forward foreign currency contracts.

9c. Equities

	2017 £000s	2016 £000s
UK equities	41,247	42,861
Europe	26,703	20,224
North America	76,552	54,077
Japan	18,045	9,228
Pacific (excluding Japan)	-	9,960
Emerging markets	19,730	6,007
	182,277	**142,357**

9d. Equity unit trusts

	2017 £000s	2016 £000s
UK	11,144	9,130
World	276,550	209,205
Emerging markets	10,983	8,155
	298,677	**226,490**

9e. Property unit trusts

	2017 £000s	2016 £000s
Commercial/industrial	63,689	62,529
Venture property	2,636	2,229
	66,325	**64,758**

9f. Property

	2017 £000s	2016 £000s
Opportunistic property	10,821	6,924
	10,821	**6,924**

The Fund has made a £20 million commitment to Brockton Property III Fund. £12 million remains uncommitted.

9g. Private equity

Investments in private equity funds are valued based upon the underlying investments within each fund. It is less easy to trade private equity than quoted investments. Therefore, when the assets are realised the amount received may not necessarily be the amount that they are valued at and any difference could be significant.

The Pension Fund has made 13 annual subscriptions into a private equity fund of funds manager. The Fund’s total commitment to these funds is $140 million (£112 million) of which $41 million (£33 million) remains uncommitted with $66 million (£53 million) being already distributed back to the Fund.

9h. Infrastructure fund

A 25 euro million commitment has been made to the Antin III European infrastructure fund in December 2016.No purchases have been made but $250k has been drawn down for working capital.

9i. Alternative Investments

	2017 £000s	2016 £000s
UK equity long short fund	52,478	55,915
Events Driven fund	69,439	55,958
Global macro fund	17,844	16,817
Inflation opportunities	40,739	35,497
Absolute bond fund	32,651	30,789
Multi- strategy	25,935	27,269
	239,086	**222,245**

9j. Cash & cash equivalents

	2017 £000s	2016 £000s
Deposits held by fund managers	54,406	36,781
	54,406	**36,781**

9k. Other investment balances

	2017 £000s	2016 £000s
Debtors		
Dividends and Interest receivable	1,591	1,987
Tax recoverable	464	464
Amounts receivable on pending sales	256	362
Receivable for foreign exchange	-	49
	2,311	**2,862**
Creditors		
Amounts due on pending purchases	(165)	(715)
Investment management fees	(671)	(325)
Payables for foreign exchange		(49)
Other investment expenses	(60)	(15)
	(896)	**(1,104)**
Total other investment balances	**1,415**	**1,758**

10. Investment assets with a market greater than 5% of net investment assets

Individual investment assets with a market value greater than 5% of net investment assets are as follows:

Manager	Mandate	Market Value as at 31 March 2017 £000s	%	Market Value as at 31 March 2016 £000s	%
Trilogy	Global equities	156,092	17.0	116,708	12.7
Blackrock	Aquila world index	135,502	14.7	101,462	11.1
MFS	Global equities	95,485	10.4	73,099	8.0
Blackrock	Index linked bonds	86,530	9.4	70,476	7.7
Western Asset	Corporate bonds	84,976	9.2	84,444	9.2
Adam Street Partners	Private equity	56,574	6.1	47,079	5.1
Lansdowne	Equities long/short	52,478	5.7	55,915	6.1

11. Investments managers within each class of security (including cash & investment balances

Manager	Mandate	Market Value as at 31 March 2017 £000s	%	Market Value as at 31 March 2015 £000s	%
Fixed Income & derivatives		**171,505**		**154,919**	
Western Asset	Bonds	84,975	49.5%	84,443	54.5%
Blackrock	Index Linked Bonds	86,530	50.5%	70,476	45.5%
Equities		**189,757**		**146,419**	
Trilogy	Global equities	156,092	82.3%	116,708	79.7%
International Public Partnerships	Direct holding	33,665	17.7%	29,711	20.3%
Equities unit trusts		**298,740**		**226,525**	
Blackrock	Aquila UK	11,144	3.7%	9,130	4.0%
Blackrock	Aquila World index	135,537	45.4%	101,499	44.8%
Blackrock	Aquila Emerging markets	10,983	3.7%	8,155	3.6%
MFS	Global equities	95,485	32.0%	73,099	32.3%
LCIV Baillie Gifford	Global equities	45,591			
Lazard	Global equities	-	0.0%	34,642	15.3%
Property		**77,146**		**74,988**	
RREEF	Property Venture 3	2,635	3.4%	5,534	7.4%
Blackrock	Property	34,218	44.4%	34,203	45.6%
Brockton	Opportunistic	10,822	14.0%	6,924	9.2%
Legal and General	UK property	29,471	38.2%	28,327	37.8%
Private equity		**56,574**		**47,079**	
Adam St Partners	Private equity	56,574	100.0%	47,079	100.0%
Infrastructure		**91**		**17,673**	
Arcus	Infrastructure Fund	-	0.0%	17,673	100.0%
Antin	Infrastructure Fund	91			
Alternatives		**239,086**		**222,245**	
Lansdowne	Equities Long/short	52,478	21.9%	55,915	25.2%
York Capital	Event driven	18,827	7.9%	14,842	6.7%
Brevan Howard	Global macro	8,466	3.5%	16,817	7.6%
M&G	Inflation opportunities	40,739	17.0%	35,497	16.0%
Insight	Absolute bonds	32,651	13.7%	30,789	13.9%
Davidson Kempner	Global macro	26,683	11.2%	21,317	9.6%
Gruss	Global macro	23,929	10.0%	19,799	8.9%
CFM	Multi-strategy	25,935	10.8%	27,269	12.3%
Markham Rae	Global macro	9,378	3.9%		
		44,322		**27,659**	
Enfield	Cash	44,322	100.0%	27,659	100.0%
		1,077,221		**917,507**	

12. Analysis of investment assets over UK & overseas assets

2017	UK £000s	Overseas £000's	Total £000's
Fixed income securities & ILB	163,811	3,589	167,400
Derivative contracts	241	-	241
Equities	41,247	141,030	182,277
Equities - unit trusts	11,144	287,533	298,677
Property	77,146	-	77,146
Private equity	-	56,573	56,573
Infrastructure fund	-	-	-
Alternative investments	93,217	145,869	239,086
	386,806	**634,594**	**1,021,400**

2016	UK £000s	Overseas £000's	Total £000's
Fixed income securities & ILB	142,259	9,383	151,642
Derivative contracts	(200)	-	(200)
Equities	42,861	99,496	142,357
Equities - unit trusts	9,130	217,360	226,490
Property	71,682	-	71,682
Private equity	-	47,079	47,079
Infrastructure fund	-	17,673	17,673
Alternative investments	91,412	130,833	222,245
	357,144	**521,824**	**878,968**

Note: Where Investments are held by a non UK custodian , assets are categorised as overseas

13. Analysis of investment assets quoted & unquoted assets

2017	Quoted assets £000's	Unquoted assets £000's	Total £000's
Fixed income securities & ILB	167,400	-	167,400
Derivative contracts	241	-	241
Equities	182,277	-	182,277
Equity - unit trusts	298,677	-	298,677
Property	-	77,146	77,146
Private equity	-	56,573	56,573
Infrastructure fund	-	-	-
Alternative investments	-	239,086	239,086
	648,595	**372,805**	**1,021,400**

2016	Quoted assets £000's	Unquoted assets £000's	Total £000's
Fixed income securities & ILB	151,642		151,642
Derivative contracts	(200)		(200)
Equities	142,357		142,357
Equity - unit trusts	226,490		226,490
Property	--	71,682	71,480
Private equity	-	47,079	47,079
Infrastructure fund	-	17,673	17,673
Alternative investments	86,704	135,541	222,,245
	606,993	**271,975**	**878,968**

14. Current assets

	2017 £000s	2016 £000s
Contributions due from employers	264	175
Contributions due from members	84	79
Pension strain costs	51	-
Enfield	215	-
Payment of retirement grant in advance	70	130
	684	**384**
Cash balance	30	62
	30	**62**
Total current assets	**714**	**446**

15. Current liabilities

	2017 £000s	2016 £000s
Death benefits	(110)	(88)
London Borough of Enfield	(215)	(1,518)
Audit fee	(25)	(25)
Other	(13)	(11)
	(363)	**(1,642)**

16. Debtors & creditors– IFRS format

To comply with International Financial Reporting Standards the creditors and debtors (including investment balances) are summarised as follows:

Debtors	2017 £000s	2016 £000s
Other entities and individuals	2,311	2,862
Administering Authority		-
Other entities and individuals	684	384
Local authority		-
Total Debtors	**2,995**	**3,246**

Creditors	2017 £000s	2016 £000s
External managers		
Other entities and individuals	(896)	(1,104)
Administering Authority		
Other entities and individuals	(38)	(36)
Local authority	(1,606)	(1,606)
Total Creditors	**(2,540)**	**(2,746)**

17. Financial Instruments

a. 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. No financial assets were reclassified during the account period.

	2016/17			2015/16		
Investment type	**Designated at Fair Value £000s**	**Loans & Receivables £000s**	**Financial Liabilities at amortised cost £000s**	**Designated at Fair Value £000s**	**Loans & Receivables £000s**	**Financial Liabilities at amortised cost £000s**
Financial Assets						
Fixed income	167,400			151,642		
Derivative contracts	261			14,385		
Equities	182,277			142,357		
Equity - unit trusts	298,677			226,490		
Property	77,146			71,682		
Private equity	56,574			47,079		
Infrastructure	-			17,673		
Alternatives	239,086			222,245		
	1,021,421			**893,553**	**-**	**-**
Cash		54,406			36,843	
Other investment balances		2,311			2,862	
Debtors		714			384	
Financial Assets	**1,021,421**	**57,431**	**-**	**893,553**	**40,089**	**-**
Financial Liabilities						
Derivative contracts	(21)			(14,585)		
Other investment balances			(896)			(1,104)
Creditors			(363)			(1,642)
Financial Liabilities	**(21)**	**-**	**(1,259)**	**(14,585)**	**-**	**(2,746)**
Net Assets	**1,021,400**	**57,431**	**(1,259)**	**878,968**	**40,089**	**(2,746)**

b. Net gains and losses on financial instruments

The following table summarises the net gains and losses on financial instruments. As the majority of the financial assets and liabilities are recognised at fair value, these relate to gains or losses on disposal and changes in market value of investments.

	31 March 2017 £000's	**31 March 2016 £000s**
Fair value	161,011	20,214
Loans and receivables	(1,705)	357
	159,306	**20,571**

c. Fair value of financial assets and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company. As at year end there was no difference between carrying value and fair value.

	Carrying value and fair value 31 March 2017 £000s	Carrying value and fair value 31 March 2016 £000s
Financial Assets		
Fair value	1,021,421	893,553
Loans and receivables	57,431	40,089
Total financial assets	**1,077,852**	**933,642**
Financial liabilities		
Fair value	(21)	(14,585)
Financial liabilities measured at amortised cost	(1,259)	(2,746)
Total financial liabilities	**(1,280)**	**(17,331)**
	1,077,572	**916,311**

d. Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted 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.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3

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

Such instruments include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Enfield Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

Values at 31 March 2017	Quoted market price Level 1 £000s	Using observable inputs Level 2 £000s	With significant unobservable inputs Level 3 £000s	Total £000s
Financial assets				
Fair value	263,147	690,879	67,395	**1,021,421**
Total financial assets	263,147	690,879	67,395	**1,021,421**
Financial Liabilities				
Fair value		(21)		**(21)**
Total financial liabilities	**-**	**(21)**	**-**	**(21)**
Net financial assets	**263,147**	**690,858**	**67,395**	**1,021,400**

Values at 31 March 2016	Quoted market price Level 1 £000s	Using observable inputs Level 2 £000s	With significant unobservable inputs Level 3 £000s	Total £000s
Financial assets				
Fair value	293,999	525,650	73,905	**893,554**
Total financial assets	**293,999**	**525.650**	**73,905**	**893,554**
Financial Liabilities				
Fair value	-	(14,585)	-	**(14,585)**
Total financial liabilities	**-**	**(14,585)**	**-**	**(14,585)**
Net financial assets	**293,999**	**511,064**	**73,905**	**878,968**

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 be insufficient to meet its liabilities to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Statement of Investment Principles (SIP) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently, the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pension, Policy & Investment Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council's pensions operations. Measures to control and manage risks are also included within the risk register. Polices and the Risk Register are reviewed by the Pension Board and also on a more frequent basis as required.

a. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund's investment portfolio are set out in Note 9.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

b. Other price risk

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded on various markets. The Pension Board regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 9.

Other price risk – sensitivity analysis
Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations.

Asset Type	Potential market Movements (+/-) 2016/17	Potential market Movements (+/-) 2015/16
Equities	6%	6%
UK bonds	4%	4%
Overseas bonds	4%	4%
Index linked	4%	4%
Pooled property	5%	5%
Alternatives*	4%	4%
Cash and cash equivalents	0%	0%

*Includes: Hedge funds, Infrastructure funds & Private equity.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type Investment portfolio assets:	Balance at 31 March 2017 £000s	Change	Value on increase £000s	Value on decrease £000s
Equities & private equity	537,527	9%	+48,377	-48,377
UK bonds	39,413	4%	+1,577	-1,577
Overseas bonds	41,457	4%	+1,658	-1,658
Index linked	86,530	4%	+3,461	-3,461
Property	77,146	5%	+3,857	-3,857
Alternatives & infrastructure	239,086	4%	+9,563	-9,563
Cash and cash equivalents	54,406	0%	-	-
Other investment balances	1,415	0%	-	-
Derivatives (Net)	241	0%	-	-
Total assets available to pay benefits	**1,077,221**		**+68,493**	**-68,493**

Asset Type Investment portfolio assets:	Balance at 31 March 2016 £000s	Change	Value on increase £000s	Value on decrease £000s
Equities & private equity	415,674	9%	+37,433	-37,433
UK bonds	63,161	4%	+2,435	-2,435
Overseas bonds	9,097	5%	+455	-455
Index linked	79,384	4%	+3,175	-3,175
Property	71,480	5%	+3,584	-3,584
Alternatives & infrastructure	239,918	4%	+9,597	-9,597
Cash and cash equivalents	36,781	0%	-	-
Other investment balances	1,757	0%	-	-
Derivatives (Net)	(200)	0%	-	-
Total assets available to pay benefits	**917,052**		**+56,679**	**-56,679**

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged. Private equity is shown as an alternative asset.

c. 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 of 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 Council 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 bench mark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreement. Pension Fund cash held by the Administering Authority is invested in accordance with the Treasury Management Strategy.

The Fund's direct exposure to interest rate movement as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2017 £000s	31 March 2016 £000s
Cash deposits	54,406	36,781
Cash balances	30	62
Fixed interest securities	167,400	151,642
Total	**221,836**	**188,485**

d. Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:-

Asset Type	Carrying amount as at 31 March 2017 £000s	Change in year in the net assets available to pay benefits +100 bps £000s	-100 bps £000s
Cash deposits	54,406	+544	-544
Cash balances	30	+3	-3
Fixed interest securities	167,400	-	-
Total	**221,836**	**+547**	**-547**

Asset Type	Carrying amount as at 31 March 2016 £000s	Change in year in the net assets available to pay benefits +100 bps £000s	-100 bps £000s
Cash deposits	36,781	+368	-368
Cash balances	62	+6	-6
Fixed interest securities	151,642	-	-
Total	**188,485**	**+374**	**-374**

e. Currency risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (£UK). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling.

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2017 and as at the previous period end

Currency Exposure	Asset Value as at 31 March 2017 £000s	Value on 5% increase £000s	Value on 5% decrease £000s
Brazilian Real	2,473	+124	-124
China Renminbi	2,508	+125	-125
Danish Krone	10	+1	-1
Euro	34,925	+1,746	-1,746
Hong Kong Dollar	1,972	+99	-99
Indian Rupee	4,467	+223	-223
Japanese Yen	18,078	+904	-904
New Taiwan Dollar	1,939	+97	-97
Norwegian Krone	767	+38	-38
Russian Rouble	840	+42	-42
South Korean Won	6,457	+323	-323
Swedish Krona	1,493	+75	-75
Swiss Franc	1,454	+75	-75
US Dollar	215,828	+10,791	-10,791
Total currency exposure	**293,211**	**+14,663**	**-14,663**

Currency Exposure	Asset Value as at 31 March 2016 £000s	Value on 5% increase £000s	Value on 5% decrease £000s
Brazilian Real	2,496	+125	-125
Canadian Dollar	1,417	+71	-71
China Renminbi	3,145	+157	-157
Danish Krone	1,024	+51	-51
Euro	38,435	+1,922	-1,922
Hong Kong Dollar	1,981	+99	-99
Indian Rupee	3,078	+154	-154
Japanese Yen	9,228	+461	-461
New Taiwan Dollar	1,484	+74	-74
Norwegian Krone	637	+32	-32
Russian Rouble	762	+38	-38
South Korean Won	3,487	+174	+-174
Swedish Krona	2,557	+128	+-128
Swiss Franc	2,941	+147	-147
US Dollar	166,000	+8,300	-8,300
Total currency exposure	**238,672**	**+11,933**	**-11,933**

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

f. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The market value of investments generally reflects an assessment of credit risk 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 Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by the review of the Managers' annual internal control reports to ensure that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Custodian, StateStreet Global Services. Bankruptcy or insolvency of the Custodian may cause the Fund's rights with respect to securities held by the Custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with the HSBC and Goldman Sachs money market fund.

The Pension Board and senior officers monitor this risk by monitoring the credit rating and financial positions of the Custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure.

Summary	Fitch rating	2017 £000s	2016 £000s
Cash (current Assets)			
HSBC	AA-	30	62
		30	**62**
Cash deposits (Investment assets)			
HSBC	AA-	-	43
Goldman Sachs money market fund	AAAm	21,675	27,929
Blackrock money market fund	AAAm	35	35
Cash held by fund managers and custodian	AA-	32,666	8,774
Investment cash		**54,376**	**36,781**
Total		**54,406**	**36,843**

g. Liquidity risk

Liquidity risk corresponds to the Pension Fund's ability to meet its financial obligations when they fall due with sufficient and readily available cash resources.

The Fund has holdings in private equity, hedge funds infrastructure funds, and property funds which can be considered 'illiquid'. The Fund, however, has sufficient investments that are of listed securities (on major security exchanges) which are considered readily realisable.

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the Custodian that are highly liquid and can be used for payables and expenses such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the Financial Services team of the Council.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pension Board with the Fund's Actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

19. Related party transactions

The Fund is administered by the London Borough of Enfield. The Council is also the single largest employer of members of the pension fund and contributed £27 million to the Fund in 2016/17 (£30.9 million in 2015/16). Consequently there is a strong relationship between the Council and the Pension Fund.

At year end the Pension Fund owed the London Borough of Enfield) £215k (£1,518k in 2015/16).

Scheduled and admitted bodies owed the Fund £400k (£254k in 2015/16) from employer & employee contributions All payments received before 19th April 2017.

The Council incurred administration costs, it also pays for pensioners payments on behalf of the Fund. These costs are consequently reimbursed by the Fund.

During the year, no member or Council Officer with direct responsibility for pension fund issues had undertaken any declarable material transactions with the Pension Fund. Each member of the Pension Board is required to declare their interests at meetings.

The Council has decided that Councillors should not be allowed to join the LGPS scheme and receive pension benefits from the Fund.

Councillor Taylor a member of the Pension Committee, is also a Governor of Capel Manor, a Scheduled body.

Councillor Simon wife is a pensioner within the Fund, and holds a contingent interest in the Fund.

No allowances are paid to Members directly in respect of the Pensions Board. The Chair of the Pension Policy & Investment Committee however, is paid a special responsibility allowance.

Several employees of the London Borough of Enfield hold key positions in the financial management of the Fund. As at 31 March 2015 these employees time spent on Pension Fund related activities:

Julie Barker – Head of Exchequer (20% estimated full- time equivalent- fte)
Tim O'Connor – Pension Administration manager (100% estimated full- time equivalent- fte)
Paul Reddaway - Head of Finance – Treasury (75% estimated full- time equivalent fte)

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7 (2) – (4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. The disclosures required by Regulation 7 (2) – (4) of the Accounts and Audit (England) Regulations 2011 can be found in the main accounts of the Borough of Enfield. The Director of Finance, Resources & Customer Services fulfils the definition of the key management personnel responsible for the Pension Fund.

20. Actuarial position

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Enfield Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

- **Actuarial Position**
- The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £916.3M) covering 87% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
- 17.7% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)
    - **Plus**
- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 5.1% of pensionable pay (or £7.8M in 2017/18, and increasing by 3.5% p.a. thereafter).
- In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 27 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
- The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, was agreed with the Administering Authority reflecting the employers' circumstances.
- The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

• Discount rate for periods in service • Scheduled body funding target * • Orphan body funding target	• • 4.5% p.a. • 4.1% p.a.
• Discount rate for periods after leaving service • Scheduled body funding target * • Orphan body funding target	• • 4.5% p.a. • 2.5% p.a.
• Rate of inflationary pay increases • (additional allowance made for promotional increases)	• 3.5% p.a.
• Rate of increase to pension accounts	• 2.0% p.a.
• Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	• 2.0% p.a.

- *The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*
  - *In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.*
  - The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P Light mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were:

•	• Men	• Women
• Current pensioners aged 65 at the valuation date	• 24.3	• 26.9
• Future pensioners aged 45 at the valuation date	• 26.3	• 29.2

  - The assets were valued at market value.
  - Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.
- The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 27 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.
  - This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

  - Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, London Borough of Enfield, the Administering Authority of the Fund, in respect of this Statement.

- The actuarial valuation report as at 31 March 2016 is available from:
  - Paul Reddaway
  - Head of Finance
  - London Borough of Enfield Civic Centre
  - PO Box 54
  - Silver Street
  - Enfield
  - EN1 3XF

21. Actuarial position in accordance with International Financial Reporting Standards

IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the "defined benefit obligation".

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

The results at as 31 March 2016, together with the 2013 figures are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS 19 assumptions.

Actuarial present value of promised retirement benefits

Fair value of assets

	31 March 2016 £m	31 March 2013 £m
Fair value of net assets	**916.3**	**731.2**
Actuarial present value of promised retirement benefits	**(1,229.3)**	**(1,050.4)**
Deficit in the Fund as measured for IAS26 purposes	**(313.0)**	**(319.2)**

Assumptions
The latest full triennial valuation of the Fund's liabilities was carried out as at 31 March 2016. The principal assumptions used by the Fund's independent qualified actuaries were:

	31 March 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	**3.4**	**4.4**
RPI inflation	**2.9**	**3.4**
CPI inflation (pension increases)*	**1.8**	**2.4**
Rate of general increases in salaries**	**3.3**	**3.9**

**In excess of Guaranteed Minimum Pension increases in payment where appropriate*
***In addition, for the same age related promotional salaries scales as used at the actuarial valuation of the Fund, as at the appropriate*.

Principal demographic assumptions

Males	31 March 2016	31 March 2013
Base table	Standard SAPS S2P Light amounts (S2PMA_L)	Standard SAPS normal health light amounts (S1NMA_L)
Rating to be above base table (years)*	0	0
Scaling to above base table rates **	95%	100%
Allowance for future improvements*	CMI 2014 with a long term rate of improvement of 1.5%	CMI 2012 with a long term rate of improvement of 1.5%
Future lifetime from age 65 (currently aged 65)	24.3	24.3
Future lifetime from age 65 (currently aged 45)	26.3	26.4

Females	31 March 2016	31 March 2013
Base table:	Standard SAPS S2P Light amounts (S2PFA_L)	Standard SAPS normal health light amounts (S1NFA_L)
Rating to above table (years)*	0	0
Scaling to above base table rates **	80%	80%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of 1.5%	CMI 2012 with a long term rate of improvement of 1.5%
Future lifetime from age 65 (currently aged 65)	26.9	27.5
Future lifetime from age 65 (currently aged 45)	29.2	29.8

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements. ** The scaling factors shown apply to normal health retirements.

Commutation

31 March 2016	31 March 2013
Each member was assumed to surrender pension on retirement, such that the total cash received including any accrued lump sum from pre 2008 service is 70% of the permitted maximum	Each member was assumed to surrender pension on retirement, such that the total cash received including any accrued lump sum from pre 2008 service is 70% of the permitted maximum

Key risks associated with reporting under IAS 26

Volatility of results

Results under IAS 26 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion of the assets of the Scheme are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the pension fund.

GMP equalisation

The Government intends that GMPs will be equalised in due course. At present it is not appropriate to allow for this in the accounts because the methodology for implementing the equalisation is uncertain. However, once the methodology is clarified, the defined benefit obligation will increase and it is likely that the associated cost will need to be recognised through the profit and loss account. As such, a risk exists as to the magnitude of the impact of equalising GMPs

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Results under IAS 26 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion of the assets of the Scheme are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the pension fund.

Choice of accounting assumptions

The calculation of the actuarial present value of the promised retirement benefits involves projecting future cash-flows from the Fund many years into the future. This means that the assumptions used can have a material impact on the surplus / deficit. As such, the Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and are comfortable that they are appropriate. Furthermore, the Administering Authority should bear in mind that, as required by the accounting standard, the assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the Fund. In practice future experience within the Fund may not be in line with the assumptions adopted. This means that the liabilities shown in this report only represent one view of the future and the true position could be different from those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculations.

Sensitivity of results to key assumptions

In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions.

GMP equalisation

The Government intends that GMPs will be equalised in due course. At present it is not appropriate to allow for this in the accounts because the methodology for implementing the equalisation is uncertain. However, once the methodology is clarified, the defined benefit obligation will increase and it is likely that the associated cost will need to be recognised through the profit and loss account. As such, a risk exists as to the magnitude of the impact of equalising GMPs.

22. International Financial Reporting Standards in issue but not yet effective

There are no accounting standards that have been issued but are not yet effective that impact on the Enfield Council Pension Fund.

23. Contingent liability

The London Borough of Enfield has taken legal advice and requested that a claim be made on the Fund for a former employee (now a pensioner) that was found guilty of fraud against the London Borough of Enfield. The Council has made a £489k claim on the fund to recover the funds. The matter is under appeal.

24. Additional voluntary contributions (AVCs)

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Fund by the AVC provider are disclosed within transfers-in.

The current provider is Prudential. Funds held are summarised below:

	Opening Balance at 1st April 16 £000s	Contributions & Transfers £000s	Sums Paid Out £000s	Investment Return £000s	Closing Balance at 31 March 2017 £000s
With profits cash accumulation	**1,059**	333	(229)	-	**1,163**
Deposit fund statement	**760**	369	(322)	-	**807**
Discretionary fund	**442**	130	(67)	122	**627**
	2,261	**832**	**(618)**	**122**	**2,597**

* Excludes Final Bonus

25. Membership

All local government employees (except casual employees and teachers) are automatically entered into the Fund. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Fund or make their own personal arrangements outside the Fund.

Organisations participating in the Enfield Pension 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.

The Fund consists of the employees of Enfield Council and the following bodies:

Scheduled bodies:
Capel Manor College
Hadley Academy
Enfield Academy
Aylward Academy
Cuckoo Hall Academy
Nightingale Academy
Kingsmead Academy
Enfield Grammar School Academy
Enfield Heights Academy
Ark John Keats Academy
Meridian Angel Primary School
Heron Hall Academy
Kingfisher Hall Academy
Woodpecker Hall Academy
Edmonton County Academy
Southgate School Academy
Enfield Learning Trust
Admitted bodies:
Sodexo Limited
Enfield Voluntary Groups
NORSE
Metropolitan Support Trust
Fusion Lifestyle (previously Enfield Leisure)
Outward Housing

Birkin Services
Independence & Wellbeing Ltd
BDI Securities UK Ltd
Admitted bodies with no active members
Fitzpatrick
Kier Group Services
Churchill
Hughes Gaidner
Equion Facilities Management

As at the 31 March 2017 the Fund Membership was 20,710 compared to 18,874 at 31 March 2016. This is analysed below:

	31 March 2017	31 March 2016
Current Members*	7,447	7,312
Retired Members	5,265	4,964
Deferred Members	4,889	4,786
Frozen/Undecided	3,089	1,812
	20,710	**18,874**

The current members total includes Fund members where they have multiple jobs. Each job is shown as a separate member. The total individual current membership is 6,960.

A copy of the Pension Fund Annual Council's Statement of Investment Strategy Statement (ISS) and the Fund's compliance with the Government's compliance statement are all available on the Council's website www.enfield.gov.uk.

LONDON BOROUGH OF ENFIELD PENSION FUND

PLANNING REPORT TO THE AUDIT AND RISK MANAGEMENT COMMITTEE

Audit for the year ended 31 March 2017

June 2017

CONTENTS

INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the London Borough of Enfield Pension Fund for the year ended 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee and the Pension Policy and Investment Committee.
In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM

Core team

David Eagles
Engagement Lead

Andrew Barnes
Engagement Manager

Tim Byford
Assistant Manager

Leon Penwill
Senior

Name	Contact details	Key responsibilities
David Eagles **Engagement Lead**	Tel: 01473 320 728 david.eagles@bdo.co.uk	Oversee the audit and sign the audit report
Andrew Barnes **Project Manager**	Tel: 01473 320745 andrew.barnes@bdo.co.uk	Management of the audit
Tim Byford **Manager**	Tel: 01473 320 724 tim.byford@bdo.co.uk	Day to day supervision of the onsite audit
Leon Penwill **Audit Senior**	Tel: 01473 320739 leon.penwill@bdo.co.uk	Delivery of key audit work and assisting with supervision of the on-site audit

David Eagles is the Engagement Lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

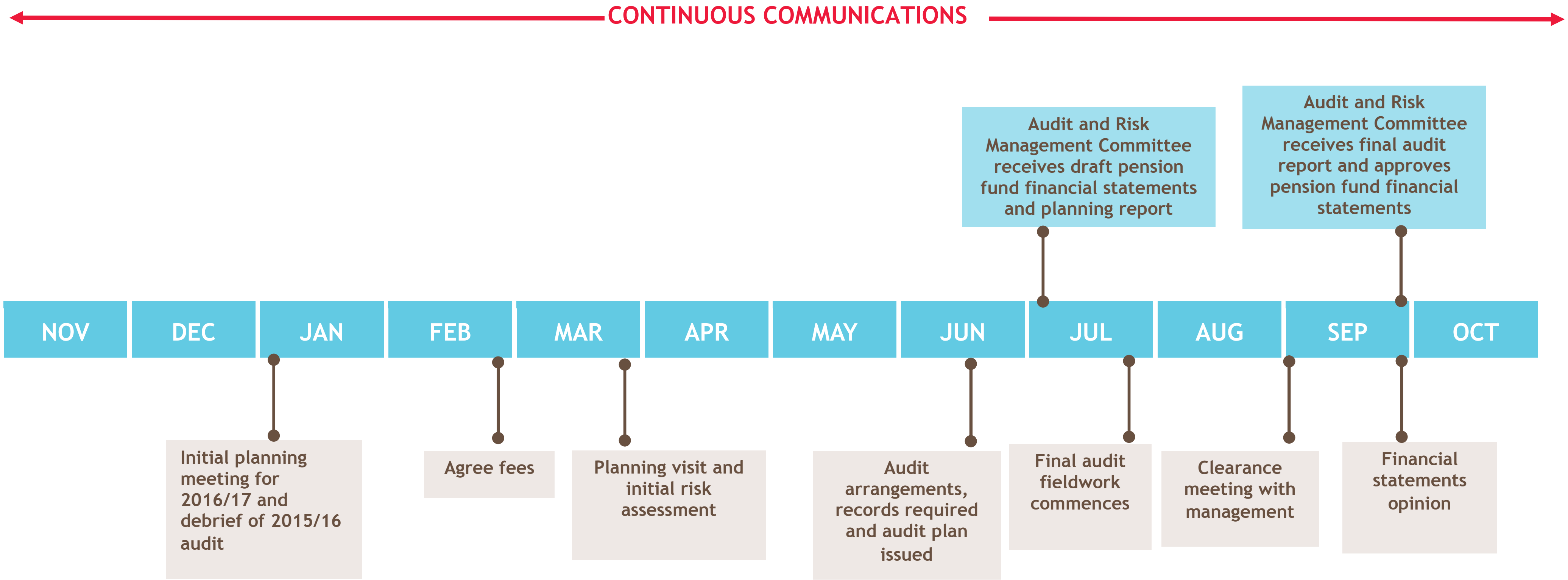
In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error

David is also responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

Our audit objective is to form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS
1 The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements.	4 Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.

Page 60

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£16,000,000	£320,000
Specific materiality for other financial statement areas:		
- Contributions	£2,000,000	£40,000
- Other fund account balances	£2,300,000	£46,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1.75% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for contributions at 4.75% of contributions receivable and for other fund account balances at 7.5% of the greater of total income or total expenditure.

At this stage, the above figures are based on the prior year net assets and income and expenditure figures. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

Under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Management override	Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.	Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk. In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.	Not applicable.
Revenue recognition (contributions)	Under International Standard on Auditing 240 "The Auditor's responsibility to consider fraud in an audit of financial statements" there is a presumption that income recognition presents a fraud risk. For pension funds, the risk can be identified as affecting the completeness, accuracy and existence of contributions income.	We will carry out audit procedures to gain an understanding of the pension fund's internal control environment for receiving and recording contributions income in accordance with the schedule of contributions, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We will perform an examination, on a test basis, of evidence relevant to the amounts and timing of contributions receivable to the fund including checking to employer payroll records, where relevant.	We will check a sample of contributions receivable from the Council to the Council's payroll records to ensure that the correct amounts have been paid by the employee and employer. For other significant scheduled bodies, we will select a sample of bodies each and request confirmation from that organisation that the correct amounts have been paid to the pension fund for selected employees.

Page 63

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Fair value of investments (infrastructure and private equity)	The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations provided by the underlying partnerships. The valuation of these assets may be subject to a significant level of assumption and estimation and valuations may not be based on observable market data. In some cases, the valuations may be provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. As a result, we consider there to be a significant risk that investments are not appropriately valued and correctly recorded in the financial statements.	We will obtain direct confirmation of investment valuations from the General Partner or fund manager and request copies of the audited financial statements of the underlying partnerships (and member allocations). We will review the valuation completed by the General Partner or fund manager and the significant assumptions made in this valuation. Where the financial statement date supporting the valuation is not conterminous with the pension fund's year end, we will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds. Ensure investments have been correctly valued in accordance with the relevant accounting policies.	Direct confirmation of the fund valuation and audited financial statements for the underlying partnerships.
Fair value of investments (other)	The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reviewed by the Custodian, and reported on a quarterly basis. These funds are quoted on active markets. There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We will obtain direct confirmation of investment valuations from the fund managers and agree valuations, where available, to readily available observable data (such as Bloomberg). We will ensure that investments have been correctly valued in accordance with the relevant accounting policies. We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	Direct confirmation of investment valuations from fund managers. Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Investment management expenses	Local Government Pension Fund Accounts are required to disclose investment management expenses. Management expenses included in the pension fund accounts represent the fees for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments. CIPFA issued guidance in June 2016 on obtaining and separately presenting these additional charges in the fund accounts, in order "to promote transparency, consistency and completeness of financial reporting". There is a clear expectation that LGPS fund accounts should observe this guidance. We consider there to be a risk in the presentation of investment management expenses in the fund accounts where fees are not identified and separately reported.	We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Membership disclosure	Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed. There is a risk that the membership database may not be accurate and up to date to support this disclosure.	We will obtain membership records and review the controls over the maintenance of these records. We will undertake sample testing of movements of members to transactions recorded in the fund account. We will review action taken in response to findings of the National Fraud Initiative (NFI) data matching exercise of paid amounts to pensioners with the UK register of deaths, and any ‘life certification’ exercise undertaken.	Review of NFI data matching.
Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. In particular, new requirements to disclose the remuneration of key management personnel apply from 2016/17, as previous exemptions (for remuneration reported elsewhere) are no longer available. This specific requirement needs to be considered specifically to ensure correct and adequate disclosure in the financial statements.	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review Councillors’ and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Pension liability assumptions	An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation uses inappropriate assumptions to value the liability.	We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We will agree the disclosure to the information provided by the actuary.	We will use the actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error. We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We will continue to consider throughout the audit process and discuss with management.	Not applicable.

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Risk Management Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the Council and Pension Fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors.

We have confirmed that we have not provided any non audit services.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

INDEPENDENCE

Continued

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	**NUMBER OF YEARS INVOLVED**	**ROTATION TO TAKE PLACE IN YEAR ENDED**
David Eagles - Engagement lead	2	31 March 2023
Andrew Barnes - Project manager	1	31 March 2027
Engagement Quality Review Partner	1	31 March 2024

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	£
Code audit fee (pension fund)	24,489
TOTAL FEES	24,489

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1: £12,245 in July 2016
- Instalment 2: £12,244 in January 2017.

The fee set out above is the base Scale fee. It has not been adjusted to reflect any on-going risks and consequent additional audit resource requirements to address such.

This position will be closely monitored and any additional risk work that we consider necessary will be discussed and agreed with management.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive drafts of the pension fund financial statements in June 2017. We will be using these financial statements to complete our final planning work.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY
Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Pension Policy and Investment Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Pension Policy and Investment Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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London Borough of Enfield Pension Fund: Business Plan 2017 - 2021

Introduction

London Borough of Enfield is the Administering Authority of the Enfield Local Government Pension Scheme (LGPS). Management of the Pension Fund is delegated to the Pensions Policy & Investment Committee acting in the role of ‘trustees’ of the Pension Fund.

The day to day running of the Fund has been delegated to the Director of Finance Resources & Customer Services.

The purpose of this document is to set out a business plan for the Pension Fund for the period 2017-2021 and to outline the Fund’s goals and objectives over the longer term and commitments to the Pooling of Investments in the London Collective Investment Vehicle (LCIV).

Objectives

The primary objectives of the Fund are:

1. Deliver a high quality and friendly information service to all beneficiaries, potential beneficiaries and employers;

2. Clear, appropriate and timely communication with all Stakeholders;

3. To act with integrity and be accountable to stakeholders for decisions, ensuring that they are robust, well based and undertaken by people who have the appropriate knowledge and expertise;

4. To help employers recognise and manage Pension liabilities as they accrue (addressing the different characteristics of disparate employers to the extent that is practical and cost effective);

5. Optimising the return on investment consistent with a prudent level of risk over the long term.

The London Borough of Enfield Pension Fund was valued at £1.2 billion as at the 31 March2017.

Valuations are carried out every three years. The last valuation was as at 31 March 2016, with the next one 31 March 2019. These Valuations put value on the liabilities of the Fund and compare them with the market value of assets as part of the determination of employer contribution rates.

Chart 1 membership analysis

	31 March 2013	31 March 2014	31 March 2015	31 March 2016	31 March 2017
Current Employees	6,447	6,868	7,090	7,312	7,447
Pensioners	4,279	4,427	4,675	4,964	5,265
Deferred Benefits	5,452	5,760	6,270	6,592	7,978
	16,178	**17,055**	**18,035**	**18,868**	**20,710**

Source: Heywood Pensions Administration

Chart 2 Cash Flow

Pension Fund Budget 2017-2020				
2016/17		**2017/18**	**2018/19**	**2019/20**
Actual		**Estimate**	**Estimate**	**Estimate**
£000		**£000**	**£000**	**£000**
9,475	Employee contributions	8,800	9,000	9,200
29,242	Employer contributions	30,000	30,800	31,300
1,338	Early retirements	500	500	500
181	Transfers in	2,000	1,000	1,000
40,236	**Total Income**	**41,300**	**41,800**	**42,000**
(30,239)	Pensions	(32,200)	(33,400)	(34,500)
(9,829)	Retirement/death grants	(5,000)	(5,000)	(5,000)
(1,038)	Transfers out	(2,000)	(1,000)	(1,000)
(735)	Admin costs	(750)	(760)	(770)
(254)	Oversight & Governance	(190)	(180)	(240)
(42,095)	**Total Expenditure**	**(40,140)**	**(40,340)**	**(41,510)**
(1,859)	**Net Surplus/(Deficit)**	**160**	**(40)**	**(1,110)**
20.9%	**Employers contribution %**	**23.9%**	**24.5%**	**24.9%**

Chart 3 Asset Allocation 31March 2017

Asset Class	**Actual Position 31st March 2017 %**	**Target Weighting %**	**Expected Return (per annum)**	**Control Range**
Equities (including Private Equity 5%)	48	40	8-11%	±10%
Bonds	23	29	4-5%	±10%
Hedge Funds	16	15	9-11%	±5%
Property (UK)	7	10	9%	±5%
Infrastructure/PFI	3	6	9%	±3%
Cash	3	-	-	-
Total	**100**	**100**		

Business Plan 2017–2021

In order to meet the objectives of the Pension Fund, the Business Plan has to be put into the context of a period of significant uncertainty for the Fund. This incorporates not only the volatile investment markets, but also Scheme changes which came into effect in 2014, along with wider changes to the pension scene which include auto-enrolment and workplace pensions and investment pooling.

Set out in the table below is the 4 year business plan for the Pension

	2017/18	2018/19	2019/20	2020/21
Pension Administration				
Valuation- collection of data			Apr to Jul	
Valuation results to employers			Sept to Mar	
Auto-Enrolment	Apr to Mar	Apr to Mar	Apr to Mar	Apr to Mar
Guaranteed Minimum Pension Review	Apr to Mar	Apr to Oct		
Monthly submission of data from employers (i connect)	Oct to Mar	Apr to Mar	Apr to Mar	Apr to Mar
Quarterly Pension Administration performance review	Quarterly	Quarterly	Quarterly	Quarterly
Communications				
Member Self-service	Aug to Dec			
Annual Benefits Statements	Jul to Aug	Jul to Aug	Jul to Aug	Jul to Aug
Communication Policy review	Aug to Dec		Aug to Dec	
Employer meeting	December	December	December	December
Fund member meeting	November	November	November	November
Governance				
Pension Fund Accounts	Apr to June	Apr to May	Apr to May	Apr to May
Approve Final Pension Annual report	Sept	Sept	Sept	Sept
Review Risk Register	May	May	May	May
Investment strategy tatement	Aug	Aug	Aug	Aug
Setting & reviewing member's training programme	May	May	May	May
Review AVC provider			December	
Market test investment adviser		Apr to June		
Investment consultant service re-tender			June to Oct	
Actuary service re-tender				June to Oct
Governance CIPFA Review (including risk, responsible investor and Pooling)	Sept	Sept	Sept	Sept
AVC provider review		June		
Audit employer payrolls	Nov		Nov	
Pension Regulators KPI's	Nov	Nov	Nov	Nov
Investments				
Asset allocation review			Nov to Mar	
Investment strategy statement	On-going	On-going	On-going	
Qualitative review of asset allocation	Nov	Nov		
Investment performance review	Quarterly	Quarterly	Quarterly	
Investment Pooling	Apr to Mar	Apr to Mar		
Funding				
Triennial valuation			July-Dec	
Fund maturity and liabilities profiling and monitoring	March	March	March	

Attached at Appendix 1 to this report is an indicative work plan for the Pension Policy &Investment Committee for the financial year 2016/17. The work plan provides a more detailed indication of the short term priorities, that link to the longer term business plan.

Appendix 1

Meeting Agenda Item
22nd May 2017
Standing Items:
Review of Fund performance Q1 2017
Manager review :Blackrock Property
Risk Register – Review
Pension Fund budget & cash flow
LGPS Pooling update
Other Business Items
Business plan 2017/18 – 2020/21
Continuous Professional Development (CPD) Plan
August 2017
Standing Items:
Review of Fund performance Q2 2017
Manager review
Review of business plan
Risk Register – Review
Pension Fund – Continuous Professional Development (CPD) update
Cash Flow Monitoring to June 2017
LGPS Pooling update
CPD update
Other Business Items
Asset Liability review (including Benchmark review)
Draft accounts & Annual report
Review Investment Strategy Statement
Communication Policy Review
November 2017
Standing Items:
Review of Fund performance Q3 2017
Manager review
Review of business plan
Risk Register – Review
Pension Fund – Continuous Professional Development (CPD) update
Cash Flow Monitoring to September 2017
LGPS Pooling update
CPD update

Other Business Items
Pensions Administration – Performance Update
Guaranteed Minimum Pension update
February 2018
Standing Items:
Review of Fund performance Q4 2017
Manager review
Review of business plan
Risk Register – Review
Pension Fund – Continuous Professional Development (CPD) Plan
Cash Flow Monitoring to December 2017
LGPS Pooling update
CPD update

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LONDON BOROUGH OF ENFIELD
PENSION POLICY & INVESTMENT COMMITTEE
22 MAY 2017

AON HEWITT @ 10.00 am

MINUTES

Members:

Councillor T. Simon JP (Chair)
Councillor T. Neville OBE JP
Councillor A Sitkin (Part of meeting)
Councillor D. Levy
Councillor D. Taylor

Independent Advisor;

Carolan Dobson

Officers:

Paul Reddaway – Head of Finance Pension Investments
Stephen Fitzgerald – Assistant Director of Finance
Tim O'Connor – Pension Administration Manager
Jodie Deighton – Operational Support Officer

Also attending:

Emily McGuire – Aon Hewitt, Investment Consultant
Rohan Meswani – Aon Hewitt, Investment Consultant
Alison Trustee – Aon Hewitt, Hedge Fund Research Team (part)
Julian Pendock - London CIV (part)
Paul Tebbit – Blackrock Portfolio Manager (part)
Chris Head – Blackrock Relationship Manager (part)

1. WELCOME AND INTRODUCTION

Apologies for absence were noted from Cllr D. Pearce; and Cllr A .Sitkin for lateness as he had a prior Council business commitment.

2. DECLARATION OF INTERESTS

NOTED:

(a) Cllr Toby Simon declared his wife is a governor of Enfield Learning Trust, a multi-academy trust employer in the fund.
(b) Cllr Toby Simon's wife is a fund pensioner and he has a contingent widower's pension

(c) Carolan Dobson declared she is a non-executive director of the London CIV.
(d) Paul Reddaway & Carolan Dobson both hold direct shareholdings with INPP.

3. MINUTES OF THE PREVIOUS MEETING

Minutes of the meeting held 23rd February 2017 were noted and agreed by all present.

4. MATTERS ARISING

(a) The Committee agreed via e mail that the Fund should take up the rights issue from INPP of approx. 2.7m shares at £1.50 each. The shares are now trading at £1.60.

5. PENSION FUND BUSINESS PLAN

RECEIVED: "LB Enfield Pension Fund Business Plan", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR outlined the work plan for the Committee for the Municipal year. He highlighted that greater attention will need to be paid to the cash flow of the fund as the Fund moves to a negative cash flow position and an update will be included as a standing item. Another key issue for the committee will be to review the Fund's communication policy.

RESOLVED:
The business plan was accepted and would form the basis for the committee meetings during the year.

6. PENSION FUND BUDGET

RECEIVED: "LB Enfield Pension Fund Budget", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR highlighted some of the challenges to the Fund's cash flow, following the Council's transformation programme. This has meant a reduction in employer/ee contributions whilst the number of pensioners has increased. Transfers in/out have been suppressed due to delays in agreeing the revised discount rate.

7. PENSION RISK REGISTER

RECEIVED: "LB Enfield Pension Risk Register", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR outlined the updated risk register and that it would be included as a standing item for the committee. Members of the Committee questioned the potential impact weightings on some of the risks around the custodian and considered they were over emphasized. PR explained this exercise was only a starting point.

RESOLVED:
The Chair requested the risk register will be updated for the next meeting

8. CONTINUING PROFESSIONAL DEVELOPMENT(CPD) POLICY

RECEIVED: "LB Enfield_Pension policy", a copy of which was circulated by PR prior to the meeting.

REPORTED: PR set out the CIPFA & The Pension Regulator (TPR) knowledge and skills Framework & Code of Practice.

RESOLVED:
(a) The Chair recommended that the report should be re-worded to use the phrase CPD rather than training given the wide experience of the Committee.

(b) PR was asked to develop and document the knowledge & skills framework and bring it back to the next meeting.

9. LCIV update & Review of Diversified Growth Funds (DGF)

REPORTED: Julian Pendock (JP) reviewed the DGF managers on the LCIV and how it may act as a diversification option for the Enfield hedge fund strategy.

JP provided an update of the work of LCIV over the next 5 months. A further 6 sub-funds are scheduled for launch on the CIV platform, 3 under the CQC (Commonality, Quantum and Conviction) mechanism and a further 3 that have come from the global equity procurement process.

The 3 sub-fund launches scheduled under the CQC basis are:

a. Majedie UK Equity (18-05-17)
b. Newton Global Equity (22-05-17)
c. Longview Global Equity (17-07-17)

Additional global equity sub-fund launches following global equity procurement, one in July and two in September:

a. Henderson Emerging Markets (17-07-17)
b. Epoch Global Equity Income (01-09-17)
c. RBC Sustainable Equity (01-09-17).

The Committee discussed opportunities to invest in the new Fund's on the LCIV.

Work continues on the Fixed Income options for the launch of dedicated funds in this area later in the 2017/18 financial year. The current plan is based on two fixed income and cash flow generating sub-funds to be launched in the first quarter of 2018, although recent feedback from Funds would indicate that this has become a more urgent area of work following the triennial valuation and the changes to their asset allocation strategies flowing from this.

JP stated the LCIV were giving consideration of multi-asset income funds which have targeted returns (e.g. 4-6% and 6-8%). It has received presentations from two providers setting out potential options and CIV are looking to assess more accurately the demand that there might be and will then be looking to put options forward for more detailed discussions.

RESOLVED

The Committee confirmed its decision to move the Blackrock passive emerging equity fund into the CIV Henderson emerging market fund when it opens in July.

It was also agreed to meet with the Longview equity manager on 26th June to assess whether it would be a suitable fund to make an investment, with funding coming from the Trilogy portfolio.

10. HEDGE FUND REVIEW

RECEIVED: “Hedge Fund vs DGF Comparison”, a copy of which was circulated by AON at the meeting

REPORTED

Markham Rae

Alison Trustee (AT) gave an update of the Markham Rae (global Macro Fund) where they are 9% down on the year to date. Should the strategy’s performance drop below -12% in the coming months, the Manager would enter a risk reducing mode and only carry out transactions that liquidated positions in the portfolio or offset the risk of positions. MR are planning to ask investors for permission to extend the drawdown limit to 17% to allow them to take more risks in order to recoup the losses. In return the Manager is offering a 20% reduction in management fees from 1.5% to 1.2% until they regain their high watermark. MR have given the option for investors to disinvest if they do not accept the proposals through a special redemption to redeem holdings on 1st June.

AT explained MR was advising clients to accept the new proposal and retain funds with MR. Carolan Dobson was concerned at this development and past performance indicated they had not made positive returns for the last three years. On the other hand some members were concerned that the investment was only made in December and it was perhaps too early to redeem the investment, given the rather benign investment conditions.

PR explained he had visited MR in March to discuss the disappointing performance but was assured of the disciplined investment approach and that losses were being limited by reducing risk.

Hedge Fund Strategy
AT explained that the Fund currently has a strategic allocation of 15% towards Hedge Funds. HF provide diversification and reduce the level of risk at the overall portfolio level by targeting absolute returns in all market environments. Hedge Funds provide an 'insurance' policy' against significant market downturn and an allocation towards hedge funds is expected to deliver enhanced portfolio efficiency.

The Fund's overall portfolio has performed well despite this long bull market. Extraordinary central banks actions in recent years have distorted asset prices and have allowed equities and bond assets to deliver historically high levels of returns with relative low associated levels of volatility.

One issue arising from the holding the Hedge Fund allocation are the manager fees. At present hedge funds account for 49% of the Fund's management fees.

RESOLVED:
The Committee committed to disinvest from the MR investment once the formal proposal had been received from the Manager.

The Committee agreed to pause the Fund's proposed investments in Graham & Lynx, whilst the Asset Allocation review is undertaken to see whether the current hedge fund allocation is still appropriate.

11. INVESTMENT UPDATE INCLUDING QUARTERLY INVESTMENT REPORT

RECEIVED:"LB Enfield quarterly Investment Report Q1 2017", a copy of which was circulated by PR prior to the meeting.

REPORTED: Rohan Meswani (RM) gave an update on the Quarterly Investment Report.

The equity portfolio and hedge funds were discussed earlier in the meeting.

Equity Managers
It was noted that whilst Trilogy had had a strong year, it is still behind the benchmark since inception.

MFS have had a difficult year but its performance since inception has been strong.

LCIV Baillie Gifford had a strong quarter outperforming the index by 2%, regaining the ground it lost during the rally in value stocks towards the end of 2016.

Adams Street Partners; performance has been strong over all periods.

Hedge Funds
Lansdowne - have had a disappointing year, the largest detractor for the quarter was the holding in BT Group. Lansdowne believes there is significant upside from the current valuation and is maintaining the position. Exposure to banks has increased and insurance shorts have been cut back.

York – The first quarter saw a continuation of strong credit markets, however there was a material loss on a specific position resulted in the fund giving back the majority of these gains. The current portfolio has 23% in cash, up from 15% in December.

Davidson Kempner – Aon have downgraded the performance component rating from a 4 to a 3. Aon have downgraded the performance rating to reflect the lower risk return nature of this strategy. Performance for the quarter has been broadly flat.

Gruss - The strategy was down 0.2%. The portfolio hedges cost over 2.7% in terms of performance during the quarter. This is disappointing as in Q4 2016 Gruss announced it had sought to evolve its approach to ensure that it was not paying too much for portfolio protection.

CFM Stratus - had a positive first quarter rising by just under 3%. But since inception it is down 3.9%. PR explained he had visited CFM and was impressed by their transparency of transaction and their robust discipline for investment.

Markham Rae – covered in a previous section

Property
LGIM – The manager has reduced cash from 18% to 13.4% but it does remain high compared to the strategic 5% level. The manager has struggled to source enough opportunities to deploy the excess cash. This disadvantages long-term holders.

Brockton – The Fund does not have any exposure to financial firms in London and many of the assets are in the early stage of their business plans. The manager is now more positive than they were post-Brexit but still remain cautious.

Infrastructure
INPP – In early 2017 INNP completed its purchase of a stake in four National Grid distribution networks across the North East of England. The portfolio perform well with revenues and cash receipts in line with expectations. The Fund is seeing an attractive pipeline of new opportunities in UK, Germany and Australia and continues to deploy its commitment in the Thames Tideway tunnel. It is also making an investment in US military housing sector,

Antin – The first call to the fund was made of £200k. This will be used for working capital purposes. Antin expects to complete its first deal in the second half of 2017. There are 34 deals at an advanced or developing stage. The pipeline is split broadly equally across Fund III's target sectors – Transport, Energy & Environment Telecom & Social).

Cllr Simon & Paul Reddaway attended the Antin AGM held in Hamburg.

Bonds
Western Asset Management - The Western mandate delivered a return of 2.4% over the quarter, performing in line with the benchmark.

M&G Inflation Opportunities – Over the quarter the Fund returned 2.6% outperforming the target by 1.2%. Longer term performance remains strong with the fund outperforming the target by 9.1% over past 12 months.

Insight – The strategy returned 0.5% over quarter. Performance over 1 year and since inception has remained positive returning 5.3% and 1% respectively. During the quarter, Insight reduced its risk allocation to investment grade corporates, emerging market debt and current positions.

RESOLVED: LGIM be invited to the August Committee meeting

12. Presentation by Blackrock Property

RECEIVED: 'Blackrock Property Presentation'.

REPORTED: Chris Head introduced the presentation with an overview of the Blackrock portfolio across all asset classes and stated that a fee reduction had been agreed with all the London boroughs holding Blackrock passive portfolio's. In terms of Enfield this will lead to a £135k annual saving, less the 0.75bps LCIV fee.

Paul Tebbit, property Portfolio Manager reviewed the current holdings within the portfolio. The Fund is overweight to sectors which they assess as likely to outperform post Brexit and strategies reliant on income generation; and underweight to London. The former assets have now begun to perform in line with expectations. The portfolio has underperformed in over the last 5 years due to its defensive stance but the Fund is well placed to capture the prevailing economic climate.

The Chair thanked Blackrock for their informative presentation.

The meeting closed at 2.30pm

N.B. Future meeting dates: 22nd May 2017, 23rd August 2017 & 20th November 2017.

Signed………………………………………………… Date………………
Chair, Pension Policy &Investment Committee

Local Government Pension Scheme pooling: progress report

Please report against each of the areas outlined below as at 31 March 2017, highlighting significant changes since your final proposal.

The deadline for submission is Friday 21 April 2017. We will follow up any questions or concerns with individual pools as necessary.

Pool:__London CIV________________________________

Date:___April 2017________________________________

Criterion A: Scale

For pools in development

- Scale – please state the estimated total value of assets included in your transition plan for investment through the pool structure, with date of estimate
- Assets outside the pool - please state the estimated total value of assets to be invested outside of the pool structure by participating funds
- Progress towards go live by April 2018
  - please provide an updated high level project plan to achieve delivery by April 2018 including progress with operator procurement/build, design of sub funds, recruitment of core team, appointment of depository and FCA authorisation
  - please identify risks or issues which may delay delivery by April 2018, and any plans to mitigate risks and/or manage issues

For operational pools

- Structure and scale - please state the total value of assets to be invested via the pool together with the value of assets to be invested outside of the pool by participating funds
- Progress with transition - please state the value of assets within the pool and provide an updated high level transition plan

LCIV Response

- As at 31/03/17 assets under management within London CIV were £3.5bn with 18 London Local Authorities (LLA) invested. LLA refers to the 32 London Boroughs and the City of London Corporation. Following the merger of the London Borough of Wandsworth and London Borough of Richmond Pension Funds, there are now a total of 32 LLA Pension Funds. Annex A shows the current sub-funds available to LLA's and the number of funds invested in each.
- An additional 3 sub-funds based on a commonality, quantum and conviction approach (i.e. existing LLA mandates) are in the process of being opened which will see the transition of a further estimated £1.6bn-£1.8bn AUM and will bring on board another 2-3 LLAs.
- Following a global equity procurement exercise undertaken in 2016, an initial 3 global equity managers have been selected for the next 3 sub-funds to be opened in July and September. The 3 investment strategy sub-funds comprise Emerging Markets (July), Global Equity Income and Sustainable

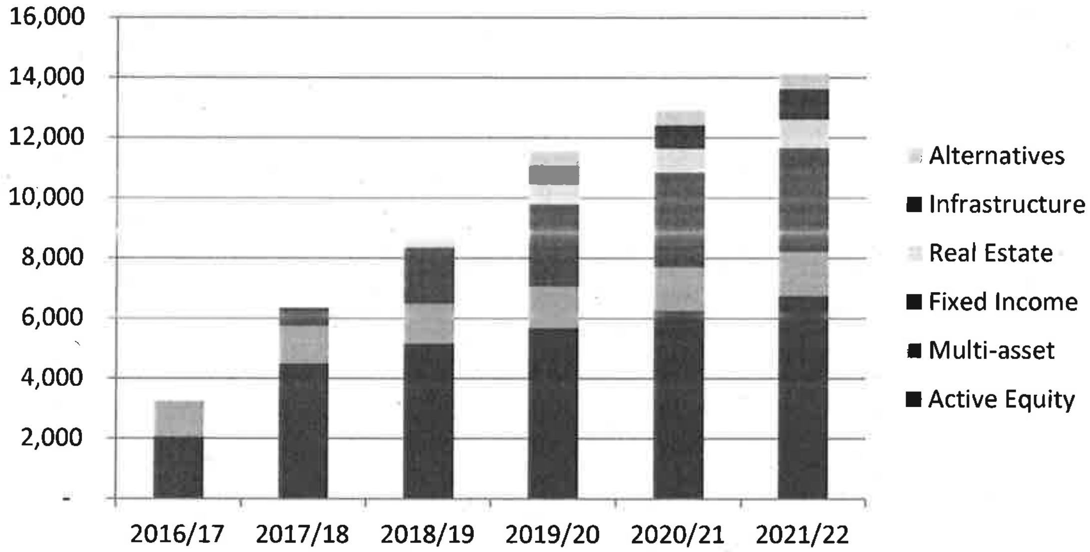
Equities (September), these have been selected as a first stage following an assessment of LLA requirements for additional global equity options. A global equity information day is being held on 11th May following which, LCIV anticipates being able to update with further specific investment levels for each fund from the LLA's although it is recognised that it may take some time for assets to be transitioned as LLA's continue with their strategic asset allocation evaluations.

- Over the summer, additional work will be undertaken with the LLAs to determine the level of demand for additional global equity investment strategies. Additional managers have been shortlisted to fulfil a range of investment strategies to make them available for sub-fund launches in December.
- In addition London CIV has successfully negotiated London wide CIV rate lower fee scales with 2 passive life fund providers which covers an additional £7.2bn AUM. At this time, life funds will remain outside the LCIV pool as per the government's asset exemptions:

  > "Pools may therefore continue to hold existing life funds in the name of the current insured party but it is expected that the management and reporting regarding these life funds is done within the pool."

- LCIV is working closely with the passive life fund providers to fulfil the expectation that the pool will manage and monitor the life funds and is now receiving quarterly reporting from one of the managers where agreement on fees was reached in mid-2016. In addition, in recognition of the savings delivered and the additional monitoring required by LCIV, the Pensions Sectoral Joint Committee agreed at it's meeting in February proposals that LCIV could apply an asset under management based fee on passive assets where LCIV had negotiated and agreed London wide fee rates with passive life fund providers.
- At the time of the July 2016 submission, based on 31 March 2015 data, approximately 26% of LLA's assets were in passive life funds, whilst data to end March 2017 is not yet available for comparative purposes, LCIV believes that as a percentage of assets across London Funds, this is unlikely to have significantly changed and therefore will continue to remain outside of the Pool for the foreseeable future.
- Further, at the time of July 2016 submission assets to be held outside the pool in the medium term included assets such as private equity , property and Fund cash and amount to £4.5bn. This was in addition to the £7.5bn held in passive life funds. Consequently, approximately £12bn was likely to remain outside of the LCIV pool or just over 40% of the assets across the LLAs. At the time of writing, LCIV is currently working closely with the LLAs to assess their strategic asset allocations following the triennial actuarial valuation to better understand how asset allocations might change over the next 1-3 years in order to assess the potential impact on the level of assets to be held outside of LCIV.
- The February meeting of the Pensions Sectoral Joint Committee considered LCIV's updated business plan and medium term financial strategy http://www.londoncouncils.gov.uk/node/31261 The business plan and MTFS set out the programme for launch of sub-funds and an estimate of the timeframe over which assets would transition across to LCIV. Based on the transition plans within the business plan, LCIV forecast £14.2bn

assets under management by March 2022, and that under more optimistic assumptions assets under management by LCIV could increase to £19.4bn if LLA's transition at a faster pace than currently forecast in the base case. The table below shows the progression of asset transfer into LCIV:



- Based on the 2015 assets under management held across LLAs on which LCIV were required to submit proposals on, the table below provides the level of assets transferred in each asset class on the base scenario.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Share of LLA Assets	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**March 21**	**March 22**
Active Equities	21%	46%	53%	59%	64%	70%
Passive Equities	0%	0%	0%	0%	0%	0%
Multi Asset	45%	48%	50%	52%	55%	55%
Fixed Income	0%	12%	38%	55%	64%	70%
Property	0%	0%	14%	32%	38%	45%
Infrastructure	0%	0%	0%	306%	398%	517%
Alternative Assets	0%	0%	0%	36%	36%	36%
Total share of LLA Assets transferred	11%	22%	30%	40%	44%	49%

Criterion B: Governance

For pools in development

- Progress with governance arrangements - please provide an updated high level project plan for the implementation of governance arrangements.

For operational pools

- Changes to governance since final proposal - briefly describe any changes to the governance structure, in particular please set out your plans for ensuring the pool can effectively implement the asset allocation and responsible investment strategy of each fund

LCIV Response

- There have at the time of responding to this progress report been no changes to the governance structure. London CIV is currently commissioning a governance review to ensure that the structures and decision making processes in place are robust and effective. Government will recognise that London CIV pool has been operational for some time and was established in advance of the Government's Criteria and Guidance requirements.
- An update on the progress of the governance review will be provided in the October report
- Government will be aware that the LCIV Pool is in some ways more complex than the other pools. despite commencing pooling at an earlier stage; due to the larger number of participating local authorities, at over 2½x the next largest pool for authorities and having started very much on a voluntary basis. Collating and understanding the 32 strategic investment plans is and will continue to be a resource intensive process, particularly given the typically lower level of resources internally at the local authorities dedicated to managing the pension funds.
- LCIV is currently working closely with the participating authorities to develop a fuller picture of the changes which are likely to be effective following the 2016 actuarial valuation as this is likely to impact on future requirements and it may be necessary to adopt a more flexile approach to the business plan if LCIV is going to be able to more effectively offer solutions for LLA Pension Funds to be able to implement their updated asset allocations.
- It should also be recognised that the strategic asset allocation requirements across London Funds, by the very nature of the number of Funds are also in very different places from a funding and cashflow perspective giving rise to significant variations in requirements from the perspective of strategy. Of all the Pools, London undoubtedly has the widest dispersion in terms of funding levels and cashflow requirements. As can be seen from the published results from the actuarial valuations, funding levels vary between less than 60% to over 100% and cashflows before investment income vary considerably, with an increasing proportion of Funds being cashflow negative, but with others remaining strongly cashflow positive. This leads to very different strategic investment requirements and asset allocations.
- Given the regulated structure under which LCIV currently operates as an AIFMD and in particular the ACS structure, it has to be recognised that implementation takes time to achieve once decisions on sub-funds have been agreed. Legal, regulatory and operational clearance takes time and LCIV are cognoscente of the fact that as other pools become operational and pressures on external suppliers intensify to meet deadlines for other pools this could further slowdown the ability of LCIV to potentially meet the deadlines set out in its business plan and MTFS.
- Like a number of other Pools, LCIV has signed up to be a founder member of the National LGPS Transition Manager Frameworks, this will enable competitive pricing and swifter access to transition managers as and when required for LLAs looking to move assets across to LCIV.
- With regards to the responsible investment strategy of LLA's, the regulations make it clear that it is for the Fund to determine it's individual approach to ESG matters and voting and is required to set out their policy in the

Investment Strategy Statement for the Fund. LCIV are currently reviewing all the ISS across the LLA's to assess requirements. However, working groups at both Member and officer level have been established to look at the whole area of Stewardship and how this can best be approached by LCIV. LCIV worked closely with these groups to agree an approach for LCIV to meet the requirements of the FRC Stewardship Code and the LCIV Compliance Statement and the FRC has confirmed that the Statement meets the requirements of a Tier One as an asset owner, the Statement can be found: https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf

- LCIV recognises that across the 32 LLAs Pension Funds, very different views and policies on ESG and voting are in place and that it is unlikely to be able to meet all these requirements, but is keen to work closely with authorities to reach some areas of common ground hence the importance of the Stewardship working groups.

Criterion C: Reduced costs and value for money

For all pools

- Update on costs/savings estimates – please state current high level estimates for implementation costs and eventual annual savings
- Plans for delivering savings – please set out your high level plan and timescales for delivering the annual savings above
- Plans for reporting including on fees and net performance in each listed asset class against an index – In particular please set out how the pool will report fees to participating funds on a fully transparent basis and using comparative performance and/or cost data.

LCIV Response

- Estimated annualised savings from the sub-funds which are already open amount to £1.38m, with further estimated annualised savings of £2.16m to come through from the additional 3 sub-funds being opened on the basis of existing funds being transitioned to the LCIV platform.
- Estimated annualised net savings from passive fees negotiations and implemented amount to £1.76m. Further annualised fee savings from passive life funds are expected as a second mainstream provider has now agreed terms for London CIV funds which will deliver further annualised savings of just under £1m on the basis of current assets under management.
- Increasingly as the CIV moves forwards, direct comparisons on fee savings will become more difficult as new managers are procured rather than directly transitioned from existing mandates. However, as part of the global equity procurement exercise, managers were asked to evidence in their tender submissions the fee scales for standard institutional mandates versus the fees that would be charged on the new CIV mandates should the provider be successful in their tender submission. Whilst potential fees savings did vary considerably across the different strategies and structures, significant discounts on standard fees were offered across the board. As assets transfer to the new sub-funds, the notional savings on investments will be calculated

as assets move across on to the CIV platform to provide evidence on the benefits of scale moving forwards.

- Taking into account the assets under management on the CIV platform and those due to transition across in the next 3 months along with life funds where fee negotiations have been agreed, assets under management or in passive on the CIV platform amount to around £12bn or just over 42% of assets that were reflected in the July submission relating to AUM at 31/03/15. Annualised fee savings including those due to transition shortly and in passive life funds amount to an annualised savings of around £6.3m. At the time of the July submission fee savings were estimated to be in a range of £11.58m (low) to £27.68m (high). Estimated annualised fee savings based on current plans amount to between 54% (low estimate) or 22% (high estimate) of those projected in the July submission, i.e. within the range indicated at the time of submission reflecting the current AUM.
- As noted earlier in this document, LCIV business plan and MTFS sets out the plans for fund launches over the next 3 years and will continue to target fee savings as part of that plan, but as noted earlier strict comparisons become more difficult to evidence as we move away from transitioning existing mandates and procure new strategies. Further as we commented on in our July submission, we want to reinforce the message that as Funds for strategic asset allocation reasons target more complex investment structures, including infrastructure, then actual savings may not be feasible when set against the current investment strategies, although it may be possible to evidence savings versus what might have been paid by Funds without having the benefits that come from scale of assets.
- We would also like to highlight some of the risks surrounding the delivery plans for pooling, particularly given the experience to date that the CIV has had in establishing and transitioning assets:
    - Experience in transitioning common mandates – whilst on the surface Funds may appear to be investing with the same manager and mandate, below the surface the mandates can be very different and it can take considerable time and skill to reach a truly common position.
    - Local Authority Pension Investment strategies are not static and this can have an impact on implementation as Authorities adapt asset allocation for strategic reasons, this is particularly the case in pools with larger numbers of moving parts such as the LCIV.
    - Operating in a highly regulated structure with FCA, whilst adding protection for investors can also result in longer timeframes for implementation given the necessary legal and regulatory steps before funds can be launched in the new ACS structures, compared to standard Pension Fund investments or procurement exercises. The impact of MIFID II has yet to be fully understood as the details are still at consultation stage,
    - LCIV has to date been transitioning existing assets largely in-specie on a 'lift and shift' basis for common mandates. Increasingly as LLAs make decisions to transition from existing mandates and into completely new strategies, transition risks come into play. Whilst undoubtedly there are a range of very experienced transition managers available to call on, transitioning large quantities of assets will pose additional risks and could result in significant additional costs

if the transitions are not managed very carefully and will need to be monitored closely when undertaken.

- As a Pool already operational, LCIV is already reporting to investors providing net of fee performance data. Investors are also provided with a fee schedule on a quarterly basis with a full breakdown of all charges that are applied to the management of the assets. We have established a reporting and transparency working group to help deliver further enhancements to reporting and to ensure that Funds have access to the data that they need for reporting purposes.
- Information on all sub-funds including pricing is available to all Funds within the LCIV Pool, not just those invested in particular strategies. LCIV are currently working on a secure client portal to facilitate easier access to all LCIV information and data for shareholders and investors.

Criterion D: Infrastructure

For all pools

- Progress on infrastructure investment – please state your target allocation for infrastructure and committed funds at the pool level and/or across pools. Please also set out your plans for the platform/product/and/or external manager arrangements to achieve that target
- Timetable to achieve stated ambition.- please provide a high level project plan for the implementation of the platform/product/and/or external manager arrangements described above

LCIV Response

- We refer to our July 2016 response to Government, as noted the allocations to infrastructure across London remain relatively low at less than 1%. Where funds had indicated an interest in allocating to infrastructure then their target allocations were between 3-10%, but as government is aware this is a local asset allocation decision. As noted earlier in this response, we are working closely with our 32 London Pension Funds to better understand their future strategic asset allocation, anecdotally it would seem that a number are now including infrastructure as part of their allocation requirements going forwards, but until a full assessment of requirements has been completed, we are unable to provide further detail on target allocations going forwards. LCIV however, are very focused on looking to meet local strategic asset allocation decisions and where there is increased demand for investment opportunities in infrastructure, we will aim to provide these in a timely manner.
- LCIV continues to have discussions with a range of external infrastructure managers to ensure that essential background research has been completed and is available for investment at such time as the London Funds are ready to invest in infrastructure platforms.
- Where demand for specific asset classes is relatively low or in early stages of development on the CIV platform, LCIV will work with individual funds or small groups of funds to facilitate work and procurement exercises to look for outcomes which could be 'CIVable' at a future date when resources or

increased demand for specific products is identified, this is particularly the case in assets such as infrastructure and private markets.

- As part of a broader training and events schedule, LCIV are arranging an infrastructure seminar in the autumn open to Pension Committee Members and Local Authority officers. The agenda for this event is currently under consideration but will include both a training element and the opportunity to meet with a wide range of providers of infrastructure investments.
- LCIV CIO continues to be an active member of the Cross Pools Infrastructure Group and exploring opportunities for collaborative working in this area.
- The business plan agreed with the Pensions Sectoral Joint Committee and the Board of LCIV includes the opening of 2 infrastructure specific funds in the summer of 2019, (business plan and medium term financial strategy agreed February 2017: http://www.londoncouncils.gov.uk/node/31261). However it is recognised that the business plan needs to remain flexible and that investment options are subject to changes in the underlying London Local Authority investment needs to fulfil their strategic asset allocations.

Annex A

SUB-FUNDS OVERVIEW

LCIV started the financial year 2016/17 with two sub-funds opened and assets under management (AUM) of £842.6m and ended the year to 31st March 2017 with 6 sub-funds and AUM of £3,573m. The growth in AUM was attributable to a combination of sub-fund openings, market moves and subscriptions. The table below provides an overview of the sub-funds and performance over the year.

FUND (Underlying Manager)	**PRICE (Pence)**	**FUND SIZE £M**	**Q1 2017**	**1 YEAR 01/04/16 – 31/03/17**	**SINCE INCEPTION**	**INCEPTION DATE**	**LONDON LOCAL AUTHORITIES INVESTED 31/03/17**
LCIV Global Equity Alpha (Allianz Global Investors) ***Benchmark: MSCI World Net GBP Index***	128.7	£667	6.79% *5.12%*	30.21% *31.92%*	30.86% *34.11%*	02/12/15	3
LCIV BG Global Alpha Growth (Baillie Gifford) ***Benchmark: MSCI All Countries World Gross Index***	134.3	£1,602	7.60% *5.37%*	N/A *N/A*	35.00% *32.59%*	11/04/16	9
LCIV PY Total Return (Pyrford)	109.1	£204	1.68%	N/A	9.10%	17/06/16	3
LCIV Diversified Growth (Baillie Gifford)	114.2	£355	2.83%	10.35%	14.76%	15/02/16	6
LCIV RF Absolute Return (Ruffer)	111.2	£413	0.00%	N/A	11.50%	21/06/16	5
LCIV NW Real Return (Newton)	103.4	£332	1.97%	N/A	3.40%	16/12/16	3
Total LCIV Assets Under Management		**£3,573**					**18**

*Data Source: Bloomberg as at 31/03/17 – Net of all fees and charges with income reinvested

SCHEME ADVISORY BOARD SURVEY OF LGPS LOCAL PENSION BOARDS

Section 1 : Compliance & Administration

Part 1

1 When did the Board first meet? (insert date DD/MM/Year)*

31/07/2015

2 How often a year is the Board required to meet?*

4

3 How many meetings have been held to date?*

5

4 What is the number of employer representatives on the Board?*

Yes

5 What is the number of employee representatives on the Board?*

Yes

6 How was the Chair of the Board appointed?*

Selected by Board members

7 Is the Chair of the Board remunerated?*

No

8 Are any other members of the Board remunerated?*

No

9 Are expenses paid to Board members?*

Yes

10 Is facility time given by the scheme manager to employee representatives of the Board?*

Yes

Part 2

11 Is there a written constitution for the Board?*

Yes

12 Does the Board have a terms of reference?*

Yes

13 Does the Board have a conflict of interest register?*

Yes

14 Do you keep a register of breaches of the law?*

Yes

15 Is there a risk register?*

Yes

16 Is there a programme for Board members to acquire knowledge and understanding?*

Yes

17 Where "YES" has been given as the answer to Questions 11 to 16, on a scale of 1 (very poor to 10 (very good), how would you evaluate :-

i) the constitution

1 10

ii) the terms of reference

1 10

iii) the conflict of interest register

1 10

iv) the register of breaches

1 10

v) the risk register

1 10

vi) the knowledge and understanding programme

1 10

18 Is personal liability or indemnity insurance available to Board members?*

Don't know

19 Is the Board compliant with guidance issued by the Scheme Advisory Board?*

Yes

20 If the answer to Question 19 is "No", give reasons below :-

21 Give up to three examples where you think the Board is working well :-

1. Review of Fund managers fees - lead to early adoption of the CIPFA Code of Practice on Cost Transparency in Pension Funds
2. Review and challenge on Pension Fund communication channels
3. Review of ESG policy

22 Give up to three examples where you think the Board could improve what it does:-

1. Establishing a formal training programme
2. Produce an Annual report on the work of the Board
3. Produce KPI's on the effectiveness of the Board

Section 2 : Operation and Working Relationship

23 On a scale of 1 (very poor) to 10 (very good), how would you evaluate :-

i) the relationship between the administering authority and the board?

1 10

ii) the relationship between the pensions' committee and the board?

1 10

iii) the board's ability to identify non-compliance with legal requirements?

1 10

iv) the board's ability to make recommendations to the administering authority when non compliance has been identified?

1 10

v) the administering authority's response to any such recommendations?

1 10

vi) the effectiveness of communication between the administering authority, pensions' committee and the board?

1 10

vii) the knowledge and understanding programme available to the board?

1 10

24 Has the administering authority in any capacity attended any local pension board meetings?*

Yes

25 In the last 12 months, have any breaches of the law been identified by the local pension board?*

No

26 Who is responsible for agreeing the agenda for local pension board meetings?*

The Chair

27 Have any local pension board meetings not been quorate?*

No

28 Is voting a regular feature of local pension board meetings?*

No

29 Does the local pension board have a webpage on the administering authority's web site?*

No

30 Does the local pension board have a workplan?*

Yes

31 Has the local pension board agreed any success measures/KPIs for its work?*

No

32 Has the local pension board produced an Annual Report?*

No

33 Are the local pension board's papers agenda, papers, etc, available on the board's webpage?*

Yes

34 Does the local pension board have control of a budget?*

Yes

35 If it has a budget, can it be used to access independent external advice?*

Yes

36 Does the local pension board have access to internal and external audit reports?*

Yes

37 Describe below any ways in which you think the working relationship between the administering authority, pensions' committee and the board could be improved.

Board could attend the PP&IC as observers

38 Use the space below to comment on any other aspect of the new governance arrangements that you consider to be relevant.

39 Please confirm the capacity in which you are completing this survey*

Local pension board chair

40 Please confirm the name of the organisation/pension board you represent*

London Borough of Enfield

Submit