Public Document Pack

PENSION POLICY & INVESTMENT COMMITTEE
Thursday, 13 June 2019 at 2.00 pm
The AON Centre, 122 Leadenhall Street, London EC3V 4AN

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PENSION POLICY & INVESTMENT COMMITTEE

Thursday, 13th June, 2019 at 2.00 pm in The AON Centre, 122 Leadenhall Street, London EC3V 4AN

Membership:

Councillors: Yasemin Brett, Ergun Eren, Tim Leaver, Claire Stewart, Doug Taylor and Terence Neville OBE JP

AGENDA – PART 1

1. WELCOME AND INTRODUCTIONS

2. ELECTION OF CHAIR AND VICE CHAIR

3. DECLARATION OF INTERESTS

Members are asked to declare any disclosable pecuniary, other pecuniary or non-pecuniary interests relating to items on the agenda.

4. STANDING ITEMS (10 MINUTES) (Pages 1 - 4)

4.1 Risk Register
4.2 London Collective Investment Vehicle (LCIV) Update

5. MINUTES OF THE LAST MEETING - 28 FEBRUARY 2019 (5 MINUTES) (Pages 5 - 10)

To receive and agree the minutes of the last meeting.

6. COMMITTEE TRAINING PROGRAMME (20 MINUTES) (Pages 11 - 18)

To receive a report from Paul Reddaway, Head of Finance, Pensions, Investments, Treasury Management and Deputyship on the Committee Training Programme. (Report No: 20)

7. PENSION STRATEGY BUSINESS PLAN 2019/20 (15 MINUTES) (Pages 19 - 24)

To receive a report from Paul Reddaway, Head of Finance, Pensions, Investments, Treasury Management and Deputyship, on the Pension Strategy Business Plan for 2019/20. (Report No: 21)

8. DRAFT PENSION FUND ACCOUNTS 2018/19 (15 MINUTES) (Pages 25 - 56)

To receive a report from Paul Reddaway, Head of Finance, Pensions, Investments, Treasury Management and Deputyship, on the draft Pension Fund accounts for 2018/19. (Report No: 22).

9. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019

Please see item 14 on the part 2 agenda.

10. 2019 ACTUARIAL VALUATION - UPDATE (45 MINUTES) (Pages 57 - 94)

To receive an update on the 2019 Actuarial Valuation. (Report No: 24)

11. BOND PORTFOLIO CONSIDERATIONS

Please see item 15 on the part 2 agenda.

12. DATES FOR FUTURE MEETINGS

To note the dates agreed for future meetings:

- Thursday 5 September 2019
- Thursday 21 November 2019
- Thursday 27 February 2020

All meetings will take place at 10.45pm unless otherwise indicated.

13. EXCLUSION OF PRESS AND PUBLIC

To pass a resolution under Section 100(A) of the Local Government Act 1972 excluding the press and public from the meeting for the items of business listed on part 2 of the agenda on the grounds that they involve the likely disclosure of exempt information as defined in those paragraphs of Part 1 of Schedule 12A to the Act (as amended by the Local Government (Access to Information) (Variation) Order 2006).

PART 2 AGENDA

Please note that any reports included as part of this agenda contain exempt information. They should not be released to the press or public and will need to be handled in accordance with the Council's Information Security Policy. Under the policy anyone issued with a pack will be responsible for ensuring the information is stored securely in order to protect it against unauthorised access and maintain its confidentiality.

Further details on the Information Security Policy can be found on Enfield Eye.

14. QUARTERLY PERFORMANCE REPORT - 31 MARCH 2019 (25 MINUTES) (Pages 95 - 148)

To receive a report on the quarterly performance to 31 March 2019. (Report No: 23)

15. BOND PORTFOLIO CONSIDERATIONS (30 MINUTES) (Pages 149 - 154)

To receive a report on bond portfolio considerations. (Report No: 25)

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Description	Actions in Place	Progress- comment	Risk category/ rating/DOT	Lead officers/ Councillors
PEN 01 - Fund assets fail to deliver returns in line with the anticipated return underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the Aon the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2 (Static)**	Paul Reddaway/ PPIC
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk	The PP&IC supported by our Advisors monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration. Officers will also closely monitor manager performance between the quarterly reviews The impact of each decision is carefully tracked against the Investment Strategy Statement for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	Paul Reddaway/ PPIC
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe underperformance	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers where there are performance issues and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed	Strategic risk Likelihood = Low Impact = Small **Rating = E4 (Static)**	Paul Reddaway/ PPIC

PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. However, there is an increasing likelihood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3 (Static)**	Paul Reddaway/ PPIC
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future changes in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.	Mortality monitoring is undertaken by the Fund's actuary	Strategic risk Likelihood = Low Impact = Small **Rating = E4 (Static)**	Paul Reddaway/ PPIC
PEN 06 -Pensions Administration poor quality information supplied to both members and the Fund Actuary			Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	Julie Barker/Tim O'Connor
PEN 07- Failure to receive employers contributions	Receipt of contributions from employers are monitored monthly – for timelessness and accuracy. Escalation Procedure in place for late payments	All breaches are reported in the Fund's Annual report. There have been no major breaches for six years.	Strategic risk Likelihood = Low Impact = Small **Rating = E4 (Static)**	Paul Reddaway
PEN 08- Succession Planning	Loss of experience pensioner officer -	Recruitment completed – two experience officers appointed and in place by end of June and proper handover in place	Strategic risk Likelihood = Low Impact = Medium **Rating = E4 Static (New)**	Matt Bowmer

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MINIUTES OF THE MEETING OF THE PENSION POLICY & INVESTMENT COMMITTEE HELD ON THURSDAY, 28TH FEBRUARY, 2019

MEMBERS: Councillors Mahmut Aksanoglu, Ergun Eren, Derek Levy, Terry Neville, Claire Stewart and Doug Taylor (Chair)

Officers: Matt Bowmer (Interim Director of Finance), Paul Reddaway (Head of Finance Pension Investments) and Tariq Soomauroo (Governance & Scrutiny)

Also Attending: Daniel Carpenter (Aon), Rohan Meswani (Aon) and Carolan Dobson (Independent Advisor)

117. WELCOME & APOLOGIES

The Chair welcomed all attendees to the meeting.

Apologies for absence were received from Councillors Mahmut Aksanoglu and Ergun Eren.

Apologies for lateness received from Councillor Claire Stewart and Carolan Dobson.

118. DECLARATION OF INTERESTS

Carolan Dobson declared she is a non-executive director of the London CIV.

119. STANDING ITEMS:

A. Risk Register – Matt Bowmer (Interim Director Finance) updated the Committee on Saving proposals, Organisation Reviews and two posts being combined (Treasury & Corporate Finance)

B. Pension Fund Governance – Paul Reddaway (Head of Finance Pension Investments) advised that a review was conducted on 20.12.18 from 2015-2019 which demonstrated good improvement over the period.

C. Corporate Governance – ESG Dates to be rescheduled accordingly, proposed date 12.03.19 was not suitable for members.

D. LCIV update – New Chief Investment Officer appointed.

120. MINUTES OF PREVIOUS MEETINGS: 10TH DECEMBER

The minutes of the meeting held on 10 December 2018 were agreed as a correct record.

121. PRESENTATION FROM WESTERN ASSET MANAGEMENT

Received a presentation pack on London Borough of Enfield Pension Fund from Matthew Jackson (Senior Portfolio Manager Western Asset) and Catherine Matthews (Product Manager Western Asset)

The Committee thanked Western Asset for their presentation.

Noted:

- Returns are being adequately represented
- Although there are alternative companies, Western have been long standing since 2003
- Western have moved away from MAC (Multi Asset Credits)
- Western have moved away from US market to European markets
- So far there hasn't been an impact with pooling
- Target to outperform (7 per Anum)

Action:

- Enfield Pension Investment Committee to continue to work with Western Asset.

122. MHCLH CONSULTATION ON POOLING

Received a report from Paul Reddaway (Head of Finance Pension Investments) on Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance on asset pooling in the Local Government Pension Scheme consultation.

Noted:

- The MHCLG has been preparing new statutory guidance on LGPS asset pooling. This guidance will set out the requirements on administering authorities, replacing previous guidance, and builds on previous ministerial communications and guidance on investment strategies
- MHCLG is now inviting views on the draft guidance and the consultation process will close on 28 March 2019

- A comment was raised that there was a strong response to the consultation regarding that there should be a link between the employer and LCIV members.

Agreed:

- Paul Reddaway to draft guidance on pooling and express any desired feedback for the consultation process.

123. INVESTMENT STRATEGY WORK PROGRAMME 2019/20

Received a report from Paul Reddaway (Head of Finance Pension Investments) on Enfield's Investment Strategy Business Plan 2019/20.

Noted:

- The Plan provides a strategy which can be used in conjunction with the Committee's wider work plan. This will allow committee meetings to have a clear structure throughout the next financial year
- The timelines within this business plan are approximate and should be used as a guideline for discussions and agreement with the Committee.

Agreed:

- The Committee is asked to note the report and agree to move forward based on the investment business plan set out in the body of the report.

124. EQUITY PROTECTION STRATEGIES

Received a report from Paul Reddaway (Head of Finance Pension Investments) on Equity Protection Strategies - Downside Protection.

The Committee noted the report.

125. INFRASTRUCTURE STRATEGIC OPTIONS

Received a report from Paul Reddaway (Head of finance Pension Investments) on Asset allocation to infrastructure.

Noted:

- There are two main options to consider a single manager approach which has a fixed period life time or to invest in the LCIV infrastructure programme which invests in underlying funds on behalf of the Fund on a continual basis
- London CIV presentation an attractive alternative to Antins proposals.
- Proposals not too far below the asset allocation.

Agreed:

- Wait for the LCIV infrastructure programme before deciding on an approach.

126. ABSOLUTE BOND REVIEW & COMMITTING SURPLUS THE NEXT STEPS

Received a report from Paul Reddaway (Head of Finance Pension Investments) on Bond Portfolio Considerations.

Noted:

- As at 31 December 2018, the Fund was underweight to its strategic allocation to bonds. The relative underweight position is c. £30m (c. 2.5%)
- The composition of the bond portfolio is important; the Committee is currently debating the merits of absolute return bond strategies ("ARBS") within this portfolio
- Should the Committee decide to redeem from the Insight ARBS mandate, the Aon report makes several rebalancing solutions within bonds to maintain the strategic weight.

Recommendations:

- It is recommended the Committee consider whether the Fund should rebalance towards its strategic weighting to bonds.
- The composition of the bond portfolio is important; the Committee is currently debating the merits of absolute return bond strategies ("ARBS") within this portfolio.
- Should the Committee decide to redeem from the Insight ARBS mandate, we recommend rebalancing within bonds to maintain the strategic weight.

Agreed:

- Terminate the Insight mandate – invest into Blackrock ILB
- Use £30m cash into – invest into Blackrock ILB
- Respond to MCLGH – on pooling
- Respond to SAB on Cost Cap
- Not to invest in the Antin IV fund

127. QUARTERLY PERFORMANCE REPORT

Received a report from Paul Reddaway (Head of Finance Pension Investments) on Quarterly Investment Report (Q4 2018)

Noted:

- The Fund value fell by 4.2% over the quarter ended 31st December 2018 and underperforming the benchmark by 0.1%. The Fund has made an annual return of 0.1% against a benchmark of -0.1%. The biggest negative contribution in the quarter have been through the -1 0% fall in global equities. Since 1st April 2018 the Fund has grown by 6.9% The latest funding projection shows the Fund is close to 100% funding with only a £1.6m deficit.

Members noted the Aon quarterly Investment report ended 31st December 2018.

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MUNICIPAL YEAR 2019/2020 REPORT NO. 20

MEETING TITLE AND DATE:
Pension Policy & Investment Committee – 13th June 2019

REPORT OF:
Executive Director of Resources
Contact officer and telephone number:

Paul Reddaway Ex: 4730

Paul.reddaway@enfield.gov.uk

Agenda – Part:1	**Item: 6**
Subject: Committee Training Programme **Wards: all**	
Cabinet Member consulted:	

1. **EXECUTIVE SUMMARY**.

1.1. Members agree to undertake ongoing training to meet the requirements of being a classed as a professional investor (MIFIDII) and to be in line with the Pension Regulator (tPR) requirements.

1.2. With a number of new members joining the Committee, it will be important that a clear strategy is required for the induction and training of new members. This paper sets out a proposed way forward based on the Fund's existing training plan.

1.3. Training is an ongoing process and needs to be properly recorded to demonstrate adherence to the regulations and Code of Practice.

1.4.

2. RECOMMENDATIONS

2.1. Members agree to undertake ongoing training to meet the requirements of being a classed as a professional investor (MIFIDII) and to be in line with the Pension Regulator (tPR) requirements.

3. **INTRODUCTION**

3.1 There is an ever increasing responsibility on LGPS Pension Committees demonstrate they have the skills and knowledge to make proper investment decisions on behalf of the Fund. This is being driven by the Pension Regulator and from the MIFID II Directive.

3.2 One of the outcomes from the recent governance review of the Fund suggested a number of improvements to ensure we are fully meeting the requirements of the tPR Code of Practice.

4. TRAINING MANAGEMENT

4.1 Individual Training Needs

4.2 Each Committee member will commit to complete a check list of knowledge requirements. Members are encouraged to undertake a gap analysis and identify any development needs so that appropriate training can be arranged.

4.3 Members are encouraged to access the Pension Regulator Public Sector tool kit and undertake the appropriate actions. This provides comprehensive coverage of all Pension Fund matters.

4.4 The link to the Pension Tool is shown below. **Appendix 1** sets out the syllabus: https://education.thepensionsregulator.gov.uk/login/index.php

4.5 New Members joining the Pension Policy & Investment Committee or the Local Pension Board will be required to complete a training programme. Normally this will include:

- An officer-led induction course on the LGPS. **Appendix 2** provides a check list of areas to be covered.
- Completion of the Pension Regulator self-assessment toolkit, and
- Attendance at the LGA three day (over three months) investment training course as set-out in **Appendix 3**.

4.6 Hot Topic Training

4.7 Training items may be included on Committee agendas to ensure appropriate training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made.

4.8 General Awareness

4.9 PP&IC members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Enfield Pension Fund. Attendance at conferences and training events will be encouraged, especially those specific to the LGPS.

4.10 Recording Training Log

4.11 A formal training log will be introduced and as part of Standing Items will be updated at each Committee meeting. This will ensure there is a formal and auditable trail.

5. FINANCIAL IMPLICATIONS

5.1 All training costs will be financed through the Pension Fund. Costs will be charged through the Overview and Scrutiny budget.

6. LEGAL IMPLICATION

6.1 The MIFID II Directive Elective makes Professional clients responsible for keeping the Financial Institutions informed of any changes that could affect our current categorisation. The Fund must take appropriate action which would prevent the Fund from being re-categorising the client as retail.

APPENDIX 1

Pension Regulator Public Sector tool kit		
Module	**Tutorials included**	**Average completion time (mins)**
Introducing pension schemes	• What is a pension scheme? • Benefits • What is a trustee? • Important documents	60
The trustee's role	• Becoming a trustee • Trustee meetings • Conflicts of interest • Duties and powers • Trustee liabilities and protections	75
Running a scheme	• Scheme governance • Risk management and internal controls • Scheme administration and member data • Introducing advisers and service providers • Appointing advisers and service providers	75
Pensions law	• Pensions related legislation • The Pensions Regulator • Tax and the state pension • Internal dispute resolution procedure	75
An introduction to investment	• Investment in a pension scheme • Setting an investment strategy • Types of asset – Common assets • Types of asset – Alternative assets • Capital markets and economic cycles • Risk and reward • Active and passive management • Suitability and diversification • Reviewing investments	135

Module	Tutorials included	Average completion time (mins)
How a DB scheme works	• The basics • Managing the liabilities • Employer covenant • Risks to employer covenant • Implications of winding up a DB scheme • Corporate transactions	90
Funding your DB scheme	• The statutory funding objective • Valuing the scheme's liabilities • Calculating the liabilities • Impact of assumptions • Individual and bulk transfers • Additional employee funding	90
DB recovery plans, contributions and funding principles	• Determining the contribution rate • Accrued benefits funding methods • Recovery plans • Future service funding methods • Agreeing a schedule of contributions • The statement of funding principles	90
Investment in a DB scheme	• Understanding investment strategy • Changing asset and liability values • Future projections and scenario analysis • Stochastic modelling • Changing the asset allocation strategy • Reviewing the investment strategy	120

<u>Appendix 2</u>

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Enfield Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Enfield Pension Fund:

- A guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement (ISS) including the London Borough of Enfield Pension Fund's statement of compliance with the LGPS Myners Principles
  - The Communications Policy
  - The Administration Strategy
  - The administering authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

Appendix 3

Pension Topic Areas	Tick Box ☑
The Benefits Framework "Past and Present"	
• Brief history of the LGPS and its interaction with State provision	
• The 2014 Scheme – a core scheme plus discretions; a look at the comprehensive benefit structure of the scheme	
• Differences in the 2015 Scheme in Scotland	
• Administering Authority and Employing Authority Discretions	
The Investment Framework	
• The Management and Investment of Funds Regulations 2009 – the statutory framework for investments	
• CIPFA Principles – a look at the six investment principles	
• Statement of Investment Principles	
• Interaction with the Funding Strategy Statement	
• Governance Compliance Statements	
• Annual Reports and Auditing	
Delivering the Service	
• Partnership Working	
• Framework Agreements	
• Financial Services procurement and relationship management	
• Supplier risk management	
• Performance of support services	
Traditional Asset Classes	
• UK Equities, Overseas Equities	
• UK Gilts, UK Index-Linked Gilts	
• Corporate Bonds, Property	
• Why invest in Fixed Income and Equity Markets?	
• Long Term Investment Performance of Equities and Fixed Income	
• Benchmarks used	
• Cashflows	
• The Bond Market	
• Return / Risk Profiles	
Valuations	
• The Purpose of an Actuarial Valuation	
• Assets and Liabilities	
• How do liability calculations work	
• What assumptions are used?	
Funding Strategy Statements	
• What is the funding strategy?	
• Different Employers – different characteristics and objectives	
• What is the strength of the covenant?	
• Deficit Recovery Periods	

Corporate Governance	
• Approach to Corporate Governance	
• Voting, Activism and Engagement	
• Institutional Shareholders Committee principles	
• Socially Responsible Investment	
Communication Strategies/Policies	
• Policy Statement Requirements	
• LGPS – Valuable part of employment package	
• Purpose and effect – Changes and Choices	
• A look at some good practice initiatives	
Established Alternative Investments	
• Private Equity, Commodities, Hedge Funds, Emerging Markets, Currency Funds, High Yield Bonds and Overlays	
• The market evolution of Alpha and Beta	
• Private Equity sectors	
• Commodities – what do they cover and why include them in a portfolio?	
• The Hedge Fund universe	
• The background to Emerging markets	
• The value of Currency Funds and Currency Overlays	
• How High Yield Bonds fit into the Bond market	
Duties and Responsibilities of Committee Members	
• The LGPS in its legal context	
• General local authority legal issues	
• LGPS specific duties and responsibilities	
• Wider duties and responsibilities	
• What happens when things go wrong?	
The Future for the LGPS	
• LGPS2014 – outstanding/new issues	
• Cost control mechanism	
• Managing investment fees	
New governance arrangements	
• The new, evolving requirements	
• Committee vs Board - delegation and representation	
• The governance budget	
• The Pension Regulator's involvement	
Bringing it all together	
• The Evolution of LGPS Benchmarks	
• Portfolios and Portfolio Construction	
• Portfolio Concepts	
• Combining Assets in your Portfolio	
• Risks and Efficient Frontiers	
• Standard Deviation	
• Correlation	
• Diversification	

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MUNICIPAL YEAR 2019/2020 REPORT NO. 21

MEETING TITLE AND DATE:
Pension Policy & Investment Committee – 13th June 2019

REPORT OF:
Executive Director of Resources
Contact officer and telephone number:

Paul Reddaway Ex: 4730

Paul.reddaway@enfield.gov.uk

Agenda – Part:1	**Item: 7**
Subject: Pension Strategy Business Plan 2019/20 **Wards: all** **Key Decision No:**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1. The purpose of this document is to provide an overview of a proposed Investment Strategy Business Plan for 2019/20 for the London Borough of Enfield Pension Fund.

1.2. The Plan provides a strategy which can be used in conjunction with the Committee's wider work plan. This will allow committee meetings to have a clear structure throughout the next financial year.

1.3. The timelines within this business plan are approximate and should be used as a guideline for discussions and agreement with the Committee.

2. RECOMMENDATIONS

2.1. The Committee is asked to note the report and agree to move forward on the basis of the investment business plan set out in the body of the report.

3. BACKGROUND

3.1. At the heart of setting a robust investment strategy over the long term is strategic asset allocation. The Fund undertook an investment strategy review in September 2017 to reflect the 31 March 2016 actuarial valuation and experience up to 31 March 2017 and this remains appropriate as a starting point for the Committee to understand the investment strategy. The strategic asset allocation remains appropriate and there is no anticipation of undertaking another detailed investment strategy review until after the completion of the 31 March 2019 actuarial valuation.

3.2. Rather than focussing just on individual managers it is important for the Committee to consider each "building block" or asset class of the investment strategy. There may be managers within each building block who require the Committee's attention due to changes at the investment manager or performance issues and these will be raised with the Committee as dictated by developments over the year.

3.3. The London CIV's pipeline of opportunities together with the outcomes of MHCLG consultation paper of moving assets into Pools will also be factored in over the year and may alter the order of priority below, should the Committee wish to consider these areas first

4. **BUSINESS INVESTMENT PLAN**

4.1. The business plan below sets out the Fund's current strategic weighting to the individual asset classes and then considers these areas in decreasing priority alongside our rationale for this.

4.2. The existing Strategic Allocation is set out below.

Asset class	**Strategic weight**
Public Equity	35%
Private Equity	5%
Hedge Funds	10%
Property	10%
Infrastructure	6%
Bonds	24%
Inflation protecting illiquid assets	10%
Total	**100%**

4.3. The following priority ordering is proposed:

a) Bond portfolio

The bond portfolio should be the Fund's priority given it will be a continuation of discussions undertaken across 2018. The Fund undertook changes to its bond portfolio during 2018 with the increased allocation (funded by a reduction in equities) and the introduction of a Multi Asset Credit mandate to diversify credit risk.

Further discussions on the Fund's absolute return bond mandate and corporate bond mandate are warranted. It is expected that discussions on the bond portfolio to continue throughout the year. This matter is discussed further in item

b) Infrastructure portfolio

The Fund considered the allocation to Infrastructure in Q4 2018 and it is envisaged conversations will continue to develop into 2019, in conjunction with the London CIV's infrastructure offering.

c) Hedge Fund portfolio

The Fund's hedge fund portfolio has reduced over time and the Fund's composition has also drifted from its original construction. This has been due to changes to the portfolio and the reduction of the global macro component within the hedge fund portfolio. The Committee could consider the overall allocation to hedge funds and its composition.

d) Property portfolio

The Fund is currently underweight to its property allocation and the Fund could consider this position and rebalancing towards the strategic weight.

There is a discussion to be had on the composition of the current portfolio, which is predominantly UK core commercial property and split across two managers. The London CIV is scheduled to consider property during 2019.

e) Equity portfolio

The Fund has recently restructured the equity portfolio, decreasing the actual allocation and reorganising the manager composition within this part of the portfolio. Given the recent changes and analysis undertaken ahead of these changes, it is not believed that there is an immediate need to review the composition of the portfolio or its managers.

f) Inflation protecting illiquid assets

The M&G fund is closed and it is not possible to increase the allocation to this Fund unless secondary units become available (as was the case in December 2018). The Fund has recently been notified that it has been successful in purchasing an additional £25M of units from a redeeming investor. The Fund has also committed £45M to the CBRE fund which is expected to draw down capital over time. The Fund is now expected to be close to its strategic allocation to this area and therefore an immediate need to review this area further is not envisaged.

g) Private Equity

The Fund's allocation to private equity is close to its strategic allocation and it is not believed that there is any immediate need to reconsider this. The Fund continues to have conviction in the investment manager, Adams Street Partners, and the Fund recently committed to the 2019 programme. The Q4 2019 subscription window will provide an opportunity for the Fund to reassess the actual position versus the strategic weight for private equity.

5 PENSION FUND GOVERNANCE

5.1 Fund Valuation

5.2 Work is underway on the 2019 Actuarial valuation (this is undertaken every three years – trienially). The valuation process will assess the funding level of the Pension Fund (at the last valuation the Fund this was at 87%) The outcome of the valuation will set the employer contributions for the next three years from 1st April 2020. This matter is discussed further in agenda item 9.

5.3 Appendix 1 set out the workplan of the Committee over the next year.

6 FINANCIAL IMPLICATIONS

6.1 The financial implications are contended in the body of the report and costs will be met from the Pension Fund

7. LEGAL IMPLICATION

7.1 All investment decision will be made in line with the LGPS regulations and will be consistent with the Investment Strategy Statement.

Appendix 1

	2019/20
Pension Administration	
Valuation- collection of data	Apr to Jul
Valuation results to employers	Sept to Mar
Auto-Enrolment	Apr to Mar
Guaranteed Minimum Pension Outcome	Dec
Monthly submission of data from employers (i connect)	Apr to Mar
I –connect project – Self service	Apr to Mar
Communications	
Member Self-service	Apr to Mar
Annual Benefits Statements	Jul to Aug
Communication Policy review	Aug to Dec
Member newsletters	Half yearly
Employers meeting	Dec
Governance	
Pension Fund Accounts	Apr to May
Approve Final Pension Annual report	July
Review Risk Register	Sept
Investment strategy statement	Sept/Oct
Setting & reviewing members' training programme	July
ESG review	Apr- Dec
LAPFF	Ongoing
Investment consultant service re-tender	Dec
Actuary service re-tender	Mar
Governance CIPFA Review (including risk, responsible investor and Pooling)	Sept
Pension Regulators KPI's	Sept
Investments	
Asset allocation review	Apr-Dec
Investment strategy statement	On-going
Investment performance review	Quarterly
Investment Pooling	Ongoing
Funding	
Triennial valuation	July-Dec

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PENSION FUND ACCOUNTS – 2018/19

LONDON BOROUGH OF ENFIELD PENSION FUND ACCOUNT			
2017/18 £000s		**Notes**	**2018/19 £000s**
	Dealings with members, employers and others directly involved in the Fund		
43,725	Contributions	7	47,179
1,844	Transfers in from other pension funds	8	4,009
45,569			**51,188**
(38,739)	Benefits payable	9	(41,966)
(6,289)	Payments to and on account of leavers	10	(5,116)
(45,028)			**(47,082)**
541	**Net additions/(withdrawals) from dealings with members**		**4,106**
(9,289)	Management expenses	11	(9,442)
(8,748)	**Net additional/(withdrawals) including fund management**		**(5,336)**
	Returns on investments		
11,339	Investment income	12	12,643
(592)	Taxes on income	13	(462)
18,518	Profit & losses on disposal of investments and changes in the market value of investments	14a	75,032
29,265	**Net returns on investments**		**87,213**
20,517	**Net change in assets available for benefits during the year**		81,877
1,078,485	**Opening net assets of the scheme**		1,099,002
1,099,002	**Closing net assets of the scheme**		**1,180,879**

NET ASSETS STATEMENT FOR YEAR ENDED 31 MARCH 2019			
2017/18 £000s		**Notes**	**2018/19 £000s**
1,026,666	Investment assets	14	1,119,405
(148)	Investment liabilities		(150)
1,026,518	**Total net investments**		**1,119,255**
69,956	**Cash deposits**	14	58,091
2,346	Other investment balances -assets		3,533
(476)	Other investment balances - liabilities		(183)
1,098,344	**Other investment balances**	14	**1,180,696**
-	**Long term debtor**	21a	14
1,081	**Current assets**	21	801
(423)	**Current liabilities**	22	(632)
1,099,002	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,180,879**

Note: The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Signed:

Fay Hammond

Executive Director Resources

31st May 2019

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1. Description of the Fund

The Enfield Pension Fund ('the fund') is part of the LGPS and is administered by London Borough of Enfield. The council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Enfield Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme.

a) General

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

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

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

The fund is overseen by the Enfield Pension Policy & Investment Committee, which is a committee of London Borough of Enfield.

b) Membership

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

Organisations participating in the fund include the following:

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

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

There are 39 employer organisations within the fund (including the Council itself), and 22,281 individual members, as detailed below. A full analysis is included

Enfield Pension Fund	31 March 2018	31 March 2019
Number of employers with active members	7,385	7,246
Number of pensioners	5,188	5,453
Deferred pensioners	4,891	5,930
Frozen/undecided	3,883	3,652
Total number of members in pension scheme	**21,347**	**22,281**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 the results of the valuation will be known by 31 March 2020. Currently, employer contribution rates range from 9.9% to 25.0% of pensionable pay.

d) Benefits

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

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

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2. Basis of preparation

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

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

The accounts have been prepared on a going concern basis.

3. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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

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

b) Transfers to and from other schemes

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

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

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

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

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 period is disclosed in the net assets statement as a 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 period is disclosed in the net assets statement as a current financial asset.

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

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the 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

The Code does not require any breakdown of pension fund administrative expenses, however, it requires the disclosure of investment management transaction costs. For greater transparency, the fund discloses its pension fund management expenses in accordance with the CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016), which shows the breakdown of administrative expenses, including transaction costs.

i) **Administrative expenses** All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs** All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

iii) **Investment management expenses** All investment management expenses are accounted for on an accruals basis.

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

In addition the fund has negotiated with the following managers that an element of their fee be performance related. Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account.

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets 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.

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

Foreign currency transactions

h) Dividends

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

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see Note 15).

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

The Enfield Pension Fund provides an additional voluntary contribution (AVC) scheme for Its employers and are specifically for providing additional benefits for individual contributors The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Contingent assets and contingent liabilities

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

4: Critical judgements in applying accounting policies

Pension fund liability

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

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

Investment in London Collective Investment Vehicle (LCIV)

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- No dividend to shareholders has asset been declared
- There is no market to trade the share holding

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

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

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

The items in the net assets statement at 31 March 2019 (for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: a. 1% decrease in the discount rate assumption would result in a increase in the pension liability of approximately £300m. b. 1% increase in assumed earnings inflation would increase the value of liabilities by approximately £50m. c. three-year increase in assumed life expectancy would increase the liability by approximately £90m.
Private equity investments (Note 16)	Private equity investments are valued at fair value in accordance with generally accepted accounting principles (GAAP). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £69m in the financial statements. There is a risk that this investment may be under-or overstated in the accounts. Given a tolerance of +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/- £3.5 million.
Private equity property investments (Note 16)	The estimate of the value of the investment in Portfolio Companies and Intermediate Vehicles requires considerable judgment and estimation techniques. The valuation methodologies are considered to be consistent with the International Private Equity and Venture Capital Valuation Guidelines.	Given a tolerance of +/-5% around the effect of variations in the factors supporting the valuation would be an increase or decrease in the value of held property of £1.3m, on a fair value of £25m.

NOTE 6: EVENTS AFTER THE REPORTING DATE

Following the conclusion of the external audit there are no post balance events requiring to be reported.

NOTE 7: CONTRIBUTIONS

By category

2017/18 £000s		2018/19 £000s
9,589	**Employees' contributions**	**10,151**
	Employers' contributions: -	
25,762	Normal	27,460
7,511	Deficit recovery contributions	8,206
863	Augmentation contributions	1,362
34,136	**Total employers' contributions**	**37,028**
43,725		**47,179**

By authority

2017/18 £000s		2018/19 £000s
36,533	Administering authority	38,245
5,825	Scheduled bodies	7,296
1,367	Admitted bodies	1,638
43,725		**47,179**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18 £000s		2018/19 £000s
1,844	Individual transfers	4,009
1,844		**4,009**

NOTE 9: BENEFITS PAYABLE

By category

2017/18 £000s		2018/19 £000s
(31,985)	Pensions	(34,195)
(5,982)	Commutation and lump sum retirement benefits	(6,485)
(772)	Lump sum death benefits	(1,286)
(38,739)		**(41,966)**

By authority

2017/18 £000s		2018/19 £000s
(36,812)	Administration authority	(40,355)
(1,444)	Scheduled bodies	(1,248)
(483)	Admitted bodies	(363)
(38,739)		**(41,966)**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £000s		2018/19 £000s
(132)	Refunds to members leaving service	(108)
(6,157)	Individual transfers	(5,008)
(6,289)		**(5,116)**

NOTE 11: MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
(773)	Administrative costs	(935)
(391)	Oversight and governance costs	(350)
(8,125)	Investment management expenses	(8,157)
(9,289)		**(9,442)**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
(6,589)	Management fees	(6,494)
(588)	Performance related fees	(186)
(893)	Transaction costs	(1,405)
(39)	Custody fees	(66)
(16)	Other	(6)
(8,125)		**(8,157)**

NOTE 12: INVESTMENT INCOME

2017/18 £000s		2018/19 £000s
4,800	Income from equities	5,066
3,248	Income from bonds	3,290
1,643	Pooled property investments	1,704
1,329	Pooled investments – unit trusts and other managed funds	1,855
319	Interest on cash deposits	728
11,339		**12,643**

NOTE 13: TAXES ON INCOME

2017/18 £000s		2018/19 £000s
	Withholding tax	
(315)	Income from equities	(320)
(277)	Pooled investments – unit trusts and other managed funds	(142)
(592)		**(462)**

NOTE 13B: EXTERNAL AUDIT FEES

2017/18 £000s		2018/19 £000s
25	Paid in respect of external audit (excluding VAT)	19
25		**19**

NOTE 14: INVESTMENTS

Market value 31 March 2018 £000s		Market value 31 March 2019 £000s
	Investments	
82,344	Fixed interest securities	88,279
192,565	Equities	43,141
620,173	Pooled investments	824,211
67,887	Pooled property investments	69,598
63,333	Private equity	93,928
	Derivative contracts:	
262	- Futures	215
102	- Forward currency contracts	33
1,026,666	**Total investment assets**	**1,119,405**
69,956	Cash deposits	58,091
2,346	Investment income due	2,386
-	Amounts receivable for sales	1,147
1,098,968	**Total investment assets**	**1,181,029**
	Investment liabilities	
	Derivative contracts:	
(89)	- Futures	(150)
(59)	- Forward currency contracts	-
(476)	Investment expenditure due	(183)
(624)	**Total investment liabilities**	**(333)**
1,098,344	**Net investment assets**	**1,180,696**

NOTE 14 A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

	Market value 1 April 2018	Purchases	Sales	Managem't fees in Market value	Change in market value	Market value 31 March 2019
Period 2018/19	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Bonds	82,344	23,989	(18,982)	-	927	**88,278**
Equities	192,565	143,829	(301,690)	-	8,437	**43,141**
Pooled investments	620,173	193,379	(32,356)	(3,474)	46,489	**824,211**
Pooled property	67,887	-	(1)	-	1,712	**69,598**
Private equity	63,333	29,985	(13,045)	(2,092)	15,747	**93,928**
	1,026,302	**391,182**	**(366,074)**	**(5,566)**	**73,312**	**1,119,156**
Derivatives contracts:						
Futures	173	4,078	(2,130)	-	(2,055)	66
Forward foreign exchange	43	1,612	(2,288)	-	666	33
	216	5,690	(4,418)	-	1,389	**99**
	1,026,518	**396,872**	**(370,492)**	**(5,566)**	**71,923**	**1,119,255**
Other investment balances						
Cash deposits	69,956				3,553	58,091
Investment income due	2,346					2,386
Pending investment sales	-					1,147
Other investment expenses	(476)				(444)	(183)
Net investment assets	**1,098,344**				**75,032**	**1,180,696**

Purchases and sales of derivatives are recognised in Note 14a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments**.**

Period 2018/19	Market value 1 April 2017 £000s	Purchases £000s	Sales £000s	Managem't fees in Market value £000s	Change in market value £000s	Market value 31 March 2018 £000s
Fixed interest securities	80,870	17,127	-14,006	-	-1,647	82,344
Equities	182,277	75,462	-64,152	-	-1,022	192,565
Pooled investments	624,292	78,901	-94,290	-3,948	15,218	620,173
Pooled property	65,535	-	-1,517	-3	3,872	67,887
Private equity	69,314	13,789	-20,279	-2,291	2,800	63,333
	1,022,287	**185,279**	**-194,244**	**-6,242**	**19,221**	**1,026,302**
Derivatives contracts:						
Futures	159	739	-553	-	-172	173
Options	-	20	-	-	-20	-
Forward foreign exchange	82	417	-732	-	276	43
	241	**1,176**	**-1,285**	**-**	**84**	**216**
	1,022,529	**185,455**	**-195,529**	**-6,242**	**19,305**	**1,026,518**
Other investment balances						
Cash deposits	54,406				-780	69,956
Pending sales on investment	256					-
Investment income due	2,054				-7	2,346
Spot FX contracts	-					
Pending purchases on investments	(165)					
Other investment expenses	(731)					(476)
Net investment assets	**1,078,349**				**18,518**	**1,098,344**

Purchases and sales of derivatives are recognised in Note 14a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

NOTE 14B: ANALYSIS OF INVESTMENTS

Market value 31 March 2018 £000s		Market value 31 March 2019 £000s
	Bonds	
	UK	
4,531	Public sector quoted	4,703
38,155	Corporate quoted	39,103
	Overseas	
3,852	Public sector quoted	1,868
35,806	Corporate quoted	42,604
82,344		**88,278**
	Equities	
47,659	UK –quoted	43,141
144,906	Overseas –quoted	-
192,565		**43,141**
	Pooled funds –additional analysis	
86,301	Indexed linked securities	89,072
310,071	Equities	458,410
55,672	Developed markets equity long short fund	50,041
65,238	Events driven fund hedge fund	46,806
43,615	Inflation opportunities hedge fund	72,354
32,693	Absolute bond fund hedge fund	30,911
26,583	Multi-strategy equity hedge fund	25,921
-	Multi asset credit fund	50,696
620,173		**824,211**
	Pooled property investments	
67,887	UK property investments	69,598
67,887		**69,598**
	Private equity	
5,888	Opportunistic property	4,610
2,178	European infrastructure	15,702
55,267	Fund of Funds global private equity	69,005
-	UK secured long income fund	4,611
63,333		**93,928**
	Derivatives- Assets	
262	Futures	215
102	Forward foreign exchange	33
364		**248**
1,026,666	**Total Investment Assets**	**1,119,404**
69,956	Cash deposits	58,091
2,346	Investment income due	2,386
-	Amounts receivable from sales	1,147
1,098,968		**1,181,028**
	Investment liabilities	
(89)	Derivatives- futures	(149)
(59)	Derivatives- forward foreign exchanges	-
(476)	Investment expenses	(183)
(924)		**(332)**
1,098,344	**Net investment assets**	**1,180,696**

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2018 £000s	%		Market value 31 March 2019 £000s	%
		Fixed income securities		
86,598	7.9%	Western Asset Management	90,940	7.7%
		Equities		
161,997	14.7%	Trilogy	765	0.1%
38,456	3.5%	International Public Partnerships	43,141	3.7%
		Pooled investments		
86,301	7.9%	Blackrock indexed linked bonds	89,072	7.5%
11,295	1.0%	Blackrock UK passive fund	12,022	1.0%
138,611	12.6%	Blackrock Global passive	155,836	13.2%
12,202	1.1%	Blackrock emerging markets		
96,434	8.8%	MFS global equities	110,109	9.3%
51,528	4.7%	LCIV Baillie Gifford global equities	75,336	6.4%
-	-	LCIV Henderson emerging equities	28,156	2.4%
-	-	LCIV Longview	76,950	6.5%
-	-	LCIV CQS Multi asset	50,696	4.3%
55,672	5.1%	Lansdowne hedge fund	50,041	4.2%
18,950	1.7%	York Capital hedge fund	19,147	1.6%
43,616	4.0%	M&G inflation opportunities	72,354	6.1%
32,693	3.0%	Insight hedge fund	30,911	2.6%
24,983	2.3%	Davidson Kempner hedge fund	27,659	2.3%
21,305	1.9%	Gruss hedge fund	1,147	0.1%
26,583	2.4%	CFM hedge fund	25,921	2.2%
		Pooled property		
339	-	RREEF commercial property	338	0.0%
36,087	3.3%	Blackrock commercial property	36,797	3.1%
31,886	2.9%	Legal & General commercial prop.	33,032	2.8%
		Private equity		
55,267	5.0%	Adam St Partners fund of funds	69,005	5.8%
2,178	0.2%	Antin European infrastructure	15,702	1.3%
5,888	0.5%	Brockton opportunistic property	4,610	0.4%
-	-	CBRE UK secured long income fund	4,611	0.4%
		Cash & accruals		
-	-	Close Brothers	5,009	0.4%
35,161	3.2%	Goldman Sachs cash	34,474	2.9%
24,755	2.3%	Northern Trust cash	17,063	1.4%
35	-	Blackrock MMF	35	-
(476)	-	Enfield Investment accruals	(183)	-
1,098,344	**100.0%**		**1,180,696**	**100.0%**

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

Security	Market value 31 March 2018 £000s	% of total Fund	Market value 31 March 2019 £000s	% of total Fund
Trilogy global equities	161,997	14.7%	-	-
Blackrock –global equities	138,611	12.7%	155,836	13.2%
MFS – global equities	96,434	8.8%	110,109	9.3%
Western Asset – corporate bonds	86,598	7.9%	90,940	7.7%
Blackrock – indexed linked bonds	86,300	7.9%	89,072	7.5%
LCIV – Longview global equities	-	-	76,950	6.5%
LCIV – Baillie Gifford global equities	-	-	75,336	6.4%
M&G Inflation opportunities	43,616	4.0%	72,354	6.1%
Adam Street Partners – private equity	55,267	5.0%	69,005	5.8%
Lansdowne – equity hedge fund	55,672	5.1%	50,041	4.2%

NOTE 14D: STOCK LENDING

The Fund’s investment strategy does not permit stock lending.

NOTE 15a: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe 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 agreements in place between the fund and the various investment managers.

a) Futures

The fund had to hold cash assets towards the end of the year in order to meet an expected peak in retirements. The pension fund committee did not want this cash to be ‘out of the market’ and so bought index-based futures contracts which had an underlying economic value broadly equivalent to the cash held in anticipation of the cash outflow for year-end retirements. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund’s quoted equity and bond portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the relevant fund manager currency programme in place managed by the global custodian, and hedges a proportion of the overseas holdings

Open forward currency contracts

Settlement	Currency bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
1-6 months	GBP	1,158	EUR	(1,315)	23	-
1-6 months	GBP	3,270	USD	(4,257)	10	-
Open forward currency contracts at 31 March 2019					**33**	**-**
Net forward currency contracts at 31 March 2019						**33**
Prior year comparative						
Open forward currency contracts at 31 March 2018					**102**	**(59)**
Net forward currency contracts at 31 March 2018						**43**

Futures

Outstanding exchange traded futures contracts are as follows:

Type Assets	Expires	Economic exposure £000s	Market value 31 March 2018 £000s	Economic exposure £000s	Market value 31 March 2019 £000s
UK Fixed income	Less than a year	12,773	239	-	-
Overseas fixed income	Less than a year	3,327	23	11,665	215
Total assets			**262**		**215**
Overseas fixed income	Less than a year	(3,952)	(89)	(5,646)	(149)
Total liabilities			**(89)**		**(149)**
Net Futures			**173**		**66**

NOTE 15b: HEDGE ACCOUNTING

Hedging is the process of entering into a derivative contract with the objective of reducing or eliminating exposure to a particular type of risk. This is achieved because expected changes in the value or cash flows of the hedged item move in the opposite direction to expected changes in the value or cash flow of other investment holdings. All hedging instruments are embedded into pooled our investment vehicles.

NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable & unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required

Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments – hedge funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Property held in a limited partnership	Level 3		Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Private equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3
The fund has determined that the valuation methods described above are likely to be accurate to 10% within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019

Description of asset	Assessed valuation range (+/-) %	Value at 31 March 2019 £000s	Value on increase £000 £000s	Value on decrease £000s
UK secured long income fund	10%	4,611	+461	-461
UK opportunistic property	10%	4,610	+461	-461
European Infrastructure	10%	15,702	+1,570	-1,570
Private equity fund of funds	10%	69,005	+6,901	-6,901
Total		**93,928**	**+9,393**	**-9,393**

NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Assets and liabilities 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.

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

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

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

Values at 31 March 2019	Quoted market price Level 1 £000s	Using observable inputs Level 2 £000s	With significant unobservable inputs Level 3 £000s	Total £000s
Financial assets at fair value	131,420	894,057	93,928	**1,119,405**
Financial liabilities at fair value	-	(150)	-	**(150)**
Net investment assets	**131,420**	**893,907**	**93,928**	**1,119,255**

Values at 31 March 2018	Quoted market price Level 1 £000s	Using observable inputs Level 2 £000s	With significant unobservable inputs Level 3 £000s	Total £000s
Financial assets at fair value	274,909	679,593	72,164	**1,026,666**
Financial liabilities at fair value	-	(148)	-	**(148)**
Net investment assets	**274,909**	**679,445**	**72,164**	**1,026,518**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2
There has been no movement during 2018/19.

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market value 1April 2018	Transfers in/out of level	Purchases during the year	Sales during the year	Unrealised gains/losses	Realised gains/losses	Market value 31March 2019
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Property	5,888	-	432	(3,066)	-	1,356	**4,610**
Infrastructure	2,178	-	13,195	-	329	-	**15,702**
Venture capital	55,267	-	11,408	(9,979)	6,451	5,858	**69,005**
Pooled Hedge Funds	8,831	(8,831)	-	-	-	-	**-**
UK secured long income fund	-	-	4,950	-	(339)	-	**4,611**
	72,164	**(8,831)**	**29,985**	**(13,045)**	**6,441**	**7,214**	**93,928**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period

31 March 2018				31 March 2019		
Fair value through profit& loss	Loans& receivables	Financial liabilities at amortised cost		Fair value through profit& loss	Loans& receivables	Financial liabilities at amortised cost
£000s	£000s	£000s		£000s	£000s	£000s
			Financial assets			
82,344			Bonds	88,279		
192,565			Equities	43,141		
620,173			Pooled investments	824,211		
67,887			Pooled property	69,598		
63,333			Private equity	93,928		
364			Derivative contracts	248		
-	70,390		Cash deposits		58,091	
-	1,606		Other investment balances		2,547	
-	606		Trade debtors		815	
1,026,666	**72,602**	**-**	**Total financial assets**	**1,119,405**	**61,453**	**-**
			Financial liabilities			
(148)			Derivative contracts	(150)		
		(476)	Other investment balances			(183)
		(423)	Trade creditors			(632)
(148)	**-**	**(899)**	**Total financial liabilities**	**(150)**	**-**	**(815)**
1,026,518	**72,602**	**(899)**	**Grand total**	**1,119,255**	**61,453**	**(815)**

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018 £000s		31 March 2019 £000s
	Financial assets	
19,305	Designated at fair value through profit & loss	71,923
(787)	Loans & receivables	3,109
18,518	**Total**	**75,032**

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

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

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

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

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

The fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period (based on assumption made in September 2018 on data provided by the Fund's investment consultant. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-) 2018/19	Potential market movements (+/-) 2017/18
Fixed income government bond	1.2%	1.4%
Inflation-linked government bonds	1.2%	1.2%
Investment grade corporate bonds	2.0%	2.2%
Equities	7.0%	6.5%
Private equity	9.3%	8.7%
Real estate	5.3%	5.5%
Hedge funds	4.2%	3.7%

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value at 31 March 2019 £000	Potential value on increase £000	Potential value on decrease £000
Fixed income government bond	43,806	+ 526	- 526
Inflation-linked government bonds	89,072	+ 1,069	-1,069
Investment grade corporate bonds	44,473	+889	-889
Equities	501,551	+35,109	-35,109
Private equity	69,005	+6,418	- 6,418
Real estate	89,910	+ 4,765	-4,765
Hedge funds	281,340	+ 11,816	-11,816
Cash & accruals	61,539	-	-
	1,180,696	**+60,592**	**-60,592**

Asset type	Value at 31 March 2018 £000	Potential value on increase £000	Potential value on decrease £000
Fixed income government bond	42,686	+598	-598
Inflation-linked government bonds	86,301	+1,036	-1,036
Investment grade corporate bonds	39,658	+872	-872
Equities	502,636	+32,671	-32,671
Private equity	63,333	+5,510	-5,510
Real estate	67,887	+3,734	-3,734
Hedge funds	223,801	+8,281	-8,281
Cash & accruals	72,042	-	-
Total	**1,098,344**	**+52,702**	**-52,702**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the 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 benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

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

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

Assets exposed to interest rate risk	Value as at 31 March 2019 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits	5,000	50	-	-
Cash & cash equivalents	53,091	531	-	-
Cash balances	13	-	-	-
Bonds	220,492	2,205	222,697	218,287
Total	**278,596**	**2,786**	**281,382**	**218,287**

Assets exposed to interest rate risk	Value as at 31 March 2018 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	69,956	700	70,656	69,256
Cash balances	435	4	439	431
Bonds	168,644	1,686	170,330	166,958
Total	**239,035**	**2,390**	**241,425**	**236,645**

Income exposed to interest rate risks	Amount receivable as at 31 March 2019 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Interest on cash deposits	728	7	735	721
Bonds	3,290	33	3,323	3,257
Total	**4,018**	**40**	**4,058**	**3,978**

Income exposed to interest rate risks	Amount receivable as at 31 March 2018 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	321	3	324	318
Cash balances	-	-	-	-
Bonds	3,217	32	3,249	3,185
Total	**3,538**	**35**	**3,573**	**3,503**

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

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (UK sterling). The fund holds both monetary and non-monetary assets denominated in currencies other than UK sterling.

The fund's currency rate risk is routinely monitored by the council and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the council considers the likely volatility associated with foreign exchange rate movements to be 10%.

A 10% fluctuation in the currency is considered reasonable. This analysis assumes that all other variables, in particular interest rates, remain constant.

Assets exposed to currency risk	Assets value as at 31 March 2019 £000	Potential movement £000	Value on increase £000	Value on decrease £000
Australian Dollar	1,562	156	1,718	1,406
Canadian Dollar	1	-	1	1
Danish Krone	737	74	811	663
Euro	38,274	3,827	42,101	34,447
Japanese Yen	291	29	320	262
Mexican Peso	677	68	745	609
Norwegian Krone	6	1	7	5
Singapore Dollar	1,143	114	1,257	1,029
South African Rand	480	48	528	432
Swedish Krona	541	54	595	487
Swiss Franc	1,089	109	1,198	980
US Dollar	158,710	15,871	174,581	142,839
	203,511	**20,351**	**223,682**	**183,160**

Assets exposed to currency risk	Assets value as at 31 March 2018 £000	Potential movement £000	Value on increase £000	Value on decrease £000
Canadian Dollar	1,079	108	1,187	971
Danish Krone	4,091	409	4,500	3,682
Euro	34,661	3,466	38,127	31,195
Hong Kong Dollar	7,993	799	8,792	7,194
Japanese Yen	18,787	1,879	20,666	16,908
Swedish Krona	5	1	6	4
Norwegian Krone	611	61	672	550
Swiss Franc	1,153	115	1,268	1,038
US Dollar	222,875	22,288	245,163	200,587
	291,255	**29,126**	**320,381**	**262,129**

b) Credit risk

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

In essence the fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives’ positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council’s credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2019 was £58.1m (31 March 2018 - £70.4m). This was held with the following institutions:

	Rating	Balances as at 31 March 2019 £000	Balances as at 31 March 2018 £000
Termed deposits			
Close Brothers	A-	5,009	-
Money market funds			
Goldman Sachs money market fund	AAAm	34,474	35,161
Blackrock money market fund	AAAm	35	35
Bank current accounts			
HSBC	AA-	12	434
Northern Trust Custodian	AA-	17,063	24,755
Cash held by fund managers		1,510	10,005
		58,103	**70,390**

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

The Fund has immediate access to its pension fund cash holdings.

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

All financial liabilities at 31 March 2019 are due within one year.

d) Refinancing risk The key risk is that the council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The council does not have any financial instruments that have a refinancing risk as part of its investment strategy

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the results will be known by 31 March 2020 and implemented from 1st April 2020.

The key elements of the funding policy are:

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

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2016 actuarial valuation, the fund was assessed as 87% funded.**Financial assumptions**

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 are shown in note 20 in the financial assumption section

Discount rate for periods in service	
Scheduled body funding target	4.5%pa
Orphan body funding target	4.1%pa
Discount rate for periods after leaving service	
Scheduled body funding target	4.5%pa
Orphan body funding target	2.5%pa
Rate of inflationary pay increases	3.5%pa
Rate of increase to pension accounts	2.0%pa
Rate of increases in pensions in payment	2.0%pa

Demographic assumptions

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:

Life expectancy from age 65 as valuation date	Males	Females
Current pensioners aged 65 at the valuation date	24.3	26.9
Future pensioners aged 45 at the valuation date	26.3	29.2

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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, 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'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 *	4.5%pa
Orphan body funding target	4.1%pa
Discount rate for periods after leaving service	
Scheduled body funding target*	4.5%pa
Orphan body funding target	2.5%pa
Rate of inflationary pay increases	3.5%pa
Rate of increase to pension accounts	2.0%pa
Rate of increases in pensions in payment	2.0%pa

** 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 assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

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 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 formal 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. Other than as agreed or otherwise permitted or required by the Regulations, employer 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.

Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):

- **Increases to GMPs:**
  HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was

not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.

- **Cost Management Process and McCloud judgement:**

  Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.

The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 9 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.

This Statement has been prepared by the current Actuary to the Fund, Aon, 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.

The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address:

https://new.enfield.gov.uk/pensions/wp-content/uploads/2017/10/London-Borough-of-Enfield-Pension-Fund-Actuarial-valuation-as-at-31-March-2016-.pdf

NOTE 21: CURRENT ASSETS

31 March 2018 £000s		31 March 2019 £000s
	Debtors	
120	Contributions due - employees	168
382	Contributions due - employers	495
145	Sundry debtors	72
-	Prepayments	53
647		**788**
	Cash balances	
434	Current account	13
1,081		**801**

NOTE 21: LONG TERM DEBTORS

31 March 2018 £000s		31 March 2019 £000s
	Debtors	
-	Pensioner Tax liability	14
-		**14**

NOTE 22: CURRENT LIABILITIES

31 March 2018 £000s		31 March 2019 £000s
-	Sundry creditors	(19)
(423)	Benefits payable	(613)
(423)		**(632)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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 2016, 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 18 £000s	Contributions & Transfers £000s	Sums Paid Out £000s	Investment Return £000s	Closing Balance at 31 March 2019 £000s
With profits cash accumulation	**1,281**	477	(410)	2	**1,350**
Cash statement	**13**	130	(9)	1	**135**
Deposit fund statement	**944**	300	(352)	3	**895**
Discretionary fund	**639**	165	(42)	37	**800**
	2,877	**1,072**	**(813)**	**43**	**3,180**

NOTE 24: AGENCY SERVICES

The Enfield Pension Fund does not use any agency services to administer the pension service.

NOTE 25: RELATED PARTY TRANSACTIONS

London Borough of Enfield

The Enfield Pension Fund is administered by the London Borough of Enfield. Consequently there is a strong relationship between the Council and the Pension fund.

During the reporting period, the Council incurred costs of £935k (2017/18: £773k) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The Council is also the single largest employer of members of the pension fund and contributed £40.6m to the fund in (2017/18 £36.8m). At year end the London Borough of Enfield owed the Pension Fund £72k (£44k in 2017/18).

Scheduled and admitted bodies owed the Fund £664k (£502k in 2017/18) from employer & employee contributions. All payments were received by 19th April 2019.

Governance

The Enfield 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 Policy & Investment Committee, is also a Governor of Capel Manor, a scheduled body.

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

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 Committee is required to declare their interests at meetings.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Pension manager, Head of Finance and the Head of Exchequer Services. As required by paragraph 3.9.4.2 of the CIPFA code of practice 2018/19 the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year.

31 March 2018 £000s		31 March 2019 £000s
119	Short-term benefits	197
41	Post-employment benefits	62
160		**259**

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2019 totalled £100.6m (31 March 2018: £68.5m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

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MUNICIPAL YEAR 2019/2020 REPORT NO. 24

MEETING TITLE AND DATE:
Pension Policy & Investment Committee – 13th June 2019

REPORT OF:
Executive Director of Resources
Contact officer and telephone number:

Paul Reddaway Ex: 4730

Paul.reddaway@enfield.gov.uk

Agenda – Part:1	**Item: 10**
Subject: Actuarial Valuation update **Wards: all**	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1. Initial assumptions on mortality and inflation assumptions have been agreed with the Actuary.

1.2. The 2019 actuarial valuation process is underway – membership data is being gathered and verified, in line with the Actuary's timetable.

1.3. Initial valuation outcomes at the Whole Fund level will be available by the end of September.

1.4. The final valuation will be subject to the outcome of the McCloud case.

2. RECOMMENDATIONS

2.1. Members are asked to note the report.

3. BACKGROUND

3.1 The triennial formal valuation is an exercise in risk management to ensure there is enough money to pay members' pensions. At the last valuation in 2016 the Fund had a funding level of 87% with a 19-year recovery period. It is likely that the Fund will see a gain in its funding level, given the strong returns in markets over the last three years and generally subdued inflation offsetting the effect of falling yields. Nevertheless, there are number of key decisions the Committee will need to make. This will include the probability of investment success going forward and the effect of regulatory changes, including the potential impact of the 'Cost Cap' and how this may be affected by the outcome of the McCloud Appeal court case. The Committee will also need to be mindful of the Government Actuary Department's Section 13 report which requires the Fund to make consistent and prudent funding assumptions.

3.2 Work is now underway to commence the 2019 actuarial valuation process which will need to be completed and signed off by the Fund's Actuary by 31st March 2020.

3.3 A detailed timetable is shown in **Appendix 1** and will be included as a standing item to monitor the progress.

3.4 The Council's actuary has been asked to attend the meeting to update the Committee on the valuation process and some of the issues that will need to be considered during the process. **Appendix 2 – Actuarial valuation at 31 March 2019 Assumptions Advice.**

4. FINANCIAL IMPLICATIONS

4.1 The costs of the valuation been agreed and are included in the Pension Fund's Overview & Scrutiny budget.

5. LEGAL IMPLICATIONS

5.1 It is a statutory requirement for a valuation to be carried out every three years. The valuation report and certificate need to be in compliance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

5.2 In line with the Regulations, the Fund will need to have a Funding Strategy Statement (FSS) in place which is reviewed by the administering authority at each actuarial valuation.

5.3 The FSS will set out the underlying assumptions and principles that are to be adopted when valuing the Fund's liabilities and setting contribution rates.

Stage	Date
(Optional) pre-valuation meeting to discuss the 2019 valuation process and the results of the demographic experience analysis	Jan - March 2019
Informal dialogue on financial assumptions and outlook	April - May 2019
Formal Assumptions advice	End of May 2019
Provision of completed Valuation Information Model by Administering Authority (AA)	End of May 2019
Meeting/Training with Pension Policy & Investment Committee and Pension Board	End of May 2019
Membership Data in	Week commencing 17 June 2019
Data validation and queries issued by Aon	Data in + 1 week
Response to data queries provided by AA	Data in + 2 weeks
All data queries resolved	Data in + 2-3 weeks
Provision of final data to GAD (1)	1 September 2019
Preliminary whole of Fund and main employer results (2)	Date all data queries resolved + 5 weeks
Standardised basis results to be provided to the SAB (3)	30 September 2019
Final assumptions chosen and updated whole of Fund and Main Council results provided (4)	October 2019
Presentation of results to the Pension Policy & Investment Committee	October 2019
Individual employer results (to be provided in tranches)	November 2019 – January 2020
Meeting with Employers to present indicative results	Late November – Early December 2019
Finalise employer contribution rates if changes required to individual employer funding strategies	December 2019 - February 2020

Review Funding Strategy Statement and Draft Valuation Report	**October 2019 – March 2020**
Sign Report and Rates and Adjustments Certificate	**March 2020**

Notes

(1) Assuming that the GAD timescales are the same as in 2016.

(2) These results will be based on an agreed probability of funding success. If additional results are required based on different probability of funding success then these would fall under note (4).

(3) Assuming that the SAB timescales are the same as in 2016.

(4) This will depend on how many additional runs are required but the illustrative timescales above are based on one additional run being required.

Financial assumptions

Actuarial valuation

Actuarial valuation at 31 March 2019 - Assumptions Advice

The London Borough of Enfield Pension Fund

Prepared for	The London Borough of Enfield, as Administering Authority to The London Borough of Enfield Pension Fund
Prepared by	Jonathan Teasdale FIA Laura Caudwell FIA
Date	3 June 2019

QAS Institute and Faculty of Actuaries Quality Assurance Scheme

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Executive summary

This document provides advice in relation to the assumptions to be used for the actuarial valuation of the London Borough of Enfield Pension Fund (the "Fund") as at 31 March 2019 and summarises any recommended changes to the current funding strategy as set out in the Funding Strategy Statement.

The table below summarises our proposed financial assumptions and should be read in conjunction with the important information set out in the main body of this document.

The demographic assumptions have already been considered based on an analysis of the Fund membership's experience to 31 March 2018 and other factors as set out in previous advice papers ("Experience analysis and advice on demographic assumptions" dated 8 March 2019 and "Longevity Analysis using Demographic Horizons™" dated 7 March 2019). For completeness a summary of the demographic assumptions is included in Appendix C to this paper.

	Last valuation	Updated for this valuation	Reason for change	Approximate Sensitivity
Discount rate – main scheduled bodies	4.5% pa Based on a probability of funding success of 69%	4.7% pa Based on a probability of funding success of 69% Or 4.4% pa Based on a probability of funding success of 74%	Changes reflect: ▪ changes in Capital Market Assumptions; ▪ the movement in financial markets; ▪ change to the long-term solvency target and simplification of calculation method; and: ▪ a reduction in the level of funding risk, i.e. an increase to the probability of funding success, if 74% chosen	Increase in past service liabilities of around 4.5% for each 0.25% pa decrease. Future service rate increase of around 1.5% of pay for each 0.25% of decrease (equivalent to a reduction in the probability of funding success of 6%).

	Last valuation	Updated for this valuation	Reason for change	Approximate Sensitivity
In-Service Discount rate – ongoing orphan funding target	4.1% pa Gilt yield (single rate based on duration of the Fund's liabilities) plus 2.0% pa	3.3% pa Gilt yield (single rate based on duration of the Fund's liabilities) plus 2.0% pa	Change reflects change in underlying gilt yields	It should be noted there were no employers on this funding target in the 2016 valuation. Increase in past service liabilities by around 1.0% (in service) and 3.5% (left service) for each 0.25% pa decrease, for an employer with same membership profile as the Fund as a whole. The actual figures will depend on the maturity of the employers subject to this funding target which can be quite different in nature to the whole Fund.
Left-Service Discount rate – ongoing orphan funding target	2.5% pa Gilt yield (single rate based on duration of the Fund's liabilities) plus 0.4% pa	1.6% pa Gilt yield (single rate based on duration of the Fund's liabilities) plus 0.3% pa	Reflects fall in gilt yields and fall in assumed increase in future gilt yields.	
RPI Inflation	3.1% pa Long-term best-estimate view of inflation	3.2% pa Long-term best-estimate view of inflation	Reflects change in Aon's best-estimate of future inflation over the next 30 years.	See CPI Inflation sensitivity for the approximate impact of changing the inflation assumption.
CPI Inflation	2.0% pa RPI Inflation less 1.1% pa	2.1% pa RPI Inflation less 1.1% pa	Changed to reflect change in RPI above. Aon's best-estimate of the future difference over the next 30 years between RPI and CPI is unchanged.	Increase in past service liabilities of around 3.75% for each 0.25% pa increase (assuming pay increase assumption does not change with inflation, but pension increases do change).

	Last valuation	Updated for this valuation	Reason for change	Approximate Sensitivity
				Future service rate increase of 1.5% of pay for each 0.25% of increase.
Pay increases	3.5% pa plus promotional increases CPI plus 1.5% pa, plus promotional increases	3.6% pa plus promotional increases CPI plus 1.5% pa, plus promotional increases	No change other than the movement in the CPI Inflation assumption	Decrease in past service liabilities of around 0.75% for each 0.25% pa decrease. No impact on future service rate
Pension Increases, deferred revaluation and rate of revaluation of pension accounts	2.0% pa Consistent with CPI Inflation assumption	2.1% pa Consistent with CPI Inflation assumption	No change other than the movement in the CPI Inflation assumption	Allowed for in CPI Inflation sensitivity figures
Increases in Post 88 GMPs in payment	1.8% pa Consistent with CPI inflation assumption, allowing for a maximum increase of 3.0%	1.9% pa Consistent with CPI inflation assumption, allowing for a maximum increase of 3.0%	No change other than the movement in CPI inflation.	Changing this assumption is unlikely to have a material impact on the past service liabilities as GMPs represent only a fairly small proportion of the past service liabilities.
Expenses	0.5% of pay	0.7% of pay	Updated to allow for Fund expenses from the 2017 and 2018 published fund accounts and the 2019 draft accounts	No effect on past service liabilities

	Last valuation	Updated for this valuation	Reason for change	Approximate Sensitivity
Demographic assumptions	Please see Appendix D. We have made several changes to the demographic assumptions. These include updating the mortality assumptions to reflect revised base tables, scaling factors and updating the future mortality improvements table to recommend the CMI 2018 table. We have also slightly refined our retirement age assumptions, assumptions about the rate of withdrawal of active members and the rate at which people take ill-health retirement.			

The main body of this paper explains the rationale for the proposed assumptions, including any recommended changes.

We set out later in this report approximate projected results as at 31 March 2019 based on the proposals in this document, and the demographic assumptions previously discussed with the administering authority for the 2019 valuation of the Fund. We also show illustrative figures based on adopting a different (higher) probability of funding success, as requested by the administering authority.

The figures are illustrative based on an approximate roll-forward of the 2016 valuation of the Fund using the same methodology as adopted for our approximate quarterly funding updates, but with adjustments to reflect the expected effect of proposed changes to the demographic assumptions and the approximate Fund pensionable pay experience (estimated based on contributions paid in fund accounts). The actual 2019 valuation results could be significantly different to these illustrative figures and the Administering Authority should take care when making any decisions regarding the specific valuation assumptions to be adopted.

The funding target applicable to each employer at the 2016 valuation was set out in our letter dated 27 March 2017 which accompanied the final valuation report. The Administering Authority should indicate, within the completed Valuation Information Model, the funding target which should apply to each employer for the purpose of the initial valuation results.

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1. Introduction

This document has been prepared for the Administering Authority. It sets out key information and advice on the financial assumptions to be adopted for the initial results of the actuarial valuation as at 31 March 2019. It also sets out information actuarial professional standards require us to provide as part of the actuarial valuation process.

Aims

The main aims of carrying out an actuarial valuation of the Fund are to:

- Review the financial position of the Fund;
- Determine the employer contribution rates; and
- Ensure that the legal and regulatory requirements in relation to actuarial valuations are met.

As part of the valuation process the Administering Authority should consider and review its strategic and long-term financial objectives, including the Funding Strategy Statement.

A key element of funding strategy is the funding target(s) to be adopted. The funding target is dependent on the assumptions used to value the liabilities. There are two broad categories of assumptions: financial assumptions; and demographic assumptions.

This report summarises:

- The financial assumptions used for the calculation of the ongoing funding target(s) adopted for the Fund in the last valuation (derived in line with the Funding Strategy Statement).
- The equivalent financial assumptions for this valuation, assuming no change in the funding strategy, including the approximate sensitivities of that calculation to each key assumption and the key areas where a margin for prudence is included.
- Proposed alternative financial assumptions on which initial valuation results will be produced, for discussion and agreement by the Administering Authority before those results are calculated
- Illustrative results based on the assumptions summarised in this report using a roll forward from the previous valuation

Context

As discussed in previous advice ("Experience analysis and advice on demographic assumptions" dated 8 March 2019), our recommended approach is for the demographic assumptions to be, as far as possible, best estimate based on an analysis of the Fund's experience. The same demographic assumptions apply to all employers (albeit their effect depends upon the employer's membership profile, or the group's membership profile where funding risks are shared among a group of employers). The allowance for prudence, as required by the statutory CIPFA guidance on the Funding Strategy Statement, is concentrated in the discount rate. The discount rate assumption(s) should therefore be considered in the context of the likelihood of the employer remaining in the Fund which, in turn, may depend upon the strength of employer covenant and what will happen to the employer's liabilities on exit.

The Valuation Guidance Document provides more information on the background to the requirements for considering employer covenant within the valuation.

Appendix A contains more information about the legislative and regulatory framework for Local Government Pension Scheme valuations.

2. Funding targets and setting the discount rate

Our recommendation is that the Administering Authority continues to adopt a risk-based approach to setting the funding strategy for the long-term secure employers, with stronger funding targets applied to less secure or shorter-term employers, to help achieve the right balance between risk and cost for the Fund given employer circumstances.

We propose to set the valuation assumptions to be 'best estimate' assumptions with the sole exception of the discount rate, which we propose is tailored to give the appropriate level of risk (or prudence) chosen by the Administering Authority. This is the same approach as adopted for the previous valuation of the Fund.

Long-term secure scheduled bodies

The long-term secure scheduled bodies make up the majority of the Fund's liabilities. Under the recommended approach the Administering Authority needs to make three key decisions:

1. *Solvency Target*

This is the long-term level of funding the Fund is aiming to achieve.

2. *Trajectory Period*

To the extent that the Fund is not currently fully funded on the solvency target, this is the period over which the Administering Authority is aiming to reach that target.

3. *Probability of Funding Success*

To the extent that different paths can be taken to reach solvency, with differing levels of risk and cost, this determines the level of risk and hence the balance between risk and cost.

Once these key decisions are made, the Funding Target (and hence the discount rate) is determined as the level of assets required at the valuation date such that the Solvency Target is expected to be met by the end of the Trajectory Period with the required Probability of Funding Success, assuming the assumed investment strategy remains unchanged throughout the Trajectory Period.

To the extent that there is a shortfall relative to the Funding Target at the valuation date, there will be a need to agree deficit contributions over an agreed recovery period.

Solvency Target (Secure Scheduled Bodies)

For long term secure scheduled bodies and bodies with a subsumption commitment from a secure scheduled body, we recommend that the solvency target be set to be 100% funded on a suitably prudent basis.

At the 2013 and 2016 valuations, in order to establish the solvency target the Probability of Maintaining Solvency was defined such that if the Fund is:

- 100% funded at the point that solvency is first reached (i.e. the end of the Trajectory Period) and
- subject to economic conditions predicted by our Capital Market Assumptions

the Probability of Maintaining Solvency is the chance that it will be 100% funded or better at the end of a further appropriate long-term period (set to be 25 years). At the 2016 valuation of the Fund the solvency target was set such that the Probability of Maintaining Solvency was 80%.

For the 2019 valuation of the Fund we propose to simplify our approach to remove the additional modelling undertaken for the Solvency Target. In addition, rather than assume the Fund's current strategic asset allocation is retained indefinitely after the end of the Trajectory Period we have set the Solvency Target based on a long-term prudent investment return of CPI plus 2% p.a. Our assumption is that a long-term rate of CPI of 2% p.a. is reasonable given it is in line with the Bank of England's inflation target, giving a long-term solvency discount rate of 4%. We believe this is a prudent allowance for long-term investment returns for the Fund based on a long-term investment strategy that allows for continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in pensions and pension accounts (CPI). 4% is not dissimilar to the solvency discount rates derived at the previous valuation and over the intervaluation period.

Trajectory Period (Secure Scheduled Bodies)

This is the period from the valuation date over which the Fund aims to achieve the Solvency Target.

At the 2016 valuation we set this period equal to 25 years.

The Trajectory Period is a period over which it is considered to be appropriate for long term secure employers to aim to achieve their solvency target, set across those bodies collectively. It does not vary by employer and we would not necessarily expect this to change at each valuation. We propose that this is retained at 25 years for the 2019 valuation.

It should be noted that shortening the Trajectory Period would be likely to lead to greater volatility in the discount rate (since the Trajectory Period is the period over which we model the Probability of Funding Success and the Fund predominantly invests in growth assets whose value can be volatile, particularly in the short-term). The Trajectory Period is different to the Recovery Period and the Administering Authority can and should review the Recovery Period at each valuation.

Probability of Funding Success (Secure Scheduled Bodies)

The Probability of Funding Success is the selected chance of achieving the Solvency Target at the end of the Trajectory Period. It will determine the level of the Funding Target (and hence the discount rate and the level of prudence in the valuation basis), and therefore the required level of contribution to the Fund emerging from the valuation.

Our calculation approach makes a number of simplifications/approximations, and this may mean that the Probability of Funding Success does not exactly correspond to the probability of actually reaching full funding on the Solvency Target by the end of the Trajectory Period.

The higher the Probability of Funding Success, the higher the funding target (and hence the more prudent the discount rate), and the higher the level of contributions required. At the 2016 valuation of the Fund the Probability of Funding Success was chosen by the Administering Authority to be 69%.

For the purposes of our calculations we have assumed that the asset allocation adopted (see Appendix C) is retained throughout the Trajectory Period.

Capital Market Assumptions

The Solvency Target and Probability of Funding Success are evaluated using our Capital Market Assumptions (CMAs).

The CMAs are Aon's asset class return, volatility and correlation assumptions. The return assumptions are best estimates of annualised returns, by which we mean annualised median returns.

That is, there is a 50% chance that actual returns will be above or below the assumptions. The assumptions are long-term assumptions, based on 25 year projection periods and are updated on a quarterly basis.

Further detail on the CMAs are included in Appendix B.

Setting the discount rate for scheduled bodies

At the 2016 valuation a single discount rate of 4.5% pa was used for scheduled bodies – based on a Probability of Funding Success of 69%.

If the approach described above is used as at 31 March 2019 based on the same Probability of Funding Success, then the discount rate would be 4.7% pa.

For comparison, our determination of the expected return on the assets (using the same asset allocation as used for the discount rate calculation) over 25 years is 6.1%.

This is based on the CMAs as at 31 March 2019 and allows for the liability profile of the Fund at the last valuation date and the asset allocation of the Fund as set out in Appendix C. The asset allocation has been taken from the long term asset allocation which was approved by the Pension Policy and Investment Committee in the 2018 review of the investment strategy of the fund. This is set out in Aon's paper titled 'Linking investment strategy and the valuation of liabilities' dated 26 June 2018.

We understand that the Administering Authority wishes to investigate the impact of increasing the Probability of Funding Success. We have shown the impact of an increase of 5% to 74% in the projected results for the Fund set out in section 4.

The table below shows the sensitivity of the past service liabilities to changes in the discount rate.

Change to assumption	Approximate impact on past service liabilities	Approximate impact on future service
Discount rate reduced by 0.25% pa	↑ by 4.5%	↑ by 1.5% pay
Discount rate increased by 0.25% pa	↓ by 4.5%	↓ by 1.5% pay

Setting the discount rate for Ongoing Orphan bodies

'Ongoing Orphan bodies' refers to certain admission bodies which may exit the Fund at some future point in time and where, once any liability on exit has been paid, it is expected that the Administering Authority will have no access to future contributions from that employer, or any other ongoing employer in the Fund, should a deficiency emerge in future, i.e. the liabilities will become orphan.

The discount rate for Ongoing Orphan bodies continues to be determined based on the assumed investment strategy before and after exit, rather than based on the Probability of Funding Success. As per the Funding Strategy Statement, for such bodies the assumed investment strategy is UK Government bonds (gilts) so the discount rate in relation to the period after assumed exit would then reflect market yields on gilts.

Previous valuation

At the 2016 valuation the following discount rates were agreed for any employers subject to the Ongoing Orphan funding target, although the administering authority determined that there were no employers at that time which should be subject to that funding target at the valuation date:

- In-service discount rate of 4.1% pa
- Left-service discount rate of 2.5% pa

The in-service discount rate was set to be 2.0% above the long-term gilt yield at the valuation date.

The left-service discount rate made some allowance for Aon's expectations of future increases in long term gilt yields over the 5 years following the valuation date, leading to an increase in the discount rate of 0.4% compared to prevailing gilt yields of 2.1% p.a.

However, the expected increase in gilt yields has not materialised, and long-term gilt yields are now materially below their level as at 31 March 2016.

Current valuation

The table below shows the adjustment to the current gilt yield (G) that would apply for different durations to exit based on market expectations of future increases to gilt yields.

Assumed period to exit (years)	Theoretical net discount rate (% pa)
0	G + 0.0
3	G + 0.2
5	G + 0.3
10	G + 0.4

As can be seen in the above table, the theoretical left service discount rate at the valuation date allowing for market expectations of increases in gilt yields is not particularly sensitive to the assumed period to exit.

Our initial proposal is therefore to use an adjusted gilt yield of 1.6% pa (0.3% pa above the prevailing long-term gilt yield of 1.3% pa) for the left-service discount rate for the Ongoing Orphan Funding Target. This retains the general approach at the 2016 valuation, where it was recognised that the employers are not actually exiting on the valuation date, so it is justifiable to adopt a left service discount rate above market yields. However, it reverts to using market expectations of future long-term gilt yield increases (as used at the 2013 valuation), rather than Aon's view of future long-term gilt yields which have historically suggested greater increases.

Our proposal implicitly assumes a common fixed term to exit for ongoing orphan employers. The Administering Authority should be aware that exit could occur earlier than our funding assumptions imply and that the Fund is exposed to (material) investment risk where the Administering Authority does not choose to cover the orphaned liabilities after the employer has left the Fund with explicit gilt holdings. Bespoke assumptions could be considered for any large ongoing orphan employers or where exit is expected within 12-18 months of the valuation date.

For the period before any assumed exit date we assume that the Fund will invest in a mixture of low risk and growth assets. We therefore propose to assume an in-service discount rate which allows for outperformance over gilts of 2% p.a. (the same as adopted for the 2016 valuation).

However, the discount rate needs to be considered in light of other elements of funding strategy such as recovery periods as well as the circumstances, including affordability concerns and the likelihood and timing of potential exit.

The proposed discount rates for Ongoing Orphan bodies, if the administering authority determines that any employers should be subject to this funding target from 2019 onwards, are therefore:

- In-service discount rate of 3.3% pa
- Left-service discount rate of 1.6% pa

The change in left service rate is a large drop from the previous valuation. However, there were no employers subject to this funding target for the 2016 valuation and we are not aware of the Administering Authority seeking to move any current employers onto this target for the 2019 valuation.

For illustration only (and bearing in mind this target might apply for future admitted employers), we have shown below the sensitivity of the Ongoing Orphan funding target to changes in discount rate:

Change to assumption	Approximate impact on immature employer (1)	Approximate impact on mature employer (2)
In service discount rate reduced by 0.25% pa	↑ by 4.5% (past service), 1% pay (future service)	↑ by 0.5% (past service), 0.75% pay (future service)
Left service discount rate reduced by 0.25% pa	↑ by 3% (past service), 1% pay (future service)	↑ by 3.25% (past service), 1% pay (future service)

(1) Employer with only active members, average age of membership 40 years old

(2) Employer with 33% active membership, average age of actives 55 years old

3. Pay and price (pension) increase assumptions

This section sets out our recommendations for the pay, pension increase, and rate of revaluation of pension accounts assumptions for the valuation. Further information on how our recommendations are derived are set out in the Valuation Guidance Document.

For the LGPS assumptions are required for:

- Increases to pensions in payment;
- Increases to pensions in deferment;
- Revaluation of pension accounts before retirement;
- Increases to Guaranteed Minimum Pensions in payment and
- Increases to Guaranteed Minimum Pensions in deferment.

These increases are linked to increases in the Consumer Prices Index (CPI), so we first need to propose an assumption for increases in the CPI.

There is a well-established RPI-linked investment market, but not for CPI-linked investments, so it makes sense for us first to establish a proposal for increases in the Retail Prices Index (RPI). In practice we set our RPI inflation assumptions equal to our best estimate view of inflation based on the CMAs using consensus forecasts.

We can separately deduce a relationship between CPI and RPI increases and from that relationship derive an assumption for CPI increases.

RPI increase assumption

At the previous valuation, the RPI inflation rate assumption was set equal to our best estimate view of inflation based on the CMAs. We propose to adopt the same approach for the 2019 valuation. This leads to an assumption for increases in RPI of 3.2% pa.

The Valuation Guidance Document sets out more information on the key measures of future expectation of RPI.

Setting the assumption for increases in CPI

Our best estimate of the difference between RPI and CPI for the current valuation is 1.1% pa, the same difference as at the last valuation. This leads to an assumption for the increase in CPI of 2.1% pa.

The Valuation Guidance Document (issued on 8 March 2019) sets out more information on the differences between RPI and CPI inflation and how Aon calculates a best-estimate assumption.

The Administering Authority should be mindful of the risk that actual price inflation is different to the valuation assumptions.

We set out in the following table the approximate sensitivity of the past service liabilities to changes in the assumption for CPI increases.

Change to assumption	Approximate impact on past service liabilities	Approximate impact on future service
CPI increased by 0.25% pa*	↑ by 3.75%	↑ by 1.5% pay
CPI decreased by 0.25% pa*	↓ by 3.75%	↓ by 1.5% pay

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* The following assumptions are all affected by a change in the CPI inflation assumption and are allowed for within the sensitivity above:

- Increases to pensions in payment;
- Increases to pensions in deferment;
- Revaluation of pension accounts; and
- Increases to post 88 GMP in payment.

Revaluation of pension accounts and pension increase assumption

Having established an assumption for CPI increases we can then relate that to assumptions for pension increases and account revaluations. Technically there is a small difference in the rates of increase that can apply to pensions versus the rate of revaluation that can apply to members' accounts, in that the former cannot be negative, but the latter can. This should lead to a small difference in proposed assumptions, but for practical reasons we propose ignoring this at this valuation, which is the same approach as was taken at the 2016 valuation.

Based on the above analysis, our proposed assumptions are as follows:

- Increases to pensions in payment: 2.1% pa
- Increases to pensions in deferment: 2.1% pa
- Revaluation of pension accounts before retirement: 2.1% pa

Assumptions for increases on Guaranteed Minimum Pensions (accrued after 5 April 1988) are set consistent with the above analysis but allowing for a maximum increase of 3.0% pa. This leads to an assumption of 1.9% pa for these increases. However, it should be noted that LGPS funds will be responsible for paying full CPI increases for members reaching SPA between 6 April 2016 and 5 April 2021. We will allow for this in our valuation calculations.

Pay increases

The pay increase assumption affects the rate at which active members' liabilities accrued prior to 1 April 2014 are assumed to increase until retirement.

In setting the pay increase assumption, it is important to bear in mind that it is still a reasonably long-term assumption which is designed to apply over members' remaining working lifetimes and not just over the next few years.

The impact of the pay increase assumption will decline over time since, in the main, only benefits accrued prior to 1 April 2014 are linked to final pay.

Over the long term it is generally observed that pay growth is related to, and usually exceeds, general price inflation and is also related to industry and employer specific factors. Pay has generally been observed to exceed price inflation by between 1% and 2% pa over the long term. Additionally, pay progression for individuals is related to individual career progression through promotion and experience.

Our proposal therefore comprises an inflationary component which is related to price inflation, and a promotional element derived from an analysis of Fund experience.

Previous valuation

At the previous valuation, pay was assumed to increase at 1.5% pa above the increase in CPI (plus an age-related promotional scale).

Current valuation

Considerations in setting the assumption for this valuation include:

- The local government pay deal agreed for 2018 to 2020 which includes increases of around 2% in 2018 and 2019 together with a new national pay spine and higher increases for the lower paid.

- The impact of the national living wage and whether this will result in higher pay rises for lower paid members, noting that increases are expected to slow down after 2021.
- The employer profile of the Fund experience, and the extent to which there is likely to be any material pay pressure in relation to the pre-2014 liabilities of any non-public sector employers.

If the approach used in the previous valuation is followed, the updated assumption will be 1.5% pa (plus an age-related promotional scale).

We have already analysed pay increases, including promotional scales, in our experience analysis and advised on the promotional scale.

The valuation results are sensitive to the choice of assumption:

Change to assumption	Approximate impact on past service liabilities
Pay increase assumption reduced by 0.25% pa	↓ by 0.75% (no impact on future service rate)

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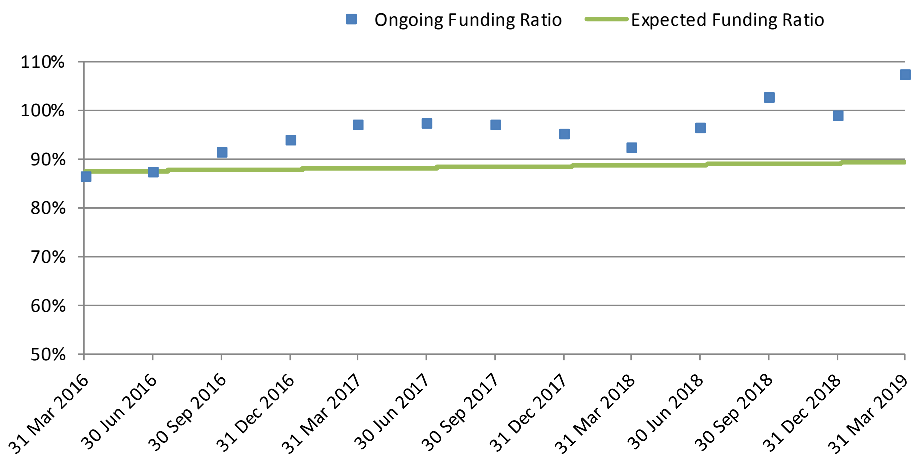
4. Projected results for the Fund

This section sets out approximate projected results as at 31 March 2019 based on the financial assumptions proposed in this document and demographic assumptions as set out below the table. We also show illustrative figures based on adopting a higher probability of funding success than was used in the 2016 valuation, as requested by the administering authority.

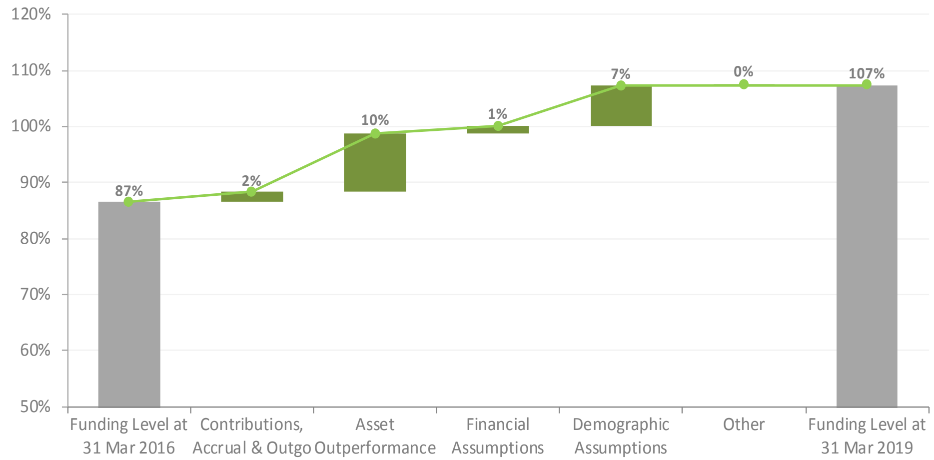
The chart below shows the change in funding level since the previous valuation.

Probability of Funding Success = 69% (as per 2016 valuation)



The reasons for the change in funding level are shown in the chart below:

Probability of Funding Success = 69% (as per 2016 valuation)



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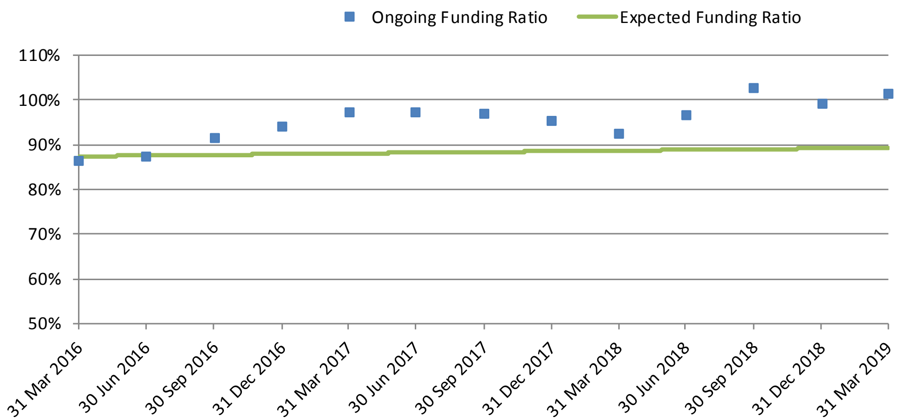
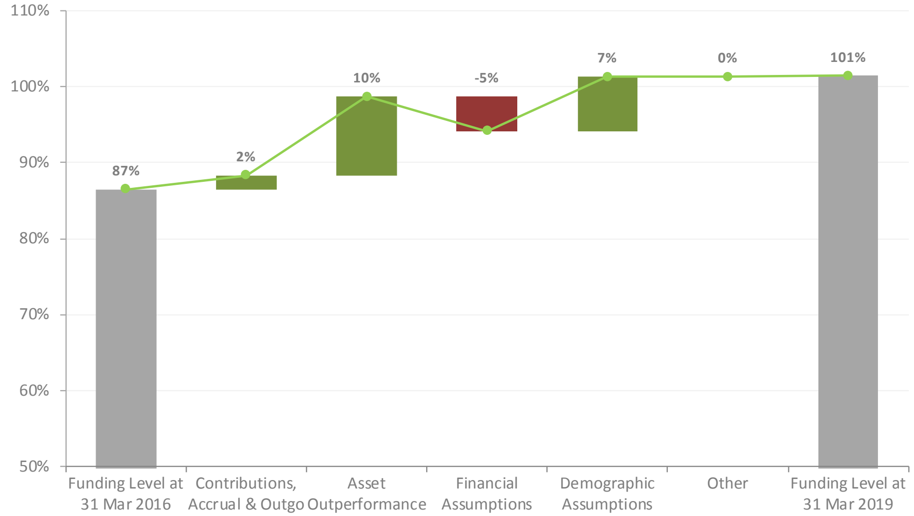
Probability of Funding Success = 74%



Probability of Funding Success = 74%



The change to Probability of Funding Success, and the proposed demographic assumption changes, are shown only in the 31 March 2019 figures in the above charts.

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	2016 valuation results	Updated 2016 basis	Alternative 2019 basis
Probability of funding success	69%	69%	74%
Discount rate (% pa)	4.5	4.7	4.4
Estimated Funding Level	87%	107%	101%
Estimated Employer Future Service Rate (% of pay)	17.7	15.6	17.2
Estimated Shortfall Contributions (% of pay)	5.1**	Nil*	Nil*
Estimated Total Employer Rate (% of pay)	22.8**	15.6*	17.2*
Approximate allowance for cost cap	-	0.9	0.9
Estimated total employer rate including cost cap allowance (% of pay)	22.8**	16.5*	18.1*

Notes:

**For simplicity, assuming the surplus is not used to reduce contributions below the future service rate. For employers with funding levels of 100 to 105% this approach is consistent with the draft Funding Strategy Statement.*

***This is the aggregate theoretical rate which would have applied across the whole fund if there was no stepping of shortfall contribution increases and contributions increased in line with the salary growth assumption.*

The figures set out above are illustrative figures based on an approximate roll-forward of the 2016 valuation of the Fund to 31 March 2019 using the same methodology as adopted for our approximate quarterly funding updates. In particular, the allowance for the change in the financial assumptions is based only on the secure scheduled body funding target.

The actual 2019 valuation results could be significantly different to these illustrative figures and the Administering Authority should not make any decisions regarding the specific valuation assumptions to be adopted based on these figures.

In carrying out these approximate calculations we have made the following assumptions:

- The estimated payroll of the Fund as at 31 March 2019 is £153.9M. This figure is estimated from employer and employee contributions paid to the fund over 2018/19. In order to estimate the payroll for 2019/20 to determine the contribution levels above we have assumed that pay is increased in April 2019 at a rate of 1.5% above the actual pension increase amount for 2019, i.e. an increase of 3.9%.
- We have approximately allowed for the impact of the pension increase and CARE revaluation rate applicable in April 2019.
- A broad allowance has been made for pay increase experience between 31 March 2016 and 31 March 2019, based on the data provided as at 31 March 2018 for the early data validation exercise and based on member and employer contributions paid as set out in the fund published and draft accounts.
- No allowance has been made for any demographic experience over the inter-valuation period.
- We have assumed that financial assumptions other than the discount rate will be in line with the proposals set out in this paper.
- We have allowed for all of the demographic assumption changes listed in this paper.
- No allowance has been made for the possible outcome of the McCloud/Sargeant court case. However, the potential impact at a scheme level of the cost cap process has been added for illustration in the table above. In relation to these issues, we will advise further on an appropriate approach for your Fund at a later stage of the valuation process having regard to progress with the court case and guidance from the Scheme Advisory Board.
- No allowance for GMP equalisation has been made beyond the interim solution included in the 2016 valuation calculations. The extension of this solution to cover members reaching State Pension Age until 5 April 2021 will be included in the full valuation calculations when 2019 data has been provided, but the additional liability arising as a result is not expected to be material to this advice paper.

Appendix A – Background to the valuation

This appendix provides a general context for the valuation and sets out the legislative and regulatory background.

The Regulations

The triennial actuarial valuation and the setting of employer contribution rates must comply with the requirements of the LGPS Regulations and the broader regulatory framework.

The relevant regulation is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Regulation 62(6) states that

"*(6) The actuary must have regard to—*

(a) the existing and prospective liabilities arising from circumstances common to all those bodies;

(b) the desirability of maintaining as nearly constant a primary rate as possible;

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund."

The Regulatory requirements in relation to the valuation are supplemented by:

- Statutory Guidance issued by CIPFA in relation to the production and maintenance of a Funding Strategy Statement. (This was last updated in September 2016, although the Regulations still refer to the previous version of the guidance, issued in 2012.)
- The Fund's Funding Strategy Statement, which includes input from relevant stakeholders, notably participating employers.
- The Fund's Investment Strategy Statement.
- Any requirements of the Pensions Regulator and/or Independent Body appointed pursuant to the Public Service Pensions Act 2013 (currently GAD).

Appendix B – Capital Market Assumptions (CMAs)

The Capital Market Assumptions as at 31 March 2019 are described below

The CMAs are based on consensus or market based inputs unless we believe that the consensus view is clearly unrealistic. For example, analyst expectations for company earnings are often over-optimistic so caution is needed when interpreting them.

We use data from a wide range of sources when formulating the CMAs including, among others, Consensus Economics, the Institutional Brokers' Estimate System (I/B/E/S), the Bank of England, the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, the European Central Bank and research produced by a range of prominent investment banks and research institutes.

The asset class assumptions are assumptions for market returns, with no allowance for managers outperforming the market. The exceptions to this are the private equity and hedge fund assumptions where, due to the nature of the asset classes, potential manager outperformance needs to be incorporated.

Assumptions are produced for bonds, equities, real estate/property and a range of alternative asset classes. The assumptions are formed at a regional level for the US, UK, Europe, Japan, Canada, Switzerland and Australia. We also produce equity and debt market assumptions for emerging markets. Equity and debt market composites (e.g. EAFE) are built from these individual regional building blocks.

The CMAs at 31 March 2019 will be provided separately to this paper, when they are available from our Global Investment Team.

Appendix C: Asset split used for discount rate calculations

The table below shows the long term asset split used in the discount rate calculations.

The asset allocation below is the asset allocation set out in our paper titled 'Linking investment strategy and the valuation of liabilities' dated 26 June 2018. We understand this was adopted by the Fund upon agreement by the Pension Policy and Investment Committee.

This asset allocation is assumed to be retained throughout the Trajectory Period.

Asset class	Proportion (%)
Global Equities	35.0
Private equity / Venture capital	5.0
UK Index Linked Gilts	8.1
Corporate Bonds	6.4
Property	10.0
Infrastructure	6.0
Hedge Funds	10.0
Absolute Return Bonds	3.1
Multi Asset Credit	6.4
Inflation protecting illiquids	10.0

Appendix D: Summary of proposed demographic assumptions

Post-retirement mortality - base table

	2016	2019	Rationale and reason for change	Sensitivity
Actives retiring in normal health **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	110% of S2PMA 110% of S2PFA	Underlying "Light" base table updated to "All lives" table, and scaling factors updated in line with results of latest Demographic Horizons™ analysis. Continued use of the SAPS S2 tables. Following completion of the Demographic Horizons analysis, it was observed that expected mortality rates for the London Borough of Enfield were heavier than had previously been observed within the Fund. It was also noted that there was not sufficient evidence to recommend retaining different tables for normal and ill health retirements, and therefore a single "all pensioners" table has been used for all categories of retirement.	A 10% reduction in a scaling factor results in a 2.5% increase on the liabilities.
Actives retiring in ill health **- Males** **- Females**	80% of S2IMA 100% of S2IFA	110% of S2PMA 110% of S2PFA		
Deferreds retiring in normal health **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	105% of S2PMA 105% of S2PFA		
Deferreds retiring in ill health **- Males** **- Females**	80% of S2IMA 100% of S2IFA	105% of S2PMA 105% of S2PFA		
Contingents of current actives: **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	110% of S2PMA 105% of S2PFA		
Contingents of current deferreds: **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	105% of S2PMA 100% of S2PFA		

	2016	2019	Rationale and reason for change	Sensitivity
Pensioners retiring in normal health, and current dependants **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	95% of S2PMA 95% of S2PFA	As above	As above
Pensioners retiring in ill health **- Males** **- Females**	80% of S2IMA 100% of S2IFA	95% of S2PMA 95% of S2PFA		
Contingents of current pensioners **- Males** **- Females**	95% of S2PMA_L 80% of S2PFA_L	100% of S2PMA 95% of S2PFA		

Note: Improvements from 2007 in line with future improvement projections in the table below

Post-retirement mortality - future improvements

	2016	2019	Rationale and reason for change	Sensitivity
Male and female	CMI 2014 core projections with long-term improvement rate of 1.5% p.a.	CMI 2018 core projections with long-term improvement rate of 1.50% p.a., s_k of 7.5 and parameter A of 0.0.	Update for latest CMI projections, no change in the long-term rate, consistent with the previous advice we gave in the demographic assumptions advice. The latest projection has new smoothing parameters, s_k and A. The "core" CMI values for these parameters are s_k = 7.0 and parameter A = 0.0. We propose to adopt a value for s_k of 7.5, (slightly above the core parameter) to allow for the fact that mortality improvements have generally been higher for pension scheme members than the general population.	Possible changes (e.g. changing s_k by 0.5 or varying the long-term improvement rate by 0.25% p.a.) would not have a major impact on results

Other demographic assumptions

The table below sets out the other demographic assumptions agreed/proposed for the initial calculations.

	2016	2019	Rationale and reason for change	Sensitivity
Pre-retirement mortality	90% of S2PMA 40% of S2PFA with same allowance for mortality improvements as post retirement mortality	45% of S2NMA 20% of S2NFA with same allowance for mortality improvements as post retirement mortality	Updated to reflect changes in the post retirement mortality improvements and to allow for experience analysis.	Not a material sensitivity
Promotional salary increases	Allowance for age-related promotional increases.	Allowance for age-related promotional increases (see sample rates below).	No change	Not a material sensitivity
Withdrawals	Allowance for withdrawals from service. On withdrawal, members are assumed to leave with a deferred pension in the Fund.	Allowance for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave with a deferred pension in the Fund.	Updated to allow for experience analysis	Not a material sensitivity
Take up of 50:50 scheme	All members are assumed to remain in the scheme they are in at the date of the valuation.	All members are assumed to remain in the scheme they are in at the date of the valuation.	No change	Not a material sensitivity

		2016	2019	Rationale and reason for change	Sensitivity
Retirement cash sum		Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.	Each member is assumed to surrender pension on retirement, such that the total cash received is 70% of the permitted maximum.	No change	Not applicable as no change proposed.
Retirement age	**Member group**	**Assumed age at retirement**		Where possible this is based on the experience of these members. For fully/taper protected (group 1&2) members, all group 1 members will be over age 63 at the valuation, and so the retirement age assumption has been aligned with other pre October 2006 joiners. For pre 1 October 2006 joiners with no taper/full protection it is difficult to conclude anything from the experience due to small numbers and early retirements. Therefore, for these categories of member we propose to adopt the same assumptions across our LGPS portfolio and base this on an overall approximate average age at which benefits can be taken unreduced for a sample fund.	Changes that we could possibly support would not result in material change to the liabilities
	Group 1 and Group 2 members	Rule of 85 age	63		
	Group 3 members (Ro85 age = 60)	65	63		
	Group 3 members (Ro85 age > 60)	65	65		
	Group 4 members (Joiners pre 1 April 2014)	65	65		
	Group 4 members (Joiners post 31 March 2014)	State Pension Age	State Pension Age		

	2016	2019	Rationale and reason for change	Sensitivity
	Any part of a member's pension payable from a later age than the assumed retirement age will be reduced.			
Family details	Each man is assumed to be three years older than his wife/partner. 80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65. No allowance for children's pensions.	Each man is assumed to be three years older than his wife/partner. 80% of non-pensioners are assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death. 80% of pensioners are assumed to be married or have a partner at age 65. No allowance for children's pensions.	No change	Not applicable as no change proposed.
Retirement due to ill-health	Allowance for retirements due to ill-health. Proportions into the different benefit tiers are: Tier 1 - 85% Tier 2 - 10% Tier 3 - 5%	Allowance for retirements due to ill-health (see below). Proportions into the different benefit tiers are: Tier 1 - 85% Tier 2 - 10% Tier 3 - 5%	No change	Not applicable as no change proposed.

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Sample rates

The table below illustrates the proposed allowance for withdrawals from service, ill-health retirement and promotional pay increases at sample ages. All rates apply to both male and female members.

Current age	Percentage promotional pay increase over year	Percentage leaving the Fund each year as a result of withdrawal from service	Percentage leaving the Fund each year as a result of ill-health retirement
20	5.97%	8.30%	0.00%
25	4.60%	7.40%	0.00%
30	2.44%	6.40%	0.01%
35	1.45%	5.50%	0.02%
40	1.35%	4.60%	0.03%
45	1.27%	3.70%	0.06%
50	0.00%	2.80%	0.16%
55	0.00%	1.80%	0.32%
60	0.00%	0.90%	0.63%
65	0.00%	0.00%	0.93%

Other assumptions / approach to uncertainties

The table below sets out the other assumptions not already covered that are proposed for the initial calculations and the reasons for any changes since the last valuation.

	2016	2019	Rationale and reason for change	Sensitivity
Discretionary benefits	No allowance	No change	n/a	n/a
Expenses	0.5% of Pensionable Pay	0.7% of Pensionable Pay	Updated to allow for Fund expenses from the 2017 and 2018 accounts and the 2019 draft accounts	Will increase employer contributions rates by 0.2%
GMP Indexation / equalisation	No allowance for GMP equalisation beyond announcements made at the time the valuation was signed off, i.e. for increases in GMP to be paid from the Fund for members reaching State Pension Age by 5 December 2018.	No allowance for GMP equalisation beyond announcements made to date, i.e. for increases in GMP to be paid from the Fund for members reaching State Pension Age by 5 April 2021.	In both cases allowance has only been made for known changes to the benefits payable from the Fund. We also propose to illustrate the effect on the funding position of full pension increases being paid on all GMP for those who reached SPA after 2016 as a potential solution to the issue of GMP indexation and equalisation.	Making an allowance for increases on a greater proportion of members' GMP to be paid from the Fund would marginally increase the past service liabilities
Cost management and McCloud / possible effect of revisiting final salary underpin	n/a	To be confirmed at a later stage of the valuation process	These are new uncertainties that were not present at the 2016 valuation.	The impact is currently uncertain.

Limitations of advice

The funding update and sensitivities to assumptions set out in this report are approximate only.

Funding update

The funding updates shown are consistent with the ongoing calculations for the formal actuarial valuation as at 31 March 2016, provided to the Administering Authority in our report dated 27 March 2017. The assumptions used have been modified in so far as is necessary to maintain consistency with the valuation, reflecting changes in market conditions and other assumptions as set out elsewhere in this paper.

The assets have been rolled forward approximately based on quarterly Fund returns as provided by Northern Trust.

Assumption sensitivity

The sensitivities to assumptions are also consistent with the ongoing calculations for the formal actuarial valuation as at 31 March 2016.

The information shown is approximate and becomes more approximate as the projection period lengthens. It reflects changes in market conditions but not fund-specific factors such as material changes in membership numbers or profile or changes in employer funding targets. It is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

This report is intended to assist the Administering Authority in agreeing the assumptions to be used in initial calculations based on full membership data at 31 March 2019 and to understand the relative importance of individual assumptions. Final decisions on the assumptions used to determine the ongoing liabilities at 31 March 2019 and any resulting change in contributions must not be based solely on the contents of this report, but must wait until more accurate calculations have been carried out.

Report framework

This report has been prepared in accordance with the framework below.

TAS compliant

This report, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100') and 'Technical Actuarial Standard 300: Pensions' ('TAS 300').

The compliance is on the basis that Administering Authority of the London Borough of Enfield Pension Fund is the addressee and the only user and that the report is only to be used to determine the assumptions to be adopted for the initial calculations of the valuation results as at 31 March 2019. If you intend to make any other decisions after reviewing this report, please let us know and we will consider what further information we need to provide to help you make those decisions.

The report has been prepared under the terms of the Agreement between the Administering Authority and Aon Hewitt Limited on the understanding that it is solely for the benefit of the addressee.

This report should be read in conjunction with:

- Draft Funding Strategy Statement provided by Aon dated 25 April 2019
- Actuarial valuation at 31 March 2019 – Terms of Reference dated 21 February 2019
- Valuation Guidance document, issued on 8 March 2019
- Our report titled "Longevity Analysis using Demographic Horizons™" dated 7 March 2019
- Our report titled "Experience analysis and advice on demographic assumptions" as at 31 March 2019 dated 8 March 2019
- CMAs at 31 March 2019 (will be provided when available)

If you require further copies of any of these documents, please let us know.

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