

## PENSION FUND ACCOUNTS

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### PENSION FUND ACCOUNTS

#### Introduction

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

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

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

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

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

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

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

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

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

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

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

## PENSION FUND ACCOUNTS

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017			
	Note	2016/17 £000s	2015/16 £000s
<b>Contributions and benefits</b>			
- Contributions receivable	2	40,681	43,338
- Transfers in	3	181	1,038
		<b>40,862</b>	<b>44,376</b>
- Benefits payable	4	(39,854)	(36,184)
- Payments to and on account of leavers	5	(1,038)	(612)
		<b>(40,892)</b>	<b>(36,796)</b>
<b>Net additions from dealings with members</b>		<b>(30)</b>	<b>7,580</b>
<b>Management expenses</b>	6	<b>(8,111)</b>	<b>(9,391)</b>
<b>Returns on investments</b>			
- Investment income	7	10,171	9,582
- Taxation	8	(75)	(186)
- Changes in market value	9	159,306	20,571
<b>Net returns on investments</b>		<b>169,402</b>	<b>29,967</b>
<b>Net change in assets available for benefits during the year</b>		<b>161,261</b>	<b>28,156</b>
<b>Opening net assets brought forward at 1 April</b>		<b>916,311</b>	<b>888,155</b>
<b>Net assets carried forward as at 31 March</b>		<b>1,077,572</b>	<b>916,311</b>

NET ASSETS STATEMENT AS AT 31 MARCH 2017			
	Notes	2016/17 £000s	2015/16 £000s
<b>Investment assets</b>		1,021,421	893,553
<b>Investment liabilities</b>		(21)	(14,585)
	9	<b>1,021,400</b>	<b>878,968</b>
<b>Cash deposits</b>		54,406	36,781
<b>Other investment balances</b>		1,415	1,758
	9	<b>1,077,221</b>	<b>917,507</b>
<b>Current assets</b>	14	714	446
<b>Current liabilities</b>	15	(363)	(1,642)
<b>Net assets available to fund benefits as at 31 March</b>		<b>1,077,572</b>	<b>916,311</b>

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

Signed



**James Rolfe**  
Director of Finance,  
Resources and Customer Services

Date:

30th June 2017

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## 1. Statement of accounting policies

### **Basis of preparation**

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

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

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 21 of these accounts.

### **Accounting Policies – revenue recognition**

#### **a) Contributions income**

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

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

Employers augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in-year but unpaid will be classed as a current financial asset.

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

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

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

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (AVC) to purchase scheme benefits are accounted for on a receipts basis and are included as Transfers in.

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

#### **c) Investment income**

##### **i) Interest income**

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

##### **ii) Dividend income**

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

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### iii) Distributions from pooled funds

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

### vi) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income or expenses and comprise all realised and unrealised gains/losses during the year.

Realised profit/losses are recognised upon the sale of investments during the year.

## Fund account – expense items

### d) Benefits payable

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

### e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

### f) Management expenses

Management Expenses are disclosed in accordance with the CIPFA guidance: Accounting for LGPS Management Expenses.

### Administrative expenses

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

### Oversight & governance costs

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

### Investment management expenses

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

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

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### Net Asset Statement

#### i) Investments

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

- **Market -quoted investments**

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

- **Unquoted investments**

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

- **Derivatives contracts**

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

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

- **Investment income**

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

- **Overseas investments**

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

- **Pooled investment vehicles**

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

- **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into Sterling at the rate ruling on 31 March 2016.

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### Private Equity Fund of Funds

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

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

#### • **Limited Partnerships**

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

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

#### • **Cash and cash equivalents**

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

### **Financial liabilities**

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

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

### **Financial Assets**

Financial assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument.

Financial assets are classified into two types:

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

### **Debtors and Creditors**

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

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

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



## PENSION FUND ACCOUNTS

### 2. Contributions receivable

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

**Contributions are further analysed as follows:**

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

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

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

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

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

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

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

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

### 3. Transfers from other funds

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

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

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### 4. Benefits payable

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

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

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

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

### 5. Payments to and on account of leavers

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

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

### 6. Management expenses

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

#### 6a. Investment management expenses

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

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### 7. Investment income

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

### 8. Taxation

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

## PENSION FUND ACCOUNTS

### 9. Investment assets

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

## PENSION FUND ACCOUNTS

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

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### 9a. Total fixed income securities

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

### Fixed interest securities

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

### Index linked securities

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

### Index linked securities Pooled funds

	2017 £000s	2016 £000s
Government securities – UK	86,530	-
	<b>86,530</b>	<b>-</b>

### 9b. Derivative contracts

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

A summary of derivatives held is set out below:

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

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### Futures

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

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

Values at 31 March 2016			
	£000s	£000s	£000s
<b>Total futures</b>	<b>13</b>	<b>(5)</b>	<b>8</b>

### Foreign exchange contracts

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

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

Values at 31 March 2016			
	£000s	£000s	£000s
	<b>(14,372)</b>	<b>(14,580)</b>	<b>(208)</b>

### Objectives and policies for holding derivatives

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

#### a) Futures

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

#### b) Forward foreign currency

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

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### 9c. Equities

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

### 9d. Equity unit trusts

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

### 9e. Property unit trusts

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

### 9f. Property

	2017 £000s	2016 £000s
Opportunistic property	10,821	6,924
	<b>10,821</b>	<b>6,924</b>

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

### 9g. Private equity

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

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

### 9h. Infrastructure fund

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



## PENSION FUND ACCOUNTS

### 9i. Alternative Investments

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

### 9j. Cash & cash equivalents

	2017 £000s	2016 £000s
Deposits held by fund managers	54,406	36,781
	<b>54,406</b>	<b>36,781</b>

### 9k. Other investment balances

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

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

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

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

## PENSION FUND ACCOUNTS

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

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

## PENSION FUND ACCOUNTS

### 12. Analysis of investment assets over UK & overseas assets

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

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

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

### 13. Analysis of investment assets quoted & unquoted assets

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

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

## PENSION FUND ACCOUNTS

### 14. Current assets

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

### 15. Current liabilities

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

### 16. Debtors & creditors– IFRS format

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

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

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

## PENSION FUND ACCOUNTS

### 17. Financial Instruments

#### a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the account period.

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

#### b. Net gains and losses on financial instruments

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

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

#### c. Fair value of financial assets and liabilities

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

## PENSION FUND ACCOUNTS

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

### d. Valuation of financial instruments carried at fair value

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

#### Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

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

#### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

#### Level 3

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

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

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

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

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

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

## PENSION FUND ACCOUNTS

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

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

### 18. Nature and extent of risks arising from financial instruments

#### Risk and risk management

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

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

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

#### a. Market risk

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

## PENSION FUND ACCOUNTS

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

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

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

### b. Other price risk

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

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

Other price risk – sensitivity analysis

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

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

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

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

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



## PENSION FUND ACCOUNTS

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

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

### c. Interest rate risk

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

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant bench mark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreement. Pension Fund cash held by the Administering Authority is invested in accordance with the Treasury Management Strategy.

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

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

### d. Interest rate risk - sensitivity analysis

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

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

## PENSION FUND ACCOUNTS

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

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

### e. Currency risk

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

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

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

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

## PENSION FUND ACCOUNTS

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

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

### f. Credit risk

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

The market value of investments generally reflects an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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

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

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

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

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

## PENSION FUND ACCOUNTS

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

### g. Liquidity risk

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

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

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

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

## 19. Related party transactions

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

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

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

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

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

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

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

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

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

## PENSION FUND ACCOUNTS

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

Julie Barker – Head of Exchequer (20% estimated full- time equivalent- fte)

Tim O'Connor – Pension Administration manager (100% estimated full- time equivalent- fte)

Paul Reddaway - Head of Finance – Treasury (75% estimated full- time equivalent fte)

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

### 20. Actuarial position

#### Introduction

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

#### • Actuarial Position

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

## PENSION FUND ACCOUNTS

<ul style="list-style-type: none"> <li>Discount rate for periods in service</li> <li>Scheduled body funding target *</li> <li>Orphan body funding target</li> </ul>	<ul style="list-style-type: none"> <li>4.5% p.a.</li> <li>4.1% p.a.</li> </ul>
<ul style="list-style-type: none"> <li>Discount rate for periods after leaving service</li> <li>Scheduled body funding target *</li> <li>Orphan body funding target</li> </ul>	<ul style="list-style-type: none"> <li>4.5% p.a.</li> <li>2.5% p.a.</li> </ul>
<ul style="list-style-type: none"> <li>Rate of inflationary pay increases</li> <li>(additional allowance made for promotional increases)</li> </ul>	<ul style="list-style-type: none"> <li>3.5% p.a.</li> </ul>
<ul style="list-style-type: none"> <li>Rate of increase to pension accounts</li> </ul>	<ul style="list-style-type: none"> <li>2.0% p.a.</li> </ul>
<ul style="list-style-type: none"> <li>Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)</li> </ul>	<ul style="list-style-type: none"> <li>2.0% p.a.</li> </ul>

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

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

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

## PENSION FUND ACCOUNTS

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- Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, London Borough of Enfield, the Administering Authority of the Fund, in respect of this Statement.
- The actuarial valuation report as at 31 March 2016 is available from:
  - Paul Reddaway
  - Head of Finance
  - London Borough of Enfield Civic Centre
  - PO Box 54
  - Silver Street
  - Enfield
  - EN1 3XF

## PENSION FUND ACCOUNTS

### 21. Actuarial position in accordance with International Financial Reporting Standards

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

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

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

#### Actuarial present value of promised retirement benefits

##### Fair value of assets

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

#### Assumptions

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

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

*\*In excess of Guaranteed Minimum Pension increases in payment where appropriate*

*\*\*In addition, for the same age related promotional salaries scales as used at the actuarial valuation of the Fund, as at the appropriate.*

#### Principal demographic assumptions

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



## PENSION FUND ACCOUNTS

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

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

### Commutation

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

### Key risks associated with reporting under IAS 26

#### Volatility of results

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

#### GMP equalisation

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

## PENSION FUND ACCOUNTS

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### Key risks associated with reporting under IAS 26

#### Volatility of results

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

#### Choice of accounting assumptions

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

#### Sensitivity of results to key assumptions

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

#### GMP equalisation

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

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

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

### 23. Contingent liability

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

### 24. Additional voluntary contributions (AVCs)

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

## PENSION FUND ACCOUNTS

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

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

\* Excludes Final Bonus

### 25. Membership

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

Organisations participating in the Enfield Pension Fund include:

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

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

#### **Scheduled bodies:**

Capel Manor College  
 Hadley Academy  
 Enfield Academy  
 Aylward Academy  
 Cuckoo Hall Academy  
 Nightingale Academy  
 Kingsmead Academy  
 Enfield Grammar School Academy  
 Enfield Heights Academy  
 Ark John Keats Academy  
 Meridian Angel Primary School  
 Heron Hall Academy  
 Kingfisher Hall Academy  
 Woodpecker Hall Academy  
 Edmonton County Academy  
 Southgate School Academy  
 Enfield Learning Trust

#### **Admitted bodies:**

Sodexo Limited  
 Enfield Voluntary Groups  
 NORSE  
 Metropolitan Support Trust  
 Fusion Lifestyle (previously Enfield Leisure)  
 Outward Housing

## PENSION FUND ACCOUNTS

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

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

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

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

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