

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.

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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.

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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

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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.

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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.

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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.

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NOTE 7: CONTRIBUTIONS

By category

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

NOTE 9: BENEFITS PAYABLE

By category

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

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NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

NOTE 11: MANAGEMENT EXPENSES

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

NOTE 13B: EXTERNAL AUDIT FEES

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

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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

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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.

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	Market value 1 April 2017	Purchases	Sales	Managem't fees in Market value	Change in market value	Market value 31 March 2018
Period 2018/19	£000s	£000s	£000s	£000s	£000s	£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.

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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

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NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2018			Market value 31 March 2019	
£000s			£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%

PENSION FUND ACCOUNTS – 2018/19

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

PENSION FUND ACCOUNTS – 2018/19

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	Expires	Economic exposure	Market value 31 March 2018	Economic exposure	Market value 31 March 2019
Assets		£000s	£000s	£000s	£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

PENSION FUND ACCOUNTS – 2018/19

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 <i>International Private Equity and Venture Capital Valuation Guidelines</i> (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	Value on increase	Value on decrease
	%	£000s	£000s	£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

PENSION FUND ACCOUNTS – 2018/19

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.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£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.

PENSION FUND ACCOUNTS – 2018/19

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

	Market value 1 April 2018	Transfers in/out of level	Purchases during the year	Sales during the year	Unrealised gains/losses	Realised gains/losses	Market value 31 March 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)	

PENSION FUND ACCOUNTS – 2018/19

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.

PENSION FUND ACCOUNTS – 2018/19

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

PENSION FUND ACCOUNTS – 2018/19

Asset type	Value at 31 March 2018	Potential value on increase	Potential value on decrease
	£000	£000	£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	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£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	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£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

PENSION FUND ACCOUNTS – 2018/19

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.

PENSION FUND ACCOUNTS – 2018/19

Assets exposed to currency risk	Assets value as at 31 March 2019	Potential movement	Value on increase	Value on decrease
	£000	£000	£000	£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	Potential movement	Value on increase	Value on decrease
	£000	£000	£000	£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.

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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

PENSION FUND ACCOUNTS – 2018/19

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).

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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

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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

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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 1 st April 18	Contributions & Transfers	Sums Paid Out	Investment Return	Closing Balance at 31 March 2019
	£000s	£000s	£000s	£000s	£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.

PENSION FUND ACCOUNTS – 2018/19

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		31 March 2019
£000s		£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.