

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 12 June 2019 - 7:00 pm
Council Chamber, Town Hall, Barking

Members: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Sade Bright, Cllr Kashif Haroon, Cllr Amardeep Singh Jamu, Cllr Foyzur Rahman and Cllr Tony Ramsay

Independent Advisor: John Raisin

Date of publication: 4 June 2019

Chris Naylor
Chief Executive

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AGENDA

1. **Apologies for Absence**
2. **Declaration of Members' Interests**

In accordance with the Council's Constitution, Members are asked to declare any interest they may have in any matter which is to be considered at this meeting.
3. **Minutes - To confirm as correct the minutes of the meeting held on 13 March 2019 (Pages 3 - 5)**
4. **To note the minutes of the Pension Board on 13 March 2019 (Pages 7 - 10)**
5. **Pension Fund Quarterly Monitoring 2019/20- January-March 2019 (Pages 11 - 43)**
6. **Pension Fund Accounts 2018/19 (Pages 45 - 69)**
7. **Application for Admitted Body Status - Caterlink (Pages 71 - 72)**
8. **Administration and Governance Report (Pages 73 - 86)**
9. **Business Plan Update 2019/20 (Pages 87 - 90)**
10. **Any other public items which the Chair decides are urgent**

- 11. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

Private Business

The public and press have a legal right to attend Council meetings except where business is confidential or certain other sensitive information is to be discussed. The item below contains commercially confidential information which is exempt under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- 12. Any other confidential or exempt items which the Chair decides are urgent**



Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

A New Kind of Council

- Build a well-run organisation
- Ensure relentlessly reliable services
- Develop place-based partnerships

Empowering People

- Enable greater independence whilst protecting the most vulnerable
- Strengthen our services for all
- Intervene earlier

Inclusive Growth

- Develop our aspirational and affordable housing offer
- Shape great places and strong communities through regeneration
- Encourage enterprise and enable employment

Citizenship and Participation

- Harness culture and increase opportunity
- Encourage civic pride and social responsibility
- Strengthen partnerships, participation and a place-based approach

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MINUTES OF PENSIONS COMMITTEE

Wednesday, 13 March 2019
(7:00 - 8:16 pm)

Members Present: Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Kashif Haroon, Cllr Adegboyega Oluwole and Cllr Foyzur Rahman

Observers Present: Gavin Palmer and Susan Parkin

Advisors Present: Colin Cartwright, Joe Peach and John Raisin

Apologies: Cllr Sade Bright and Cllr Laila M. Butt

23. Declaration of Members' Interests

There were no declarations of interest.

24. Minutes (12 December 2018)

The minutes of the meeting held on 12 December 2018 were confirmed as correct.

25. Independent Advisor

The Investment Fund Manager introduced a report on the proposed renewal of the contract for the Council's Pension Fund's Independent Advisor, which included a review of the current Independent Advisor's work during the past year.

The Committee resolved to **agree** to extend the appointment of the Committee's Independent Advisor, John Raisin Financial Services Limited, for a further one year period based on the revised job description included as Appendix 1 to the report.

26. Pension Fund Quarterly Monitoring 2018/19: October-December 2018

The Investment Fund Manager introduced a report on the performance of the Council's Pension Fund during the period 1 October to 31 December 2018 (Quarter 3).

The Fund's externally managed assets closed Q4 valued at £970.1m, a decrease of £66.3m from its value of £1,036.4m at 30 September 2018. The cash value held by the Council at 31 December 2018 was £19.0m giving a total Fund value of £989.1m. An oral update on performance of the Fund for the period 1 January to 11 March 2019 was also provided to the Committee.

Colin Cartwright (Aon Hewitt Advisor) confirmed that the Pension Fund had performed reasonably well during the quarter 3 period as it contained a high degree of diverse investments and was not wholly reliant on equities. There was, however, continuing global uncertainty concerning Brexit and concerns that the UK economy may suffer.

It was noted with concern that one of the Fund Managers (Mellon Corporation, formerly Standish) had continued to underperform and was subject to review.

The Committee **noted**:

- (i) the progress on the strategy development within the Pension Fund;
- (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1 to the report; and
- (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually.

27. Application for Admitted Body Status- Town and Country Cleaners

The Investment Fund Manager presented a report on the proposal for Town and Country Cleaners (T&CC) to become an Admitted Body member of the London Borough of Barking and Dagenham Pension Fund.

T&CC had commenced as the cleaning contractor at Jo Richardson Community School on 1 January 2019, at which time 16 staff who were members of the Council pension scheme had transferred to the contractor under TUPE regulations. The transfer of the staff was completed on a fully-funded basis, with the pension deficit remaining with the Council and a contribution rate calculated by the actuary for T&CC of 24.7%. The Admission Agreement would be on a 'closed' basis, covering only those staff that were members of the Council's pension scheme and would not include new staff.

The Investment Fund Manager confirmed that the company had fulfilled the requirements to join the Fund as an Admitted Body and it was noted that a review of the Admitted Body's accounts would occur on an annual basis with a summary of the results for all Admitted Bodies submitted to the Committee.

The Committee **resolved** to agree the application for Admitted Body Status by Town and Country Cleaners, as a 'closed' agreement.

28. Administration and Governance Report

The Investment Fund Manager introduced the regular administration and governance update report, which included details of the appointment of Northern Trust as the Fund's Custody and Performance Monitoring provider on a five-year contract commencing 1 June 2019 and the proposed extension of the current arrangements for Actuary and Investment Consultant services.

The Independent Advisor also introduced his Local Government Pension Scheme (LGPS) update report and a paper on his observations on the draft LGPS Statutory Guidance on Asset Pooling, which was also appended to the report. The Independent Advisor's LGPS update included details of the Scheme Advisory Board 'good governance' project, investment pooling, investment cost transparency, Section 13 review of the 2016 Actuarial valuation and the Pension Regulator relationship with the LGPS.

The Committee **resolved** to:

- (i) Note that the Fund was cash flow positive;
- (ii) Note the Fund's three-year budget for the period 1 April 2018 to 31 March 2021;
- (iii) Note the appointment of Northern Trust as the Fund's Custody and Performance Monitoring provider on a five-year contract commencing 1 June 2019;
- (iv) Note the extension of the Actuary and Investment Consultant services contracts to 30 June 2020;
- (vi) Note the Independent Advisor's LGPS Update, as set out at Appendix 1 to the report;
- (vii) Note the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling, as set out at Appendix 2 to the report; and
- (viii) Delegate authority to the Chief Operating Officer to agree the Council's response to the Minister for Housing, Communities and Local Government (MHCLG) on the informal consultation on Asset Pooling.

29. London Borough of Barking and Dagenham Pension Fund Business Plan 2019/20

The Investment Fund Manager introduced the report on the Pension Fund Business Plan 2019/20, which set out the key tasks for the Pension Committee for the year ahead.

The Investment Fund Manager referred to the forthcoming interviews for Fund Managers, which were planned for May 2019 subject to Members' availability.

Arising from the discussions, officers were asked to arrange future training one hour prior to the main meeting and asked for clarification on the reduction to the fixed term of office for Committee Members from four years to two years.

The Committee **resolved** to agree the Business Plan for 2019/20 as set out in the report.

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MINUTES OF PENSION BOARD

Wednesday, 13 March 2019
(4:10 - 5:05 pm)

Members Present: Paul Feild (Chair), Hugo Wuyts (Deputy Chair), Dean Curtis, Gavin Palmer and Wijay Pitumpe

7. Apologies for absence

Apologies for absence were received from Susan Parkin.

8. Appointment of Chair and Deputy Chair

The Board re-appointed Paul Feild as Chair and Hugo Wuyts as Deputy Chair.

9. Minutes of the meeting held on 19 September 2018

The minutes of the meeting held on 19 September 2018 were confirmed as an accurate record.

10. Membership of the Pension Board

The Pension Board was set up in 2015. The Pensions Board was established in accordance with Section 5 of the Public Service Pensions Act 2013, effective from 1 April 2015. Its membership consists of up to six Members with three employee representatives (from Unison, GMB and Unite) and three Scheme Member representatives (from internal Barking and Dagenham Management, Barking and Dagenham College and the University of East London).

The Pensions Board's Terms of Reference states that the Chief Finance Officer (the Chief Operating Officer) manages the appointments process for members of the Pension Board.

The term of office for the Employer and Scheme representatives appointed at the first meeting of the Pension Board (27 July 2015) was for a period of three years, however in 2018, the Chief Finance Officer (Chief Operating Officer) in agreed to extend the period of office to four years, until 26 July 2019 and this was agreed by the Board at its meeting on 19 September 2018.

The Board **noted** that the following have been re-appointed for a further period of three years with effect from 26 July 2019:

- i. Paul Feild (Management representative)
- ii. Hugo Wuyts (Unison representative)
- iii. Gavin Palmer (GMB representative)
- iv. Wijay Pitumpe (Barking and Dagenham College Management representative)

11. Deliver and Decision Making in the Pension Fund

The Pension Board's main role is having oversight of whether the aims and objectives outlined within the London Borough of Barking and Dagenham Pension Fund's Governance and Administration strategies are being achieved; and having regard to any overriding requirements included within guidance from DCLG, and the Scheme Advisory Board.

The Pension Board's Terms of Reference required the Board to follow the Aon Hewitt method for governance review. The second meeting of the financial year involved reviewing the Fund's delivery (i.e. how the fund meets its aims) and its decision-making process (governance structure, behaviour and Pension Skills and Knowledge and training).

The investment Fund Manager referred to the Business Plan, Risk Register, the triennial (three year) evaluation and future meetings with employers. The Business Plan would in future be updated on a monthly basis by the new Pension Fund Accountant who would in future be the lead officer for the Board.

The Investment Fund Manager advised Board Members that the Pension Regulator is responsible for monitoring the LGPS funds, especially around data quality. A review of the fund's data quality, which will include a data cleansing exercise, will be carried out over the next few months and the outcome and improvements made will be reported to the Board at its meeting in September 2019.

The Board **noted** the way the Pension Fund carries out its:

- i. **Delivery:** How the Fund meets its aims (planning, performance monitoring & risk management); and
- ii. **Decision Making:** Does the Fund have effective decision making processes (governance structure, behaviour and Pension Skills and Knowledge and training).

The Board **noted** the Business Plan 2019/20 and the Fund's Risk Register

12. Administration and Governance Report

The Board received its regular administration data and governance updates which covered five main areas, including:

- i. Pension Fund Budget 1 April 2018 to 31 March 2021;
- ii. Cash flow to 31 January 2019;
- iii. Update on the investment consultant, actuary and custodian tender;
- iv. An LGPS update by the Independent Advisor (appendix 1); and
- v. The Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling (appendix 2).

The Investment Fund Manager referred to the cash flow in that the Pension Fund income was decreasing.

The Board **noted**:

- v. that the Fund is cash flow positive;
- vi. the Fund's three-year budget for the period 1 April 2018 to 31 March 2021;
- vii. the appointment of Northern Trust as the Fund's Custody and Performance monitoring provider;
- viii. the extension of the actuarial and investment consultant contract to 30 June 2020;
- ix. the Independent Advisor's LGPS Update in appendix 1;
- x. the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling in Appendix 2; and
- xi. that it is proposed that a response to the MHCLG on the informal consultation on Asset Pooling is submitted by the Fund.

13. Application for Admitted Body Status - Town and Country Cleaners

At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Barking and Dagenham Pension Fund ("the Fund") for a number of years.

As the Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pensions Committee can agree to retrospectively agree an admission agreement.

The Board **noted** the application for Admitted Body Status by Town and Country Cleaners, as a 'closed' agreement.

14. Salary Sacrifice Scheme - update

The Investment Fund Manager updated the Board on the progress of the Salary Sacrifice Scheme for members of the Pension Fund. He advised that there was a scoping exercise currently on-going with the Council's Payroll section in liaison with Oracle (hosted by the London Borough of Brent) and with a third-party provider. He advised that there were issues with cost and Oracle that needed to be clarified.

The Board noted the update, however expressed concern that the Salary Sacrifice Scheme was not sufficiently progressed. They felt that it was a benefit to members of the LGPS and the council, in that more money could be invested into the fund with less cost for LGPS members.

The Investment Manager would raise the Board's concerns with the Chief Operating Officer and request that this matter be progressed as soon as practicable.

15. Future meeting dates

It was noted that there would be meetings of the Board on 18 September 2019 and 11 March 2020, on the same nights as the Pensions Committee.

16. Any other Business with the permission of the Chair

The following issues were raised:

Training for Board members

The Investment Fund Manager asked if Members wished to receive any additional training. The Board welcomed the idea of any future training sessions taking place one hour prior to the Board meeting at 3 pm. They also requested that the detail of their training needs as part of a questionnaire be e-mailed to them. The Board also asked that future training handouts should contain key points and information in relation to the relevant pensions legislation, etc.

LGPS Barking and Dagenham website

The Democratic Services Officer would e-mail the Board with the link to the council's LGPS page.

PENSIONS COMMITTEE

12 June 2019

Title: Pension Fund Quarterly Monitoring 2019/20 – January to March 2019	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
<p>Summary</p> <p>This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2019.</p> <p>The report updates the Committee on the Fund’s investment strategy and its investment performance.</p>	
<p>Recommendation(s)</p> <p>The Pension Committee is recommended to note:</p> <ul style="list-style-type: none"> (i) the progress on the strategy development within the Pension Fund; (ii) the daily value movements of the Fund’s assets and liabilities outlined in Appendix 1; and (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually. (iv) the independent advisors report on the market background for 2018-19 	

1. Introduction and Background

- 1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2019 (“Q1”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. Appendix 4 is the Independent Advisors quarterly Market background report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 April to 11 June 2019 will be provided to Members at the Pension Committee.

2. Market Commentary Q1 2019

- 2.1 Although economic growth downgrades were omnipresent during Q1, the related dovish shift from central banks and easing trade tensions allowed for gains across global stock markets. The World Equity Index achieved a total return of 10% in GBP terms as investors drove markets back up from the lows of Q4. Emerging Markets also had a strong quarter, returning 7.5% in Sterling. Commodities performed strongly helped by signs of stabilisation in China’s economy and easing trade tensions, industrial metals pushed higher. Meanwhile, oil exporters tightened production in response to excess supply, underpinning a 27% rise in Brent crude prices.
- 2.2 Despite the ongoing uncertainty posed by Brexit, the UK Equities participated in the global equity upswing to achieve a positive return of 9.4% in Q1. However, sterling gains dragged somewhat on companies with overseas revenues. The market was led higher by technology and materials sectors, with the latter benefiting from improving commodity prices. Healthcare and communications services performed poorly.
- 2.3 The Bank of England kept interest rates unchanged, with predictions on the next move being a cut or hike being dependant on the type of Brexit that unfolds.
- 2.4 Europe’s stock markets rallied despite worries about Brexit, slowing economic growth and a sharp drop in German manufacturing activity. The Europe ex UK Index returned 8.0% to a GBP investor. The ECB pushed out the prospect of a rate hike to 2020 and said it now expects the eurozone economy to grow by just 1.1% this year, down from a forecast of 1.7% in December. The US stock market also recovered from its worst quarter since 2011, posting a total return of 10.5%.
- 2.5 Japan’s Equities advanced 4.4%, aided by signs of progress on US-China trade talks. The Bank of Japan remained on hold as annual inflation consistently stayed below 1%. In the wider Asia-Pacific region the Equity market in aggregate returned 9%.
- 2.6 Fixed income returns were strongly positive as declining interest rates, flatter and inverted yield curves and increased fund flows into fixed income asset classes suggest a worrisome outlook for the global economy. Benchmark 10-year borrowing rates fell across developed markets. With the European Central Bank, indicating rate hikes will be delayed until at least 2020. UK 10-year gilt yields fell 28 basis points to 1.0% amid sustained uncertainty around Brexit. Over the quarter, the GBP Broad Bond Index returned 3.8%; the Index Linked over 5 year Index returned 6.3% and Overseas Bonds had a negative return of -0.8% to a GBP investor.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q1 valued at £1,033.3m, an increase of £63.2m from its value of £970.1m at 31 December 2018. The cash value held by the Council at 31 March 2019 was £8.6m giving a total Fund value of £1,041.7m. The £1,041.7m includes a prepayment of £20.0m from the Council and £200k of net accruals. The net asset value as at 31 March 2019, after adjusting for the prepayment and accruals was £1,021.9m.

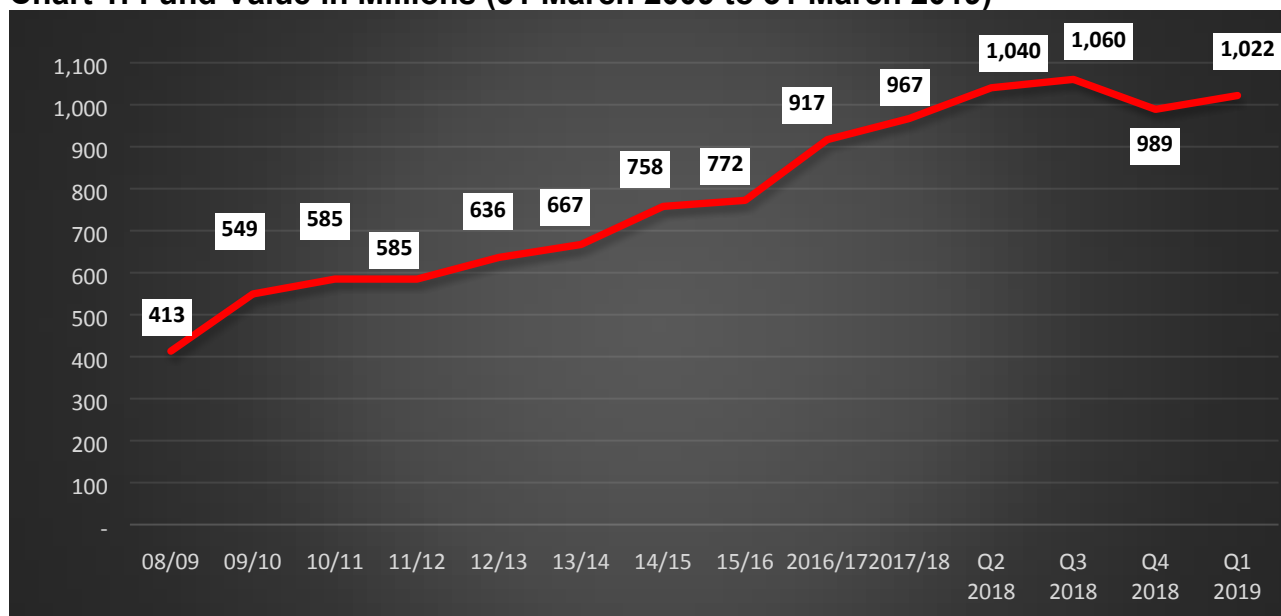
3.2 For Q1 the Fund returned 5.8%, net of fees, outperforming its benchmark by 0.2%. Over one year the Fund returned 5.6%, underperforming its benchmark by 2.4%. Over three years the Fund underperformed its benchmark by 0.5%, with a return of 9.4%. The Fund's returns are below:

Table 1: Fund's 2019, 2018, 2017 Quarterly and Yearly Returns

Year	2019	2018				2017			One Year	Two Years	Three Years	Five Years
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2				
Actual Return	5.8	(6.3)	2.3	3.8	(1.9)	3.2	2.2	1.8	5.6	5.5	9.4	8.5
Benchmark	5.6	(4.6)	3.3	3.7	(1.3)	3.1	1.8	1.2	8.0	6.4	9.9	9.1
Difference	0.2	(1.7)	(1.0)	0.1	(0.6)	0.1	0.4	0.6	(2.4)	(0.9)	(0.5)	(0.6)

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 March 2019. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2009.

Chart 1: Fund Value in Millions (31 March 2009 to 31 March 2019)



3.4 Stock selection contributed -0.3%, with asset allocation contributing 0.5% for the quarter. The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.

■	RED- Fund underperformed by more than 3% against the benchmark
▲	AMBER- Fund underperformed by less than 3% against the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

- 3.5 Table 2 highlights the Q1 2019 returns. Hermes GPE and Schroders provided actual negative returns for the quarter with Hermes GPE down by 1.5% and Schroders down by 1.1%. Kempen provided a positive return but significantly underperformed this quarter with a return of 5.5%, which was 4.4% below the benchmark. Mellon Corporation (Standish) on the other hand provided a positive return for the quarter and outperformed its benchmark. UBS Equities performed relatively well generating a positive return of 11.5%. Most other manager provided small, but positive returns.

Table 2 – Fund Manager Q1 2019 Performance

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	0.6	1.2	(0.6)	Δ
Baillie Gifford	12.4	9.8	2.6	○
BlackRock	0.1	0.3	(0.2)	Δ
Hermes GPE	(1.5)	1.4	(2.9)	Δ
Kempen	5.5	9.9	(4.4)	
Prudential / M&G	1.0	1.2	(0.2)	Δ
Newton	4.2	1.2	3.0	○
Pyrford	2.7	1.1	1.6	○
Schroders	(1.1)	0.3	(1.4)	Δ
Mellon Corporation (Standish)	1.9	1.2	0.7	○
UBS Bonds	3.4	3.4	0.0	○
UBS Equities	11.5	11.5	0.0	○

- 3.6 Mellon Corporation (Standish) has provided a disappointing return of -4.6% over one year. Hermes GPE has also provided a disappointing return of -2% which is 7.6% below the benchmark. The best returns over the one-year period were from equities; Baillie Gifford provided a return of 10.2%, UBS Equities provided a return of 8.4% and Kempen with a return of 8.3%. Newton has also provided a good return over the one-year period of 7.0% against a benchmark of 4.6%.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.8	4.6	0.2	○
Baillie Gifford	10.2	11.8	(1.6)	Δ
BlackRock	5.0	4.7	0.3	○
Hermes GPE	(2.0)	5.6	(7.6)	
Kempen	8.3	12.9	(4.6)	
Prudential / M&G	4.5	4.6	(0.1)	Δ
Newton	7.0	4.6	2.4	○
Pyrford	3.5	7.3	(3.8)	
Schroders	2.9	4.7	(1.8)	Δ
Mellon Corporation (Standish)	(4.6)	4.7	(9.3)	
UBS Bonds	3.8	3.8	0.0	○
UBS Equities	8.4	8.7	(0.3)	Δ

- 3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -1.5% with Mellon Corporation (Standish) to 11.4% with Baillie Gifford. Absolute return and credit continue to struggle, significantly underperforming their benchmarks.

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	8.6	4.5	4.1	O
Baillie Gifford	11.4	7.5	3.9	O
BlackRock	6.4	7.2	(0.8)	Δ
Hermes GPE	3.8	5.6	(1.9)	Δ
Kempen	4.9	7.2	(2.3)	Δ
Prudential / M&G	4.4	4.5	(0.1)	Δ
Newton	2.5	4.4	(1.9)	Δ
Pyrford	0.5	7.6	(7.1)	
Schroders	6.4	7.2	(0.8)	Δ
Mellon Corporation (Standish)	(1.5)	4.5	(6.0)	
UBS Bonds	2.2	2.1	0.1	O
UBS Equities	8.1	8.1	(0.0)	O

4. Asset Allocations and Benchmark

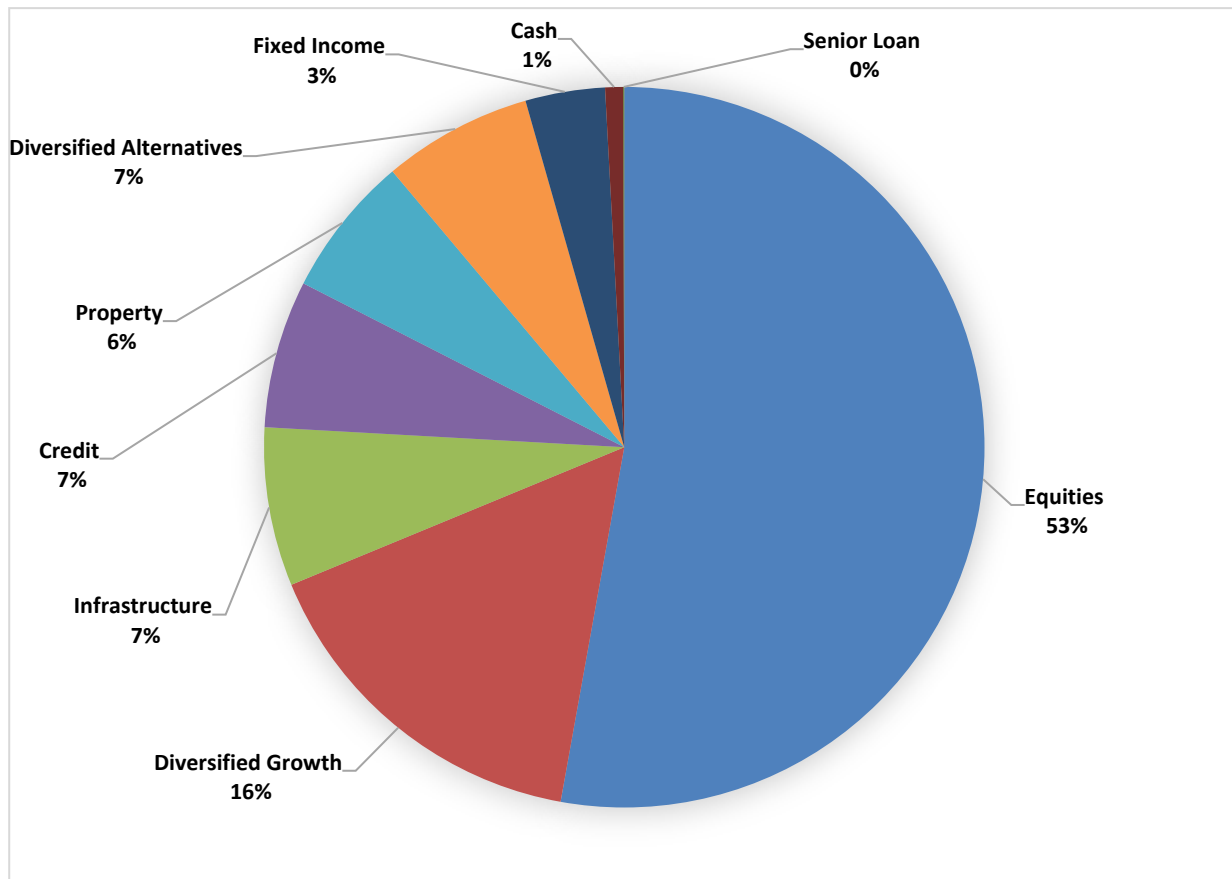
4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks:

Table 5: Fund Asset Allocation and Benchmarks as at 31 March 2019

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	6.7%	68,555	3 Mth LIBOR + 4% per annum
Baillie Gifford	19.4%	202,492	MSCI AC World Index
BlackRock	4.0%	39,651	AREF/ IPD All Balanced
Hermes GPE	7.1%	74,419	Target yield 5.9% per annum
Kempen	15.9%	165,846	MSCI World NDR Index
Prudential / M&G	0.0%	498	3 Mth LIBOR + 4% per annum
Newton	6.6%	69,267	One-month LIBOR +4% per annum
Pyrford	9.9%	103,188	UK RPI +5% per annum
Schroders	2.4%	24,162	AREF/ IPD All Balanced
Mellon Corporation	6.1%	63,364	3 Mth LIBOR + 4% per annum
UBS Bonds	3.6%	37,324	FTSE UK Gilts All Stocks
UBS Equities	17.6%	183,816	FTSE AW Developed Tracker (partly hedged)
LCIV	0.0%	150	None
Cash	0.8%	8,621	One-month LIBOR
Total Fund	100.0%	1,041,353	

4.2 The percentage split by asset class is graphically shown in the pie chart below.

Chart 2: Fund Allocation by Asset Class as at 31 March 2019



4.2 Overall the strategy is overweight equities and cash, with equities at the top-end of the range. Most other asset classes are underweight, with infrastructure 1.9% underweight but this is due to the fact that it is still purchasing assets. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	52.8%	48%	4.8%	45-53
Diversified Growth	15.9%	16%	-0.1%	16-20
Infrastructure	7.1%	9%	-1.9%	4-11
Credit	6.6%	8%	-1.4%	6-10
Property	6.4%	7%	-0.6%	6-9
Diversified Alternatives	6.7%	8%	-1.3%	6-10
Fixed Income	3.6%	4%	-0.4%	3-5
Cash	0.8%	0%	0.8%	0-2
Senior Loan	0.0%	0%	0.0%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2019	2018				2017			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£165.8m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.5	(7.3)	2.9	7.2	(7.4)	5.5	3.3	0.1	8.3	4.9	9.4
Benchmark	9.9	(11.3)	6.3	8.0	(4.7)	4.6	1.5	0.1	12.9	7.2	12.2
Difference	(4.4)	4.0	(3.4)	(0.8)	(2.7)	0.9	1.8	0.0	(4.6)	(2.3)	(2.8)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy underperformed its benchmark by 4.4% for the quarter and has underperformed its one-year benchmark by 4.6%. Kempen has underperformed its two-year benchmark by 2.3%, providing an annual return of 4.9%. It has also underperformed its benchmark since inception by 2.8%, although the return over this period is a good annualised return of 9.4%.

Q4 Portfolio Rebalancing

Kempen sold five names: Boskalis, Bezeq, Centrica, Nordea Bank and Green King.

Boskalis was sold after it lowered its dividend and the 2019 outlook was disappointing. Bezeq also announced a dividend cut related to Israeli legislation that subscribes companies to cut dividend following a loss over the last 8 quarters. Centrica was sold after it disappointed again with falling customer numbers and an increased risk for future dividends. Nordea Bank was sold after better alternatives were sought in new investment ideas. Green King was sold after the strong share price performance.

Four stocks were added: Schlumberger, Keycorp, Seaspan Corp and Venture Corp.

Schlumberger is a US oil-services company; a market leader in many areas with an attractive valuation. Keycorp is a well-managed US bank. Seaspan Corp operates a fleet of containerships and is attractively valued. Lastly, Venture Corp is a Singapore based company which manufactures and designs electronic products for many well-known companies ranging from the healthcare to consumer goods sector.

The more volatile financial markets of the last months, will give Kempen the opportunity to add companies where valuations have become more attractive. The Fund now has a forward yield of around 5.2%.

5.2 Baillie Gifford

Baillie Gifford	2019	2018				2017			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£202.5m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	12.4	(12.5)	3.0	7.3	(0.9)	4.9	4.1	4.6	10.2	11.4	14.8
Benchmark	9.8	(10.6)	5.7	6.9	(4.3)	5.0	2.0	0.6	11.8	7.5	12.1
Difference	2.6	(1.9)	(2.7)	0.4	3.4	(0.1)	2.1	4.1	(1.6)	3.9	2.7

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.

Performance Review

For Q1 BG returned 12.4%, outperforming its benchmark by 2.6%. BG's one-year return was 10.2%, underperforming its benchmark by 1.6%. Since initial funding the strategy has returned 14.8% p.a., outperforming its benchmark by 2.7%.

Positive signs from the trade talks between the US and China boosted fund returns. In Q1 the fund rebalanced its best performing positions in Amazon and Banco Bradesco in order to introduce new additions to the portfolio. Amazon remains one of the largest holdings within the funds portfolio and continues to perform strongly with solid growth potential. In case of Banco Bradesco, the bank contributed 0.3% to yearly performance and has been delivering promising growth results despite political challenges affecting the current state of the Brazilian economy.

Several long-term positions have been sold this quarter. These include Rohm, a Japanese semiconductor company and Svenska Handelsbanken, Swedish banking company. As a result of questionable lending practices and the bank's management turnover, the position in Svenska Handelsbanken was sold this quarter. In the case of Rohm, the sale was completed due to the loss of competitive advantage against other peers in Asia as well as a downturn in the traditionally cyclical semiconductor industry which limits future growth opportunities.

The new purchases to the fund's portfolio include Reliance Industries a giant Indian based refining and marketing conglomerate that manufactures petrochemical, synthetic fibres, fibre intermediaries, textiles, blended yarn and polyester staple fibre. The manager believes that this addition along with telecommunications companies generally will continue to develop revenue generating opportunities in the future. The fund increased the portfolio's exposure to Alibaba by 1.2% to 3.2% as a result of a positive partnership structure and future growth potential. The manager believes that the company remains a major player in the economic environment and is building its brand focusing on long term governance.

5.3 UBS Equities

UBS Equities	2019	2018				2017			One Year	Two Years	Since Start 31/08/12
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£183.8m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	11.5	(12.8)	5.3	4.4	(3.0)	5.7	2.8	2.3	8.4	8.1	13.9
Benchmark	11.5	(12.9)	5.7	4.4	(3.0)	5.5	2.8	2.2	8.7	8.1	14.0
Difference	0.0	0.1	(0.3)	0.0	0.0	0.2	0.0	0.1	(0.3)	0.0	(0.1)

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned 11.5% for Q1 and 8.4% over one year. Since funding in August 2012, the strategy has provided an annualised return of 13.9%.

Equities

Equity markets enjoyed a strong quarter with rises across much of the globe as anticipated market volatility fell back to levels seen prior to the turbulence of late last year. Sentiment was boosted by dovish signals from key central banks.

Merger and acquisition activity remained strong, with the proposed tie up between German banking giants Deutsche Bank and Commerzbank being just one example and US ride-hailing company Lyft also came to market in the biggest IPO since 2017. Corporate earnings reported in the US broadly remained ahead of expectations, although they were more mixed in other markets such as the Eurozone and Japan.

US equities were amongst the best regional performers over the three months. Corporate earnings tended to be strong, with tech firms such as Facebook and Apple amongst those reporting good results - although a number of firms warned on a less certain future outlook.

European stocks shared in the good returns over the quarter, despite more gloomy news on economic developments in the Eurozone in particular. While the UK lagged on a relative basis earlier in the quarter as uncertainty over Brexit continued, the perceived increased likelihood of a negotiated agreement saw both stocks and sterling advance later in the quarter.

Japanese stocks also advanced, but fared less well than other key markets during the three months. Sentiment towards emerging markets was positive as the year began and despite a positive return over the three months, concern over the outlook for economic growth tended to limit gains relative to developed markets.

Chinese equities in particular enjoyed a strong quarter, as prospects for reduced trade tensions were seen to increase and the government promised further stimulus. There was further positive news for Chinese stocks in late February, as equity index

provider MSCI announced it would quadruple the weighting of onshore Chinese companies in its flagship emerging markets index by November this year.

The more positive market tone also boosted commodities, with oil prices rising sharply from lows seen in the fourth quarter, even if they remained well below the levels seen in 2018.

5.4 UBS Bonds

UBS Bonds	2019	2018			2017				One Year	Two Years	Since Start 5/7/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£37.3m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.4	1.9	(1.7)	0.2	0.3	2.2	(0.5)	(1.3)	3.8	2.2	5.1
Benchmark	3.4	1.9	(1.7)	0.2	0.3	2.0	(0.5)	(1.3)	3.8	2.1	5.1
Difference	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.1	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The return for Q1 was 3.4%, with a one-year return of 3.8% and a two-year return of 2.2%.

Bond markets also had a positive quarter, as changes in central bank policy meant the likelihood of imminent interest rate rises was judged to fall across a number of major markets. Yields on 10-year German bonds turned negative for the first time since 2016. Meanwhile, the annual yield on similar US bonds fell below 2.4%, having been above 3.0% as recently as late November.

It was also a strong quarter for returns on credit, as both interest rate expectations fell and spreads contracted. In an environment where investors were happy to take on risk, areas such as high yield tended to fare particularly well. Emerging market bonds in local currency also saw good returns over the first three months.

5.5 M&G / Prudential UK

M&G / Prudential	2019	2018			2017				One Year	Two Years	Since Start 31/5/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£0.5m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.0	1.2	1.2	1.1	1.1	1.1	1.1	1.1	4.5	4.4	4.7
Benchmark	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	4.6	4.5	2.7
Difference	(0.3)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	(0.2)	(0.1)	1.9

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees) and provides diversification from active bond management by holding loans until their maturity.

Performance and Loan Security

The strategy provided a return of 4.5% per year, with an outperformance against benchmark of 1.9% since inception. The strategies holding has reduced in size to £498k, with most of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

5.6 Schroders Indirect Real Estate

Schroders	2019	2018				2017			One Year	Two Years	Since Start 6/8/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£24.2m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.1)	0.3	1.4	2.3	1.7	3.4	2.0	2.8	2.9	6.4	6.6
Benchmark	0.3	0.9	1.6	1.9	1.9	3.1	2.4	2.3	4.7	7.2	7.9
Difference	(1.4)	(0.6)	(0.2)	0.4	(0.2)	0.3	(0.4)	0.5	(1.7)	(0.8)	(1.3)

Reason for appointment

Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

Performance

The fund generated a negative return in Q1 of 1.1% with a one-year return of 2.9% and a two-year return of 6.4%.

Since the market correction in Q3 2016, the strategy has rebounded strongly, with outperformance over one year and two years. In July 2016, the Fund increased its allocation by £5m due to large discounts available. This helped to rebalance the Fund's underweight property position and provided a good return of 15.4%.

5.7 BlackRock

BlackRock	2019	2018				2017			One Year	Two Years	Since Start 1/1/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£39.7m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.1	1.0	1.9	2.0	1.5	2.9	1.3	2.0	5.0	6.4	0.7
Benchmark	0.3	0.9	1.6	1.9	1.9	3.1	2.4	2.3	4.7	7.2	4.1
Difference	(0.2)	0.1	0.3	0.1	(0.4)	(0.2)	(1.1)	(0.3)	0.3	(0.8)	(3.5)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Reef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q1 2019 Performance

BR returned 0.1% for the quarter against the benchmark of 0.3%, with a return of 5.0% over one year against its benchmark's return of 4.7%.

Investment Update

During the first quarter there were no acquisitions and only one small disposition of a parcel of land to a housebuilder at Burcote Road, Towcester for £3.2m. This reflected the fact that the Fund's portfolio is well positioned (overweight Industrials and Alternatives / underweight Retail and Central London Offices) and also the uncertainty created by the political developments around Brexit means that we believe it is better to focus on driving value creation through asset management. This is a challenging environment in which to invest and we will only do so if the opportunity is compelling.

Vacant properties with a total rental value of c. £1.6 million p.a. were let during the quarter. The Fund's void rate decreased from 6.5% to 5.6%; this compares favorably with the benchmark's vacancy rate of 7.1%, as of Q4 2018. Leasing activity was strongest in the rest of UK office sector; however, as explained further in this report, significant lettings were seen across all sectors and geographies.

Given the economic uncertainty created by Brexit and slowing global growth it is unsurprising that UK real estate investment volumes have slowed in Q1 compared with the same time last year. Uncertainty continues to play a role in the weak performance of retailers and retail assets. The consumer environment has not been supportive, with low real wage growth and stagnating wages. However, falling inflation and continued loose fiscal policy could see real wage increases leading to increased retail spending. Nevertheless, retail is still suffering from oversupply of space, compounded by increasing retail sales moving online (to the benefit of logistics demand). Even in the face of this challenging retail environment, occupancy has remained strong with the Fund's retail portfolio being 97% occupied (vs the benchmark at 95%).

5.8 Hermes

Hermes	2019	2018				2017			One Year	Two Years	Since Start 9/11/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£74.4m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.5)	1.1	(2.2)	0.6	6.1	0.8	1.8	0.8	(2.0)	3.8	8.6
Benchmark	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	5.6	5.6	6.0
Difference	(2.9)	(0.3)	(3.6)	(0.8)	4.7	(0.6)	0.4	(0.6)	(7.6)	(1.9)	2.6

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

As at 31 March 2019, the strategy reported a one-year negative return of 2.0%, underperforming its benchmark by 7.6%. Since inception the strategy has provided a good annualised return of 8.6%, outperforming its benchmark by 2.6%.

Portfolio review

Over Q1 the portfolio did not perform as well as the previous quarter. Scandlines performed 5% below budget year to date in Q4 18 as a result of lower than budgeted traffic volumes (and associated retail spend) over the summer peak months owing to unseasonably hot weather in Scandinavia and the fall in Swedish Krona. Southern Water's performance was marginally below budget for the quarter, owing to overspend related to the extreme weather conditions experienced earlier in the year, higher than expected costs to prepare the 2019 business plan and unbudgeted expenses relating to negotiations with the Pensions Regulator. Associated British Ports, Anglian Water, Cadent Gas, Energy Assets, Eurostar and the wind and solar assets all performed on or above budget and continued to trade positively.

Investments and divestments

HIFI is a member of the Quad Gas consortium that is party to reciprocal option agreements with National Grid relating to a 14% stake (the "Further Acquisition") in Cadent Gas and the remaining 25% stake ("Remaining Acquisition"). On 8 November 2018 National Grid exercised the options in relation to the Further Acquisition and the Remaining Acquisition, thereby selling its entire remaining 39% stake in Cadent to the consortium. The scheduled closing dates are 27 June 2019 for the Further Acquisition and 28 June 2019 for the Remaining Acquisition. The transactions are expected to be funded in the week prior to closing.

Post-completion, HIFI will own a 3.7% interest in Cadent, equivalent to £204m on an investment cost basis. Hermes Infrastructure will manage a 13.6% ownership interest on behalf of clients on completion, with commensurate governance rights. The combined investment is targeting a post-tax nominal IRR within the HIFI Core strategy range. The Further Acquisition and Remaining Acquisition are expected to be accretive to HIF I's initial acquisition in Cadent.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2019	2018				2017			One Year	Two Years	Since Start 15/9/2014
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£68.5m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.6	(0.8)	2.6	2.4	0.9	1.3	6.1	4.2	4.8	8.6	4.0
Benchmark	1.2	1.1	1.1	1.2	1.1	1.1	1.1	1.1	4.6	4.5	4.6
Difference	(0.6)	(1.9)	1.5	1.2	(0.2)	0.2	5.0	3.1	0.2	4.1	(0.5)

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Standard Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance

Overall the strategy provided a return of 0.6%, underperforming its benchmark by 0.6%. The primary commitment to MML VI led the way in terms of the positive contributors to performance. Field Street also did well; Q1 has often proven to be a good period for relative value managers in fixed income as managers tend to deploy capital in the first days of January when banks are willing to expand their balance sheets again and then ride the normalisation in micro relationships in the subsequent months.

Over one year the mandate has outperformed its benchmark, with a return of 4.8% against a benchmark of 4.6%. Since inception in September 2014, the strategy has returned 4.0%, underperforming its benchmark by 0.5%.

The hedge funds selected for the Portfolio are a blend of:

- i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets;
- ii. Global Macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
- iii. Tail Risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Aberdeen have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

5.10 Pyrford

Pyrford	2019	2018				2017			One Year	Two Years	Since Start 28/9/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£103.2m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.7	(2.0)	0.8	2.0	(2.3)	0.6	(0.9)	0.1	3.5	0.5	3.5
Benchmark	1.1	1.5	2.3	2.4	1.3	2.2	2.2	2.3	7.3	7.6	6.9
Difference	1.6	(3.5)	(1.6)	(0.4)	(3.6)	(1.6)	(3.1)	(2.2)	(3.8)	(7.1)	(3.4)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies.

AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a positive return of 2.7% in Q1 and outperformed its benchmark by 1.6%. Over one year the strategy has returned 3.5%, underperforming its benchmark by 3.8%. Pyrford's performance since inception is closer to its benchmark but still underperforms by 3.4% with a return of 3.5%.

Outlook and Strategy

Performance lagged other multi-asset funds during this quarter; however, the manager has stayed true to its mantra of providing a stable stream of real total returns over the long term with low absolute volatility. With this view in mind, the manager has not made any asset allocation changes in the quarter and maintains its defensive position of 30% equities, 67% bonds and 3% cash.

Performance on the bond portfolio was marginally positive over the first quarter. UK bonds in the portfolio were up 0.31% whereas overseas bonds fell slightly due to the sterling strength over the period. The entire overseas bond portfolio is hedged and therefore the fund was protected against this loss. Equities on the other hand outperformed bonds where UK and Overseas equities bought in 10.88% and 7.36% respectively. The managers holdings in UK equities outperformed the wider FTSE AS index by 1.5%, primarily driven by the allocation to tobacco and utilities.

5.11 Newton

Newton	2019	2018				2017			One Year	Two Years	Since Start 31/8/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£69.267m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	4.2	(1.7)	2.1	2.4	(2.6)	0.3	(0.8)	1.0	7.0	2.5	3.3
Benchmark	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	4.6	4.4	4.5
Difference	3.0	(2.9)	0.9	1.3	(3.7)	(0.8)	(1.8)	0.0	2.4	(1.9)	(1.2)

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a positive return of 4.2% in Q1 and outperformed its benchmark by 3.0%. Over one year the strategy has returned 7.0%, outperforming its benchmark by 2.4%. Newton's performance since inception is 3.3% and underperforms its benchmark by 1.2%.

Most of the positive performance was driven by the managers allocation of their return seeking part of the portfolio whereas the defensive stabilising core detracted

slightly. The equities portion of the return seeking core was the strongest performer, making up over 80% of the contribution to performance. The portfolios exposure is summarised below:

Portfolio Exposures		
	31 December 2018	31 March 2019
Equity	32.94	54.68
UK	5.92	8.94
North America	9.67	12.89
Europe	12.62	22.87
Japan	0.69	1.25
Pacific Basin	1.56	8.73
Emerging Markets	2.48	0.00
Fixed Income	42.03	52.39
Government Bonds	31.68	39.71
Corporate Bonds	5.63	3.12
Index Linked Government	1.95	2.70
Emerging Debt	2.77	6.86
Alternatives	25.03	(7.07)
Infrastructure Funds	7.55	14.76
Renewable Energy	0.00	0.00
Precious Metals	6.53	9.98
Derivative Instruments	0.00	(12.06)
Cash and FX Forwards	10.95	(19.75)
Total	100.00	100.00

5.12 Mellon Corporation (Standish)

Mellon Corporation	2019	2018				2017				One Year	Two Years	Since Start 20/8/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2				
£63.364m	%	%	%	%	%	%	%	%	%	%	%	
Actual	1.9	(2.7)	0.1	(3.9)	0.3	(0.5)	0.7	1.0	(4.6)	(1.5)	0.3	
Benchmark	1.2	1.2	1.1	1.2	1.1	1.1	1.0	1.0	4.7	4.5	5.2	
Difference	0.7	(3.9)	(1.1)	(5.1)	(0.8)	(1.6)	(0.3)	0.0	(9.3)	(6.0)	(4.9)	

Reason for appointment

Mellon Corporation were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

The Fund performed well this quarter, returning 1.9% against a benchmark return of 1.2%. However, over one year the strategy has underperformed its benchmark of 4.7% by 9.3%, providing a return of -4.6%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.3%.

Positive Contributors:

Asset allocation was the main driver of positive performance. Specifically, the overweight allocation to emerging markets debt, industrial and financial corporates and securitized.

Yield Curve Allocation was also a positive contributor, led by the positioning in Argentina.

Negative Contributors:

Currency positioning, as well as local market and asset allocation, contributed to the negative performance on the month. Yield curve positioning was accretive. The position in treasury bonds was also a detractor as the asset class underperformed the broader opportunity set.

Portfolio Composition:

Tracking error was decreased on a quarter-over-quarter basis and the composition of risk has been modified. The biggest decrease in tracking error was through EM spread risk followed by a reduction in credit spread risk. Foreign exchange is now the largest contributor to tracking error for this strategy. Other risks including yield curve, government spreads and securitized exposure remained relatively flat.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, at the September 2018 Pension Committee, Members agreed to formally review Mellon Corporation, with alternative managers through the London CIV considered.

An initial review has been completed by Aon Hewitt, the Fund's independent advisors and officers, with a report included in a separate report.

5.13 Currency Hedging

No new currency hedging positions were placed in Q1 2019.

6. Consultation

- 6.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 7.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term

investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.

- 7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 8.1 **The Council** operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

- 8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

- 9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 March 2019

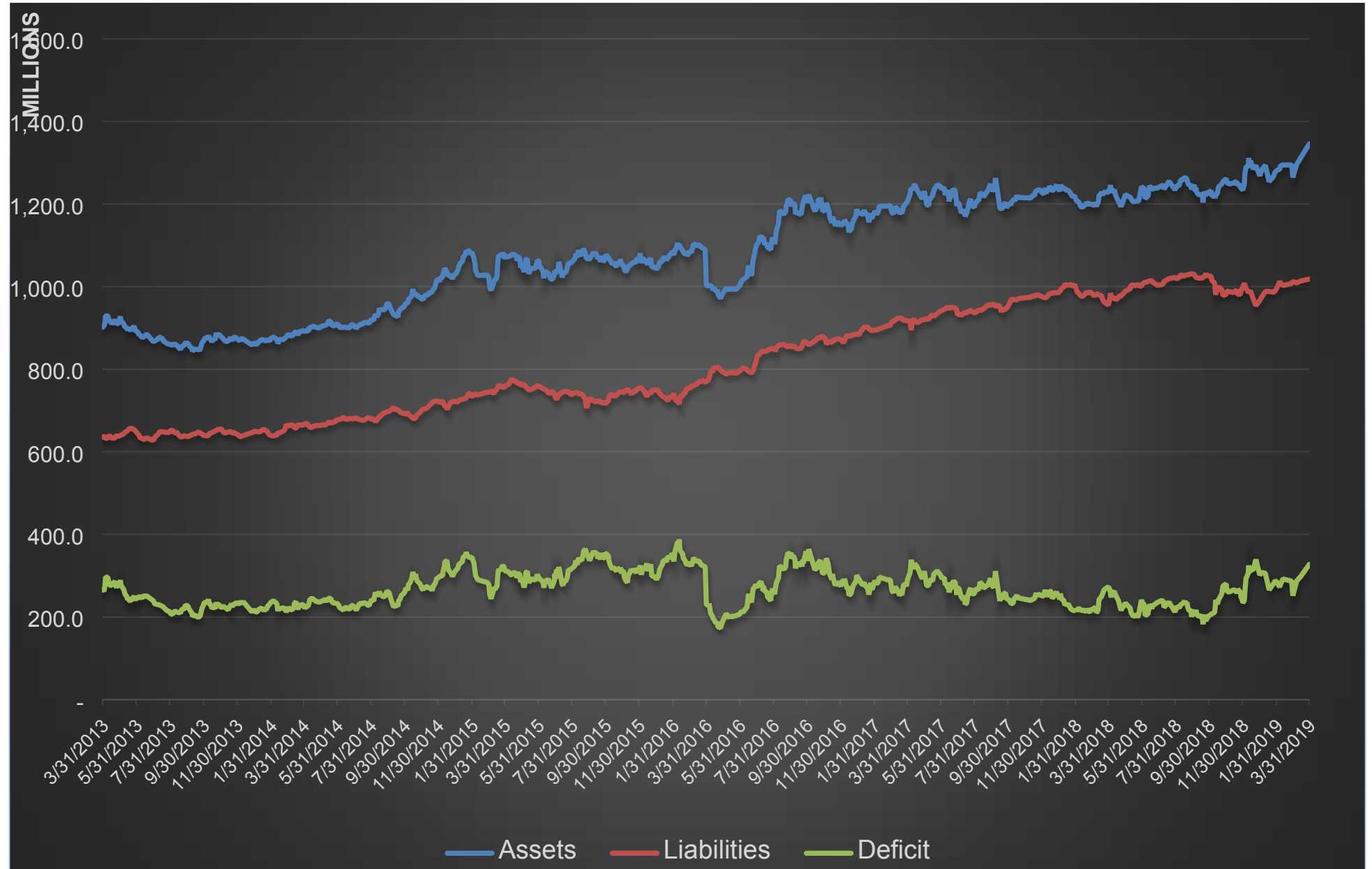
Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

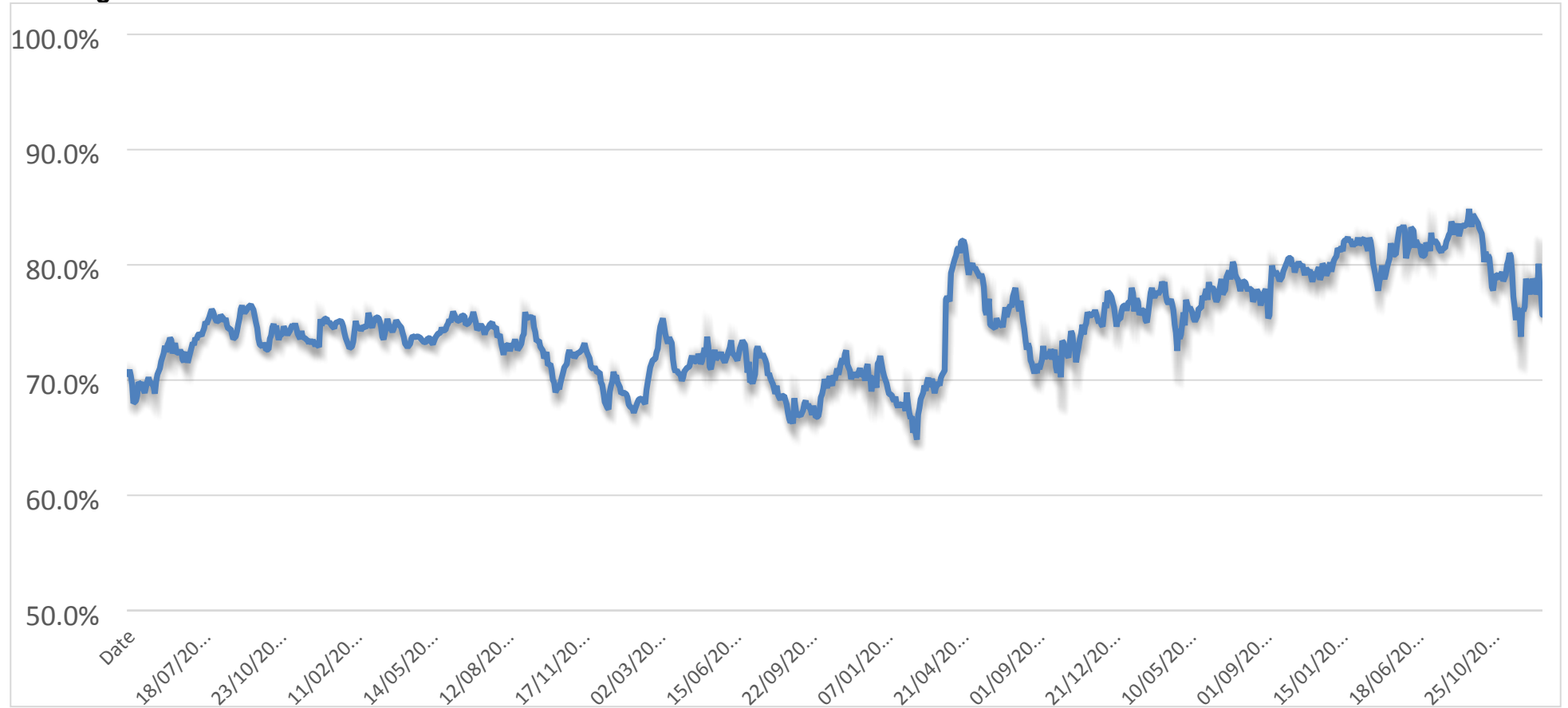
Appendix 4 - Independent Advisors Market Background Note, Q1 2019

Appendix 5 - Independent Advisors Market Background Note, 2018-19

APPENDIX 1 - Fund Asset Values 31 March 2013 to 31 March 2019



Funding Level between 31 March 2013 to 31 March 2019



A Definitions

A.1 Scheduled bodies

Scheduled bodies have an automatic right, and requirement, to be an employer in the LGPS that covers their geographical area. Therefore, scheduled bodies do not need to sign an admission agreement. Scheduled bodies are defined in the LGPS Regulations 2013 in Schedule 2 Part 1. Common examples of scheduled bodies are Unitary Authorities, Police and Fire Authorities and Academies.

A.2 Admitted bodies

Admitted Bodies either become members of the LGPS as a result of a TUPE transfer or following an application to the Fund to become an employer in the scheme. In both cases, their admission is subject to the body meeting the eligibility criteria and an admission agreement being signed by all relevant parties.

A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

Scheduled bodies	LBBD
	Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Riverside Bridge Riverside Free School Riverside School St Margarets Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy
Admitted Bodies	
	Aspens B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Cleantech Elevate East London LLP Laing O'Rourke

	Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners
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B Roles & Responsibilities

B.1 Administering Authority

The London Borough of Barking and Dagenham is, by virtue of Regulation 53 and Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 the “Administering Authority” for the Local Government Pension Scheme within the geographic area of the London Borough of Barking and Dagenham. In its role as Administering Authority (also known as Scheme Manager) the Council is responsible for “*managing and administering the Scheme.*”

It is normal practice within the Local Government Pension Scheme (LGPS) for the role of the Administering Authority to be exercised by a Pensions Committee. In the case of the London Borough of Barking and Dagenham the Council has delegated the exercise of its role as Administering Authority to the Pensions Committee.

Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (As amended), Pensions is not an Executive Function. Therefore, the Cabinet cannot make decisions in respect of a LGPS Pension Fund. The committee responsible for the Pension Fund must report to the Council and cannot be subject to the Cabinet.

B.2 Pensions Committee

Under the Constitution of the London Borough of Barking and Dagenham (May 2018) the Pensions Committee exercises “*on behalf of the Council all the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Barking and Dagenham Pension Fund.*”

The voting membership of the Pensions Committee is seven Councillors. The Committee may also appoint representatives of interested parties (Trade Unions, Admitted Bodies, pensioners etc) as non-voting members.

Responsibilities

As already stated the Pensions Committee exercises all the powers and duties of the Council in relation to the Local Government Pension Scheme (LGPS). As detailed in the Council’s Constitution this includes:

- (i) To approve all policy statements required or prepared under the LGPS Regulations;
- (ii) To be responsible for the overall investment policy, strategy and operation of the Fund and its overall performance, including taking into account the profile of Fund liabilities;
- (iii) To appoint and terminate the appointments of the Fund Actuary, Custodian, professional advisors to, and external managers of, the Fund and agree the basis of their remuneration;
- (iv) To monitor and review the performance of the Fund’s investments including receiving a quarterly report from the Chief Operating Officer;
- (v) To receive actuarial valuations of the Fund;

(vi) To monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board as they apply to pension benefits and the payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme;

(vii) Selection, appointment and termination of external Additional Voluntary Contribution (AVC) providers and reviewing performance;

(viii) To consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

Individual members of the Pensions Committee have a responsibility to obtain a high level of knowledge and skills in relation to their broad ranging responsibilities in respect of the Local Government Pension Scheme. Therefore, ongoing training is essential.

In 2010/2011 CIPFA produced a Pensions Finance, Knowledge & Skills Framework and a Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Barking and Dagenham Pension Fund subsequently adopted the recommendations of the CIPFA Code of Practice and accepted the need for competencies by both Members and Officers in the six technical areas of knowledge and skills as then set out by CIPFA:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and product knowledge (including Investment Strategy)
- Actuarial methods, standards and practices

As a result of changes to the Local Government Pension Scheme and CIPFA guidance since 2014 it is also necessary for members of the Pensions Committee to have clear knowledge and understanding of:

- Pensions Administration (including the role of The Pensions Regulator)

B.3 Fund Administrator

The Chief Operating Officer is responsible as the Fund Administrator for:

- Acting as principal advisor to the Fund
- Ensuring compliance with Legislation, Regulation and Statutory Guidance including advising in respect of the various policy documents and statements required under the LGPS Regulations
- Ensuring effective governance and audit arrangements

On a day to day basis the management and co-ordination of all Pension Fund activity is led by the Investment Fund Manager.

B.4 Fund Actuary

The appointment of a Fund Actuary required in order to comply with Regulations 62 and 64 of the LGPS Regulations 2013.

The Fund Actuary is a completely independent and appropriately qualified adviser who carries out statutorily required Fund Actuarial Valuations and other valuations as required and who will also provide general actuarial advice. The work of the Actuary includes (but is not limited to):

- Undertaking an Actuarial Valuation of the Fund every three years. The next Valuation will be as at 31 March 2019 and the Actuary must complete his report by March 2020. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2020-2021, 2021-2022 and 2022-2023
- Undertaking more limited Valuations in respect of New Employers, Exiting Employers, Bulk Transfers and for Accounting purposes

B.5 Investment Advisor

The Investment Advisor (otherwise known as the Investment Consultant) is completely independent of the Fund and provides advice in respect of investment matters. This includes:

- The Fund's Investment Strategy Statement including its asset allocation
- The selection of investment managers
- Monitoring and reviewing Investment Managers' performance

B.6 The Independent Advisor

The Independent Advisor who is also completely independent of the Fund provides governance and investment challenge and input together with training across the activities and responsibilities of the Fund.

B.7 Investment Managers

External Investment Managers manage the Funds investments on behalf of the Pensions Committee.

The Investment Managers' responsibilities include

- Investment of Pension Fund assets in compliance with legislation, the Fund's Investment Strategy Statement and the Investment Management Agreement between the Pension Fund and the Investment manager
- The selection of investments
- Providing regular reports on performance to the Fund Officers

- Attending the Pensions Committee if requested

As a result of the Government's Investment Pooling initiative the relationship between Investment Managers and the London Borough of Barking and Dagenham Pension Fund will, over an extended period of time, become an indirect relationship due to the increasing involvement of the London Collective Investment Vehicle (London CIV) in the selection and monitoring of Investment Managers.

B.8 Employers

The Employers within the London Borough of Barking and Dagenham Pension Fund are listed at Appendix 2.

Employers have a wide range of responsibilities which include

- Automatically enrolling eligible Employees in the LGPS
- Providing timely and accurate data to the Administering Authority in respect of individual members including joiners, leavers, pay details etc
- Deducting contributions from Employees pay correctly
- Paying to the Administering Authority both Employers and Employees contributions by the due date
- Determining their Discretions policy in accordance with the LGPS Regulations
- Operating Stage 1 of the Internal Dispute Resolution Procedure
- Communicating, as appropriate, with both Scheme Members and the London Borough of Barking and Dagenham Pensions Team

In undertaking their responsibilities Employers should have regard to any documentation issued by the London Borough of Barking and Dagenham in its role as Administering Authority including any Pension Administration Strategy issued in accordance with the LGPS Regulations.

Employers should also be aware of the requirements placed upon them as detailed in the Pension Regulator's Code of Practice No 14 "*Governance and Administration of Public Service Pension Schemes.*"

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background January to March 2019

January to March 2019 saw a significant bounce back in equity markets following the sharp decline of the last Quarter of 2018. The MSCI World Index which had lost 13% (in \$ terms) in the final Quarter of 2018 gained 12% in the first Quarter of 2019. US, European and Emerging Market equities all rebounded significantly. Despite concerns about a global slowdown, a clear move away from further monetary “tightening” by both the European Central Bank and, particularly, the US Federal Reserve provided support for equity markets which were also aided by receding concerns over US trade policy.

Having fallen 14% during October to December 2018 the US S&P 500 Index rose from 2,507 at the end of December 2018 to 2,834 at the end of March 2019 an increase of 13% over the Quarter. Equity markets were buoyed by a decisive change of policy by the US Federal Reserve which had increased interest rates nine times between December 2015 and December 2018 including four increases in 2018 and which as late as its December 2018 meeting was signalling two further likely rate increases in 2019.

The Press Release following the January 2019 meeting of the US Federal Reserve’s Federal Open Market Committee (FOMC) excluded the reference to “*some further gradual increases*” in interest rates which appeared in the December 2018 Press Release as the FOMC put further rate rises on hold. At a press conference following the January 2019 meeting the Federal Reserve Chairman Jay Powell while referring to the outlook for the US economy as “*solid*” also referred to “*crosscurrents and conflicting signals about the outlook. Growth has slowed in some major foreign economies, particularly in China and Europe.....Financial conditions tightened considerably late in 2018 and remain less supportive of growth than they were earlier in 2018...*” Consequently, the FOMC determined that the cumulative effects of developments “*warrant a patient, wait-and-see approach regarding future policy changes.*” Both US equities and Treasury Bonds rallied following this decision. Further support to markets was provided by the Minutes of the January 2019 FOMC which were released on 20 February and included a clear indication that the FOMC would further “loosen” monetary policy by ending its Balance Sheet reduction programme during 2019.

That the Federal Reserve had decisively changed its future monetary policy approach and moved away from further “tightening” was clearly confirmed by the decisions of the March 2019 meeting of the FOMC. Firstly, the projections issued after this meeting indicated that there would likely be no increases in interest rates in 2019. Secondly a statement on “Balance Sheet Normalization Principles and Plans” stated that the policy of Balance Sheet reduction (introduced in 2017) will be slowed from May 2019 and halted at the end of September 2019.

US core inflation fell from 2.2% in December 2018 to 2.0% by March 2019. US unemployment remained very low and was 3.8% in March 2019. The University of Michigan Surveys of Consumers continued to indicate positive views. The March 2019 survey showed consumer confidence at the same high levels as December 2018.

Despite mounting economic concerns Eurozone equities experienced a positive Quarter with support from the policy stances of the US Federal Reserve and the European Central Bank (ECB). The MSCI EMU Index (which tracks the largest companies in the Eurozone) was up almost 12% regaining much of the loss of the previous Quarter. The ECB stepped away from “tighter” monetary policy. While the January 2019 meeting of the Governing Council confirmed the previous policy that the key ECB (and presently very low) interest rates were expected *“to remain at their present levels at least through the summer of 2019”* the Press Release issued after the March 2019 meeting “loosened” policy expectations stating that the Governing Council *“now expects the key ECB interest rates to remain at their present levels at least through the end of 2019.”*

Eurozone unemployment continued to fall – from 7.9% in December 2018 to 7.7% in March 2019 its lowest level since September 2008. Overall, however, there were further clear indications of a slowing economic momentum. The headline Inflation Rate which had been 2.1% in September 2018 fell back to 1.4% in March 2019 compared to the ECB policy objective of inflation below, but close to, 2% over the medium term. Additionally, core inflation which excludes the more volatile elements of energy, food, alcohol and tobacco and is seen as a better indicator of longer-term inflationary pressure was at a two year low by March 2019 at 0.8% having remained close to 1% throughout 2018. The IHS Markit Purchasing Managers Index for the Eurozone which was above 56 in April 2018 fell progressively, over the 2018-19 financial year, to 47.5 in March 2019 and well below 50 which indicates the boundary between expected contraction and expansion. The Organisation for Economic Co-operation and Development (OECD) in their “Interim Economic Outlook” of March 2019 reported that *“GDP growth in the euro area slowed sharply through 2018 and is projected to remain soft at 1% in 2019.”*

Despite ongoing uncertainty regarding the nature and timing of the UK’s departure from the EU, reduced levels of business investment since the 2016 Referendum and reduced 2019 GDP growth forecasts by both the OECD and Bank of England (BoE) the FTSE All Share Index rose by 9% in the Quarter almost compensating for the fall during October to December 2018. Unemployment fell to 3.8% for the period January - March 2019 its lowest rate since 1974 according to the Office for National Statistics. Consumer Price Index (CPI) inflation fell very slightly below the BoE target of 2% from January 2019 and remained so, at 1.9%. at March 2019. At both the February and March 2019 meetings the Bank of England’s Monetary Policy Committee (MPC) again voted unanimously to maintain Bank Rate at 0.75%.

The Nikkei 225 Index which fell by over 17% during October to December 2018 increased by 6% during the January to March 2019 Quarter, a clearly lower recovery

than other developed markets. Corporate earnings were disappointing and export orders weaker which is particularly unwelcome to Japan's export driven economy. The Government reported a significant fall in industrial production in March 2019.

At its January and March 2019 monetary policy meetings the Bank of Japan again continued to maintain its commitment to what might be described as financial crisis-era stimulus policies. This was in the context of Japanese inflation continuing to remain well below the Bank of Japan's target of 2% despite huge monetary policy stimulus since 2013. At March 2019 the core inflation rate was only 0.8%

China and Asian markets enjoyed a positive Quarter with the MSCI AC Asia ex Japan index gaining over 11% (in \$ terms) during January to March 2019 which was in excess of the loss experienced in the previous Quarter. Both the more accommodative monetary policy stance of the US Federal Reserve and the lessening of US-China trade tensions were supportive. Chinese growth of around 6.5% for the first Quarter of 2019 continued, however, the lower growth trend experienced in 2018 compared to the first five years after the 2009 crisis. The OECD in its March 2019 "Interim Economic Outlook" estimated that Chinese GDP growth in 2019 would be 6.2%. Chinese stocks, however, received both a short term and likely long-term boost with the announcement by the major index provider MSCI, in February 2019, that it would more than quadruple the weighting of China listed shares in its "flagship" MSCI Emerging Markets Index from 0.7% to 3.3% by November 2019.

More accommodative monetary policy statements by the US Federal Reserve and ECB together with tepid inflation and softening economic data were supportive of the major Government Bonds – US, UK and Germany – which saw further price rises during the period January to March 2019.

In conclusion January to March 2019 while seeing faltering economic activity and weakening forward economic expectations was one of clear positivity for world equity markets. Interestingly the renewed vigour of equity markets, though doubtlessly aided by reduced trade tensions and a still essentially positive economic backdrop, coincided with clear messages from the major Central Banks (and in particular the US Federal Reserve) that they were, in the light of an expected weakening in the world economy prepared to move back towards "loosening" and away from tightening monetary policy. This potentially clearly provides further support to both the world economy and equity markets as 2019 proceeds.

John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office 130 Goldington Road, Bedford, MK40 3EA
VAT Registration Number 990 8211 06

"Strategic and Operational Support for Pension Funds and their Stakeholders"
www.jrfspensions.com

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JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2018-19

During the year 1 April 2018 to 31 March 2019 the world economy remained broadly positive although as the year progressed signs of an economic slowdown increased. United States – China trade tensions weighed against economic and financial markets. Equity markets, however, experienced a moderately positive year with the MSCI AC World index advancing by 3% although there were significant regional variances. April to September 2018 saw yet further advances in world equity markets. The Quarter October to December 2018 saw sharp declines with the MSCI AC World Index losing around 13% although most of the losses were regained in the period January to March 2019. Declining economic and financial market considerations led the US Federal Reserve, in particular and also the European Central Bank to move, in early 2019, back towards “looser” monetary policy in order to seek to support economic and financial markets.

The S&P 500 index rose by 7% over the period April 2018 to March 2019 to close at 2,834 continuing its long upward trend from the low of 666 of March 2009. On 20 September the S&P 500 recorded an all time closing high of 2,931 while on 22 August US stocks set a new record for the longest bull run – a period without a 20% fall – when it reached 3,453 days exceeding the 1990-2000 bull market. The increase in the S&P 500 over the financial year 2018-19 at 7% represented, however, a slowdown in equity price rises – in 2017-18 the S&P had advanced by 12% and in 2016-17 by 15%.

The US experienced another year of generally positive economic activity including good corporate results/earnings although the first half year results of 2018-19 were more positive than the second half. Unemployment fell from 4.1% in March 2018 to 3.8% by March 2019. Not since 1969 has the US seen a lower unemployment rate. Consumer sentiment (as measured by the University of Michigan) declined slightly over the year but remained at very favourable levels.

The United States Federal Reserve, the world’s most important Central Bank, continued, from April to December 2018 its policy of “tightening” monetary policy by raising interest rates (the target range for the federal funds rate) by 0.25% on three separate occasions (June, September and December). As late as its December 2018 meeting it was signalling two further likely rate increases in 2019 before making a significant policy shift in early 2019. The Press Release following the January 2019 meeting of the US Federal Reserve’s Federal Open Market Committee (FOMC) excluded the reference to “*some further gradual*

increases” in interest rates which appeared in the December 2018 Press Release as the FOMC put further rate rises on hold.

At a press conference following the January 2019 meeting the Federal Reserve Chairman Jay Powell while referring to the outlook for the US economy as “*solid*” also referred to “*crosscurrents and conflicting signals about the outlook. Growth has slowed in some major foreign economies, particularly in China and Europe.....Financial conditions tightened considerably late in 2018 and remain less supportive of growth than they were earlier in 2018...*” Consequently, the FOMC determined that the cumulative effects of developments “*warrant a patient, wait-and-see approach regarding future policy changes.*” That the Federal Reserve had significantly changed its future monetary policy approach and clearly moved away from further “tightening” was confirmed by the decisions of the March 2019 meeting of the FOMC. Firstly, the projections issued after this meeting indicated that there would likely be no increases in interest rates in 2019. Secondly a statement on “Balance Sheet Normalization Principles and Plans” stated that the policy of Balance Sheet reduction (introduced in 2017 as a fundamental policy shift towards monetary “tightening”) will be slowed from May 2019 and then halted at the end of September 2019.

The MSCI EMU Index (which tracks the largest companies in the Eurozone) advanced by only 1% in 2018-19 which was a year of economic slowdown in the Eurozone. While the Eurozone seasonally adjusted unemployment rate fell from 8.5% in March 2018 to 7.7% in March 2019 (its lowest level since September 2008) other important indicators were concerning. Inflation figures indicated continuing failure to achieve the European Central Bank’s (ECB) inflation target of below but close to 2% over the medium term. Although inflation as measured by the Harmonised Indices of Consumer Prices (HICP) which had been 1.3% in March 2018 was in the range 1.9% to 2.3% from May to November 2018 it was no higher than 1.5% from December 2018 and was 1.4% by March 2019. The IHS Markit Purchasing Managers Index for the Eurozone which was above 56 in April 2018 fell progressively, over the 2018-19 financial year, to 47.5 in March 2019 and well below 50 which indicates the boundary between expected contraction and expansion.

The Organisation for Economic Co-operation and Development (OECD) in their “Interim Economic Outlook” of March 2019 reported that “*GDP growth in the euro area slowed sharply through 2018 and is projected to remain soft at 1% in 2019.*” There were clear concerns regarding weakness in German industrial activity which is noteworthy as the heavily manufacturing reliant German economy accounts for about a third of Eurozone output.

The ECB initially clearly “tightened” its Monetary policy stance by ending its net asset purchase programme in December 2018, following an announcement in June. However, in March 2019, in response to weaker economic data and indicators, the ECB took a step back towards “loosening” monetary policy by announcing that the key ECB (and presently very low) interest rates were now

expected *“to remain at their present levels at least through the end of 2019”* rather than *“at least through the summer of 2019.”*

During 2018-19 the FTSE 100 index of the largest UK listed companies (but which collectively earn over 70% of their revenues from overseas) increased by 3%. In contrast the more domestically focussed FTSE 250 index fell by 2%. Throughout 2018-19 there was ongoing uncertainty regarding the nature and timing of the UK's departure from the EU. Notwithstanding UK unemployment of 3.8% at March 2019 its lowest level since 1974 levels of business investment have reduced since the 2016 EU Referendum. During 2018-19 the BoE raised interest rates once - from 0.5% to 0.75% on 1 August 2018.

The Nikkei 225 Index declined by 1% over the 2018-19 financial year compared with a 13% gain in 2017-18 and 15% gain in 2016-17. Japan's export driven economy is particularly vulnerable to economic slowdown and trade disputes both of which were features of 2018-19. Throughout 2018-19 the Bank of Japan continued an ultra “loose” approach to monetary policy incorporating a policy of keeping 10-year bond yields at around zero percent and a continuation of its major asset purchase programme which began in 2013. Japanese Consumer Price Inflation and Core inflation were both below 1% at March 2019 compared with the Bank of Japan's inflation target of 2%.

Asian equities and Emerging Market equities generally had negative year with the MSCI AC Asia ex Japan index down (in \$ terms) by over 5% and the MSCI Emerging Markets Index down by in excess of 7%. Global trade tensions centred on President Trump's approach to trade, US interest rates and the strength of the US dollar all weighted against these markets. Chinese growth of around 6.5% for the year 2018-19 was clearly lower than that achieved in the first five years after the 2009 crisis. Chinese stocks, however, received both a short term and likely long-term boost with the announcement, in February 2019, by the major index provider MSCI that it would more than quadruple the weighting of China listed shares in its “flagship” MSCI Emerging Markets Index from 0.7% to 3.3% by November 2019.

The 10-year Benchmark Government Bonds of the US, UK and Germany all finished the financial year with lower yields (and therefore higher prices) than at the beginning. The move away from monetary tightening by the ECB and particularly the US Federal Reserve, in early 2019, together with softening economic data were supportive of the major Government Bonds.

John Raisin Financial Services Limited
Independent Advisor
15 May 2019

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PENSIONS COMMITTEE

12 June 2019

Title: Pension Fund Accounts 2018/19	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary: This report presents the Pension Panel with the Draft Pension Fund Accounts for 2018/19.	
Recommendations The Panel is asked to consider and note the Draft Pension Fund Accounts for 2018/19.	

1 Introduction

- 1.1 This report introduces the annual accounts of the London Borough of Barking and Dagenham Pension Fund for the year ended 31 March 2019, which are included as appendix 1.
- 1.2 The Pension Fund Accounts sets out the financial position of the Pension Fund as at 31 March 2019 and as such acts as the basis for understanding the financial well-being of the Pension Fund. It also enables Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions.

2 Key Highlights

- 2.1 Overall 2018/19 was another good year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.2%, 2.7% lower than

its benchmark of 7.9%. Taking net pension contributions into account, the Fund increased in size by 7.7%. Over three years the Fund has returned an annualised return of 9.4%, which 0.5% below the Fund's benchmark return of 9.9%.

- 2.2 Equities were the main driver of outperformance, with Baillie Gifford and Kempen providing a good return of 8.8% and 7.9% for the year and Aberdeen Asset Management providing a return of 4.8%, outperforming its benchmark by 0.2%. Global credit and infrastructure managers were the worst performers, both underperforming their benchmarks and providing negative actual returns for the year.
- 2.3 A number of new employers joined the scheme as admitted bodies including, B&D Trading Partnership, BD Together, BD Corporate Cleaning, BD SIP, Lewis and Graves and Town and Country. The total number of active and closed employers within the Fund was 42 as at year end.
- 2.4 The Fund increased in value by £74.3m from £967.4m as at 31 March 2018 to £1,041.7m as at 31 March 2019.
- 2.5 Audit fees remained at £16k for the year



Pension Fund Accounts

for the year ended

31 March 2019

London Borough of Barking and Dagenham Pension Fund Account

	Note	2017/18 £000	2018/19 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	8	44,781	45,570
Transfers in from other pension funds	9	2,761	2,372
		47,542	47,942
Benefits	10	(38,240)	(40,216)
Payments to and on account of leavers	11	(4,216)	(2,765)
Administrative expenses	12	(723)	(773)
		(43,179)	(43,754)
Net additions for dealings with members		4,363	4,188
Returns on Investments			
Investment Income	13	18,618	9,759
Investment management expenses	14	(3,985)	(5,184)
Profit (losses) on disposal of investments and changes in the market value of investments	15	31,893	44,767
Net returns on investments		46,526	49,342
Net increase (decrease) in the net assets available for benefits during the year		50,889	53,530

Net Assets Statement as at 31 March 2019

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

	Note	2017/18 £000	2018/19 £000
Investment Assets	17	967,696	1,041,701
Current Assets	18	1,590	825
Current Liabilities	18	(910)	(20,624)
		968,376	1,021,902

Notes to the Pension Fund Accounts for the year ended 31 March 2019

1. Introduction

The Barking and Dagenham Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Barking and Dagenham (“LBBD”). The Council is the reporting entity for this Fund. The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- i. The LGPS Regulations 2013 (as amended)
- ii. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- iii. The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as “members”. The benefits include not only retirement pensions, but also widow’s pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund’s investments.

The objective of the Fund’s financial statements is to provide information about the financial position, performance and financial adaptability of the Fund and show the results of the Council’s stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund’s Pension Committee, which is a Committee of LBBD.

Overall 2018/19 was a positive year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.2%, 2.7% lower than its benchmark of 7.9%. Over three years the Fund has returned an annualised return of 9.4%, which 0.5% below the Fund’s benchmark return of 9.9%.

Equities were the main driver of outperformance, with Baillie Gifford and Kempen providing a good return of 8.8% and 7.9% for the year. Property, passive bonds and Alternatives provided positive returns of between 2.9% and 7.2%. The Fund’s credit manager and infrastructure manager were the only strategies that provided negative returns for the year, with credit providing a disappointing return of -4.7% and infrastructure providing a return of -1.9%.

A number of new employers were admitted to the Fund in 2018/19, including, B&D Trading Partnership, BD Together, BD Corporate Cleaning, BD SIP, Lewis and Graves and Town and Country. The total number of active employers within the Fund was 33 as at year end.

2. Format of the Pension Fund Statement of Accounts

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2018/19, which can be obtained from the Council’s website: <http://www.lbbdpensionfund.org>

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: www.legislation.gov.uk.

a) Membership

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

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

A list of the Fund's scheduled and admitted employers are provided below. Not Active employers do not have any current members but have either deferred or pensioners. The obligations and assets for these employers have been absorbed by the Council.

Scheduled Bodies	Admitted Bodies
<p>Active</p> <p>LBBB Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Riverside Bridge Riverside Free School Riverside School St Margarets Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy</p>	<p>Active</p> <p>Aspens B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners</p>
<p>Not Active</p> <p><i>Magistrates Court (not active)</i></p>	<p>Not Active</p> <p><i>Abbeyfield Barking Society (not active)</i> <i>Age UK (not active)</i> <i>Council for Voluntary Service (not active)</i> <i>Disablement Assoc. of B&D (not active)</i> <i>East London E-Learning (not active)</i> <i>London Riverside (not active)</i> <i>May Gurney (not active)</i> <i>RM Education (not active)</i></p>

A breakdown of the Fund's member by employer type and by member type is included in the table below:

	2017/18	2018/19
Number of Employers with active members	27	33
Number of Employees in scheme		
London Borough of Barking and Dagenham		
Active members	4,754	4,298
Pensioners	4,361	4,687
Deferred pensioners	4,468	4,731
Undecided and other members	425	231
	<u>14,008</u>	<u>13,947</u>
Admitted and Scheduled Bodies		
Active members	1,558	1,978
Pensioners	912*	965
Deferred pensioners	1,335	1,466
Undecided and other members	60	62
	<u>4,262</u>	<u>4,471</u>

* 2017/18 Admitted and Scheduled body Pensioners have been restated from 1,335 to 912 as the original number included non-fund members who had a Guaranteed Minimum Pension.

b) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service as summarised below:

	Service pre-1 April 2008	Service post 31 March 2008
Pension:	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum:	Automatic lump sum of 3 x salary. In addition part of 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.

The benefits payable in respect of service from 1 April 2014 are based on career average devalued earnings and the number of years of eligible service. The accrual rate is 1/49 and the benefits are index-linked to keep pace with inflation. From 1 April 2011, the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2018/19 financial year and its position as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2018/19. The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2019. Such items are reported separately in the Actuary's Report provided in Note 19 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis.

3.1 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts based on the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 9).

3.2 Investment income

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest 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) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

3.3 Investments in the Net Assets Statement at market value on the following basis:

- i) Quoted investments are valued at bid price at the close of business on 31 March 2019;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) 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;
- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2019. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.4 Administration

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBD's policy. These are disclosed in Note 12.

3.5 Taxation

The Fund is a registered public-sector 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 proceed of investments sold.

Taxation agreements exist between Britain and other countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. Non-recoverable deductions are classified as withholding tax.

Value Added Tax is recoverable on all Fund activities by the administering authority.

3.6 Investment management expenses

All investment management expenses are accounted for on an accrual basis.

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore, investment management fees increase / decrease as the value of these investments change.

The Fund does not include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

Most the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism. These are disclosed in Note 14.

The Council has made a prepayment of employer pension contributions to the Fund, totalling £40m. The interest costs associated with this prepayment are included as an investment management expense.

3.7 Foreign currency transactions

Dividends, interest, 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.

3.8 Derivatives

The Fund has a limited use of derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the value of derivative contracts are included in change in market value.

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

The Fund has no direct holdings in exchange traded or over-the-counter options, although some of these trading tools are used within a number of the Fund's pooled investments.

3.9 Cash and cash equivalents

Cash comprises cash in-hand and on-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.

3.10 Present Value of Liabilities

These accruals do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

3.11 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 IAS 26, 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 19).

3.12 Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

4. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 2, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. 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, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2017/18 for which there is a significant risk of material adjustment in the forthcoming financial years.

6. Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBB employees during the year amounted to **£267k** (2017/18 £338k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts. AVCs were valued by Prudential at a market value of **£4.0m** (2017/18 £4.3m).

7. Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are included in Note 9.

8. Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. Currently employer contribution rates range from 15.6% to 43.0%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due to the Pension Fund in year but unpaid will be classed as a current financial asset.

The Council uses a mechanism to stabilise the contribution rates. This was agreed following the actuary, Hymans Robertson, completing a stochastic modelling of the long-term funding position. Eligibility for stabilisation is dependent on reasonable consistency in an employer's membership profile. The primary contribution rate for the financial year ending 31 March 2019 was 23.5%.

Contributions shown in the revenue statement may be categorised as follows:

Contributions	2017/18	2018/19
Members normal contributions	£000	£000
Council	6,941	6,710
Admitted bodies	434	959
Scheduled bodies	2,118	1,913
Total contributions from members	9,493	9,582
Employers normal contributions		
Council	23,837	23,605
Admitted bodies	1,439	3,773
Scheduled bodies	8,021	7,183
Capitalised Redundancy costs	1,991	1,428
Total contributions from employers	35,288	36,933
Total Contributions	44,781	45,571

9. Transfers in from other pension funds

	2017/18	2018/19
	£000	£000
Individual Transfers	2,761	2,372
Group Transfers*	0	0
	2,761	2,372

10. Benefits

Benefits payable and refunds of contributions have been brought into the accounts based on all valid claims approved during the year.

	2017/18				2018/19			
	Admitted		Scheduled	Total	Admitted		Scheduled	Total
	Council £000	Bodies £000	Bodies £000	£000	Council £000	Bodies £000	Bodies £000	£000
Pensions	26,152	389	5,084	31,625	26,913	462	5,678	33,053
Lump sums	3,229	37	2,110	5,376	4,934	226	1,216	6,376
Death grants	835	-	404	1,239	599	1	187	787
Interest	-	-	-	-	-	-	-	-
	<u>30,216</u>	<u>426</u>	<u>7,598</u>	<u>38,240</u>	<u>32,446</u>	<u>689</u>	<u>7,081</u>	<u>40,216</u>

11. Payments to and on account of leavers

	2017/18 £000	2018/19 £000
Individual Transfers	3,966	2,439
Refunds	250	326
	<u>4,216</u>	<u>2,765</u>

12. Administrative expenses

	2017/18 £000	2018/19 £000
Administration and Processing	473	458
Audit Fee	21	16
Actuarial Fees	66	35
Legal and Other Professional Fees	39	84
ICT Costs	124	179
	<u>723</u>	<u>773</u>

13. Investment Income

	2017/18 £000	2018/19 £000
Fixed Interest Securities	423	421
Equity Dividends	16,123	6,252
Pooled Property Income	1,875	2,759
Interest - Manager's Cash	1	184
Interest - LBBD balance	31	120
Other Income	165	23
	<u>18,618</u>	<u>9,759</u>

14. Investment management expenses

	2017/18 £000	2018/19 £000
Management Fees	3,027	3,587
Advisor Fees	64	61
Performance Reporting Fees	9	14
Governance Fees	251	239
Custody Fees	28	25
Interest Costs	606	1,258
	<u>3,985</u>	<u>5,184</u>

15. Investments

The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	Value 31/03/2018 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2019 £000
Pooled Unit Trusts	778,268	5,649	-	41,381	-	825,298
Property Unit Trusts	63,662	39,570	(39,571)	490	-	64,151
Pooled Alternatives	55,488	26,209	(18,456)	5,540	-	68,781
Infrastructure	67,077	7,207	-	135	-	74,419
Other Investments	802	-	-	(155)	-	647
Derivative Contracts						
Futures	400	233,930	(231,908)	(2,648)	-	(226)
Cash Deposits						
Custodian	1,073	287,587	(284,595)	24	-	4,089
In-House	632	-	-	-	3,900	4,532
Total	967,402	600,152	(574,530)	44,767	3,900	1,041,691

	Value 31/03/2017 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2018 £000
Pooled Unit Trusts	715,607	43,634	(300)	19,327	-	778,268
Property Unit Trusts	61,208	-	(1,498)	3,952	-	63,662
Pooled Alternatives	51,285	31,926	(27,653)	(70)	-	55,488
Infrastructure	75,761	-	(14,463)	5,779	-	67,077
Other Investments	2,607	-	(1,812)	7	-	802
Derivative Contracts						
Futures	424	198,879	(201,731)	2,828	-	400
Cash Deposits						
Custodian	2,928	-	-	70	(1,925)	1,073
In-House	5,288	-	-	-	(4,656)	632
Total	915,108	274,439	(247,457)	31,893	(6,581)	967,402

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund. The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. The managers as at 31 March 2019 are highlighted below:

A list of the Fund's Fund Manager, their mandate and the asset type is outlined in the table below:

Investment Manager	Mandate	Asset Type
Aberdeen Asset Management	Active	Diversified Alternatives
Mellon Corporation	Active	Global Credit
London CIV: Baillie Gifford	Active	Global Equity (Pooled)
London CIV: Pyrford	Active	Absolute Return
London CIV: Newton	Active	Absolute Return
London CIV: Other	Passive	None
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Prudential/M&G	Active	Alternatives - UK Companies Financing
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2019 was as follows:

Fund by Investment Manager	2017/18		2018/19	
	£000	%	£000	%
Aberdeen Asset Management	55,889	5.8	68,555	6.6
BlackRock	39,031	4.0	39,651	3.8
Hermes	67,078	6.9	74,419	7.1
Kempen	153,324	15.8	165,846	16.0
Other Cash Balances	1,707	0.2	8,621	0.8
Prudential/M&G	653	0.1	498	0.0
RREEF	348	0.0	338	0.0
Schroders	24,283	2.5	24,162	2.3
Mellon Corporation	66,403	6.9	63,364	6.1
UBS Passive Bonds	35,990	3.7	37,324	3.6
UBS Passive Equity	171,957	17.9	183,816	17.7
London CIV	150	0.0	150	0.0
London CIV - Baillie Gifford	186,184	19.2	202,492	19.5
London CIV - Pyrford	99,780	10.3	103,188	9.9
London CIV - Newton	64,625	6.7	69,267	6.6
Total	967,402	100.0	1,041,691	100.0

16. Cash

The cash balance held at 31 March 2019 is made up as follows:

Cash balances held by Investment Managers	2017/18 £000	2018/19 £000
Aberdeen Asset Management	928	1,541
Prudential / M&G	0	184
Schroders	26	862
BlackRock	74	1,499
Other balances	46	3
In-house Cash	633	4,532
Total Cash	1,707	8,621

17. Securities

	2017/18 £000's	2018/19 £000's
Investment Assets		
Pooled funds - UK		
UK fixed Income Unit Trust	35,990	37,324
UK Equity Unit Trust	358,291	386,458
UK Absolute Return	164,405	172,455
UK Property Unit Trust	24,631	24,500
UK Unit Trust	653	498
Pooled funds - Overseas		
Overseas Fixed Income Unit Trust	66,403	63,364
Overseas Equity Unit Trust	153,324	165,846
Overseas Property Unit Trust	39,031	39,651
Other Investment - Infrastructure	67,078	74,419
Other Investment - Private Equity	22,720	34,714
Other Investment - Hedge Funds	32,770	34,067
Other Investment – Tax Recoverable	294	10
Cash	1,707	8,621
Futures	400	(226)
Total Investment Assets	<u>967,696</u>	<u>1,041,701</u>
Current Assets: Debtors	1,590	825
Current Liabilities: Creditors	<u>(910)</u>	<u>(20,624)</u>
Total Net Assets	<u>968,376</u>	<u>1,021,902</u>

18. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2019:

	2017/18 £000	2018/19 £000
Debtors		
Other Investment Balances		
Tax recoverable	294	10
Current Assets		
Other local authorities	1,130	347
Other entities and individuals	460	478
Total Current Assets	<u>1,590</u>	<u>825</u>
Total Debtors	<u>1,884</u>	<u>835</u>
Current Liabilities		
Other local authorities	725	382
LBBB Prepayment	-	20,000
Other entities and individuals	185	242
Total Creditors	<u>910</u>	<u>20,624</u>

19. Holdings

All holdings within the Fund as at 31 March 2019 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2019 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2019 £000	% of Total Fund %
London CIV - Baillie Gifford	202,492	19.5
UBS Passive Equity	183,816	17.7
Kempen	165,846	16.0
London CIV - Pyrford	103,188	9.9
Hermes	74,419	7.1
London CIV - Newton	69,267	6.7
Mellon Corporation	63,364	6.1

20. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Committee on 15 March 2018 and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Investment Strategy Statement.

Copies can be obtained from the Council's Pension website: <http://www.lbbdpensionfund.org>

21. Actuarial position

Actuarial assumptions

The 2016 triennial review of the Fund took place as at 31 March 2016 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period reduced from 20 years in 2013 to 17 years in 2016;
- The key financial assumptions adopted at this valuation are:
 - Future levels of price inflation are based on the Consumer Price Index (CPI);
 - Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
 - The resulting discount rate of 4.1% (4.7% as at 31 March 2013).
- Market value of the scheme's assets at the date of the valuation were £772 million;
- The past service liabilities at the rate of the valuation were £1,001 Million;
- The resulting funding level was 77.2% (70.6% as at 31 March 2013); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date:

Longevity Assumptions	2013	2013	2016	2016
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	21.8	24.0	22.0	24.7
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.1	26.5	24.0	26.4

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2016 valuation are set out below:

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.7%*	1.9%*
Discount rate	4.7%	4.1%
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
Benefit increase assumption (CPI)	2.5%	2.1%
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.6%)*
Salary increase assumption	3.8%	2.6%

*Adjustments are applied arithmetically in 2013 and geometrically in 2016

Funding level and position

The table below shows the detailed funding level for the 2016 valuation:

Employer contribution rates	As at 31 March	
	2013	2016
Primary Rate (net Employer Future Service Cost)	18.7%	18.2%
Secondary Rate (Past Service Adjustment – 17-year spread)	12.7%	6.8%
Total Contribution Rate	31.4%	25.0%

The Primary rate above includes an allowance for administration expenses of 0.4% of pay. The employee average contribution rate is 6.7% of pay. The table below shows the funding position as at 31 March 2016.

Past Service Funding Position at 31 March	As at 31	As at 31
	March 2013	March 2016
Past Service Liabilities	£m	£m
Employees	(316)	(324)
Deferred Pensioners	(180)	(221)
Pensioners	(406)	(456)
	(902)	(1,001)
Market Value of Assets	636	772
Funding Deficit	(266)	(228)
Funding Level	70.6%	77.2%

Present value of funded obligation

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to

be **£1,676m** as at 31 March 2019 (31 March 2018: £1,487m). This figure is used for statutory accounting purposes by the Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2018/19 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
Barking College	25.3	Aspens	31.3
Dorothy Barely Academy	18.7	B&D Citizen's Advice Bureau	43.0
Eastbury Academy	23.6	BD Corporate Cleaning	27.8
Elutec	20.0	BD Schools Improvement Partnership	27.7
Goresbrook Free School	15.6	BD Together	27.8
Greatfields Free School	23.5	Be First	27.0
James Cambell Academy	22.8	Cleantech	28.1
LBBB	23.5	Elevate East London LLP	21.3
Partnership Learning	21.9	Laing O'Rourke	28.1
Riverside Bridge	17.7	Lewis and Graves	23.5
Riverside Free School	17.6	Schools Offices Services Ltd	24.4
Riverside School	17.3	Sports Leisure Management	22.2
St Margarets Academy	23.0	The Broadway Theatre	31.1
Sydney Russell	20.5	Town and Country Cleaners	24.7
Thames View Infants Academy	18.1		
Thames View Junior Academy	20.0		
University of East London	28.6		
Warren Academy	24.4		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

22. 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. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the **Fund at Level 1 were £834.6m**

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 use inputs that are based significantly on observable market data. For the Fund these investments includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The Fund did not hold any Level 2 investments as at 31 March 2019.

Level 3

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

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure 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 total financial instruments held by the Fund at **Level 3 were £207.4m.**

23. Events after the Reporting Period

None

24. Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council. Pension administration and investment management costs of **£751.1k** (2017/18: £658.2k) are charged by the Council.

25. Contingent Asset and liabilities

As at 31 March 2019 there were no contingent assets or liabilities.

26. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Committee, the Chief Operating Officer, the Director of Finance, the Group Manager for Treasury and Pensions and the Treasury Manager, charged to the Fund are provided below:

	2017/18	2018/19
	£000	£000
Short Term employee benefits	243.0	231.7
Total	243.0	231.7

27. 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 (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Financial assets	Designated as fair value through profit and loss			Designated as fair value through profit and loss		
	Loan and receivables	Financial liabilities at amortised cost	Loan and receivables	Financial liabilities at amortised cost	Loan and receivables	Financial liabilities at amortised cost
	2017/18		2018/19			
	£000	£000	£000	£000	£000	£000
Pooled Fixed Income Unit Trusts	102,393	-	-	100,688	-	-
Equities	511,615	-	-	552,304	-	-
Property Unit Trusts	63,663	-	-	64,151	-	-
Cash		1,707	-		8,620	-
Other investments	288,318	-	-	315,938	-	-
Total Financial Assets	965,989	1,707	-	1,033,081	8,620	-
Financial Assets - Debtors			1,590			825
Financial liabilities - Creditors		-	(910)			(20,624)
Total Net Assets	965,989	3,297	(910)	1,033,081		(19,799)

28. Nature and extent of risks arising from Financial Instruments

The Fund activities expose it to a variety of financial risks, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meet its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

In additions, 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 Fund's Committee. Risk management policies have been 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.

Risk and risk management

Market risk

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from 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, whilst 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:

- Fund's exposure to market risk is monitored by reviewing the Fund's asset allocation; and
- Specific risk exposure is limited by applying maximum exposures to individual investments.

Fund equity managers may use futures contracts and exchange traded option contracts to manage market risk on equity investment.

Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

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 depends largely on Funds' asset allocations.

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. The Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Class	One Year Expected Volatility (%)	Asset Class	One Year Expected Volatility (%)
Global Pooled Inc UK	10.01	Alternatives	3.92
Total Bonds	4.52	Cash	0.01
Property	2.32		

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one-year standard deviation for a single currency. Had the market price of the Fund investments increased or 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 as at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	100,688	4.52	105,240	96,137
Pooled Equity Investments	552,304	10.01	607,590	497,018
Pooled Property	64,150	2.32	65,639	62,663
Pooled Absolute Return	172,455	3.92	179,215	165,695
Infrastructure	74,419	3.92	77,336	71,502
Other Investments	69,064	3.92	71,771	66,356
Cash	8,621	0.01	8,623	8,619
Total	1,041,701		1,115,412	967,990

Asset Type	Value as at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	102,393	4.52	107,021	97,765
Pooled Equity Investments	511,615	10.01	562,828	460,402
Pooled Property	63,662	2.32	65,139	62,185
Pooled Absolute Return	164,405	3.92	170,850	157,960
Infrastructure	67,078	3.92	69,707	64,449
Other Investments	56,837	3.92	59,065	54,609
Cash	1,707	0.01	1,707	1,707
Total	967,697		1,036,317	899,077

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 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 movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2018 £000	As at 31 March 2019 £000
Cash and cash equivalent	1,707	8,621
Fixed interest securities	102,393	100,688
Total	<u>104,100</u>	<u>109,309</u>

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 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:

Asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	8,621	86	(86)
Fixed interest securities	100,688	1,007	(1,007)
Total	<u>109,309</u>	<u>1,093</u>	<u>(1,093)</u>

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Cash and cash equivalent	1,707	17	(17)
Fixed interest securities	102,393	1,024	(1,024)
Total	<u>104,100</u>	<u>1,041</u>	<u>(1,041)</u>

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 (sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

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

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 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 Pension Committee Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBB needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long-term shortfall in net income into the Fund, investment income will be used to cover the shortfall.

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

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's 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 treasury management and investment strategies.

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.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they 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.

29. London Borough of Barking and Dagenham

The Fund is administered by LBBB. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred administration and investment management costs of **£751.1k** (2017/18 £748.0k) 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 Fund and contributed **£23.6m** to the Fund in 2018/19 (2017/18 £23.8m). All monies owing to and due from the Fund were paid in year.

In 2018/19 the Council prepaid two-years' worth of employer contributions, totalling **£40.0m**. As at 31 March 2019 one-year worth of prepaid employer's contribution remained totalling **£20.0m** with the Fund and this has been included as a prepayment in the Fund's debtors.

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PENSIONS COMMITTEE

12 June 2019

Title: Application for Admitted Body Status – Caterlink	
Report of the Chief Operating Officer	
Public Report	For Decision
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary:	
To consider the application for Admitted Body status from Caterlink to the Local Government Scheme (LGPS).	
The Committee is asked to agree the application for Admitted Body Status by Caterlink, as a 'closed' agreement.	

1 Introduction and Background

- 1.1 At present, the Pension Fund has a number of Admitted Bodies, some of which have been members of the London Borough of Barking and Dagenham Pension Fund (“the Fund”) for a number of years.
- 1.2 As the Administering Authority, the Council cannot decline to admit a contractor if the contractor and the letting authority agree to meet the relevant requirements of the Local Government Pension Scheme (LGPS) regulations. In cases where the requirement of the LGPS regulations have been met, the Pension Committee can agree to retrospectively agree an admission agreement.

2 T&CC Admission Agreement

- 2.1 Goresbrook School have appointed Caterlink as their catering contractor. Caterlink will be a Transferee Admission Bodies (TAB) within the LGPS. These are typically private sector companies or charities. They take on staff from a scheduled body as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a “broadly equivalent” scheme.

- 2.2 Caterlink will be responsible for the risks, including investment risk, bond yield risk, inflation risk, pay award risk, longevity and regulatory risk. Caterlink will require a bond.
- 2.3 The transfer of the staff from the Council to Caterlink was completed on a fully funded basis, with the pension deficit remaining with the Council. The contribution rate calculated by the actuary for T&CC is 24.7%.
- 2.4 This Admission Agreement is a 'closed' agreement and there is only one Member of staff.

3. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 3.1 It is now usual when considering requests for Admitted Body status to consider the financial risks that can fall upon the fund should the Admitted Body fall into financial difficulties. To mitigate these risks a form of financial guarantee or an indemnity bond is required.

4. Legal Implications

Dr. Paul Feild, Senior Governance Solicitor

- 4.1 As outlined in the report, there is the potential for the fund to carry a risk if the organisation which seeks admission defaults in its obligation. As a result, additional measures need to be taken in the form of an agreement back by a guarantor or a bond to cover possible losses if the organisation cannot meet its liabilities so as to ensure that the admission of the body does not present additional risks to the fund.

PENSIONS COMMITTEE

12 June 2019

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Recommendations	
The Committee is recommended to note:	
(i) that the Fund is cash flow positive;	
(ii) the Fund's three-year budget for the period 1 April 2019 to 31 March 2022; and	
(iii) the Independent Advisor's LGPS Update at appendix 1 to the report.	

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers five main areas including:

- i. Pension Fund Budget 1 April 2019 to 31 March 2022;
- ii. Cash flow to 31 March 2020;
- iii. Update on the custodian tender;
- iv. An LGPS update by the Independent Advisor (appendix 1); and

2. Pension Fund Budget 1 April 2019 to 31 March 2022

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2022.

Table 1: Pension Fund Budget 1 April 2019 to 31 March 2022

<u>Contributions</u>	2019/20	2020/21	2021/22
	Budget	Budget	Budget
Opening Market Value	1,022,000	1,040,500	1,077,300
Employee Contributions			
Council	6,200	6,000	5,800
Admitted bodies	1,000	900	800
Scheduled bodies	1,900	1,950	2,000
Employer Contributions			
Council	22,000	21,000	20,000
Admitted bodies	6,900	6,200	5,500
Scheduled bodies	7,100	7,250	7,400
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	<u>48,600</u>	<u>46,800</u>	<u>45,000</u>
<u>Expenditure</u>			
Pensions	(35,000)	(36,500)	(37,500)
Lump Sums and Death Grants	(6,000)	(6,000)	(6,000)
Transfers Out	(2,500)	(2,500)	(2,500)
Administrative expenses	(750)	(700)	(700)
Total Expenditure on members	(44,250)	(45,700)	(46,700)
<u>Net dealings with members</u>	<u>4,350</u>	<u>1,100</u>	<u>(1,700)</u>
<u>Returns on Investments</u>			
Investment Income	7,000	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	(3,100)	(3,100)	(3,100)
Net returns on investments	38,900	39,400	39,400
Net increase (decrease) in assets	43,250	40,500	37,700
Closing Market Value	<u>1,065,250</u>	<u>1,081,000</u>	<u>1,115,000</u>

- 2.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council. The forecast is for the Council contribution to decrease and the admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease in 2020/21 and 2021/22.
- 2.3 An increase in lump sum payments is projected but it is expected that this will be mitigated by an increase in pension strain. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 2.4% for 2019/20.
- 2.4 Overall the Fund is expected to be cashflow negative in 2021/22 if investment income and management expenses are included but return is excluded.

3. Cash flow to 31 March 2019

3.1 Table 2 below provides Members with the Fund's Cash flow to 31 March 2019.

Table 2: Actual Pension Fund Cash Flow to 31 March 2019

	2018/19 Budget £000's	2018/19 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
<u>Employee Contributions</u>			
Council	4,500	6,710	2,210
Admitted bodies	2,200	959	(1,241)
Scheduled bodies	2,500	1,913	(587)
<u>Employer Contributions</u>			
Council	18,000	23,605	5,605
Admitted bodies	5,000	3,773	(1,227)
Scheduled bodies	9,000	7,183	(1,817)
Pension Strain	1,000	1,428	428
Transfers In	2,500	2,373	(127)
<u>Total Member Income</u>	44,700	47,944	3,244
<u>Expenditure</u>			
Pensions	(33,000)	(33,054)	(54)
Lump Sums and Death Grants	(6,000)	(6,976)	(976)
Payments to and on account of leavers	(3,500)	(2,746)	754
Administrative expenses	(600)	(786)	(186)
<u>Total Expenditure on members</u>	(43,100)	(43,562)	(462)
<u>Net additions for dealings with members</u>	1,600	4,382	2,782
<u>Returns on Investments</u>			
Investment Income	7,000	9,599	2,599
Profit (losses)	35,000	44,385	9,385
Investment management expenses	(3,100)	(5,182)	(2,082)
<u>Net returns on investments</u>	38,900	48,802	9,902
Accruals	-	343	343
<u>Net increase (decrease) in the net assets</u>	40,500	53,527	13,027
<u>Asset Values</u>	1,008,876	1,021,903	
<u>Liabilities</u>	(1,200,000)	(1,320,000)	
<u>Funding Level</u>	84.1%	77.4%	

4. Update on the custodian tender

4.1 Custodian Tender

On 1 February 2019 the Fund tendered for Custody and Performance monitoring, using the National LGPS Framework for Global Custody Services. The Fund used a Further Competition to assess and evaluate which Custodian best meets the Fund's requirements.

Mercer Sentinel, the technical advisors to the framework, independently evaluated and scored each service provider, based on specific and targeted technical proposals submitted in providers' applications to join the framework. In addition, specific additional requirements included as part of the evaluation criteria. The

evaluation criteria used is summarised below and included a combination of scoring using Mercer Sentinel, Specific Questions and the Model Portfolio provided:

Evaluation Criteria	Percentage	Basis
Quality Offered	20%	Mercer Sentinel Score + Specific Questions
Service Fit	40%	Mercer Sentinel Score + Specific Questions
Value for Money	40%	Model Fund Portfolio

A deadline for receipt of proposals was set at 17:00 on 12 February 2019.

Scoring was completed on the 13th February and Northern Trust were appointed, subject to a 10-day standstill period.

The transition process from State Street to Northern Trust is fully underway with the completion date as at 31 May 2019. Northern Trust are also liaising with investment managers to obtain information regarding each fund to proceed with their transitional responsibilities. State Street will continue to provide custody and performance monitoring to 31 May 2019.

5. Consultation

- 5.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the commentary in this report.

6. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 6.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

7. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

- 7.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

8. Other Implications

- 8.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long-term workload of the Pension Fund. This will continue to be monitored.

Background Papers Used in the Preparation of the Report: None

List of appendices:

- i. the Independent Advisor's LGPS Update;

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JOHN RAISIN FINANCIAL SERVICES LIMITED

London Borough of Barking & Dagenham Pension Fund

LGPS Update

A paper by the Independent Advisor
May 2019

Introduction

The purpose of this paper is to update the Pensions Committee on developments in respect of a range of important issues in the Local Government Pension Scheme (LGPS). This paper does not seek to address every significant issue relevant to the LGPS but rather those which appear to be the most relevant to the Barking and Dagenham Pensions Committee at this time. In respect of the Scheme Advisory Board project – Good Governance in the LGPS Project, Investment Pooling, Investment Cost Transparency, the Pensions Regulator and the LGPS this paper updates information provided in the Independent Advisor’s previous LGPS Update paper which was presented to the 13 March 2019 meeting of the Pensions Committee.

The issues covered in this paper are:

- Scheme Advisory Board project – Good Governance in the LGPS Project
- Investment Pooling
- Investment Cost Transparency
- The Pensions Regulator and the LGPS
- The LGPS Cost Control process and advice issued on 14 May 2019 by the LGPS Scheme Advisory Board
- LGPS Consultation: Changes to the Local Valuation Cycle and the Management of Employer Risk

Scheme Advisory Board project – Good Governance in the LGPS

Hymans Robertson are now undertaking work to develop possible future options for the Governance of the LGPS. Following an initial fact-finding stage involving a sample of key stakeholders from across the LGPS Hymans Robertson have issued a survey to over 300 stakeholders on four Options in respect of possible Governance models. Every single LGPS Fund in England and Wales (approaching 90 in total) will be invited to respond. These four options are further developments of the two broad options of **Separation**

within existing structures and **Separation via new structures** referred to in the report presented to the 13 March 2019 meeting of the Pensions Committee.

The four Options which are now subject to consultation with stakeholders may be summarised as:

1. **Option 1 – Improved Practice:** Introduce guidance or amendments to the LGPS Regulations 2013 to enhance the existing LGPS Governance arrangements by making more explicit recommendations regarding the operation of local LGPS Funds. This might include Scheme Advisory Board (SAB) guidance on minimum expected levels of staffing and resourcing and representation on Pensions Committees together with amendments to the LGPS regulations to enhance the consultation in respect of the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS).
2. **Option 2 – Greater ring fencing of the LGPS within existing structures:** Greater separation of the Pension Fund management from the host authority. This would likely include a Pension Fund Budget set by the Pensions Committee at the start of the year with reference to the Pension Fund’s Business Plan and needs. Any changes to the budget would need to be approved by the Pensions Committee. The Section 151 Officer could remain responsible for the pensions function but recommendations on the Pension Fund Budget would be made by a Pension Fund Officer to the Pensions Committee. Provision for charges from the host authority such as legal support or HR would be in the Pension Fund Budget and not be simply recharged at the host authority’s discretion. Under this model policies over certain HR matters could potentially be taken by the Pensions Committee.
3. **Option 3 – use of new structures: Joint Committee (JC):** The Scheme Manager function (Administering Authority role currently undertaken by the London Borough of Barking and Dagenham) would be delegated to a Joint Committee. As London Borough LGPS Funds only consist of one major local authority a Joint Committee structure would only make sense in London if it comprised of a number of London Boroughs who presently each operate their own LGPS Fund.
4. **Option 4 – use of new structures: Combined Authority (CA):** Under this model an independent structure with the Scheme Manager function (equivalent to the Administering Authority responsibility) would be established and all Pension decision making would be made by this “Combined Authority (CA).” The CA would be a local authority in its own right and a separate legal entity but responsible only for LGPS matters. If this option were adopted in London it would only make sense if each CA took over the functions of a number of London Borough LGPS Funds. The CA would consist of Councillors from the Councils (in the case of London the London Boroughs) within the geographical area covered by the CA. Other Employer and Employee representatives may also be included in decision making. There is one example of a combined authority in the LGPS at present which is the South Yorkshire Pension Fund which covers the geographical areas of Barnsley, Doncaster, Rotherham and Sheffield Metropolitan Borough Councils.

The survey is to be supplemented by Hymans Robertson undertaking phone interviews, face to face meetings, workshops, conference sessions, webinars and conversations with professional bodies. The findings from all this activity will form the basis of a report to be

presented to the Scheme Advisory Board in July 2019. There will then be further consideration, including of legal implications, before a final decision by the Scheme Advisory Board (SAB) which is expected in the Autumn. Any decision by SAB which requires a change to the LGPS Regulations or primary legislation (an Act of Parliament) would have to be referred for further consideration (including undertaking any necessary further consultation) to the Ministry of Housing, Communities and Local Government (MHCLG). Therefore, any significant changes to the governance of the LGPS arising from this project will not be implemented until 2020 at the earliest.

Investment (Asset) Pooling

In January 2019 the Ministry for Housing, Communities and Local Government (MHCLG) issued a restricted Consultation on new Statutory Guidance in respect of Asset Pooling. The draft Statutory Guidance together with an eight page paper by the Independent Advisor entitled "*Observations on the draft LGPS Statutory Guidance on Asset Pooling issued 3 January 2019*" formed part of the Agenda of the Pensions Committee of 13 March 2019.

The Consultation closed on 28 March 2019. It is understood that an MHCLG representative informed the meeting of the LGPS Scheme Advisory Board held on 8 April 2019 that 93 responses had been received to the Consultation and that many of these were very detailed and would need very careful consideration.

It is also understood that amongst the issues raised in the Consultation responses were views that the Consultation had been carried out in a manner contrary to Cabinet Office Principles on Consultations and that some of the content of the draft Statutory Guidance was in reality a matter of Regulation rather than Statutory Guidance and therefore inappropriate for inclusion in the Consultation. At the date this LGPS Update paper was completed the MHCLG had not issued any further statement on the draft Statutory Guidance on Asset Pooling and the next stage in the development of the guidance framework for Asset Pooling was unknown.

Investment Cost Transparency

The LGPS Update provided to the 13 March 2019 Pensions Committee included a detailed commentary on the development of Investment Cost Transparency in the LGPS. It also explained the work of the Institutional Disclosure Working Group (IDWG) and the Cost Transparency Initiative (CTI) to build on the work undertaken by the LGPS Scheme Advisory Board and to extend Investment Cost Transparency to the pensions industry in general.

On 21 May 2019 the CTI published three templates for Asset Managers to report standardised costs and charges information to pension schemes. These are **The User Summary** (which can be used by pension schemes, and their advisers, to provide a summary of key information), **The Main Account Template** (which covers the majority of assets and product types), **The Private Equity Sub Template** (a cost disclosure template to be completed by asset managers of closed-ended private equity funds which where appropriate may also be used in relation to private debt investments). The CTI have stated that the templates "*have gone through a very robust process of development and testing, including a pilot process with 20 participants – both asset managers and schemes.*"

Also, on 21 May 2019 the LGPS Scheme Advisory Board issued a communication welcoming the release of the CTI templates and associated guidance. This communication included the statement that *“these templates will from today be adopted as an integral part of the Board’s Code of Transparency. Existing Code signatories which number in excess of 110 will be encouraged to make use of the new templates as soon as possible but will have a transition period of up to 12 months to ensure they can adapt systems without interrupting the current flows of data. New signatories, including those property and private markets managers who can take advantage of the new templates will be expected to use them immediately.”*

Clearly the issuing of the new templates by the CTI represents a further step in terms of openness, facilitating comparisons and scrutinising /constructively challenging Investment Managers charges. The new templates will enhance clarity of cost and value for not only the LGPS but other pension schemes too.

The Pensions Regulator and the LGPS

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator (tPR) to include public service pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015.

As explained in the LGPS Update presented to the Pensions Committee on 13 March 2019 the approach of the Pensions Regulator to pensions administration in the LGPS had caused, on 28 November 2018, the Chair of the LGPS Scheme Advisory Board in England and Wales (SAB) to write a robust letter to the Chief Executive of the Pensions Regulator (tPR). In response the Chief Executive of the tPR had stated that a senior member of her team would be available to attend the April 2019 meeting of the Scheme Advisory Board (SAB).

Two senior representatives of tPR – including the Executive Director of Front Line Regulation - attended the meeting of the SAB held on 8 April 2019. At this meeting they made a presentation. An Update note on the SAB website states that the main points made by the tPR representatives included:

- tPR’s work with the LGPS was about supervision not enforcement
- High risk cohort work has been positive with no need for any improvement plans or enforcement action
- Some concerns about some Employers and Fund Authorities still using paper data inputs and records. Results will be published in June 2019 on an anonymised basis
- Results of last year’s Governance and Administration survey would be published in May 2019
- Code of Practice 14 is the first requirement that Scheme Managers (Administering Authorities) should have regard to but there are other codes and practice notes that also need to be taken on board

The response of the tPR as reported in the Update note of the SAB meeting held on 8 April 2019 seemingly indicates a genuine intention by tPR to work positively with the LGPS going forward.

The LGPS Cost Control process and advice issued on 14 May 2019 by the LGPS Scheme Advisory Board

The Public Service Pensions Act 2013 introduced into the major public service pension schemes, including the LGPS, a cost control mechanism to seek to ensure the cost of providing pensions is kept within a range of costs. The Cost control mechanism is primarily concerned with calculating the cost of providing benefits to Employees of each of the major public service pension schemes.

For the LGPS in England and Wales there are two cost control mechanisms:

- The employer cost cap (ECC) process as operated by HM Treasury
- The future service cost (FSC) process as operated by the LGPS Scheme Advisory Board (SAB).

Either process can result in changes to the Scheme design and/or Employee contribution rates if the costs of the LGPS move sufficiently from a “target cost.”

A review of the 2016 LGPS Actuarial Valuation results (on a national basis) was undertaken by the Government Actuary Department (GAD) which determined that the costs of the LGPS had fallen below the future service “target cost” of 19.5%. Therefore, SAB proposed a series of improvements to the Scheme to bring costs back within the target cost. On the 21st December 2018 SAB issued a statement to LGPS stakeholders setting out the cost cap process, proposed SAB package of changes to the Scheme, and the recommendations to MHCLG Ministers to bring costs back within the “target cost.” The proposed improvements were due to be implemented from 1 April 2019 and included:

- Minimum Death-in-Service lump sum of £75,000 per member (not Employment)
- Revised member contribution rates and bandings, which take account of varying tax relief
- A 2.75% contribution rate for salaries between £0 and £12,850
- An expansion of Band 2, to cover salaries between £12,851 and £22,500, and a contribution rate reduction from 5.8% to 4.4%
- An expansion of the 6.8% contribution band from £45,200 to £53,500

On 30 January 2019, however, the Government announced a pause in the implementation of the cost cap process across public service pension schemes. The reason for this is that in December 2018 the Government had lost two cases in the Court of Appeal (the McCloud case relating to the Judicial Pension Scheme and the Sargeant case relating to the Firefighter’s Pension Scheme) which have a direct impact on the cost of all public service pension schemes. On 7 February 2019 the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud and Sargeant cases announced by the Government on 30 January 2019 applies equally to the LGPS as to the unfunded public service pension schemes. Given that confirmation the SAB considered it had no option but to pause the SAB LGPS cost management process pending the outcome of the McCloud and Sargeant cases.

This challenge which is referred to collectively as the 'McCloud Case' concerns the transitional protections given to members of the Judges' and Firefighter's Pension Schemes when their pension schemes were revised consequent to the Public Service Pensions Act 2013. On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination. The Government has applied to the Supreme Court for permission to appeal the decision.

If the protections are ultimately deemed to be unlawful, those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced. Protections were applied to all members within 10 years of retirement in all public service schemes.

Despite the actual court proceedings relating specifically to the Judges' and Firefighter's Schemes it is believed that the outcome will apply to all public service schemes. Given that if the decision of the Court of Appeal in the 'McCloud Case' is confirmed this will increase the cost of providing public service pension schemes, including the LGPS, is it therefore absolutely logical that the implementation of any amendments to public service pension schemes, including the LGPS, proposed under the cost control mechanisms be put on hold.

The timing and outcome of the "McCloud case" is presently unknown but will have an effect on the liabilities, and therefore the cost, of the LGPS. As each individual LGPS Fund is currently undergoing a full Actuarial Valuation the LGPS Scheme Advisory Board (SAB) issued advice (On 14 May 2019) under Regulation 110(3) of the Local Government Pension Scheme Regulations 2013 entitled "**Guidance for the 2019 Valuation in respect of cost cap process and the McCloud and Sargeant age discrimination case (McCloud).**" With regard to the approach LGPS Funds should take to the 2019 Actuarial Valuation the SAB Guidance includes the following:

Given the unknown nature in the scale and timing of any impact on liabilities as a result of Cost Cap and McCloud the following approach to the 2019 valuation is advised; That -

- I. If there is no finalised outcome on Cost cap/McCloud (in the form of a formal notification by MHCLG to administering authorities including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.*
- II. In setting employer contributions for 2020 each administering authority should, with their Actuary, consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks. This should be to allow employers to be aware of and make provision for the potential cost even though any additional contributions may not commence until after the outcome is known.*
- III. Once the outcome of Cost cap/McCloud is known and appropriate benefit changes are made, administering authorities should re-visit employer contributions under such statutory guidance or provision in regulation as may be available at that time....*

- IV. *At present the impact on exit payments and credits is unknown. Therefore, authorities should take account of regulatory requirements, FSS provisions and discuss the approach to be taken with their actuaries....*
- V. *In order to provide some assistance for authorities in assessing the potential impact of McCloud the SAB have commissioned GAD to estimate both an overall scheme McCloud cost and a 'worst case' McCloud scenario on a range of pay assumptions. These figures will be published on the SAB website as soon they become available.*

It is very helpful that the SAB has issued advice/guidance to LGPS Funds with respect to the 2019 Actuarial Valuation given the present uncertainty arising from the "McCloud case." Once the final judgement in this case is confirmed the implications will need to be considered by the Treasury and LGPS SAB in the context of the LGPS and any resultant amendments to the Scheme determined and put into effect.

LGPS Consultation: Changes to the Local Valuation Cycle and the Management of Employer Risk

On 8 May 2019 the MHCLG issued a Consultation entitled "***Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk***" This Consultation remains open until 31 July 2019. Proposals in the consultation include:

- To change the local Fund Valuation cycle of the LGPS from the existing three year (triennial) cycle to a four year (quadrennial) one with effect from 2024 – so as to align future LGPS Valuations at both local level and nationally (for Cost Control process purposes) with the Valuation timetable for other public service pension schemes
- That the 2019 local Fund Valuations result in Employer Contribution rates for three years (1 April 2020 to 31 March 2023) and a further local Fund Valuation be undertaken in 2022 resulting in Employer Contribution Rates for two years (1 April 2023 to 31 March 2025). Thereafter LGPS Valuations would take place in 2024 and every four years afterwards. The 2024 Valuation would result in Employer Contribution Rates for 1 April 2025 to 31 March 2029.
- The introduction of a power for LGPS funds to undertake interim valuations of a full or partial nature – this recognises the fact that the introduction of a longer valuation period of four years increases the scope for changes in assets and liabilities between valuations with a consequent potential increase in risks for LGPS Funds and their Employers
- A widening of the power that allows LGPS Funds (Administering Authorities) to amend an Employer's Contribution Rate in between valuations – this is a recognition that the introduction of a four yearly Actuarial Valuation timetable provides, in the words of the Consultation "*fewer opportunities to respond to changes in the financial health of scheme employers*"

- To allow LGPS Funds (Administering Authorities) to permit Employers which are ceasing to employ any active members and are exiting the LGPS the flexibility to spread exit payments over a period, where this would be interests of the LGPS Fund and other Employers as well as the Employer in question
- Introducing a ‘deferred employer’ status that would allow LGPS Funds to defer the triggering of an exit payment for certain Employers who are ceasing to employ any active members and who are considered to have a sufficiently strong covenant and make an ongoing commitment to meet their existing liabilities through a deferred employer debt arrangement. This commitment is intended to protect the LGPS Fund and other Employers. The Consultation suggests that *“this will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme”*
- A review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an Employer.
- Removing the requirement for Further Education Corporations, Sixth Form College Corporations and Higher Education Corporations in England to offer membership of the LGPS to their non-teaching staff for new Employees.

The above is a brief summary of some of the proposals within this Consultation. Given the importance and likely effects of the changes proposed in the Consultation together with the opportunity to make comments and suggestions for the amendment of the proposals the London Borough of Barking and Dagenham should carefully consider the Consultation and if it considers appropriate formally respond by the closing date of 31 July 2019.

Conclusion

This paper has sought to inform and update the Pensions Committee on a number of important issues affecting the LGPS and with which it is desirable that the Members of the Committee are appropriately conversant.

John Raisin

30 May 2019

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PENSIONS COMMITTEE**12 June 2019**

Title: Business Plan Update 2019/20	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Wards Affected: None
Report Author: David Dickinson, Investment Fund Manager	Report Author: David Dickinson, Group Manager Pensions and Treasury
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
<p>Summary</p> <p>The purpose of this report is to update the Pension Committee on progress regarding the Pension Fund's 2019 business plan.</p> <p>Appendix 1 provides a summary of the Business Plan actions from 1 January 2019 to 31 May 2019 and the actions for the remainder of the year.</p>	
<p>Recommendations</p> <p>The Committee is asked to note progress on the delivery of the 2019/20 Business Plan in Appendix 1 to the report</p>	

1. Comments of the Finance Officer

- 1.1 The Business Plan includes the major milestones and issues to be considered by the Committee and includes financial estimates for the investment and administration of the fund and appropriate provision for training.
- 1.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

2. Comments of the Legal Officer

- 2.1 The Committee has been constituted by the Council to perform the role of administering authority to manage the Fund and as such has legal authority to make the decisions sought by the recommendations. Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

List of appendices:**Appendix 1 - Business Plan Update**

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Business Plan Update

Month	Action Scheduled	By	Actual Activity
Jan 19	Review of Risk Register	Officers	Completed as part of the Business Plan
Feb 19	IAS 19 Data Collection (LBBD)	Officers	Submitted to Hymans Robertson
Mar 19	Fund Manager Meetings:		
	• Infrastructure: Hermes	Officers	Meeting held with Hermes in March 2019
	• Equities: Aberdeen Standard	Officers	Meeting held with Aberdeen Standard in March 2019
	Quarterly Pension Committee Meeting	All	Completed
Apr 19	Fund Manager Meetings:		
	• Global Credit: BNY Standish	Officers	Meeting held with Standish in April 2019
	• London CIV	Officers	Meeting held with London CIV in April 2019
	• Equities: UBS	Officers	Meeting held with UBS in April 2019
	• Property: Schrodgers	Officers	Meeting held with Schrodgers in April 2019
	• Property: BlackRock	Officers	Meeting held with BlackRock in April 2019
	IAS 19 Results	Officers	Completed and included in Council's accounts
May 19	Closure of Accounts	Officers	Draft included in June Committee Papers
	Fund Manager Meetings:		
	Equities: Kempen	Officers	Meeting held with Kempen in May 2019
	Draft Accounts to June Panel	Officers	Included in June Committee Papers
Jun 19	Cash Flow Report to June Pension Committee	Officers	Included in June Committee Papers
	Quarterly Pension Committee Meeting	All	
	Actuary valuation process discussion	Actuary	Actuary to attend Committee Meeting
	Transition to new custodian- Northern Trust	Officers	Transitioned 3 rd June
	Credit Manager Interviews	All	Interviews to be held on 13 th June 219
July 19	FRS102 Data Collection – UEL and Barking College	Officers	
	Review Key Pension Fund Documents	Officers	
	Member Training - Member Induction and Investments	All	

	Fund Manager Meeting		
	<ul style="list-style-type: none"> London CIV 	Officers	
Aug 19	FRS102 Data Collection – Academies	Officers	
Sep 19	Quarterly Pension Committee Meeting	Officers / Members	
	Member Training: Actuarial and Advisor requirement	Officers / Members	
	Review Fixed Income Strategy	All	
	Ethical investments Paper	All	Include in September Committee Papers
Oct 19	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Equities: Aberdeen Standard 	Officers	
	<ul style="list-style-type: none"> Infrastructure: Hermes 	Officers	
	<ul style="list-style-type: none"> London CIV 	Officers	
	Pension Fund Stakeholder Meeting	Officers / Members	
Nov 19	Cash Flow Update- Report to December Committee	Officers	
	Member Training: Knowledge and Skills Update	Officers / Members	
	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Property: Schroders 	Officers	
	<ul style="list-style-type: none"> Property: BlackRock 	Officers	
	<ul style="list-style-type: none"> Equities: Kempen 	Officers	
Dec 19	Quarterly Pension Committee Meeting	Officers / Members	
	Draft Actuary results	Actuary	Actuary to attend Committee meeting
	Framework Tender for Advisor and Actuary	Officers / Members	