

## Notice of Meeting

### PENSIONS COMMITTEE

**Wednesday, 20 June 2018 - 7:00 pm**  
**Committee Room 2, Town Hall, Barking**

**Members:** Cllr Dave Miles (Chair), Cllr Giasuddin Miah (Deputy Chair), Cllr Sade Bright, Cllr Laila M. Butt, Cllr Kashif Haroon, Cllr Adegboyega Oluwole and Cllr Foyzur Rahman

**Independent Advisor:** John Raisin

**Observers:** Dean Curtis, Gavin Palmer and Susan Parkin

Date of publication: 11 June 2018

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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 Pensions Panel meeting held on 14 March 2018 (Pages 3 - 7)**

**4. Pension Fund Quarterly Monitoring 2017/18 - January to March 2018 (Pages 9 - 37)**

**5. Pension Fund Accounts 2017/18 (Pages 39 - 63)**

**6. Administrative and Governance report (Pages 65 - 68)**

**7. Business Plan Update 2018/19 (Pages 69 - 72)**

**8. Any other public items which the Chair decides are urgent**

9. **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. ***There are no such items at the time of preparing this agenda.***

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



Our Vision for Barking and Dagenham

## **One borough; one community; London's growth opportunity**

Our Priorities

### **Encouraging civic pride**

- Build pride, respect and cohesion across our borough
- Promote a welcoming, safe, and resilient community
- Build civic responsibility and help residents shape their quality of life
- Promote and protect our green and public open spaces
- Narrow the gap in attainment and realise high aspirations for every child

### **Enabling social responsibility**

- Support residents to take responsibility for themselves, their homes and their community
- Protect the most vulnerable, keeping adults and children healthy and safe
- Ensure everyone can access good quality healthcare when they need it
- Ensure children and young people are well-educated and realise their potential
- Fully integrate services for vulnerable children, young people and families

### **Growing the borough**

- Build high quality homes and a sustainable community
- Develop a local, skilled workforce and improve employment opportunities
- Support investment in housing, leisure, the creative industries and public spaces to enhance our environment
- Work with London partners to deliver homes and jobs across our growth hubs
- Enhance the borough's image to attract investment and business growth

### **Well run organisation**

- A digital Council, with appropriate services delivered online
- Promote equalities in the workforce and community
- Implement a smarter working programme, making best use of accommodation and IT
- Allow Members and staff to work flexibly to support the community
- Continue to manage finances efficiently, looking for ways to make savings and generate income
- Be innovative in service delivery

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## **MINUTES OF PENSIONS PANEL**

Wednesday, 14 March 2018  
(6:00 - 7:00 pm)

**Members Present:** Cllr Dominic Twomey (Chair), Cllr Faraaz Shaukat (Deputy Chair) and Cllr Edna Fergus

**Observers Present:** Susan Parkin

**Advisors Present:** John Raisin, Colin Cartwright and Joe Peach

**Apologies:** Cllr Sade Bright, Cllr James Ogungbose, Cllr Jeff Wade, Cllr John White, Dean Curtis and Gavin Palmer

### **30. Declaration of Members' Interests**

There were no declarations of interest.

### **31. Minutes - To confirm as correct the minutes of the meeting held on 13 December 2017**

The minutes of the meeting held on 13 December 2017 were confirmed as correct.

### **32. Independent Advisor**

This report outlined the role of the London Borough of Barking and Dagenham Pension Fund's Independent Advisor. The report includes a review of the work the Independent Advisor's work during the past year.

The Panel welcome the input from the Independent Adviser, particularly as there would be a comprehensive training period following the local elections.

The Panel:

Agreed to extend agree to extend the Independent Advisors role, currently carried out by John Raisin Financial Services Limited, as the Panel's investment advisors for one year based on the revised job description included as appendix 1 of this report.

### **33. Pension Fund Quarterly Monitoring 2017/18 - October to December 2017**

The report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund had performed during the quarter 1 October 2017 to 31 December 2017 ("Q4"). The report updated the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provided a definition of terms used in this report and Appendix

3 set out roles and responsibilities of the parties referred to throughout this report.

A verbal update on the unaudited performance of the Fund for the period 1 January to 12 March 2018 was provided to Members at the Panel.

The Fund's externally managed assets closed Q4 2017 valued at £989.1m, an increase of £22.7m from its value of £966.4m as at 30 September 2017. The cash value held by the Council at 30 September 2017 was £7.9m giving a total Fund value of £997.0m.

For Quarter 4, the Fund returned 3.2%, net of all fees, outperforming its benchmark by 0.1% but underperforming the PIRC LGPS Universe (PIRC) by 0.8%. Over one year the Fund has returned 11.2%, outperforming its benchmark by 1.5% but underperforming PIRC by 0.6%. Over three years the Fund has outperformed its benchmark by 0.2%, with a return of 10.4% and has underperformed PIRC by 0.6%.

The GPMT provided a summary of the performance for each of the fund managers. He highlighted in particular:

-BlackRock would be invited to the next meeting to provide a presentation relating to the property market.

-M&G and Prudential- The GPMT was seeking clarification on these organisations splitting.

-Hermes- an update would be provided to the next meeting.

- BNY Standish- the name change would be clarified and an update would be provided to the next meeting.

Members noted the situation of the London CIV relating to fund managers.

The Panel 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; and
- (iii) The quarterly performance of pension funds collectively and the performance of the fund managers individually.

#### **34. Administration and Governance report**

It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. This report covered three main areas including:

- i. The London Collective Investment Vehicle (LCIV) update;
- ii. Actuary Contract Tender;
- iii. Pension Fund Budget 1 April 2018 to 31 March 2021;
- iv. Cash flow to 31 January 2018; and

v. Pension Fund Pre-payment Options.

The Panel noted the report and that there had been an independent governance review of the London CIV. London CIV were consulting all London boroughs on the way forward and the Council had responded back to them with comments. A further update on the London CIV would be submitted to the next meeting on 20 June 2018.

The Panel noted:

- i. That the Fund is cash flow positive;
- ii. The Fund's three-year budget for the period 1 April 2018 to 31 March 2021; and
- iii. That interview dates for the actuarial tender will now be in October 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions.

The Panel agreed that the use of the £40m prepayment is split into:

- i. £10m retained for Working capital;
- ii. £30m retained for potential investment opportunities that arise from market corrections, through an increase in allocation to Diversified Growth or capital calls from infrastructure;
- iii. delegate authority to the Chief Operating Officer, in consultation with advisors and the Fund's Chair, to invest the £30m as investment opportunities arise within the market; and
- iv. for officers to arrange meetings for Members to meet the four diversified growth managers on the London CIV, with the potential to either increase the allocation to Diversified Growth or to restructure the Fund's current Diversified Growth Fund. The managers on the London CIV includes:
  - Newton;
  - Pyrford;
  - Ruffer; and
  - Baillie Gifford.

### **35. Application for Admitted Body Status - Home and Traded Services**

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 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 Panel can agree to retrospectively agree an admission agreement.

At the March and June 2017 Pension Panel meetings, Members were advised that the Council was looking to create several different service delivery vehicles including, transferring its Leisure Services and establishing a company, Be First, to manage the implementation of its investment and regeneration strategy. In addition, a number of Traded Services will be set up.

The Panel were asked to consider the application for Admitted Body status from Home and Traded Services(H&Ts) to the Local Government Scheme (LGPS).

The Panel agreed:

The application for Admitted Body Status by Home and Traded Services on 1 April 2018, as a 'closed' agreement.

### **36. Admitted Body Agreement- Schools Improvement Partnership**

The Panel were asked to consider the application for Admitted Body status from School Improvement Partnership (SIP) to the Local Government Scheme (LGPS). This was similar to the previous report on Home and Traded Services.

The Panel agreed:

The application for Admitted Body Status by School Improvement Partnership on 1 April 2018, as a 'closed' agreement.

### **37. Additional Voluntary Scheme Review**

Periodically the Council reviews its Additional Voluntary Contribution (AVC) provider to ensure that it is still appropriate and relevant to its members. In addition, a review of its performance and fees has been completed by JLT.

Appendix 1 of the report included a review of the Council's current AVC provider, Prudential, with a summary of the key points outlined in the main body of this report.

JLT had recommended that action was taken in three areas:

- that the Members should review their investment objectives and evaluate the continued suitability of this approach;
- that discussions are held with Prudential on the options they have to improve communications to members; and
- that consideration is given around the options available to you to improve value for money with Prudential.

After this report was produced, Prudential had advised of a reduction in fees and the introduction of improved communications and the potential to introduce a salary sacrifice element to the Council's current AVC offer.

It was advised that the Pension Board were keen to ensure greater marketing and awareness of the AVC and this would include greater understanding of the salary sacrifice. Prudential would be invited to provide a presentation to the Board at its meeting in September 2018, with a view to them also presenting to the Panel.



The Panel noted:

- i. The JLT AVC review report in Appendix 1;
- ii. that Prudential have agreed to:
  - o reduce the costs of the funds they provide by 1 March 2018;
  - o are improving their communication support to clients; and
  - o are able to provide a salary sacrifice option for AVC payments.

**38. London Borough of Barking and Dagenham Pension Fund Business Plan 2018/19**

The Pension Fund Business Plan set out the key tasks for the Pension Panel in respect to Pension Fund issues for 2018/19 and reflected the Pension Panel's commitment to put into action the investment strategy and monitor procedures for the future to ensure that the Fund meets its objectives and complies with best practice.

The GMPT advised that there would be extensive training during 2018/19 which included a training day on 20 June 2018.

The Panel agreed the Business Plan for 2018/19.

**39. Vote of thanks**

The Chair advised that this was his last meeting as Chair of the Panel and took the opportunity to thank his fellow Members, officers and advisers for their hard work over the year.

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## PENSIONS COMMITTEE

20 June 2018

|  |   |
|--|---|
| <b>Title:</b> Pension Fund Quarterly Monitoring 2017/18 – January to March 2018  |   |
| <b>Report of the Chief Operating Officer</b>   |   |
| Public Report  | <b>For Information</b>  |
| <b>Wards Affected:</b> None  | <b>Key Decision:</b> No   |
| <b>Report Author:</b><br>David Dickinson, Investment Fund Manager  | <b>Contact Details:</b><br>Tel: 020 8227 2722<br>E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a> |
| <b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer   |   |
| <b>Recommendations</b>   |   |
| The Committee is recommended to note:  |   |
| <ul style="list-style-type: none"> <li>(i) the progress on the strategy development within the Pension Fund;</li> <li>(ii) the daily value movements of the Fund’s assets and liabilities outlined in Appendix 1; and</li> <li>(iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually.</li> </ul> |   |

### 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 2018 to 31 March 2018 (“Q1”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provides a definition of terms used in this report and Appendix 3 sets out roles and responsibilities of the parties referred to throughout this report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 April to 21 June 2018 will be provided to Members at the Pension Committee.

### 2. Market Commentary Q1 2018

- 2.1 The opening months of 2018 proved volatile for global financial markets with equity returns turning negative amid concerns around the potential for accelerating inflation

and a trade war, while the Russia diplomatic crisis also caused a stir. The quarter had looked set to follow the trend of 2017 as equities initially maintained the upward trajectory that was a feature of the prior year. However, early-February shook investors from any complacency as strong US jobs and wage inflation data stoked speculation that interest rates could rise more steeply than previously anticipated. Having partially recovered, markets were then rattled by US plans to impose tariffs on selected imports.

- 2.2 World Equities, posted a return, in sterling, of -4.6%; Emerging Markets outperformed Developed regions, returning -2.1% helped by the weak dollar and higher oil price. In the US the S&P 500 Index lost 4.2% in sterling; while the tech sector fell in March following Facebook's stumble amid claims of misuse of customer data, the sector was still the top performer in the quarter. Consumer discretionary stocks also outperformed, while telecoms and consumer staples lagged the index from a USD perspective.
- 2.3 UK equities had a difficult quarter as Brexit continued to cast a shadow, even as agreement was reached to allow the UK a 21-month transition period after its March 2019 exit from the EU. That breakthrough helped lift sterling, which in turn seemed to dampen enthusiasm for UK stocks. The FTSE All Share fell 6.9% in the three months.
- 2.4 European equities were caught up in the volatility driven by the inflation and trade narrative emanating from the US, but the moderation in Eurozone economic growth data likely drove equity underperformance; the FTSE World Europe ex UK returned -4.6%.
- 2.5 In Japan the market declined 2.6% in sterling terms helped by the strong Yen and the MSCI AC Asia Pacific ex Japan Index was down 4.0%. Returns by country were mixed; China which makes up over a quarter of the Index fell 1.7% and Australia, with around a 17% weighting returned -9.3%.
- 2.6 Government bond yields for many developed countries spiked higher in January, as bonds were sold off amid strong stock market performance and a healthy economy. As inflation worries eased in March a renewal of market volatility bolstered demand for bonds. The BAML GBP Broad Index returned -0.2% and FTSE UK Gilts Index Linked over 5 year index returned 0.2%.
- 2.7 Sterling gained 1.2% against the Euro and 3.5% against the US Dollar. Yen had a strong quarter, gaining 2.1% against sterling. The three-month GBP LIBOR rose from 0.5% to 0.7% ahead of an expected rate increase in May. Property had another positive quarter, returning 2.3%, bringing the one-year return to over 11%.

### **3. Overall Fund Performance**

- 3.1 The Fund's externally managed assets closed Q1 2018 valued at £966.7m, a decrease of £12.4m from its value of £989.1m as at 31 December 2018. The cash value held by the Council at 31 March 2018 was £1.7m giving a total Fund value of £968.4m.
- 3.2 For Q1 the Fund returned -1.9%, net of all fees, underperforming its benchmark by 0.6% but outperforming the PIRC LGPS Universe (PIRC) by 1.7%. Over one year the Fund has returned 5.3%, outperforming its benchmark by 1.3% and outperforming PIRC by 0.8%. Over three years the Fund has underperformed its benchmark by 0.3%, with a

return of 7.9% but has outperformed PIRC by 0.2%. The Fund's returns are provided below:

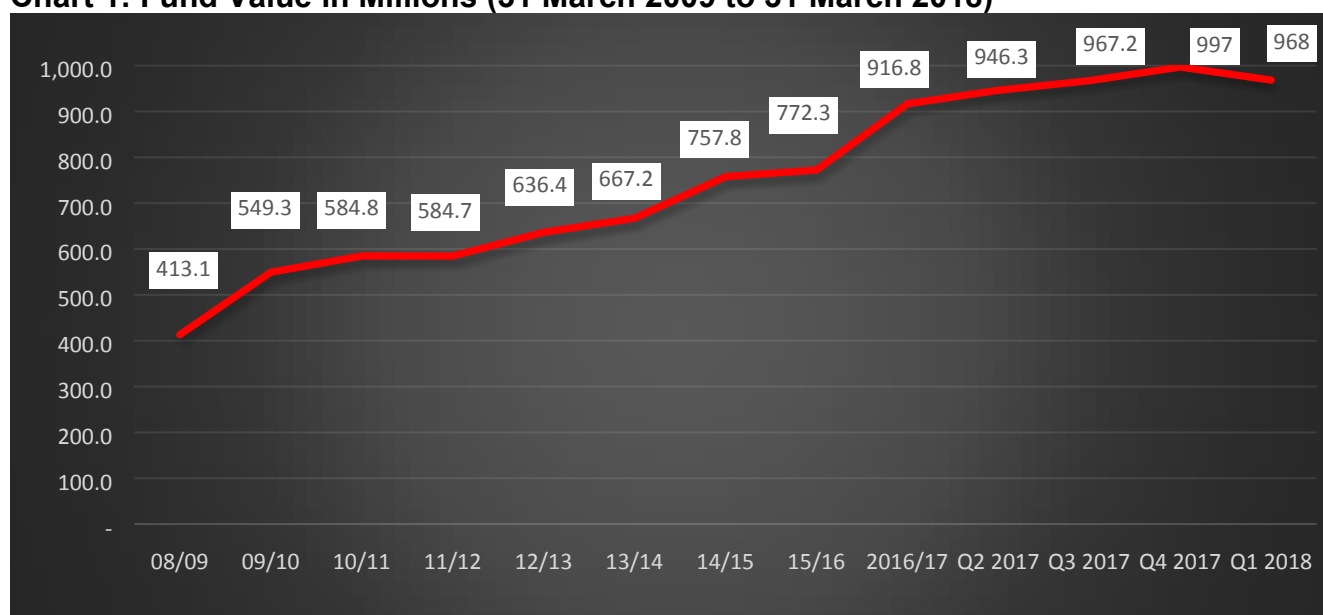
**Table 1: Fund's Q1 2018, 2017, 2016 Quarterly and Yearly Returns**

| Year                  | 2018  | 2017 |     |     |     | 2016 |     |       | One Year | Two Years | Three Years | Five Years |
|-----------------------|-------|------|-----|-----|-----|------|-----|-------|----------|-----------|-------------|------------|
|                       | Q1    | Q4   | Q3  | Q2  | Q1  | Q4   | Q3  | Q2    |          |           |             |            |
| <b>Actual Return</b>  | (1.9) | 3.2  | 2.2 | 1.8 | 3.8 | 3.7  | 5.3 | 5.2   | 5.3      | 11.7      | 7.9         | 8.3        |
| <b>Benchmark</b>      | (1.3) | 3.1  | 1.8 | 1.2 | 3.3 | 3.6  | 4.4 | 5.7   | 4.8      | 10.9      | 8.2         | 8.6        |
| <b>Difference</b>     | (0.6) | 0.1  | 0.4 | 0.6 | 0.5 | 0.1  | 0.9 | (0.5) | 0.5      | 0.8       | (0.3)       | (0.3)      |
| <b>*PIRC Universe</b> | (3.6) | 4.0  | 1.6 | 0.7 |     |      |     |       | 11.8     |           | 7.7         | 8.5        |

The returns above are based on the asset allocation of the PIRC Local Authority Universe.

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 2018. 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 2018)**



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

|   |   |
|---|---|
| ■ | <b>RED-</b> Fund underperformed by more than 75% below the benchmark    |
| Δ | <b>AMBER-</b> Fund underperformed by less than 75% below the benchmark. |
| ○ | <b>GREEN-</b> Fund is achieving the benchmark return or better          |

3.5 Table 2 highlights the Q1 return. Several funds underperformed their respective benchmarks, with most funds providing a negative return. Hermes, property and Aberdeen provided positive returns.

**Table 2 – Fund Manager Q1 2018 Performance**

| Fund Manager     | Actual      | Benchmark   | Variance | Ranking |
|------------------|-------------|-------------|----------|---------|
|                  | Returns (%) | Returns (%) | (%)      |         |
| ABERDEEN AM      | 0.9         | 1.1         | (0.2)    | Δ       |
| BAILLIE GIFFORD  | (0.9)       | (4.3)       | 3.4      | ○       |
| BLACKROCK        | 1.5         | 1.9         | (0.4)    | Δ       |
| HERMES GPE       | 6.1         | 1.4         | 4.7      | ○       |
| KEMPEN           | (7.4)       | (4.7)       | (2.7)    | Δ       |
| PRUDENTIAL / M&G | 1.1         | 1.1         | 0.0      | ○       |
| Newton           | (2.6)       | 1.1         | (3.7)    |         |
| Pyrford          | (2.3)       | 1.3         | (3.6)    |         |
| Schroders        | 1.7         | 1.9         | (0.2)    | Δ       |
| BNY Standish     | 0.3         | 1.1         | (0.8)    | Δ       |
| UBS Bonds        | 0.3         | 0.3         | 0.0      | ○       |
| UBS Equities     | (3.0)       | (3.0)       | 0.0      | ○       |

- 3.6 Over one-year, (table 3), most fund provided good returns. Pyrford and Newton continue to struggle, significantly underperforming their benchmarks.

**Table 3 – Fund Manager Performance Over One Year**

| Fund Manager     | Actual      | Benchmark   | Variance | Ranking |
|------------------|-------------|-------------|----------|---------|
|                  | Returns (%) | Returns (%) | (%)      |         |
| ABERDEEN AM      | 12.5        | 4.4         | 8.1      | ○       |
| BAILLIE GIFFORD  | 12.7        | 3.3         | 9.4      | ○       |
| BLACKROCK        | 7.7         | 9.7         | (2.0)    | Δ       |
| HERMES GPE       | 9.5         | 5.6         | 3.9      | ○       |
| KEMPEN           | 1.5         | 1.5         | 0.0      | ○       |
| PRUDENTIAL / M&G | 4.4         | 4.3         | 0.1      | ○       |
| Newton           | (2.1)       | 4.2         | (6.3)    |         |
| Pyrford          | (2.5)       | 8.0         | (10.5)   |         |
| Schroders        | 9.9         | 9.7         | 0.2      | ○       |
| BNY Standish     | 1.5         | 4.2         | (2.7)    | Δ       |
| UBS Bonds        | 0.7         | 0.5         | 0.2      | ○       |
| UBS Equities     | 7.8         | 7.5         | 0.3      | ○       |

- 3.7 Over two years, (table 4), all mandates are positive, with returns ranging from 0.4% with Newton to 22.5% with Kempen. Newton and Pyrford have significantly underperformed their benchmarks, underperforming by 3.9% and 5.0% respectively. The high equity returns are in sharp contrast to the rest of the strategies, where single digit returns are most prevalent.

**Table 4 – Fund manager performance over two years**

| Fund Manager                | Actual      | Benchmark   | Variance | Ranking |
|-----------------------------|-------------|-------------|----------|---------|
|                             | Returns (%) | Returns (%) | (%)      |         |
| <b>ABERDEEN AM</b>          | 6.3         | 4.4         | 1.9      | O       |
| <b>BAILLIE GIFFORD</b>      | 21.6        | 16.4        | 5.2      | O       |
| <b>BLACKROCK</b>            | 4.7         | 6.7         | (1.9)    | Δ       |
| <b>HERMES GPE</b>           | 8.7         | 5.6         | 3.0      | O       |
| <b>KEMPEN</b>               | 15.8        | 15.6        | 0.2      | O       |
| <b>PRUDENTIAL / M&amp;G</b> | 4.4         | 4.4         | 0.0      | O       |
| <b>Newton</b>               | 0.4         | 4.3         | (3.9)    |         |
| <b>Pyrford</b>              | 3.0         | 8.0         | (5.0)    |         |
| <b>Schroders</b>            | 7.1         | 6.7         | 0.5      | O       |
| <b>BNY Standish</b>         | 3.2         | 4.3         | (1.1)    | Δ       |
| <b>UBS Bonds</b>            | 3.7         | 3.5         | 0.2      | O       |
| <b>UBS Equities</b>         | 18.4        | 18.2        | 0.2      | O       |

#### 4. Asset Allocations and Benchmark

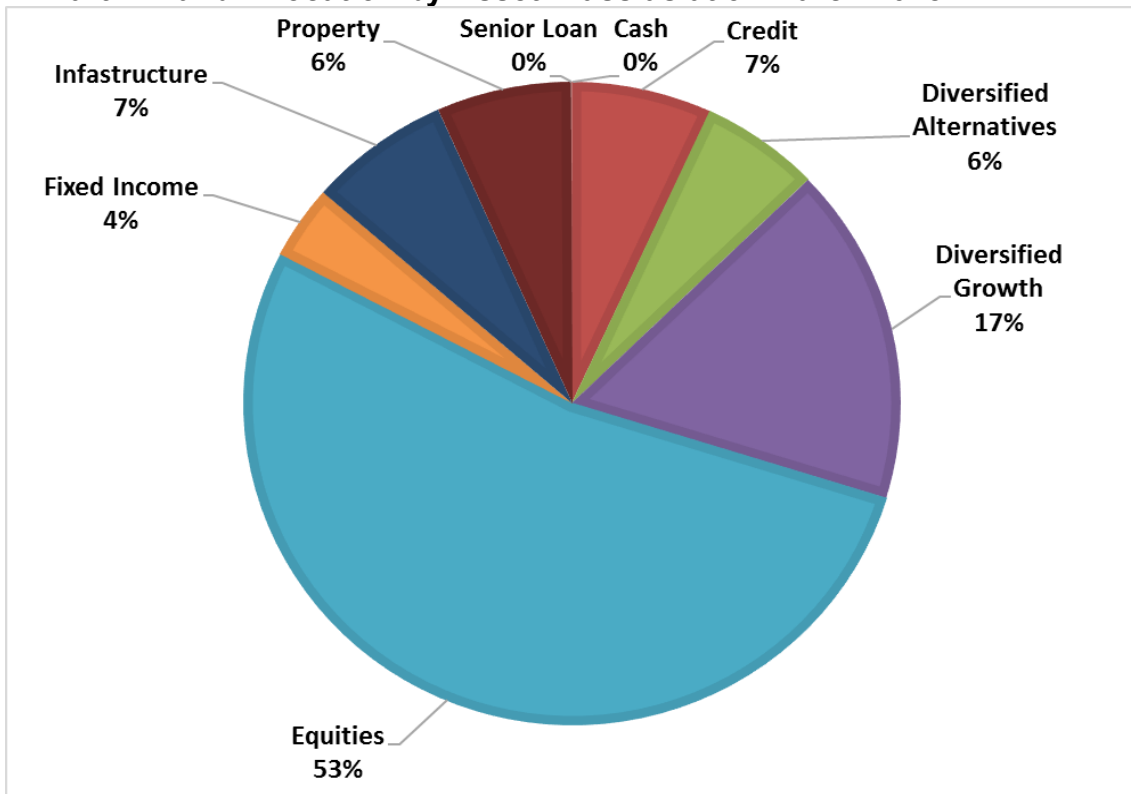
4.1 Table 5 below outlines the Fund’s strategic asset allocation, asset value and benchmarks:

**Table 5: Fund Asset Allocation and Benchmarks as at 31 March 2018**

| Fund Manager                | Asset (%) | Market Values (£000) | Benchmark                     |
|-----------------------------|-----------|----------------------|-------------------------------|
| <b>Aberdeen AM</b>          | 5.9%      | 56,817               | 3 Mth LIBOR + 4% per annum    |
| <b>Baillie Gifford</b>      | 19.2%     | 186,184              | MSCI AC World Index           |
| <b>BlackRock</b>            | 4.1%      | 39,452               | AREF/ IPD All Balanced        |
| <b>Hermes GPE</b>           | 6.9%      | 67,078               | Target yield 5.9% per annum   |
| <b>Kempen</b>               | 15.9%     | 153,324              | MSCI World NDR Index          |
| <b>Prudential / M&amp;G</b> | 0.1%      | 653                  | 3 Mth LIBOR + 4% per annum    |
| <b>Newton</b>               | 6.7%      | 64,625               | One-month LIBOR +4% per annum |
| <b>Pyrford</b>              | 10.3%     | 99,780               | UK RPI +5% per annum          |
| <b>Schroders</b>            | 2.5%      | 24,309               | AREF/ IPD All Balanced        |
| <b>BNY Standish</b>         | 6.9%      | 66,403               | 3 Mth LIBOR + 4% per annum    |
| <b>UBS Bonds</b>            | 3.7%      | 35,990               | FTSE UK Gilts All Stocks      |
| <b>UBS Equities</b>         | 17.8%     | 171,957              | FTSE AW Developed Tracker     |
| <b>Other</b>                | 0.0%      | 129                  | One-month LIBOR               |
| <b>Total Fund</b>           | 100.0%    | 966,700              |                               |

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 2018**



4.3 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 2% 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                 | 53%              | 48%                         | 5%       | 45-53 |
| Diversified Growth       | 17%              | 18%                         | -1%      | 16-20 |
| Infrastructure           | 7%               | 9%                          | -2%      | 4-11  |
| Credit                   | 7%               | 8%                          | -1%      | 6-10  |
| Property                 | 6%               | 7%                          | -1%      | 6-9   |
| Diversified Alternatives | 6%               | 6%                          | 0%       | 6-10  |
| Fixed Income             | 4%               | 4%                          | 0%       | 3-5   |
| Cash                     | 1%               | 0%                          | 1%       | 0-2   |
| Senior Loan              | 0%               | 0%                          | 0%       | 0-1   |



## 5. Fund Manager Performance

### 5.1 Kempen

|               | 2018  | 2017 |     |     |       | 2016 |      |       | One Year | Two Years | Since Start |
|---------------|-------|------|-----|-----|-------|------|------|-------|----------|-----------|-------------|
| Kempen        | Q1    | Q4   | Q3  | Q2  | Q1    | Q4   | Q3   | Q2    | Year     | Years     | 6/2/2013    |
| £153,324      | %     | %    | %   | %   | %     | %    | %    | %     | %        | %         | %           |
| Actual Return | (7.4) | 5.5  | 3.3 | 0.1 | 3.2   | 10.9 | 10.2 | 5.8   | 1.5      | 15.8      | 9.9         |
| Benchmark     | (4.7) | 4.6  | 1.5 | 0.1 | 5.1   | 7.1  | 7.9  | 9.7   | 1.5      | 15.6      | 12.3        |
| Difference    | (2.7) | 0.9  | 1.8 | 0.0 | (1.9) | 3.8  | 2.3  | (3.9) | 0.0      | 0.2       | (2.4)       |

#### 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

Kempen underperformed its benchmark for the quarter, returning -7.4% against a benchmark of -4.7%. The underperformance reversed a good first three months for Kempen, reducing the annual return to 1.5%, matching the strategies benchmark.

Over two years the fund has slightly outperformed its benchmark, with a good annualised return of 15.8%. Since inception Kempen remains 1.9% behind its benchmark of 13.9%.

In terms of stocks selection two of the biggest contributors were in the utility sector: EDP and National Grid. EDP benefited from improved weather conditions, as increased rain helped the electricity produced by the hydroelectric power stations run by EDP. The share price of National Grid was helped by increased interest in defensibly positioned companies.

#### Quarterly Rebalance

As a result of our quarterly rebalance Kempen sold 6 companies and added 10 new firms to the portfolio. Kempen sold three names as they crossed the 3% threshold: KKR, Tapestry and Toyota. Three companies were sold as the risk/reward was no longer attractive: Novartis, Seagate and Nutrien.

After a period of muted markets, Kempen welcome increased volatility as this improves their ability to pick individual stocks. The recent decline in equity markets should however be weighed against the strong equity returns in 2017. Kempen believe European and Emerging market stocks offer strong expected returns, but it remains difficult to find ideas that offer attractively valued ideas in the North American Markets.

The Fund now has a forward yield of around 5.2%. Kempen's portfolio trades at a significant discount to market multiples and they remain optimistic on the dividend growth prospects for 2018.

## 5.2 Baillie Gifford

|                 | 2018  | 2017  |     |     |     | 2016  |      |       | One  | Two   | Since Start |
|-----------------|-------|-------|-----|-----|-----|-------|------|-------|------|-------|-------------|
| Baillie Gifford | Q1    | Q4    | Q3  | Q2  | Q1  | Q4    | Q3   | Q2    | Year | Years | 6/2/13      |
| £186,184        | %     | %     | %   | %   | %   | %     | %    | %     | %    | %     | %           |
| Actual Return   | (0.9) | 4.9   | 4.1 | 4.6 | 7.6 | 3.9   | 12.1 | 6.9   | 12.7 | 21.6  | 16.0        |
| Benchmark       | (4.3) | 5.0   | 2.0 | 0.6 | 5.8 | 6.5   | 8.5  | 8.8   | 3.2  | 16.4  | 12.3        |
| Difference      | 3.4   | (0.1) | 2.1 | 4.0 | 1.8 | (2.6) | 3.6  | (1.9) | 9.4  | 2.2   | 3.7         |

### 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 -0.9%, outperforming its benchmark by 3.4%. BG's one-year return was 12.7%, outperforming its benchmark by 9.4%.

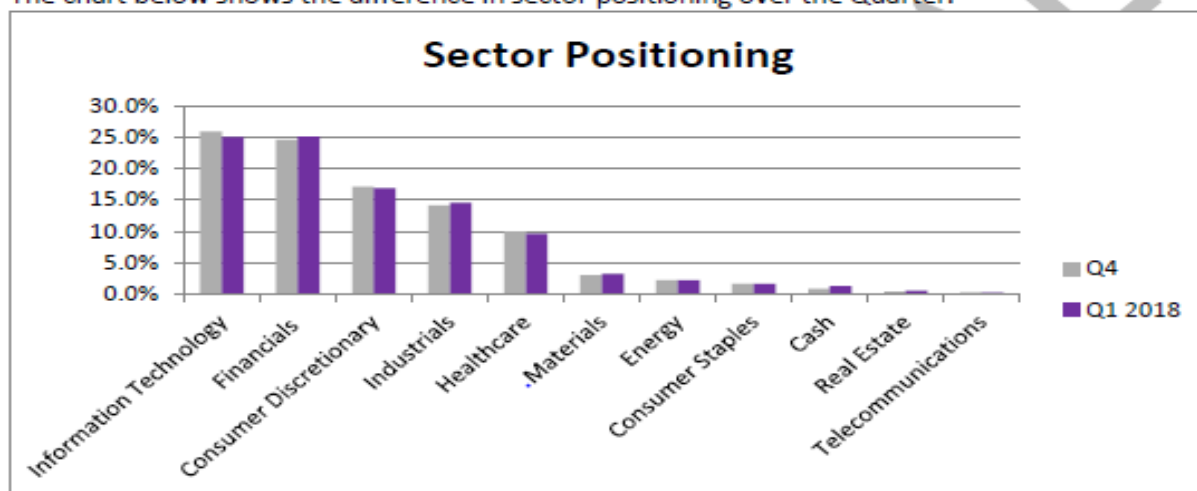
Despite posting a negative figure, the fund surprised on the upside in Q1, as it showed unforeseen resilience during the market volatility during the Quarter. Overweight positions to Asia, Emerging Markets and to IT helped the fund, as did stock selection within these areas.

In Q1 BG made a number of changes to the portfolio following the market moves. At the margin, the managers took profits on their more successful names and pivoted into more stable and rapid growth names. Significant transactions:

Purchases: Lending Tree, Genmab, Netflix, Orica and NetEase

Sales: Financial Engines, Japan Exchange Group and Novo Nordisk

The chart below shows the difference in sector positioning over the Quarter.



Source: Baillie Gifford (data as at 31/03/18)

### 5.3 UBS Equities

|               | 2018  | 2017 |     |     |     | 2016 |     |     | One  | Two   | Since Start |
|---------------|-------|------|-----|-----|-----|------|-----|-----|------|-------|-------------|
| UBS Equities  | Q1    | Q4   | Q3  | Q2  | Q1  | Q4   | Q3  | Q2  | Year | Years | 31/8/2012   |
| £171,957      | %     | %    | %   | %   | %   | %    | %   | %   | %    | %     | %           |
| Actual Return | (3.0) | 5.7  | 2.8 | 2.3 | 5.5 | 6.6  | 8.2 | 8.7 | 7.8  | 18.4  | 15.2        |
| Benchmark     | (3.0) | 5.2  | 2.8 | 2.2 | 5.5 | 6.4  | 8.2 | 8.7 | 7.2  | 18.0  | 15.2        |
| Difference    | 0.0   | 0.5  | 0.0 | 0.1 | 0.0 | 0.2  | 0.0 | 0.0 | 0.6  | 0.4   | 0.0         |

#### 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 -3.0% for Q1 and 7.8% over one year. Since funding in August 2012, the strategy has provided an annualised return of 16.7%.

Global equity markets fell over the first three months of 2018. This was the first notable quarterly fall for stocks worldwide in two years. Emerging market equities advanced, while some of the major developed markets saw the biggest falls.

### 5.4 UBS Bonds

|               | 2018 | 2017 |       |       |     | 2016  |     |     | One  | Two   | Since Start |
|---------------|------|------|-------|-------|-----|-------|-----|-----|------|-------|-------------|
| UBS Bonds     | Q1   | Q4   | Q3    | Q2    | Q1  | Q4    | Q3  | Q2  | Year | Years | 5/7/2013    |
| £35,990       | %    | %    | %     | %     | %   | %     | %   | %   | %    | %     | %           |
| Actual Return | 0.3  | 2.2  | (0.5) | (1.3) | 1.5 | (3.3) | 2.3 | 6.2 | 0.7  | 3.7   | 5.3         |
| Benchmark     | 0.3  | 2.0  | (0.5) | (1.3) | 1.5 | (3.4) | 2.3 | 6.2 | 0.5  | 3.5   | 5.3         |
| Difference    | 0.0  | 0.2  | 0.0   | 0.0   | 0.0 | 0.1   | 0.0 | 0.0 | 0.2  | 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 (5%) of UK fixed income government bonds.

#### Performance

Returns for Q4 were 0.3%, with one year returns of 0.7% and two year returns of 3.7%.

Overall, yields on US and UK government bonds saw the largest increases over the three months while yields on markets such as Italy, Spain and Greece fell in contrast

Other, more credit focused areas of the bond markets fell over the first quarter. High yield, emerging market debt and investment grade credit reversed some of the gains seen in 2017. However, it was striking how the markets for these assets were relatively subdued amidst the increased equity volatility seen in February in particular.

## 5.5 BlackRock

|               | 2018  | 2017  |       |       |     | 2016  |       |     | One   | Two   | Since Start |
|---------------|-------|-------|-------|-------|-----|-------|-------|-----|-------|-------|-------------|
| BlackRock     | Q1    | Q4    | Q3    | Q2    | Q1  | Q4    | Q3    | Q2  | Year  | Years | 1/1/2013    |
| £39,452       | %     | %     | %     | %     | %   | %     | %     | %   | %     | %     | %           |
| Actual Return | 1.5   | 2.9   | 1.3   | 2.0   | 2.5 | 1.5   | (3.5) | 1.3 | 7.7   | 4.7   | 8.7         |
| Benchmark     | 1.9   | 3.1   | 2.4   | 2.3   | 2.0 | 2.3   | (0.7) | 0.1 | 9.7   | 6.7   | 10.6        |
| Difference    | (0.4) | (0.2) | (1.1) | (0.3) | 0.5 | (0.8) | (2.8) | 1.2 | (2.0) | (1.7) | (1.9)       |

### 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.

### Q4 2017 Performance

BR returned 1.5% for the quarter against the benchmark of 1.9%, with a return of 7.7% over one year against its benchmark's return of 9.7%.

A number of leases and asset management initiatives were completed in the quarter, with the most significant being:

1. London Office leases reduce portfolio vacancy: Vacant properties with a total rental value of £1.9 million per annum were let in Q1. This was offset by new voids totalling £1.5 million per annum, including two office floors in the West End at 51 Great Marlborough Street and 65 Chandos Place. As a result the void rate reduced from 7.3% to 6.9%. The rental value of current vacancies under offer totals in over £1.8 million p.a., which will reduce the void rate to below 5.8%.
2. The most significant lease transaction was at Heathrow Logistics Park, where the first of the four available units was let to James Cargo Services for a term of 10 yrs.
3. South East Offices: The final office floor at TOR, Maidenhead was leased to Lane 4 Management and the penultimate void at Capitol Bracknell was leased to Tektronix.

During the quarter, the Fund limited transactional activity, completing one acquisition and two sales:

1. the Fund acquired 67 acres of land in Manchester, Voltage Park, for £5.95 million which will provide a further c. 1m sf of developable prime logistics to form part of the Fund's "Build to Hold Logistics" strategy.
2. the Fund completed two sales, both in-line with the Fund's strategy to sell smaller assets with tenant credit/property specific risks. Autoplaza, Basingstoke was sold to the current operator and Nene Valley, Oundle was leased to Fairline Yachts.
3. 5 Strand, London WC2 was put on the market following the successful grant of planning permission in Q4 2017, which enhanced the current gross area. Post Q1 BlackRock announced that 5 Strand has been sold ahead of valuation.

## 5.6 Schrodgers Indirect Real Estate

|               | 2018  | 2017 |       |     |     | 2016 |       |       | One  | Two   | Since Start |
|---------------|-------|------|-------|-----|-----|------|-------|-------|------|-------|-------------|
| Schroder      | Q1    | Q4   | Q3    | Q2  | Q1  | Q4   | Q3    | Q2    | Year | Years | 6/8/2010    |
| £24,309       | %     | %    | %     | %   | %   | %    | %     | %     | %    | %     | %           |
| Actual Return | 1.7   | 3.4  | 2.0   | 2.8 | 3.2 | 2.7  | 3.7   | (5.2) | 9.9  | 7.1   | 7.1         |
| Benchmark     | 1.9   | 3.1  | 2.4   | 2.3 | 2.0 | 2.3  | (0.7) | 0.1   | 9.7  | 6.7   | 8.4         |
| Difference    | (0.2) | 0.3  | (0.4) | 0.5 | 1.2 | 0.4  | 4.4   | (5.3) | 0.2  | 0.4   | (1.3)       |

### Reason for appointment

Schrodgers 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

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 12.8%. Schroder one-year return is 11.4%, 1.6% above its benchmark.

## 5.7 M&G / Prudential UK

|                  | 2018 | 2017 |     |     |     | 2016 |     |     | One  | Two   | Since Start |
|------------------|------|------|-----|-----|-----|------|-----|-----|------|-------|-------------|
| M&G / Prudential | Q1   | Q4   | Q3  | Q2  | Q1  | Q4   | Q3  | Q2  | Year | Years | 31/5/2010   |
| £653             | %    | %    | %   | %   | %   | %    | %   | %   | %    | %     | %           |
| Actual Return    | 1.1  | 1.1  | 1.1 | 1.1 | 1.1 | 1.1  | 1.1 | 1.1 | 4.4  | 4.4   | 4.7         |
| Benchmark Return | 1.1  | 1.1  | 1.1 | 1.1 | 1.1 | 1.1  | 1.1 | 1.1 | 4.3  | 4.4   | 4.4         |
| Difference       | 0.0  | 0.0  | 0.0 | 0.0 | 0.0 | 0.0  | 0.0 | 0.0 | 0.1  | 0.0   | 0.3         |

### 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 the loans until their maturity.

### Performance and Loan Security

The strategy provided a return of 4.4% for the year. The strategies holding has reduced in size to £653k, with most of the loans repaid. The weighted average credit rating is BB with an average life of 1.7 years.

As advised at the December Committee, an issue with one of the loans with Provident Financial ("Provident") has been identified. Subsequently, on 5 Provident announced that its Moneybarn division is being investigated by the Financial Conduct Authority.

## 5.8 Hermes

|               | 2018 | 2017  |     |       |     | 2016 |     |     | One  | Two   | Since Start |
|---------------|------|-------|-----|-------|-----|------|-----|-----|------|-------|-------------|
| Hermes        | Q1   | Q4    | Q3  | Q2    | Q1  | Q4   | Q3  | Q2  | Year | Years | 9/11/2012   |
| £67,078       | %    | %     | %   | %     | %   | %    | %   | %   | %    | %     | %           |
| Actual Return | 6.1  | 0.8   | 1.8 | 0.8   | 1.9 | 1.8  | 1.6 | 2.5 | 9.5  | 8.7   | 10.5        |
| Benchmark     | 1.4  | 1.4   | 1.4 | 1.4   | 1.4 | 1.4  | 1.4 | 1.4 | 5.6  | 5.7   | 6.0         |
| Difference    | 4.7  | (0.6) | 0.4 | (0.6) | 0.5 | 0.4  | 0.2 | 1.1 | 3.9  | 3.0   | 4.5         |

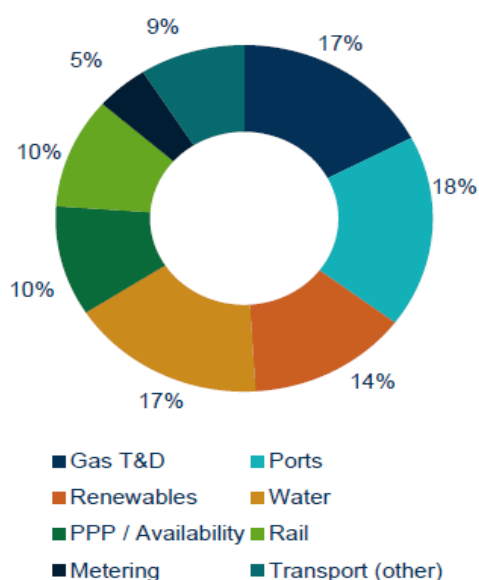
### Reason for appointment

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 2018, the strategy reported a one-year return of 6.1%, outperforming its benchmark by 0.3%. Since inception the strategy has provided a good annualised return of 10.5%, outperforming its benchmark of 6.0% by 4.5%. Overall Hermes has provided a steady return since inception.

The sector allocation below highlights the well diversified nature of the strategy. The second chart outlines the holdings and the percentage that Hermes holds in each investment.



| Investment                      | HIF I ownership |
|---------------------------------|-----------------|
| <b>Unrealised portfolio</b>     |                 |
| <b>Core</b>                     |                 |
| Anglian Water                   | 4.9%            |
| Associated British Ports        | 3.5%            |
| Cadent                          | 1.6%            |
| Braes of Doune                  | 50.0%           |
| ASG I                           | 100.0%          |
| ASG II                          | 100.0%          |
| Fallago Rig                     | 10.0%           |
| Innisfree PFI Continuation Fund | 14.3%           |
| Innisfree M&G PPP               | 15.8%           |
| <b>Value Added</b>              |                 |
| Eurostar                        | 6.6%            |
| Southern Water                  | 3.9%            |
| Energy Assets                   | 20.5%           |

## 5.9 Aberdeen Asset Management

|                      | 2018  | 2017 |     |     |       | 2016  |       |       | One  | Two   | Since Start |
|----------------------|-------|------|-----|-----|-------|-------|-------|-------|------|-------|-------------|
| Aberdeen             | Q1    | Q4   | Q3  | Q2  | Q1    | Q4    | Q3    | Q2    | Year | Years | 15/9/2014   |
| £56,817              | %     | %    | %   | %   | %     | %     | %     | %     | %    | %     | %           |
| <b>Actual Return</b> | 0.9   | 1.3  | 6.1 | 4.2 | 0.7   | 0.5   | 0.3   | (1.4) | 12.5 | 6.3   | 3.8         |
| <b>Benchmark</b>     | 1.1   | 1.1  | 1.1 | 1.1 | 1.1   | 1.1   | 1.1   | 1.1   | 4.4  | 4.4   | 4.5         |
| <b>Difference</b>    | (0.2) | 0.2  | 5.0 | 3.1 | (0.4) | (0.6) | (0.8) | (2.5) | 8.1  | 1.9   | (0.7)       |

### Reason for appointment

As part of the Fund's diversification away from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Asset Management (AAM) 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 AAM have built a portfolio of HFs, PEs and co-investments, 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.

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

- i. Relative Value: profit from price dislocations across fixed income and equity;
- ii. Global Macro: benefit from global trends across asset classes and geographies; and
- iii. Tail Risk protection: protection at times of market stress but more muted returns in normal market environments.

As at the end of 31 March 2018 the portfolio held the following allocations:

| <b>Hedge Funds</b>       | <b>Strategy / Style</b>                          |
|--------------------------|--|
| Field Street Fund        | Fixed Income, Global Macro                       |
| Horizon Portfolio Ltd    | Market Neutral                                   |
| Kohinoor Series Three    | Tail-risk protection                             |
| Obsidian Fund            | Fixed Income Relative Value                      |
| Pharo Gaia Fund          | Discretionary global macro (Emerging markets)    |
| Complus Asia Macro       | Discretionary macro fund focused on Asia         |
| Renaissance IDA          | Statistical Arbitrage                            |
| BlackRock Fixed Income   | Relative Value                                   |
|                          |  |
| <b>Private Equity</b>    |  |
| PAI Europe VI            | Buyout Midcap                                    |
| MML Capital Partners VI  | Lower Mid-Market                                 |
| Advent Int GPE VIII-B LP | Sector-focused strategy and operational approach |
| Cinven Allegro LP        | European Fund focused on Financials & Healthcare |
| Ethypharm Co-Invest FPCI | European generics & specialty pharmaceutical     |
| OEP VI Feeder LP         | Merge like-sized businesses with a strategic fit |

## 5.10 Pyrford

|                      | 2018  | 2017  |       |       |       | 2016  |     |     | One    | Two   | Since Start |
|----------------------|-------|-------|-------|-------|-------|-------|-----|-----|--------|-------|-------------|
| Pyrford              | Q1    | Q4    | Q3    | Q2    | Q1    | Q4    | Q3  | Q2  | Year   | Years | 28/9/2012   |
| £99,780              | %     | %     | %     | %     | %     | %     | %   | %   | %      | %     | %           |
| <b>Actual Return</b> | (2.3) | 0.6   | (0.9) | 0.1   | 1.7   | 0.6   | 3.1 | 3.2 | (2.5)  | 3.1   | 3.6         |
| <b>Benchmark</b>     | 1.3   | 2.2   | 2.2   | 2.3   | 2.1   | 2.0   | 1.9 | 2   | 8.0    | 8.0   | 6.7         |
| <b>Difference</b>    | (3.6) | (1.6) | (3.1) | (2.2) | (0.4) | (1.4) | 1.2 | 1.2 | (10.5) | (4.9) | (3.1)       |

### 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 return of -2.3% for Q1, underperforming its benchmark by 3.6%. Over one year the strategy has returned -2.5%, underperforming its benchmark by 10.5%. Pyrford's performance over two years and since inception is closer to its benchmark but still underperforms by 2.7% and 3.1% respectively.

### Strategy and Market Update

The defensive positioning in the equity portion of the fund failed to protect from the return of market volatility, as these were the areas which were hurt the most during the Quarter. However, while bond markets generally weakened as interest rate expectations rose following strong US labour figures, the fund's low duration helped weather these moves.

Overall, the fund remains very defensively positioned, with the majority of the portfolio in short duration government bonds. The performance on the equity buckets is still causing disappointment, underperforming the index for the last 2 years. However, the manager is confident that the positions will come around in what he expects will be a higher volatility environment.

The fund has had a difficult start to 2018, returning -2.1% in Q1. The underperformance of defensive sectors coincided with a rising yield environment – a scenario which was always likely to be detrimental to the strategy.

The manager and team remain dedicated to their investment philosophy of providing downside protection through reliance on the diversification between Government bonds, equities and cash. While this has not occurred during the first Quarter of 2018, over the longer term it is likely to show through.



## 5.11 Newton

|               | 2018  | 2017  |       |     |     | 2016  |     |     | One   | Two   | Since Start |
|---------------|-------|-------|-------|-----|-----|-------|-----|-----|-------|-------|-------------|
| Newton        | Q1    | Q4    | Q3    | Q2  | Q1  | Q4    | Q3  | Q2  | Year  | Years | 31/8/2012   |
| £64,625       | %     | %     | %     | %   | %   | %     | %   | %   | %     | %     | %           |
| Actual Return | (2.6) | 0.3   | (0.8) | 1.0 | 2.0 | (5.0) | 1.5 | 4.3 | (2.1) | 0.4   | 2.8         |
| Benchmark     | 1.1   | 1.1   | 1.0   | 1.0 | 1.1 | 1.0   | 1.1 | 1.1 | 4.2   | 4.3   | 4.5         |
| Difference    | (3.7) | (0.8) | (1.8) | 0.0 | 0.9 | (6.0) | 0.4 | 3.2 | (6.3) | (3.9) | (1.7)       |

### 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

The Fund delivered a negative return over the quarter of -2.6% and underperformed its benchmark by 3.7%. Over one year and two years the strategy has underperformed its benchmark by 6.3% and 3.9% respectively.

### Outlook and Strategy

The Newton strategy comprises a return seeking core with a layer of stabilising assets and hedging positions. Both the return-seeking core and the stabilising assets detracted from performance, which was symptomatic of the market moves during the first 3 months of 2018. The greatest headwinds to performance during the period came from the equities, although this was counteracted partly by the hedging positions.

The managers have continued to position the portfolio with a defensive stance, given a cautious view where the manager believes that markets are not priced for macroeconomic, market and geopolitical risks.

### Fund Activities

The cash position has been the main beneficiary of the quarter, increasing from 8.3% to 25.9%. This was primarily a function of the sell-down in the equities position, combined with taking profits from the equity hedges. The net result of this move was a net increase in the equity position from 31% at the end of 2017 to 37% at the end of March.

Newton also trimmed positions to the rest of the stabilising assets including Government Bonds and Gold. The Emerging Market Debt positions are the highest conviction in the portfolio, with Mexico and Indonesia, in particular, impressing the managers.

From a currency perspective, the managers also took risk off the table, increasing the Sterling weight from 80% to 85%. The overall effect of these changes reduced the portfolio's risk. Newton holds the view that the February moves are symptomatic of what is to come in the future and are waiting for a better entry point.

## 5.12 BNY Standish

|               | 2018  | 2017  |       |     |     | 2016  |     |       | One   | Two   | Since Start |
|---------------|-------|-------|-------|-----|-----|-------|-----|-------|-------|-------|-------------|
| Standish      | Q1    | Q4    | Q3    | Q2  | Q1  | Q4    | Q3  | Q2    | Year  | Years | 20/8/2013   |
| £66,403       | %     | %     | %     | %   | %   | %     | %   | %     | %     | %     | %           |
| Actual Return | 0.3   | (0.5) | 0.7   | 1.0 | 2.0 | 0.7   | 1.4 | 0.9   | 1.5   | 3.2   | 1.6         |
| Benchmark     | 1.1   | 1.1   | 1.0   | 1.0 | 1.2 | 1.1   | 1.1 | 1.1   | 4.2   | 4.3   | 5.3         |
| Difference    | (0.8) | (1.6) | (0.3) | 0.0 | 0.8 | (0.4) | 0.3 | (0.2) | (2.7) | (1.1) | (3.7)       |

### Reason for appointment

Standish 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.

### Performance

The Fund lagged its comparative index over the quarter, on a net basis, returning 0.3% against a benchmark return of 1.1%. Over one year the strategy has underperformed its benchmark of 4.2% by 2.7%.

Asset allocation was the main detractor this month. Underperformance was driven by weakness in collateralised mortgage obligations, as well as spread widening in US investment grade and high yield credit. In currency, the long position in the Swedish krona hurt performance. Duration/yield curve positioning contributed to returns as US rates rallied on the month. Currency boosted performance, specifically the Fund's long positions in the Argentine peso and sterling and the short US dollar position.

Tracking error increased marginally to 246 basis points over the month, with currency and curve positioning remaining the largest allocation within the risk bucket. Government and emerging market spreads, as well as credit default risk, comprised most of the balance.

### Outlook

There were no material changes to the global economic outlook, with financial conditions in the US and the UK remaining accommodative. All three economies are enjoying a relatively synchronous upswing in output. Similarly, robust growth in China underpins emerging market economies and commodity prices. Standish believe high-quality emerging market dollar debt looks fairly valued and some frontier markets are attractive for those willing to accept the associated elevated risk and illiquidity.

Standish look to maintain a short duration bias in core developed market sovereign securities but look for opportunities to trim positions as yields move closer to fair value. The overall risk budget remains lean, emphasising quality, and is protected against outsized events, so as to enjoy the flexibility to add selectively to risk when markets temporarily push financial prices too low.

### **5.13 Currency Hedging**

No new currency hedging positions were placed in Q1 2018.

## **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.

### **Background Papers Used in the Preparation of the Report:**

- WM Quarterly Q1 2018 Report; and
- Fund Manager Q1 2018 Reports.

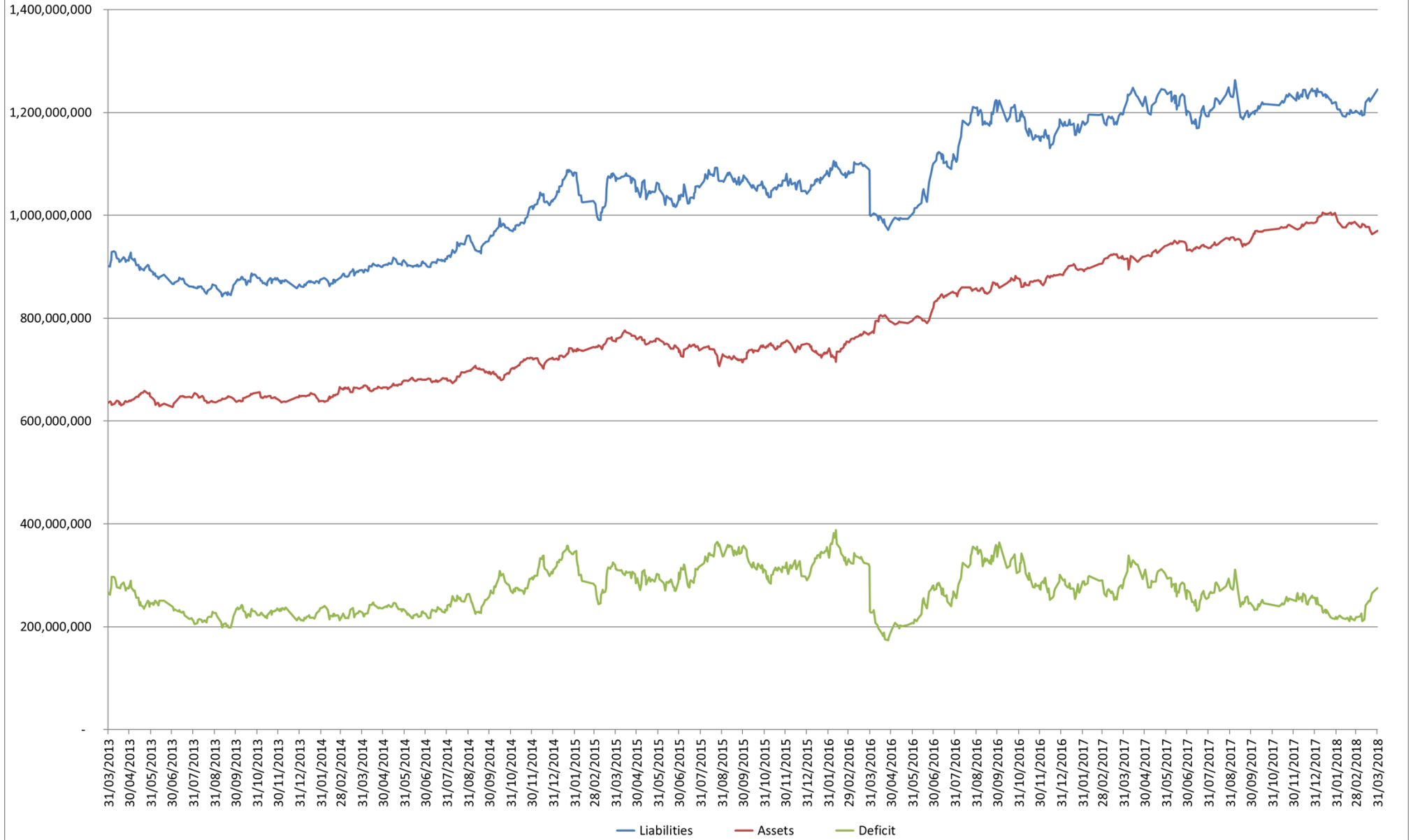
### **List of appendices:**

**Appendix 1** - Fund Asset and Liability Values 31 March 2013 to 31 March 2018

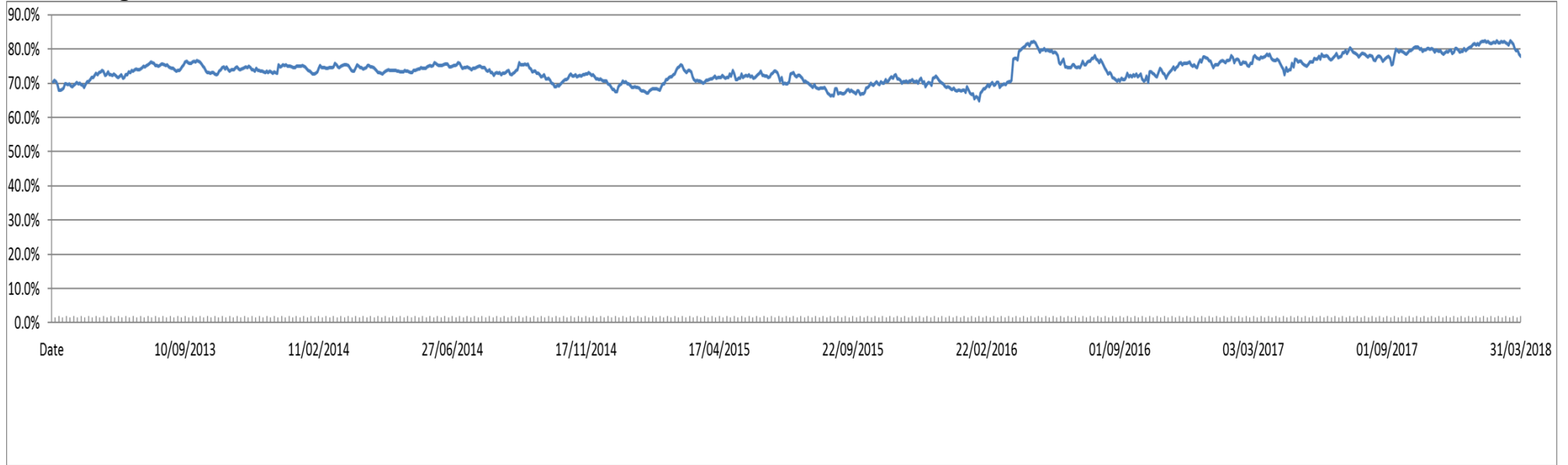
**Appendix 2** - Definitions

**Appendix 3** - Roles and Responsibilities

# APPENDIX 1 - Fund Asset Values 31 March 2013 to 31 March 2018



### Funding Level between 31 March 2013 to 31 March 2018



## 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

|                         |  |
|-------------------------|--|
| <b>Scheduled bodies</b> | University of East London  |
|                         | Magistrates Court  |
|                         | Barking College  |
|                         | Thames View Infant Academy<br>Thames View Junior School<br>Sydney Russell Academy<br>Riverside Academy<br>Riverside Bridge<br>Riverside Primary<br>Dorothy Barley Academy<br>Warren Academy<br>Goresbrook Free School<br>Elutec<br>The James Cambell<br>Greatfields School |
| <b>Admitted Bodies</b>  | Age UK   |
|                         | Abbeyfield Barking Society   |
|                         | Barking and Dagenham Citizen's Advice Bureau   |
|                         | Council for Voluntary Service  |
|                         | Disablement Association of Barking and Dagenham  |
|                         | East London E-Learning   |
|                         | Elevate  |
|                         | Kier   |
|                         | London Riverside   |
|                         | Laing O'Rourke<br>RM Education<br>CRI<br>Cleantech<br>The Broadway Theatre<br>Schools Offices Services Ltd<br>SLM<br>Be First  |

|  |   |
|--|---|
|  | B&D School Improvements Partnership<br>B&D Traded Sevices |
|--|---|



## **B Roles & Responsibilities**

### **B.1 Investment or Pensions Committee**

This is the decision-making body within the LGPS scheme. It will probably meet quarterly and could have sub-committees for examining more detailed aspects i.e. investment performance, audit etc.

Membership of the committee will reflect the constitutional nature of the committee within the local authority and the multi-employer nature and size of the local scheme. A county scheme might have the leader of the council, four other councillor members from the host local authority, two district councillors and a staff representative.

As another example, the London Pension Fund Authority, which has separate legal responsibility for certain pensions' administration and investment within London, has a membership of seven to eleven members appointed by the Mayor of London. The Mayor is required to consult local government representatives in London on at least half of the appointments excluding the chairman.

Although appointments from host local authorities will be made on a political basis, a key feature of pensions or investments committees is the non-political nature of much of the decision-making. While sitting on the pensions or investments committee, members will be exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund.

### **Responsibilities**

The responsibility of an investments or pensions committee may include:

- ensuring all investment activity complies with the requirements of current regulations and best practise;
- approving the statement of investment principles, funding strategy statement, communications strategy and governance policy;
- reviewing and taking action on actuarial valuations;
- appointing investment managers, a fund actuary, custodian(s) and professional advisers;
- agreeing asset allocation strategies following asset liability modelling and a policy for investment in different assets with the investment managers;
- agreeing a rebalancing strategy between different portfolios when asset allocations change due to different market movements of different sectors;
- regularly reviewing investment managers' performance and expertise against agreed benchmarks and determining any action required;
- ensuring that the fund investments are sufficiently diversified and that the fund is investing in suitable investments;
- monitoring budgets for the fund ensuring there is adequate budgetary control;
- promoting the fund within the authority; and
- ensuring the administration of the fund is appropriately resourced, is effective and meets performance standards.

The committee will also have responsibility for selecting and appointing external additional voluntary contribution (AVC) providers for use by members in purchasing additional benefits. At retirement the accumulated value of the members AVC fund is used to purchase an annuity on the appropriate market, or the value may be taken as a cash sum under specific circumstances.

MHCLG has reminded administering authorities that elected councillors 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.

Under Section 101 of the Local Government Act 1972, a local authority can choose to delegate their pension investment functions to the council, a committee, a sub-committee or to officers. MHCLG guidance states that under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001, statutory decisions, taken under schemes made under Sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements introduced by the Local Government Act 2000.

This means that the executive arm of the council cannot make decisions in relation to discretions to be exercised under the LGPS, or make decisions relating to the investment of the pension fund and related matters.

## **B.2 Quasi Trustees**

As the LGPS has a different background, in comparison to corporate pension schemes, members of investments or pensions committees do not have the legal responsibilities of a trustee in a corporate scheme. Nevertheless they still have considerable responsibilities and a general duty of care. Investments or pension's committee members are often referred to as quasi trustees. Due to the complexity of investment practises, pension benefits, actuarial and funding issues, a high level of knowledge and skills is required and continual training is essential.

LGPS quasi-trustees are responsible for the:

- oversight of the management and resourcing of all fund activities;
- achieving the requirements set out by The Pensions Regulator's codes of practice;
- ensuring the best possible outcome for the fund, employers and members; and
- taking decisions in accordance with the standing orders of the investments or pensions committee.

## **B.3 Fund Administrator**

The Strategic Director, Finance & Investment is responsible as fund administrator for:

- ensuring compliance with the statutory rules governing the investment of LGPS assets, including the various policy documents and statements required under the regulations;
- acting as a professional advisor to the fund;

- as section 151 officer alerting the investments or pensions committee or the council to any problems with the funding level or the administration of the fund in accordance with section 151 responsibilities;
- ensuring effective audit and governance arrangements; and
- ensuring the effective administration and preparation of the accounts including the annual statement of accounts.

#### **B.4 Administering Authority**

There will be a separate pension's function within a host local authority with responsibility for investment and scheme administration. With a few exceptions, it will not be a separate legally constituted body.

Consequently, subject to LGPS regulations, the legal and administrative processes of the local authority will apply to the fund i.e. employees of the fund will be employees of the local authority and be subject to the local authorities pay and conditions of employment.

Although not a separate body in law, good practice would suggest that the fund should have a title relating to the overall fund, rather than the host authority.

The responsibilities of the administering authority include:

- collecting and accounting for employer and employee contributions;
- investing monies not required for payment benefits, transfers and administration costs;
- paying pension benefits and ensuring cash is available to meet the funds future liabilities;
- managing the fund valuation process;
- preparing and maintaining the statutory statements;
- monitoring and managing all aspects of the fund's performance; and
- Managing communications with employers, members and pensioners.

#### **B.5 Employers**

These will range from the host local authority, which in a county scheme will be the county council, to many other employers, both large and small. Following out-sourcing by local authorities, an increasing feature of LGPS schemes is the extent to which commercial companies are becoming employers (as admitted bodies) within the scheme.

Employers fall into three categories:

- Scheduled

These are the organisations listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 1) and include county councils and district councils.

- Designated (resolution) bodies

These are employers that have the power to decide if an employee or a group of employees can belong to the LGPS and they pass a resolution accordingly. They are

listed in the Local Government Pension Scheme Regulations 2013 (Schedule 2, Part 2).

- Admitted bodies

These are bodies whose staff can become members of an LGPS fund, if the administering body agrees, under provisions of governing regulations by virtue of an admission agreement between the administering authority and the relevant body.

Responsibilities of employers include:

- deducting pension contributions and together with employer contributions, remitting to the administering authority in accordance with the required timescale;
- exercising benefit discretions in accordance with the agreed policy and keeping the administering authority informed;
- notifying the administering authority of all relevant membership changes (e.g. retirement etc) and other required issues; and
- Complying with the valuation timetable.

Employers have a particular responsibility for notifying the administering authority as soon as it becomes evident that an outsourcing or external partnership arrangement might be a possibility. There are many complex issues to be considered by the administering authority which could involve seeking actuarial and financial advice. Employers need to ensure that tender documents clarify pension funding obligations which should be covered subsequently in a commercial contract.

Contact should be made at an early stage with the administering authority if consideration is being given to an employee retiring early or being made redundant. When considering early retirement, employers need to ensure that they identify the need to make a payment to the pension fund for the early release of pension benefits. This is called the pension fund strain; it can be a significant cost and normally needs to be funded immediately by the employer.

## **B.6 Investment Managers**

With some exceptions, in larger LGPS funds most investment managers are external appointments.

Investment manager responsibilities include:

- investment of pension fund assets in compliance with current LGPS legislation, any constraints set by the investments or pensions committee in the Investment Strategy Statement and investment management agreement;
- asset allocation if a balanced manager, otherwise as directed by the investments or pensions committee;
- selection of securities within asset classes;
- attending meetings and presenting reports to the investments or pensions committee as required, including regular reports on performance, voting and transactions;
- active management of any cash balances (unless this responsibility is delegated to the custodian); and
- engaging with companies and taking shareholder action in accordance with the fund's policy.

Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 is concerned with the appointment of Investment Managers.

## **B.7 Custodian(s)**

The custodian(s) is responsible for the safekeeping of the fund's securities. This function may be carried out by a custodian appointed directly by the fund, or via appointed fund managers. Current best practice is for funds to appoint their own custodian(s).

The duties may include:

- settlement of purchases and sales;
- advising managers of cash available for investment;
- safe custody of securities and cash;
- acting as banker to the fund;
- cash reconciliations;
- collection of dividends, income and overseas tax reclaims;
- ensuring correct actions including rights issues, bonus issues and acquisitions are correctly dealt with;
- ensuring the necessary approvals are in place to invest in certain overseas markets; and
- Providing (monthly) valuations of scheme assets, details of all transactions and accounting reports.

The custodian may also offer access to commission recapture, security lending programmes, comparative performance measurement and voting of shares in accordance with an agreed policy.

The appointment of a custodian might require specialist advice to be obtained. The risks to be addressed include:

- financial risk around the financial viability and stability of the custodian including ability to support long term investment in the business and withstand operational losses;
- asset risk including risk that in the event of default, client securities are treated as part of the assets of the bank which has gone into default and belong to creditors rather than clients, and cash risk that in the event of default clients are exposed to losses of cash placed with the bank; and
- Asset servicing risk such that a client is exposed to a loss due to a weakness in the custodian's operations.

Funds need to consider the importance of ensuring that all these areas are considered. This might involve using specialist advisers. Particular consideration should be given to risks if a sub-custodian is involved.

## **B.8 Actuary**

The scheme actuary is an independent and appropriately qualified adviser who carries out statutorily required fund valuations and other valuations as required and who will also provide general actuarial advice.

The actuary will:

- prepare fund valuations, including setting employers contribution rates, after agreeing valuation assumptions with the administering authority;
- agree a timetable for the valuation with the administering authority; and
- Prepare timely advice and calculations in connection with bulk transfers and benefit matters.

The results of the valuation determine the rate of the employer's contribution for the subsequent three years. The actuary is required to certify employer's contribution rates that will achieve full solvency over the longer term, while keeping contribution rules as stable as possible.

The contribution rate will consist of a common rate for the fund and an individual employer rate. To achieve this, the actuary needs to ensure compliance with legislative requirements, assess current solvency levels, monitor actual experience compared with previous assumptions, and assess reserves needed for accrued liabilities. In carrying out this work, the actuary must have regard to the funding strategy statement, which might need to be revised to incorporate any new approach to be followed in the valuation.

The administering authority may also instruct the actuary to carry out an interim valuation if stock market conditions change, or if the characteristics of the membership changes e.g. as a result of a large transfer of staff.

The actuary will advise on other scheme matters, e.g. funding levels and the funding strategy statement and asset liability reviews. The most recent valuation of LGPS funds in England and Wales was at 31 March 2016 with revised employer contribution rates payable from April 2017.

The Myner's report (Institutional Investment in the United Kingdom: A Review) highlighted the need for funds to consider whether the roles of actuary and investment adviser should be held by separate companies. Notwithstanding this, many continue to have these roles provided by the same company, although there will be separate contracts.

## **B.9 Professional Advisers**

Professional advisers should be appointed to advise the pensions or investments committee and the fund administrator on scheme matters. As in the case of investment managers, these appointments tend to be held by a relatively few appointees. Professional advisors should not be committee members.

Funds usually have a sole investment adviser. Consideration might be given to using a framework list of consultants, in order to use specific advisers to reflect each firm's strength and fees. In comparison with the usual approach of advertising in the EU journal, subject to the size of the fee, framework lists afford much more flexibility in procuring these services.

Advisers may be needed for advice on:

- asset allocation strategies;
- the selection of new managers and custodians;
- the preparation of the various strategy documents required under LGPS regulations; and
- To assist in reviewing and monitoring managers' performance.

Legal advice will need to be available to the fund, which might involve the appointment of specialist legal advisers for particular aspects of fund management i.e. appointing a private equity manager.

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## PENSIONS COMMITTEE

20 June 2018

|  |   |
|--|---|
| <b>Title:</b> Pension Fund Accounts 2017/18  |   |
| <b>Report of the Chief Operating Officer</b>   |   |
| Public Report  | <b>For Information</b>  |
| <b>Wards Affected:</b> None  | <b>Key Decision:</b> No   |
| <b>Report Author:</b><br>David Dickinson, Investment Fund Manager  | <b>Contact Details:</b><br>Tel: 020 8227 2722<br>E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a> |
| <b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer   |   |
| <b>Summary:</b><br><br>This report presents the Pensions Committee with the Draft Pension Fund Accounts for 2017/18.   |   |
| <b>Recommendations</b><br><br>The Committee is asked to consider and note the Draft Pension Fund Accounts for 2017/18. |   |

### 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 2018, 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 2018 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 2017/18 was another good year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.3%, 0.3% higher than its benchmark of 5.0%. Taking net pension contributions into account, the Fund increased in size by 5.6%. Over three years the Fund has returned an annualised return of 7.9%, which 0.4% below the Fund's benchmark return of 8.3%.

- 2.2 Equities and alternatives were the main driver of outperformance, with Baillie Gifford providing a good return of 12.7% for the year, outperforming its benchmark by 9.4% and Aberdeen Asset Management providing a return of 12.5%, outperforming its benchmark by 8.1%. Absolute return managers were the worst performers, both underperforming their benchmarks and providing negative actual returns for the year.
- 2.3 Two new employers, Be First and SLM, joined the scheme as admitted bodies. A further two academies, James Campbell Primary and St Margarets joined the scheme as new scheduled body employers. The total number of active and closed employers within the Fund was 37 as at year end.
- 2.4 The Fund increased in value by £51.6m from £916.8m as at 31 March 2017 to £968.4m as at 31 March 2018.
- 2.5 Audit fees remained at £21k for the year

### **3 Recommendation**

- 3.1 The Committee is recommended to note the Pension Fund Accounts for 2017/18.



# **Draft Pension Fund Accounts**

**for the year ended**

**31 March 2018**

## London Borough of Barking and Dagenham Pension Fund Account

|   | Note | 2016/17<br>£000 | 2017/18<br>£000 |
|---|------|-----------------|-----------------|
| <b>Dealings with members, employers and others directly involved in the scheme</b>        |      |                 |                 |
| Contributions   | 7    | 45,556          | 44,781          |
| Transfers in from other pension funds   | 8    | 4,293           | 2,761           |
|   |      | 49,849          | 47,542          |
| Benefits  | 9    | (39,929)        | (38,240)        |
| Payments to and on account of leavers   | 10   | (3,030)         | (4,216)         |
| Administrative expenses   | 11   | (780)           | (723)           |
|   |      | (43,739)        | (43,179)        |
| <b>Net additions for dealings with members</b>  |      | 6,110           | 4,363           |
| <b>Returns on Investments</b>   |      |                 |                 |
| Investment Income   | 12   | 6,039           | 18,618          |
| Taxes on income   |      | -               |                 |
| Profit (losses) on disposal of investments and changes in the market value of investments | 14   | 135,756         | 31,893          |
| Investment management expenses  | 13   | (3,689)         | (3,985)         |
| <b>Net returns on investments</b>   |      | 138,106         | 46,526          |
| <b>Net increase (decrease) in the net assets available for benefits during the year</b>   |      | 144,216         | 50,889          |

### Net Assets Statement as at 31 March 2018

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 | 2016/17<br>£000 | 2017/18<br>£000 |
|----------------------------|------|-----------------|-----------------|
| <b>Investment Assets</b>   | 15   | 915,817         | 967,696         |
| <b>Current Assets</b>      | 16   | 1,584           | 1,590           |
| <b>Current Liabilities</b> | 16   | (594)           | (910)           |
|                            |      | 916,807         | 968,376         |

## **Notes to the Pension Fund Accounts for the year ended 31 March 2018**

### **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 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 Panel, which is a Committee of LBBD.

Overall 2017/18 was another good year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 5.3%, 0.3% higher than its benchmark of 5.0%. Taking net pension contributions into account, the Fund increased in size by 5.6%. Over three years the Fund has returned an annualised return of 7.9%, which 0.4% below the Fund’s benchmark return of 8.3%.

Two new employers, Be First and SLM, joined the scheme as admitted bodies. A further two academies, James Campbell Primary and St Margarets joined the scheme as new scheduled body employers. The total number of active and closed employers within the Fund was 37 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 2017/18, 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](http://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.
- 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.

|  | 2016/17       | 2017/18       |
|--|---------------|---------------|
| <b>Number of Employers with active members</b> | 30            | 27            |
| <b>Number of Employees in scheme</b>           |               |               |
| <b>London Borough of Barking and Dagenham</b>  |               |               |
| Active members                                 | 5,071         | 4,754         |
| Pensioners                                     | 4,332         | 4,361         |
| Deferred pensioners                            | 4,401         | 4,468         |
| Undecided and other members                    | 398           | 425           |
|  | <u>14,202</u> | <u>14,008</u> |
| <b>Admitted and Scheduled Bodies</b>           |               |               |
| Active members                                 | 1,406         | 1,558         |
| Pensioners                                     | 1,151         | 1,309         |
| Deferred pensioners                            | 1,271         | 1,335         |
| Undecided and other members                    | 69            | 60            |
|  | <u>3,897</u>  | <u>4,262</u>  |

A list of the Fund's scheduled and admitted employers are provided below:

| Scheduled Bodies                      | Admitted Bodies                                   |
|---------------------------------------|---|
| LBBDD                                 | <i>Abbeyfield Barking Society (not active)</i>    |
| Barking College                       | <i>Age UK (not active)</i>                        |
| Dorothy Barely Academy                | Aspens  |
| Eastbury Academy                      | B&D Citizen's Advice Bureau                       |
| Elutec                                | <b>Be First – From October 2018</b>               |
| Goresbrook Free School                | <i>CGL (not active)</i>                           |
| Greatfields Free School               | Cleantech   |
| James Campbell Primary                | <i>Council for Voluntary Service (not active)</i> |
| <i>Magistrates Court (not active)</i> | <i>Disablement Assoc. of B&amp;D (not active)</i> |
| Partnerships Learning                 | <i>East London E-Learning (not active)</i>        |
| Riverside Bridge                      | Elevate East London LLP                           |
| Riverside Free School                 | Laing O'Rourke                                    |
| Riverside School                      | <i>London Riverside (not active)</i>              |
| St Margarets                          | <i>May Gurney (not active)</i>                    |
| Sydney Russell                        | <i>RM Education (not active)</i>                  |
| Thames View Infants Academy           | Schools Offices Services Ltd                      |
| Thames View Junior Academy            | <b>SLM – From August 2017</b>                     |
| University of East London             | The Broadway Theatre                              |
| Warren Academy                        |   |

## b) Benefits

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

|                  | <b>Service pre-1 April 2008</b>   | <b>Service post 31 March 2008</b>  |
|------------------|---|--|
| <b>Pension:</b>  | Each year worked is worth 1/80 x final pensionable salary.  | Each year worked is worth 1/60 x final pensionable salary.   |
| <b>Lump sum:</b> | 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 2017/18 financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2017/18.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2018. 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 8).

### **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 2018;
- 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 2018. 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 LBBB's policy.

### **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 13.

### **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 **£338k** (2016/17 £356k). 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 **£4.3m** (2016/17 £4.6m).

## 7. 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 2018. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. Currently employer contribution rates range from 14.0% to 33.1%.

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

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 2018 was 23.5%.

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

| <b>Contributions</b>                      | <b>2016/17</b><br><b>£000</b> | <b>2017/18</b><br><b>£000</b> |
|---|-------------------------------|-------------------------------|
| <b>Members normal contributions</b>       |                               |                               |
| Council                                   | 6,667                         | <b>6,941</b>                  |
| Admitted bodies                           | 310                           | <b>434</b>                    |
| Scheduled bodies                          | 2,386                         | <b>2,118</b>                  |
| <b>Total contributions from members</b>   | <b>9,363</b>                  | <b>9,493</b>                  |
| <b>Employers normal contributions</b>     |                               |                               |
| Council                                   | 24,622                        | <b>23,837</b>                 |
| Admitted bodies                           | 982                           | <b>1,439</b>                  |
| Scheduled bodies                          | 8,961                         | <b>8,021</b>                  |
| Additional retirement contribution        |                               |                               |
| Capitalised Redundancy costs              | 1,628                         | <b>1,991</b>                  |
| <b>Total contributions from employers</b> | <b>36,193</b>                 | <b>35,288</b>                 |
| <b>Total Contributions</b>                | <b>45,556</b>                 | <b>44,781</b>                 |

## 8. Transfers in from other pension funds

|                             | <b>2016/17</b><br><b>£000</b> | <b>2017/18</b><br><b>£000</b> |
|-----------------------------|-------------------------------|-------------------------------|
| <b>Individual Transfers</b> | 3,992                         | <b>2,761</b>                  |
| <b>Group Transfers*</b>     | 301                           | <b>0</b>                      |
|                             | <b>4,293</b>                  | <b>2,761</b>                  |

## 9. Benefits

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

|                     | 2016/17         |                            |                             |               | 2017/18         |                            |                             |               |
|---------------------|-----------------|----------------------------|-----------------------------|---------------|-----------------|----------------------------|-----------------------------|---------------|
|                     | Council<br>£000 | Admitted<br>Bodies<br>£000 | Scheduled<br>Bodies<br>£000 | Total<br>£000 | Council<br>£000 | Admitted<br>Bodies<br>£000 | Scheduled<br>Bodies<br>£000 | Total<br>£000 |
| <b>Pensions</b>     | 25,040          | 347                        | 4,485                       | 29,872        | <b>26,152</b>   | <b>389</b>                 | <b>5,084</b>                | <b>31,625</b> |
| <b>Lump sums</b>    | 7,650           | 235                        | 901                         | 8,786         | <b>3,229</b>    | <b>37</b>                  | <b>2,110</b>                | <b>5,376</b>  |
| <b>Death grants</b> | 860             | 19                         | 392                         | 1,271         | <b>835</b>      | -                          | <b>404</b>                  | <b>1,239</b>  |
| <b>Interest</b>     | -               | -                          | -                           | -             | -               | -                          | -                           | -             |
|                     | <b>33,550</b>   | <b>601</b>                 | <b>5,778</b>                | <b>39,929</b> | <b>30,216</b>   | <b>426</b>                 | <b>7,598</b>                | <b>38,240</b> |

## 10. Payments to and on account of leavers

|                      | 2016/17<br>£000 | 2017/18<br>£000 |
|----------------------|-----------------|-----------------|
| Individual Transfers | 2,858           | <b>3,966</b>    |
| Refunds              | 172             | <b>250</b>      |
|                      | <b>3,030</b>    | <b>4,216</b>    |

## 11. Administrative expenses

|                                   | 2016/17<br>£000 | 2017/18<br>£000 |
|-----------------------------------|-----------------|-----------------|
| Administration and Processing     | 526             | 473             |
| Audit Fee                         | 21              | 21              |
| Actuarial Fees                    | 78              | 66              |
| Legal and Other Professional Fees | 37              | 39              |
| ICT Costs                         | 118             | 124             |
|                                   | <b>780</b>      | <b>723</b>      |

## 12. Investment Income

|                           | 2016/17<br>£000 | 2017/18<br>£000 |
|---------------------------|-----------------|-----------------|
| Fixed Interest Securities | 636             | <b>423</b>      |
| Equity Dividends          | 3,092           | <b>16,123</b>   |
| Pooled Property Income    | 2,153           | <b>1,875</b>    |
| Interest - Manager's Cash | 2               | <b>1</b>        |
| Interest - LBBB balance   | 95              | <b>31</b>       |
| Other Income              | 61              | <b>165</b>      |
|                           | <b>6,039</b>    | <b>18,618</b>   |

## 13. Investment management expenses

|                 | 2016/17<br>£000 | 2017/18<br>£000 |
|-----------------|-----------------|-----------------|
| Management Fees | 3,084           | <b>3,351</b>    |
| Custody Fees    | 45              | <b>28</b>       |
| Interest Costs  | 560             | <b>606</b>      |
|                 | <b>3,689</b>    | <b>3,985</b>    |

## 14. Investments

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

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

|                                   | Value<br>31/03/2016<br>£000 | Purchases<br>£000 | Sales<br>£000    | Change in<br>Fair Value<br>£000 | Cash<br>Movement<br>£000 | Value<br>31/03/2017<br>£000 |
|-----------------------------------|-----------------------------|-------------------|------------------|---------------------------------|--------------------------|-----------------------------|
| <b>Pooled Unit Trusts</b>         | <b>453,627</b>              | <b>360,858</b>    | <b>(229,784)</b> | <b>130,906</b>                  | -                        | <b>715,607</b>              |
| <b>Property Unit Trusts</b>       | <b>56,246</b>               | <b>5,000</b>      | <b>(570)</b>     | <b>532</b>                      | -                        | <b>61,208</b>               |
| <b>Pooled Absolute<br/>Return</b> | <b>130,335</b>              | <b>61</b>         | <b>(129,779)</b> | <b>(617)</b>                    | -                        | <b>0</b>                    |
| <b>Pooled Alternatives</b>        | <b>52,496</b>               | <b>28,904</b>     | <b>(34,655)</b>  | <b>4,540</b>                    | -                        | <b>51,285</b>               |
| <b>Infrastructure</b>             | <b>60,458</b>               | <b>15,061</b>     | <b>(4,635)</b>   | <b>4,877</b>                    | -                        | <b>75,761</b>               |
| <b>Other Investments</b>          | <b>5,878</b>                | <b>0</b>          | <b>(3,276)</b>   | <b>5</b>                        | -                        | <b>2,607</b>                |
| <b>Derivative Contracts</b>       |                             |                   |                  |                                 |                          |                             |
| <b>Futures</b>                    | <b>(314)</b>                | <b>184,137</b>    | <b>(179,151)</b> | <b>(4,248)</b>                  | -                        | <b>424</b>                  |
| <b>Cash Deposits</b>              |                             |                   |                  |                                 |                          |                             |
| <b>Custodian</b>                  | <b>3,516</b>                | -                 | -                | <b>(239)</b>                    | <b>(349)</b>             | <b>2,928</b>                |
| <b>In-House</b>                   | <b>8,899</b>                | -                 | -                | -                               | <b>(3,611)</b>           | <b>5,288</b>                |
| <b>Total</b>                      | <b>771,141</b>              | <b>594,021</b>    | <b>(581,850)</b> | <b>135,756</b>                  | <b>(3,960)</b>           | <b>915,108</b>              |

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 2018 are highlighted below:

| Investment Manager          | Mandate | Investment Area                         |
|-----------------------------|---------|---|
| Aberdeen Asset Management   | Active  | Diversified Alternatives                |
| BNY Standish                | 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 2018 was as follows:

| Fund by Investment Manager   | 2016/17 |        | 2017/18        |        |
|------------------------------|---------|--------|----------------|--------|
|                              | £000    | £000   | £000           | %      |
| Aberdeen Asset Management    | 51,710  | 5.7%   | <b>55,889</b>  | 5.8%   |
| BlackRock                    | 36,702  | 4.0%   | <b>39,031</b>  | 4.0%   |
| Hermes                       | 75,762  | 8.3%   | <b>67,078</b>  | 6.9%   |
| Kempen                       | 151,211 | 16.5%  | <b>153,324</b> | 15.8%  |
| Other Cash Balances          | 8,217   | 0.9%   | <b>1,707</b>   | 0.2%   |
| Prudential/M&G               | 2,458   | 0.3%   | <b>653</b>     | 0.1%   |
| RREEF                        | 1,846   | 0.2%   | <b>348</b>     | 0.0%   |
| Schroders                    | 22,660  | 2.5%   | <b>24,283</b>  | 2.5%   |
| Standish                     | 65,486  | 7.2%   | <b>66,403</b>  | 6.9%   |
| UBS Passive Bonds            | 35,817  | 3.9%   | <b>35,990</b>  | 3.7%   |
| UBS Passive Equity           | 159,968 | 17.5%  | <b>171,957</b> | 17.9%  |
| London CIV                   | 150     | 0.0%   | <b>150</b>     | 0.0%   |
| London CIV - Baillie Gifford | 164,629 | 18.0%  | <b>186,184</b> | 19.2%  |
| London CIV - Pyrford         | 82,308  | 9.0%   | <b>99,780</b>  | 10.3%  |
| London CIV - Newton          | 56,184  | 6.1%   | <b>64,625</b>  | 6.7%   |
|                              | 915,108 | 100.0% | <b>967,402</b> | 100.0% |

## 15. Securities

|                                       | 2016/17<br>£000's | 2017/18<br>£000's |
|---------------------------------------|-------------------|-------------------|
| <b>Investment Assets</b>              |                   |                   |
| <b>Pooled funds - UK</b>              |                   |                   |
| UK fixed Income Unit Trust            | 35,818            | 35,990            |
| UK Equity Unit Trust                  | 324,746           | 358,291           |
| UK Absolute Return                    | 138,492           | 164,405           |
| UK Property Unit Trust                | 24,506            | 24,631            |
| UK Unit Trust                         | 2,458             | 653               |
| <b>Pooled funds - Overseas</b>        |                   |                   |
| Overseas Fixed Income Unit Trust      | 65,486            | 66,403            |
| Overseas Equity Unit Trust            | 151,211           | 153,324           |
| Overseas Property Unit Trust          | 36,701            | 39,031            |
| Other Investment - Infrastructure     | 75,762            | 67,078            |
| Other Investment - Private Equity     | 10,956            | 22,720            |
| Other Investment - Hedge Funds        | 40,331            | 32,770            |
| Other Investment – Tax Recoverable    | 709               | 294               |
| <b>Cash</b>                           | 8,217             | 1,707             |
| <b>Futures</b>                        | 424               | 400               |
| <b>Total Investment Assets</b>        | <u>915,817</u>    | <u>967,696</u>    |
| <b>Current Assets: Debtors</b>        | 1,290             | 1,590             |
| <b>Current Liabilities: Creditors</b> | (594)             | (910)             |
| <b>Total Net Assets</b>               | <u>916,513</u>    | <u>968,376</u>    |

## 16. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2018:

|                                  | 2016/17<br>£000 | 2017/18<br>£000 |
|----------------------------------|-----------------|-----------------|
| <b>Debtors</b>                   |                 |                 |
| <b>Other Investment Balances</b> |                 |                 |
| Tax recoverable                  | 709             | 294             |
| <b>Current Assets</b>            |                 |                 |
| Other local authorities          | 1,202           | 1,130           |
| Other entities and individuals   | 382             | 460             |
| Total Current Assets             | <u>1,584</u>    | <u>1,590</u>    |
| <b>Total Debtors</b>             | <u>2,292</u>    | <u>1,884</u>    |
| <b>Current Liabilities</b>       |                 |                 |
| Other local authorities          | 393             | 725             |
| Other entities and individuals   | 202             | 185             |
| <b>Total Creditors</b>           | <u>594</u>      | <u>910</u>      |

## 17. Cash

The cash balance held at 31 March 2018 is made up as follows:

| <b>Cash balances held by<br/>Investment Managers</b> | <b>2016/17<br/>£000</b> | <b>2017/18<br/>£000</b> |
|--|-------------------------|-------------------------|
| Aberdeen Asset Management                            | 1,433                   | 928                     |
| Prudential / M&G                                     | 1,071                   | 0                       |
| Schroders  | 177                     | 26                      |
| BlackRock  | 228                     | 74                      |
| Other balances                                       | 20                      | 46                      |
| In-house Cash  | 5,288                   | 633                     |
| <b>Total Cash</b>                                    | <b>8,217</b>            | <b>1,707</b>            |

## 18. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Panel on 15 March 2017 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>

## 19. 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

| <b>Longevity Assumptions</b>  | <b>2013</b> | <b>2013</b> | <b>2016</b> | <b>2016</b> |
|---|-------------|-------------|-------------|-------------|
| 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%  |
| <b>Total Contribution Rate</b>                            | 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        |
| <b>Funding Deficit</b>                    | (266)      | (228)      |
| <b>Funding Level</b>                      | 70.6%      | 77.2%      |
| <b>Present value of funded obligation</b> |            |            |

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 **£1,487m** as at 31 March 2018 (31 March 2017: £1,445m). 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 2017/18 accounting period:

| Scheduled Bodies            | Rate % | Admitted Bodies              | Rate % |
|-----------------------------|--------|------------------------------|--------|
| LBBB                        | 24.5   | B&D Citizen's Advice Bureau  | 33.1   |
| Barking College             | 27.5   | Cleantech                    | 28.1   |
| Dorothy Barely Academy      | 17.9   | Elevate East London LLP      | 21.3   |
| Elutec                      | 22.4   | Laing O'Rourke               | 14.0   |
| Eastbury Academy            | 23.6   | Schools Offices Services Ltd | 24.4   |
| Goresbrook Free School      | 10.8   | The Broadway Theatre         | 30.6   |
| Greatfields Free School     | 22.5   |                              |        |
| Partnership Learning        | 26.6   |                              |        |
| Riverside Bridge            | 20.3   |                              |        |
| Riverside Free School       | 15.9   |                              |        |
| Riverside School            | 19.6   |                              |        |
| Sydney Russell              | 25.7   |                              |        |
| Thames View Infants Academy | 22.3   |                              |        |
| Thames View Junior Academy  | 22.8   |                              |        |
| University of East London   | 28.1   |                              |        |
| Warren Academy              | 23.2   |                              |        |

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

### 20. 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 **£658.2k** (2016/17: £548.0k) are charged by the Council.

### 21. Contingent liabilities

As at 31 March 2018 there were no contingent liabilities.

### 22. Contingent assets

As at 31 March 2018 the Fund did not hold any contingent assets.

### 23. Holdings

All holdings within the Fund as at 31 March 2018 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 2017 the following pooled funds and LLPs were over 5% of the scheme's net assets:

| Security                     | Market Value as at 31<br>March 2018<br>£000 | % of Total Fund<br>% |
|------------------------------|---|----------------------|
| London CIV - Baillie Gifford | 186,184                                     | 19.2%                |
| UBS Passive Equity           | 171,957                                     | 17.9%                |
| Kempen                       | 153,324                                     | 15.8%                |
| London CIV - Pyrford         | 99,780                                      | 10.3%                |
| Hermes                       | 67,078                                      | 6.9%                 |
| Standish                     | 66,403                                      | 6.9%                 |
| London CIV - Newton          | 64,625                                      | 6.7%                 |

## 24. 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 £780.8m**

### 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 2018.

### 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 £186.6m**.

## 25. Events after the Reporting Period

None

## 26. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Panel, 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:

|                              | 2016/17<br>£000 | 2017/18<br>£000 |
|------------------------------|-----------------|-----------------|
| Short Term employee benefits | 220.2           | 243.0           |
| <b>Total</b>                 | <b>220.2</b>    | <b>243.0</b>    |

## 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.

|                               | Fair Value<br>through<br>profit and<br>loss | Loan<br>and<br>receiv-<br>ables<br>2016/17 | Financial<br>liabilities<br>at<br>amortised<br>cost | Designate<br>d as fair<br>value<br>through<br>profit and<br>loss | Loan<br>and<br>receiv-<br>ables<br>2017/18 | Financial<br>liabilities<br>at<br>amortised<br>cost |
|-------------------------------|---|--|---|--|--|---|
|                               | £000  | £000                                       | £000  | £000   | £000                                       | £000  |
| <b>Financial assets</b>       |   |  |   |  |  |   |
| Pooled Fixed Income           |   |  |   | 102,393  | -  | -   |
| Unit Trusts                   | 101,304                                     | -  | -   |  |  |   |
| Equities                      | 475,957                                     | -  | -   | 511,615  | -  | -   |
| Property Unit Trusts          | 61,208                                      | -  | -   | 63,663   | -  | -   |
| Cash                          | -   | 8,217                                      | -   |  | 1,707                                      | -   |
| Other investments             | 269,132                                     | -  | -   | 288,318  | -  | -   |
| <b>Total Financial Assets</b> | <b>907,601</b>                              | <b>8,217</b>                               | <b>-</b>  | <b>965,989</b>   | <b>1,707</b>                               | <b>-</b>  |
| <b>Financial Assets</b>       |   |  |   |  |  |   |
| Debtors                       | -   | 1,584                                      | -   | -  | 1,590                                      | -   |
| <b>Financial liabilities</b>  |   |  |   |  |  |   |
| Creditors                     | -   | -  | (594)   | -  | -  | (910)   |
| Borrowings                    | -   | -  | -   | -  | -  | -   |
| <b>Total Net Assets</b>       | <b>907,601</b>                              | <b>9,801</b>                               | <b>(594)</b>  | <b>965,989</b>   | <b>3,297</b>                               | <b>(910)</b>  |

## 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 meets 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 Panel. 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 2017/18 reporting period. The methods and types of assumptions used in preparing the sensitivity analysis did not change from those used in 2016/17.

| <b>Asset Class</b>   | <b>One Year Expected Volatility (%)</b> | <b>Asset Class</b> | <b>One Year Expected Volatility (%)</b> |
|----------------------|---|--------------------|---|
| 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):

| <b>Asset Type</b>                       | <b>Value as at 31 March 2018<br/>£000</b> | <b>% Change</b> | <b>Value on Increase<br/>£000</b> | <b>Value on Decrease<br/>£000</b> |
|---|---|-----------------|-----------------------------------|-----------------------------------|
| <b>Pooled Fixed Interest Securities</b> | <b>102,393</b>                            | <b>4.52</b>     | <b>107,021</b>                    | <b>97,765</b>                     |
| <b>Pooled Equity Investments</b>        | <b>511,615</b>                            | <b>10.01</b>    | <b>562,828</b>                    | <b>460,402</b>                    |
| <b>Pooled Property</b>                  | <b>63,662</b>                             | <b>2.32</b>     | <b>65,139</b>                     | <b>62,185</b>                     |
| <b>Pooled Absolute Return</b>           | <b>164,405</b>                            | <b>3.92</b>     | <b>170,850</b>                    | <b>157,960</b>                    |
| <b>Infrastructure</b>                   | <b>67,078</b>                             | <b>3.92</b>     | <b>69,707</b>                     | <b>64,449</b>                     |
| <b>Other Investments</b>                | <b>56,837</b>                             | <b>3.92</b>     | <b>59,065</b>                     | <b>54,609</b>                     |

|              |                |             |                  |                |
|--------------|----------------|-------------|------------------|----------------|
| <b>Cash</b>  | <b>1,707</b>   | <b>0.01</b> | <b>1,707</b>     | <b>1,707</b>   |
| <b>Total</b> | <b>967,697</b> |             | <b>1,036,317</b> | <b>899,077</b> |

| Asset Type                       | Value as at 31<br>March 2017<br>£000 | %<br>Change | Value on<br>Increase<br>£000 | Value on<br>Decrease<br>£000 |
|----------------------------------|--------------------------------------|-------------|------------------------------|------------------------------|
| Pooled Fixed Interest Securities | 101,303                              | 4.52        | 105,882                      | 96,724                       |
| Pooled Equity Investments        | 614,265                              | 10.01       | 675,753                      | 552,777                      |
| Pooled Property                  | 61,208                               | 2.32        | 62,628                       | 59,788                       |
| Infrastructure                   | 75,708                               | 3.92        | 78,676                       | 72,740                       |
| Other Investments                | 54,878                               | 3.92        | 57,029                       | 52,727                       |
| Cash                             | 8,217                                | 0.01        | 8,218                        | 8,216                        |
| <b>Total</b>                     | <b>915,579</b>                       |             | <b>988,186</b>               | <b>842,972</b>               |

### 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 2016 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| <b>Asset type</b>         | <b>As at 31 March<br/>2017<br/>£000</b> | <b>As at 31 March<br/>2018<br/>£000</b> |
|---------------------------|---|---|
| Cash and cash equivalent  | 8,217                                   | <b>1,707</b>                            |
| Fixed interest securities | 101,304                                 | <b>102,393</b>                          |
| <b>Total</b>              | <b>109,521</b>                          | <b>104,100</b>                          |

### 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 2017 | Change in year in the net assets available to pay benefits |                |
|---------------------------|-------------------------------------|--|----------------|
|                           |                                     | +100 BPS   | -100 BPS       |
|                           | £000                                | £000   | £000           |
| Cash and cash equivalent  | 1,707                               | 17   | (17)           |
| Fixed interest securities | 102,393                             | 1,024  | (1,024)        |
| <b>Total</b>              | <b>104,100</b>                      | <b>1,041</b>   | <b>(1,041)</b> |

| Asset type                | Carrying amount as at 31 March 2016 | Change in year in the net assets available to pay benefits |                |
|---------------------------|-------------------------------------|--|----------------|
|                           |                                     | +100 BPS   | -100 BPS       |
|                           |                                     |  |                |
| Cash and cash equivalent  | 8,217                               | 82   | (82)           |
| Fixed interest securities | 101,304                             | 1,013  | (1,013)        |
| <b>Total</b>              | <b>109,521</b>                      | <b>1,095</b>   | <b>(1,095)</b> |

### 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 Panel 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 2018 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.

## **London Borough of Barking and Dagenham**

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

The council incurred administration and investment management costs of **£748.0k** (2017/18 £780.0k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. For 2017/18 the administration costs included one off costs for move to electronic record keeping and additional costs were incurred for the triennial valuation. The Council is also the single largest employer of members of the Fund and contributed **£23.8m** to the Fund in 2017/18 (2016/17: £24.6m). All monies owing to and due from the Fund were paid in year.

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## PENSIONS COMMITTEE

20 June 2018

|  |   |
|--|---|
| <b>Title:</b> Administration and Governance Report   |   |
| <b>Report of the Chief Operating Officer</b>   |   |
| Public Report  | <b>For Information</b>  |
| <b>Wards Affected:</b> None  | <b>Key Decision:</b> No   |
| <b>Report Author:</b><br>David Dickinson, Investment Fund Manager  | <b>Contact Details:</b><br>Tel: 020 8227 2722<br>E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a> |
| <b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer   |   |
| <b>Recommendations</b>   |   |
| <p>The Committee is recommended to note:</p> <ul style="list-style-type: none"> <li>i. that the Fund is cash flow positive; and</li> <li>ii. the Fund's three-year budget for the period 1 April 2018 to 31 March 2021.</li> </ul> |   |

## 1. Introduction

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

- i. Pension Fund Budget 1 April 2018 to 31 March 2021; and
- ii. Cash flow to 31 May 2018.

## 2. Pension Fund Budget 1 April 2018 to 31 March 2021

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2021.

**Table 1: Pension Fund Budget 1 April 2018 to 31 March 2021**

| <b><u>Contributions</u></b>              | <b>2018/19<br/>Budget</b> | <b>2019/20<br/>Budget</b> | <b>2020/21<br/>Budget</b> |
|--|---------------------------|---------------------------|---------------------------|
| <b>Opening Market Value</b>              | <b>1,000,000</b>          | <b>1,040,500</b>          | <b>1,077,300</b>          |
| <b>Employee Contributions</b>            |                           |                           |                           |
| Council                                  | 4,500                     | 4,000                     | 3,500                     |
| Admitted bodies                          | 2,200                     | 2,000                     | 1,800                     |
| Scheduled bodies                         | 2,500                     | 2,600                     | 2,700                     |
| <b>Employer Contributions</b>            |                           |                           |                           |
| Council                                  | 18,000                    | 16,000                    | 14,000                    |
| Admitted bodies                          | 5,000                     | 4,500                     | 4,000                     |
| Scheduled bodies                         | 9,000                     | 9,400                     | 9,700                     |
| <b>Pension Strain</b>                    | <b>1,000</b>              | <b>1,000</b>              | <b>1,000</b>              |
| <b>Transfers In</b>                      | <b>2,500</b>              | <b>2,500</b>              | <b>2,500</b>              |
| <b>Total Member Income</b>               | <b>44,700</b>             | <b>42,000</b>             | <b>39,200</b>             |
| <b><u>Expenditure</u></b>                |                           |                           |                           |
| <b>Pensions</b>                          | - 33,000                  | - 34,500                  | - 36,000                  |
| <b>Lump Sums and Death Grants</b>        | - 6,000                   | - 6,000                   | - 6,000                   |
| <b>Transfers Out</b>                     | - 3,500                   | - 3,500                   | - 3,500                   |
| <b>Administrative expenses</b>           | - 600                     | - 600                     | - 600                     |
| <b>Total Expenditure on members</b>      | <b>- 43,100</b>           | <b>- 44,600</b>           | <b>- 46,100</b>           |
| <b><u>Net dealings with members</u></b>  | <b>1,600</b>              | <b>- 2,600</b>            | <b>- 6,900</b>            |
| <b><u>Returns on Investments</u></b>     |                           |                           |                           |
| <b>Investment Income</b>                 | 7,000                     | 7,500                     | 7,500                     |
| <b>Profit (losses)</b>                   | 35,000                    | 35,000                    | 35,000                    |
| <b>Investment management expenses</b>    | - 3,100                   | - 3,100                   | - 3,100                   |
| <b>Net returns on investments</b>        | <b>38,900</b>             | <b>39,400</b>             | <b>39,400</b>             |
| <b>Net increase (decrease) in assets</b> | <b>40,500</b>             | <b>36,800</b>             | <b>32,500</b>             |
| <b>Closing Market Value</b>              | <b>1,040,500</b>          | <b>1,077,300</b>          | <b>1,109,800</b>          |

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, including Be First, Traded Services, Home Services and Schools Improvement Partnership. 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 2019/20 and 2020/21.

- 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 an estimated pension increase of 3.0% for 2018/19.
- 2.4 Overall the Fund is expected to be cashflow negative in 2020/21 if investment income and management expenses are included but return is excluded.

### 3. Cash flow to 31 May 2018

- 3.1 Table 2 below provides Members with the Fund's Cash flow to 31 May 2018.

**Table 2: Forecast Pension Fund Cash Flow to 31 May 2018**

|   | <b>2018/19<br/>Budget<br/>£000's</b> | <b>2018/19<br/>Forecast<br/>£000's</b> | <b>Over / Under<br/>£000's</b> |
|---|--------------------------------------|--|--------------------------------|
| <b><u>Contributions</u></b>                           |                                      |  |                                |
| <b>Employee Contributions</b>                         |                                      |  |                                |
| Council   | 4,500                                | 5,718                                  | 1,218                          |
| Admitted bodies                                       | 2,200                                | 1,600                                  | (600)                          |
| Scheduled bodies                                      | 2,500                                | 1,945                                  | (555)                          |
| <b>Employer Contributions</b>                         |                                      |  |                                |
| Council   | 18,000                               | 20,789                                 | 2,789                          |
| Admitted bodies                                       | 5,000                                | 4,821                                  | (179)                          |
| Scheduled bodies                                      | 9,000                                | 7,431                                  | (1,569)                        |
| Pension Strain  | 1,000                                | 2,000                                  |                                |
| Transfers In  | 2,500                                | 2,500                                  | -                              |
| <b><u>Total Member Income</u></b>                     | <b>44,700</b>                        | <b>46,804</b>                          | <b>1,104</b>                   |
| <b><u>Expenditure</u></b>                             |                                      |  |                                |
| Pensions  | (33,000)                             | (32,659)                               | 341                            |
| Lump Sums and Death Grants                            | (6,000)                              | (5,921)                                | 79                             |
| Payments to and on account of leavers                 | (3,500)                              | (3,500)                                | -                              |
| Administrative expenses                               | (600)                                | (600)                                  | -                              |
| <b>Total Expenditure on members</b>                   | <b>(43,100)</b>                      | <b>(42,680)</b>                        | <b>420</b>                     |
| <b><u>Net additions for dealings with members</u></b> | <b>1,600</b>                         | <b>4,125</b>                           | <b>1,525</b>                   |
| <b><u>Returns on Investments</u></b>                  |                                      |  |                                |
| Investment Income                                     | 7,000                                | 7,000                                  | -                              |
| Profit (losses)                                       | 35,000                               | 35,000                                 | -                              |
| Investment management expenses                        | (3,100)                              | (3,800)                                | (700)                          |
| <b>Net returns on investments</b>                     | <b>38,900</b>                        | <b>38,200</b>                          | <b>(700)</b>                   |
| <b>Net increase (decrease) in the net assets</b>      | <b>40,500</b>                        | <b>42,325</b>                          | <b>825</b>                     |
| <b>Asset Values</b>                                   | <b>1,008,876</b>                     | <b>1,010,701</b>                       |                                |
| <b>Liabilities</b>                                    | <b>(1,200,000)</b>                   | <b>(1,200,000)</b>                     |                                |
| <b>Funding Level</b>                                  | <b>84.1%</b>                         | <b>84.2%</b>                           |                                |

#### **4. Consultation**

- 4.1 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.

#### **5. Financial Implications**

*Implications completed by: Claire Symonds, Chief Operating Officer*

- 5.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits and governance of the Fund rests with the Pension Committee.

#### **6. Legal Implications**

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

- 6.1 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.

#### **7. Other Implications**

- 7.1 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:** None

**PENSIONS COMMITTEE****20 June 2018**

|   |   |
|---|---|
| <b>Title:</b> Business Plan Update 2018/19  |   |
| <b>Report of the Chief Operating Officer</b>  |   |
| Public Report   | Public Report   |
| <b>Wards Affected:</b> None   | <b>Wards Affected:</b> None   |
| <b>Report Author:</b><br>David Dickinson, Investment Fund Manager   | <b>Contact Details:</b><br>Tel: 020 8227 2722<br>E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a> |
| <b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer                                |   |
| <b>Recommendations</b>  |   |
| The Committee is asked to note progress on the delivery of the 2018 Business Plan at Appendix 1 to the report |   |

**1. Introduction and Background**

- 1.1 The purpose of this report is to update the Pension Committee on progress regarding the Pension Fund's 2018 business plan.
- 1.2 Appendix 1 provides a summary of the Business Plan actions from 1 January 2018 to 31 May 2018 and the actions for the remainder of the year.

**2. Comments of the Finance Officer**

- 2.1 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.
- 2.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

**3. Comments of the Legal Officer**

- 3.1 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**



## Business Plan Update

| Month            | Action Scheduled                                   | By                 | Actual Activity                              |
|------------------|--|--------------------|--|
| Jan 18           | Review of Risk Register                            | Officers           | Completed, included in Annual Report         |
| Feb 18           | Quarterly Fund Manager Meetings:                   |                    |  |
|                  | • Equities: Kempen                                 | Officers           | Meeting held with Kempen in February 2018    |
|                  | • Global Credit: BNY Standish                      | Officers           | Meeting held with Standish in February 2018  |
| Mar 18           | IAS 19 Data Collection (LBBB)                      | Officers           | Submitted to Hymans Robertson                |
|                  | Quarterly Pension Committee Meeting                | All                | Completed                                    |
| Apr 18           | IAS 19 Results                                     | Officers           | Completed and included in Council's accounts |
|                  | Closure of Accounts                                | Officers           | Draft included in June Panel Papers          |
| May 18           | Draft Accounts to June Panel                       | Officers           | Included in June Panel Papers                |
| Jun 18           | Cash Flow Report to June Pension Committee         | Officers           | Included in June Panel Papers                |
|                  | Quarterly Pension Committee Meeting                | All                | This Panel                                   |
|                  | Member Training - Member Induction and Investments | All                | 20 June                                      |
|                  | Quarterly Fund Manager Meetings:                   |                    |  |
|                  | • Property: Schroders                              | Officers / Advisor |  |
|                  | • Equities: UBS                                    |                    |  |
|                  | • Diversified Alternatives: Aberdeen               |                    |  |
| Custodian Review | Officers   |                    |  |
| July 18          | FRS17 Data Collection – UEL and Barking College    | Officers           |  |
|                  | Review Key Pension Fund Documents                  | Officers           |  |
| Aug 18           | FRS17 Data Collection – Academies                  | Officers           |  |
|                  | Framework Tender for Advisor and Actuary           | Officers / Members |  |
| Sep 18           | Quarterly Pension Committee Meeting                | Officers / Members |  |
|                  | Member Training: Actuarial and Advisor requirement | Officers / Members |  |
|                  | Review Fixed Income Strategy                       | All                |  |
| Oct 18           | Quarterly Fund Manager Meetings:                   | Officers / Members |  |
|                  | • Absolute Return: Pyrford                         |                    |  |

|               |   |                    |  |
|---------------|---|--------------------|--|
|               | <ul style="list-style-type: none"> <li>Equities: Baillie Gifford</li> </ul> |                    |  |
|               | Pension Fund Stakeholder Meeting  | Officers / Members |  |
|               | Tender Interviews: Actuary and Investment Advisor                           | Officers / Members |  |
| <b>Nov 18</b> | Cash Flow Update- Report to December Committee                              | Officers           |  |
|               | Member Training: Knowledge and Skills Update                                | Officers / Members |  |
|               | Review Voting- Report to December Pension Committee                         | Officers           |  |
| <b>Dec 18</b> | Quarterly Pension Committee Meeting   | Officers / Members |  |
|               | Preparation for Triennial Valuation/Complete Data Cleanse                   | Officers           |  |