



Pension Fund Accounts

for the year ended

31 March 2019

London Borough of Barking and Dagenham Pension Fund Account

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

Net Assets Statement as at 31 March 2019

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

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

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

1. Introduction

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

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

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

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

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

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

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

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

2. Format of the Pension Fund Statement of Accounts

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

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

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

a) Membership

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

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

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

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

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

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

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

b) Benefits

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

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

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

3. Basis of preparation

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

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

3.1 Transfers to and from other schemes

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

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

3.2 Investment income

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

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

- i) Quoted investments are valued at bid price at the close of business on 31 March 2019;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;
- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2019. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.4 Administration

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

3.5 Taxation

The Fund is a registered public-sector service scheme under section 1(1) of schedule 36 of the Finance act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceed of investments sold.

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

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

3.6 Investment management expenses

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

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

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

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

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

3.7 Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts.

3.8 Derivatives

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

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

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

3.9 Cash and cash equivalents

Cash comprises cash in-hand and on-demand deposits.

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

3.10 Present Value of Liabilities

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

3.11 Actuarial present value of promised retirement benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.12 Contingent assets and liabilities

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

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

4. Critical Judgements in applying accounting policies

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

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2017/18 for which there is a significant risk of material adjustment in the forthcoming financial years.

6. Additional Voluntary Contributions (AVC)

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

7. Recharges from the General Fund

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

8. Contributions

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

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

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

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

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

9. Transfers in from other pension funds

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

10. Benefits

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

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

11. Payments to and on account of leavers

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

12. Administrative expenses

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

13. Investment Income

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

14. Investment management expenses

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

15. Investments

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

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

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

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

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

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

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

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

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

16. Cash

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

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

17. Securities

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

18. Debtors and Creditors

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

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

19. Holdings

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

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

20. Investment Strategy Statement

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

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

21. Actuarial position

Actuarial assumptions

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

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

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

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

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

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

*Adjustments are applied arithmetically in 2013 and geometrically in 2016

Funding level and position

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

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

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

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

Present value of funded obligation

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

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

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

Total contribution rate

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

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

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

22. Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

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

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data. For the Fund these investments includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The Fund did not hold any Level 2 investments as at 31 March 2019.

Level 3

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

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

The values of the investment in infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £207.4m.**

23. Events after the Reporting Period

None

24. Related parties

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

25. Contingent Asset and liabilities

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

26. Compensation of key management personnel

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

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

27. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

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

28. Nature and extent of risks arising from Financial Instruments

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

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

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

In additions, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Fund's Committee. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Risk and risk management

Market risk

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk - sensitivity analysis

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

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

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

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one-year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	100,688	4.52	105,240	96,137
Pooled Equity Investments	552,304	10.01	607,590	497,018
Pooled Property	64,150	2.32	65,639	62,663
Pooled Absolute Return	172,455	3.92	179,215	165,695
Infrastructure	74,419	3.92	77,336	71,502
Other Investments	69,064	3.92	71,771	66,356
Cash	8,621	0.01	8,623	8,619
Total	1,041,701		1,115,412	967,990

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

Interest rate risk

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

The Fund's interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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

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

Interest rate risk sensitivity analysis

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

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

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

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

Currency risk

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

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

Liquidity risk

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

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

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

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

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Credit Risk

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

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

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

29. London Borough of Barking and Dagenham

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

The Council incurred administration and investment management costs of **£751.1k** (2017/18 £748.0k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£23.6m** to the Fund in 2018/19 (2017/18 £23.8m). All monies owing to and due from the Fund were paid in year.

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