

Merton Council

Pension Fund Investment Advisory Panel Agenda

Membership

Councillors:

Owen Pritchard (Chair)
Adam Bush (Vice-Chair)
Mark Allison
Gwyn Isaac
Tina Pickard

Co-opted members:

Gwyn Isaac
Tina Pickard

Date: Thursday 28 March 2019

Time: 7.00 pm

Venue: Committee Rooms, 1st floor, Merton Civic Centre, London Road,
Morden, SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed.
For more information about the agenda please contact
Merton.PensionFund@merton.gov.uk or telephone [020 8545 3458](tel:02085453458).

All Press contacts: press@merton.gov.uk, 020 8545 3181

Pension Fund Investment Advisory Panel Agenda

28 March 2019

1	Apologies for absence	
2	Declarations of pecuniary interest	
3	Minutes of the previous meeting	1 - 2
4	Quarterly Performance Review (for information)	3 - 16
5	Future meeting dates 27 June 2019 24 Sept 2019 11 Dec 2019 26 Feb 2020	
6	2018-19 Audit Plan (for information)	17 - 20
7	March 2019- Triennial Valuation (for information)	21 - 24
8	Update on London CIV (for information)	25 - 28
9	Exclusion of the public To RESOLVE that the public are excluded from the meeting during consideration of the following report(s) on the grounds that it is (they are) exempt from disclosure for the reasons stated in the report(s).	
10	Minutes of the previous meeting (exempt)	29 - 30
11	Quarterly Fund and Investment Managers Performance Review (Oct-Dec 2018) (Decision Making)	31 - 76
12	Presentation by Fund Manager	
13	AOB	
14	Future Meeting Dates	

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Merton Pension Fund Advisory Panel (Part 1) Minutes of the meeting held on

28 Nov 2018

Attendance:

Cllr. Owen Pritchard (Chair),
Cllr. Adam Bush (Vice Chair),
Cllr. Mark Allison,
Tina Pickard (Pensioner Rep),
Gwyn Isaac (GMB Union Rep)
Caroline Holland (LBM),
Roger Kershaw (LBM),
Nemashe Sivayogan (LBM)

Additional Attendees:

Aniket Bhaduri and Adam Briggs (JLT)
Barry Mckay (Barnet Waddingham)

TRAINING – TRIENNIAL VALUATION-

Barry Mckay the Fund Actuary delivered the training on the LGPS Triennial valuation process and the preparation for the 2019 valuation.

1.0 MEETING (Part 1)

- 1.1 Introductions made by Chair.
- 1.2 Members Declaration of Interest – None.

2.0 PRESENTATION OF MINUTES OF LAST MEETING (2nd October 2018)

- 2.1 Agreed as true record.

3.0 QUARTERLY FUND PERFORMANCE (July to Sept 2018)

- 3.1 The Chair remarked that Equity exposure was still high but was being dealt with in transition.
- 3.2 Over the 3 months to 30 Sept 2018, total Fund assets returned 1.9% and outperformed its target by 0.6%. Over one year the returned 7.1% and over three years 13.1%.
- 3.3 The Fund's total market value increased by £13m in the quarter, from £695.6m to £708.6m.

4.0 AOB

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Committee: London Borough of Merton Pension Committee

Date: 28 March 2019

Wards: All

Subject: Merton Pension Fund Performance - December 2018

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

RECOMMENDATION

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 31 December 2018, attribution of the results and the market environment during the period.

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 31 December 2018. The report highlights the performance of the total Fund by asset class compared to the customised benchmark.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 31 December 2018 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

2.0 FUND PERFORMANCE

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by the Fund's investment and performance consultants JLT Employee Benefits provides useful analysis and insights of the Pension Fund activities and results for the quarter to 31 December 2018.
- 2.2 Over the 3 months to 31 December 2018, total Fund assets returned -6.5% and underperformed its target by 7.8%. The Fund's total market value decreased by £46.3m in the quarter, from £708.3m to £662.1m.












2.3 The table below shows the total fund valuation and the movements in investments during the December quarter.

Manager / Fund	30-September-18				31-December-18	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	243,888	34.4	-134,609	-19,916	89,363	13.5
UBS – Alternative Beta	-	-	68,000	-3,357	64,643	9.8
UBS - Active Equity Fund	44,734	6.3	-41,391	-3,343	-	0.0
LCIV RBC Sustainable Equity Fund	74,879	10.6	-	-9,025	65,854	9.9
LCIV Global Alpha Growth Fund	72,244	10.2	-	-9,009	63,235	9.6
BlackRock World Low Carbon Equity Tracker Fund	-	-	68,000	-3,718	64,282	9.7
Global Equities	435,745	61.5			347,378	52.5
Aberdeen Emerging Market Equities Fund	27,777	3.9	-	-474	27,302	4.1
UBS – HALO EM Fund	-	-	40,000	1,304	41,304	6.2
Emerging Market Equities	27,777	3.9			68,606	10.4
LCIV Global Total Return Fund	33,461	4.7	-	-675	32,786	5.0
LCIV Diversified Growth Fund	32,493	4.6	-	-1,473	31,020	4.7
Diversified Growth Fund	65,954	9.3			63,806	9.6
UBS Triton Property Unit Trust	16,831	2.4	-	177	17,008	2.6
BlackRock UK Property Fund	7,875	1.1	-	98	7,973	1.2
Property	24,706	3.5			24,981	3.8
Growth Assets	554,182	78.2			504,772	76.2
Aberdeen Bonds	81,895	11.6	-	1,766	83,661	12.6
Bonds	81,895	11.6			83,661	12.6
LCIV MAC Fund	68,952	9.7	-	-1,380	67,572	10.2
Multi Asset Credit	68,952	9.7			67,572	10.2
Stabilising Assets	150,847	21.3			151,233	22.8
Cash	3,319	0.5	2,759	-	6,078	0.9
TOTAL MERTON PENSION FUND	708,349	100.0			662,083	100.0

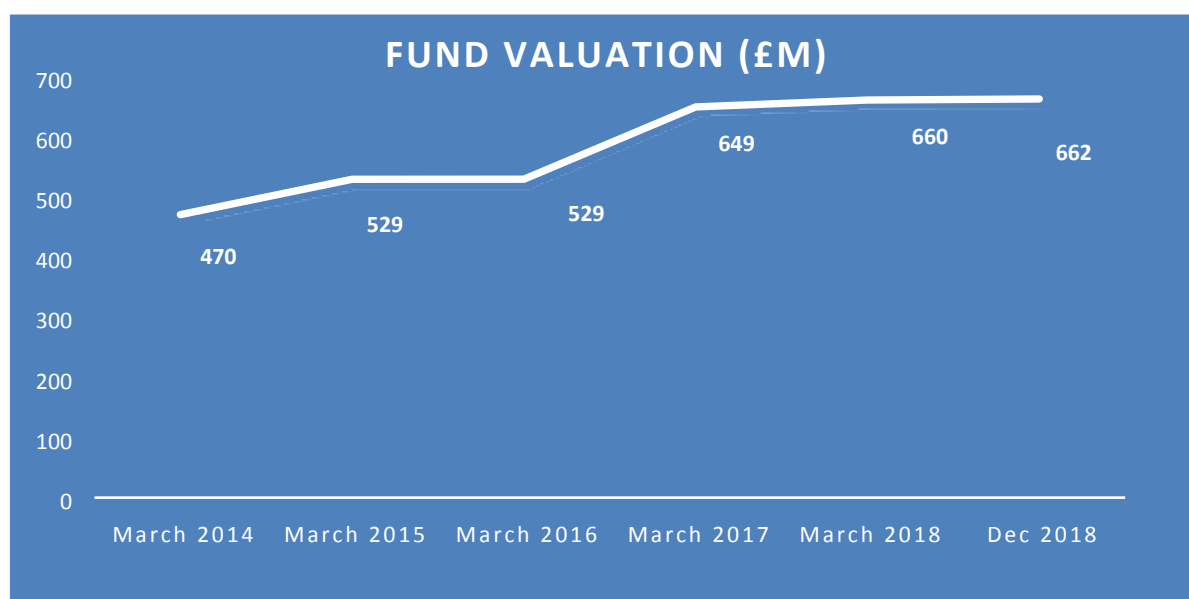
NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.9M.

2.3 During the quarter the fund continued implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.

Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		347,378	52.5	40.0	12.5	15-85
Emerging Market Equities		68,608	10.4	10.0	0.4	0-20
Diversified Growth Fund		63,808	9.6	10.0	-0.4	0-20
Property		24,981	3.8	5.0	-1.2	0-10
Private Credit		-	0.0	7.5	-7.5	0-10
Infrastructure		-	0.0	7.5	-7.5	0-15
Long Gilts		14,009	2.1	-	2.1	0-5
Long Index Linked Gilts		41,600	6.3	10.0	-3.7	0-30
Corporate Bonds		28,051	4.2	-	4.2	0-10
Multi Asset Credit		67,572	10.2	10.0	0.2	0-20
Cash		6,078	0.9	-	0.9	-
TOTAL MERTON PENSION FUND		662,083	100.0	100.0	-	

2.4 The following graph illustrates the Fund's market value trend over the past 5 years and as at 31 December 2018. It shows that in this period the Fund value has appreciated by £192m or 41% .



3.0 Market Background/Outlook

- 3.1 The rate of acceleration in global economic growth has moderated as financial conditions tighten and trade tensions impact business sentiment and overall demand. Regional differences remain pronounced with the relative strength of the US and the continued weakness in Chinese demand data most noteworthy. Meanwhile, developed world consumption growth and investment remains healthy and is supported by robust labour markets and continued wage growth.
- 3.2 Equity markets worldwide saw sharp falls in both October and December as 2018 proved to be the worst year since the global financial crisis for many markets. Major developed bourses such as the US and Japan were amongst the biggest fallers for the quarter. Meanwhile, in contrast to the pattern earlier in the year, emerging markets performed relatively well, although Chinese stocks continued to lag.
- 3.3 Appendix 1 provides more detail on the market statistics and the assets classes the fund is invested in for 3 months, 1 year and 3 years.

4. OTHER ISSUES AFFECTING THE FUND

- 4.1 none

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 5.1 All relevant implications are included in the report.

6. LEGAL AND STATUTORY IMPLICATIONS

- 6.1 All relevant implications are included in the report.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 7.1 N/A

8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 8.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

9. BACKGROUND PAPERS












- 9.1 JLT Employee Benefits performance report and LCIV performance report.

MERTON PENSION FUND
INVESTMENT PERFORMANCE REVIEW
QUARTER ENDING 31 DECEMBER 2018

1 STRATEGIC ASSET ALLOCATION

31 DECEMBER 2018

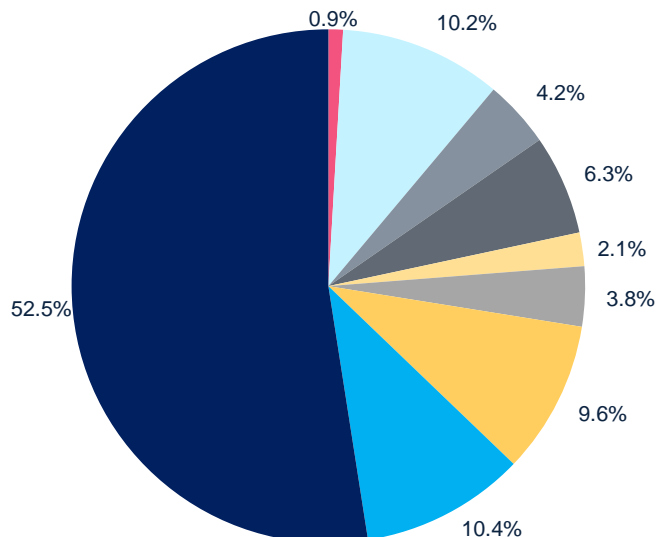
Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		347,378	52.5	40.0	12.5	15-85
Emerging Market Equities		68,606	10.4	10.0	0.4	0-20
Diversified Growth Fund		63,806	9.6	10.0	-0.4	0-20
Property		24,981	3.8	5.0	-1.2	0-10
Private Credit		-	0.0	7.5	-7.5	0-10
Infrastructure		-	0.0	7.5	-7.5	0-15
Long Gilts		14,009	2.1	-	2.1	0-5
Long Index Linked Gilts		41,600	6.3	10.0	-3.7	0-30
Corporate Bonds		28,051	4.2	-	4.2	0-10
Multi Asset Credit		67,572	10.2	10.0	0.2	0-20
Cash		6,078	0.9	-	0.9	-
TOTAL MERTON PENSION FUND		662,083	100.0	100.0	-	

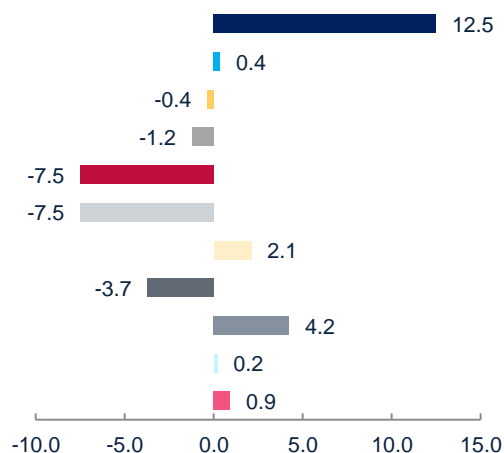
Points to note

- The Strategic Asset Allocation reflects the strategy to be implemented as part of the 2017 Investment Strategy Review; as such a number of asset classes will be under or overweight for an interim period until the portfolio is fully constructed.
- Total allocation to Global Equities decreased to 52.5% over the quarter, thereby is 12.5% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions to Private Credit and Infrastructure.

Actual Asset Allocation as at 31 December 2018



Deviation from Strategic Allocation



2 VALUATION SUMMARY

30 SEPT 2018 TO 31 DEC 2018

Manager / Fund	30-September-18				31-December-18	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	243,888	34.4	-134,609	-19,916	89,363	13.5
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Growth Assets	554,182	78.2			504,772	76.2
Aberdeen Bonds	81,895	11.6	-	1,766	83,661	12.6
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TOTAL MERTON PENSION FUND	708,349	100.0			662,083	100.0

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.9M.

3 PERFORMANCE SUMMARY

PERIOD ENDING 31 DECEMBER 2018

Manager / Fund	3 months %		12 months %		3 years % p.a.		3yr Performance
	Fund	Bmark	Fund	Bmark	Fund	Bmark	vs. Bmark
UBS - Passive Equity Fund †	-11.4	n/a	-7.4	n/a	8.6	n/a	n/a
UBS – Alternative Beta*	-5.0	-4.9	n/a	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	-12.0	-11.4	n/a	n/a	n/a	n/a	n/a
LCIV Global Alpha Growth Fund	-12.5	-10.6	n/a	n/a	n/a	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund*	-5.5	-5.5	n/a	n/a	n/a	n/a	n/a
Global Equities							
Aberdeen Global Emerging Market Equities Fund	-1.4	-5.2	n/a	n/a	n/a	n/a	n/a
UBS – HALO EM Fund*	3.1	2.2	n/a	n/a	n/a	n/a	n/a
Emerging Market Equities							
LCIV Global Total Return Fund	-2.0	1.8	n/a	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	-4.6	1.1	n/a	n/a	n/a	n/a	n/a
DGF							
UBS Triton Property Unit Trust	1.6	0.9	8.7	6.5	7.2	6.4	Benchmark met
BlackRock UK Property Fund	1.2	0.9	6.6	6.5	6.4	6.4	Benchmark met
Property							
Growth Assets							
Aberdeen Bonds Portfolio	2.4	2.4	1.1	0.9	8.3	8.3	Benchmark met
Bonds							
LCIV MAC Fund	-2.0	1.2	n/a	n/a	n/a	n/a	n/a
Multi-Asset Credit							
Stabilising Assets							
TOTAL MERTON PENSION FUND							
	-6.5		-3.9		9.3		
Strategic Target (5.5% p.a.)	1.3		5.5		5.5		

* Partial quarter performance shown. These funds were entered into in mid-October 2018 and hence the fund and benchmark returns are not reflecting the entire of Q4 2018.

† Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

4 MARKET BACKGROUND

PERIOD ENDING 31 DECEMBER 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-10.2	-9.5	6.1
Overseas Developed	-11.0	-2.7	12.9
North America	-11.5	0.8	14.6
Europe (ex UK)	-11.0	-9.1	8.4
Japan	-12.4	-7.6	9.1
Asia Pacific (ex Japan)	-7.6	-8.7	12.9
Emerging Markets	-3.9	-7.6	14.8
Frontier Markets	-4.1	-15.3	5.9
Property	0.9	6.6	6.8
Hedge Funds**	-6.2	-6.2	1.8
Commodities**	-23.4	-15.5	-1.0
High Yield**	-3.9	-3.7	5.9
Emerging Market Debt	4.6	-0.4	11.2
Senior Secured Loans**	-4.9	-2.3	3.2
Cash	0.2	0.6	0.4

Yields as at 31 December 2018	% p.a.
UK Equities	4.46
UK Gilts (>15 yrs)	1.76
Real Yield (>5 yrs ILG)	-1.59
Corporate Bonds (>15 yrs AA)	2.77
Non-Gilts (>15 yrs)	3.36

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.6	0.3	7.1
Index-Linked Gilts (>5 yrs)	2.0	-0.4	9.2
Corporate Bonds (>15 yrs AA)	1.4	-1.9	7.0
Non-Gilts (>15 yrs)	-0.5	-4.1	6.4

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.3	-5.9	-4.8
Against Euro	-0.8	-1.1	-6.4
Against Yen	-5.7	-8.3	-7.6

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	2.7	3.1
Price Inflation – CPI	0.5	2.1	2.2
Earnings Inflation*	0.2	3.4	2.8

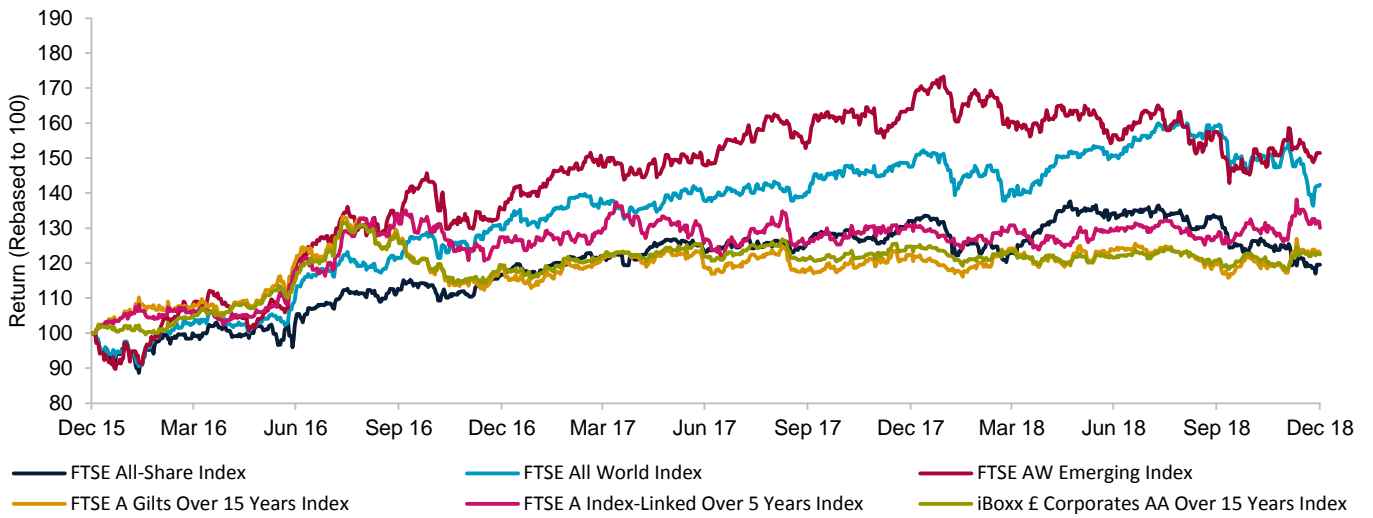
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.66	0.87	0.76
UK Gilts (>15 yrs)	-0.10	0.08	-0.81
Real Yield (>5 yrs ILG)	-0.09	0.08	-0.88
Corporate Bonds (>15 yrs AA)	-0.04	0.33	-0.92
Non-Gilts (>15 yrs)	0.09	0.46	-0.64

Source: Thomson Reuters.

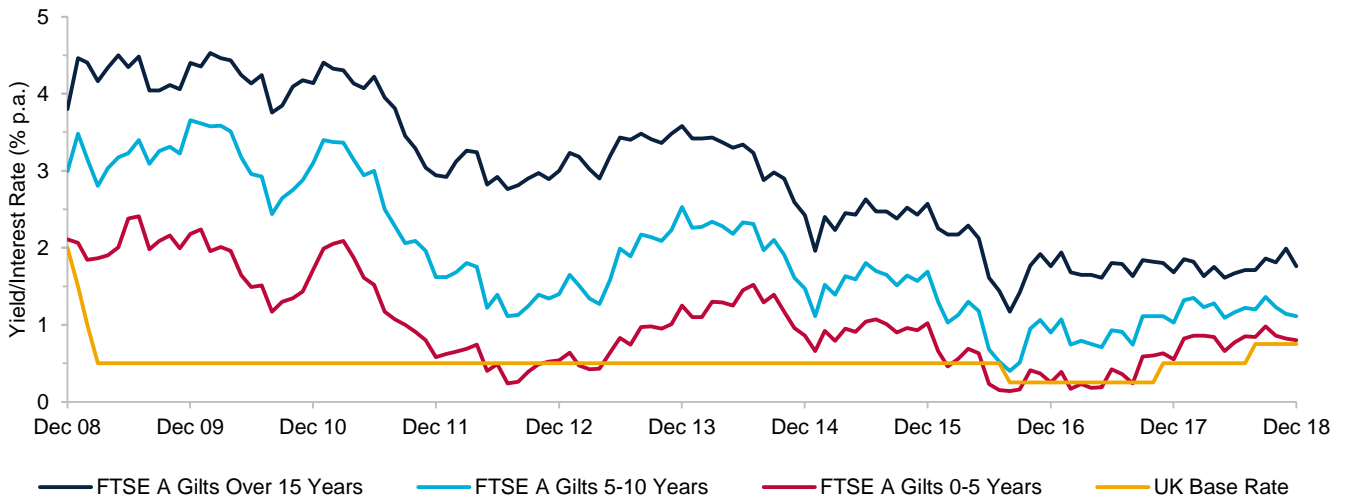
Note: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

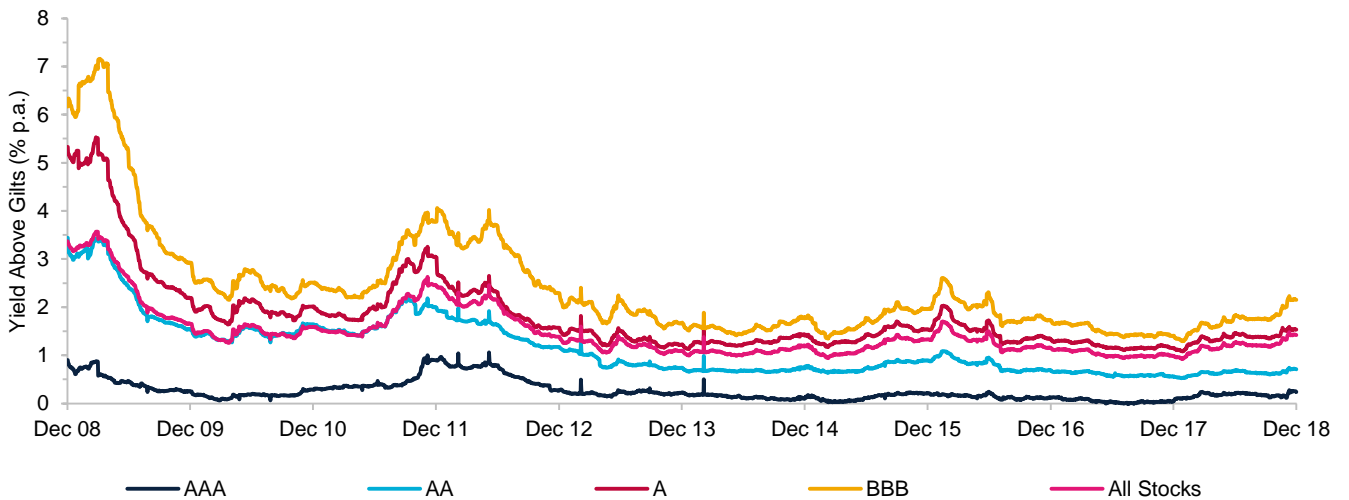
Market performance – 3 years to 30 September 2018



UK government bond yields – 10 years to 30 September 2018



Corporate bond spreads above government bonds – 10 years to 30 June 2018



Source: Thomson Reuters

5 MARKET EVENTS

Asset Class	What happened?	
	Positive Factors	Negative Factors
United Kingdom	<ul style="list-style-type: none"> The Purchasing Managers' Index (PMI) for the manufacturing sector grew at the fastest pace since June 2018. The IHS Markit UK Services PMI Index posted 51.2 in December, up from 50.4 in November. 	<ul style="list-style-type: none"> UK equities fell over the quarter on the back of concerns about a slowdown in the global economy and increased political and economic uncertainty regarding Brexit.
North America	<ul style="list-style-type: none"> The Bureau of Economic Analysis reported that the US GDP grew at a rate of 3.5% YoY in Q3, slightly lower than the growth posted in Q2. 	<ul style="list-style-type: none"> Persistent US-China trade conflicts and an expected slowdown in the global economy are likely to affect sales and earnings growth in 2019. The US Fed raised rates by another quarter point in December and signalled two more rate hikes in 2019.
Europe (ex UK)	<ul style="list-style-type: none"> Economic growth in the Eurozone continued to remain positive with the Q3 2018 GDP growing at 1.7% YoY. While the growth rate has moderated slightly, it remains healthy and is expected to remain so over the rest of the year. 	<ul style="list-style-type: none"> Inflation in the Eurozone slumped to an eight-month low in December. The annual headline inflation number came in at 1.6%, down from the high of 2.1% seen in September. Disappointingly core inflation still remains subdued at 1.0%, significantly below the ECB's target of 2.0%. The European Central Bank (ECB) has confirmed that it will be ceasing its quantitative easing programme from December 2019. It has also left the door open to rate hikes in 2019.
Japan	<ul style="list-style-type: none"> Low valuation and the ultra loose monetary policy of the Bank of Japan is providing some support to equity markets. Fundamentals such as RoE, RoA and debt levels are expected to largely remain stable in 2019. 	<ul style="list-style-type: none"> Lower than expected domestic and overseas demand owing to low wage growth, proposed tax hike and a slowing global economy. An appreciating Yen amid global uncertainties does not bode well for corporate earnings.
Asia Pacific (ex Japan)	<ul style="list-style-type: none"> The recent trade truce between US and China was welcomed by the markets, however there is little confidence on how long this will hold. 	<ul style="list-style-type: none"> Economic growth over the quarter was largely subdued due to trade war tensions, impact of oil prices, Chinese slowdown and rising interest rates in a few economies.
Emerging Markets	<ul style="list-style-type: none"> At the G20 summit held in December, the US and China decided to hold new tariffs for 90 days, leaving room for discussions between the two parties. The optimism around the Brazilian market was restored after Jair Bolsonaro's victory. Markets expect his pro-business reforms could positively affect economic growth. 	<ul style="list-style-type: none"> The MSCI Emerging Markets Index ended the quarter lower, posting a negative return of 3.9% in sterling terms, in part due to lower growth forecasts emanating out from China.

Asset Class	What happened?	
	Positive Factors	Negative Factors
Conventional Gilts	<ul style="list-style-type: none"> The UK gilt yield curve marginally flattened further during the quarter with rates falling across all maturities. This was in part due to concerns over the rising prospects of a no-deal Brexit. Global factors also contributed to the fall in yields, notably the trade conflict between the US and China and the partial shutdown of the US government. Demand for gilts remains robust and auctions by the DMO continue to be oversubscribed. 	
Index-Linked Gilts	<ul style="list-style-type: none"> The yields on shorter dated index-linked gilts fell over the quarter, while those at the long end of the curve (over 30 years) remained broadly unchanged Demand for index-linked gilts remains robust and auctions by the DMO continue to be oversubscribed. 	
Corporate Bonds		<ul style="list-style-type: none"> UK corporate bonds generated negative returns over the quarter as corporate bond yields rose owing to wider credit spreads, while gilt yields fell. Across the various sectors, credit spreads widened with the capital goods sector being the worst performer over the quarter.
Commodities		<ul style="list-style-type: none"> The Bloomberg Commodity Index fell over the quarter, led by the fall in the prices of energy-related commodities, such as Brent crude oil and petroleum, on the back of rising production supply and concerns over slowing economic growth. Prices of industrial metals also fell due to the concerns over trade conflicts amidst a slowdown in the Chinese economy and global growth.
UK Property		<ul style="list-style-type: none"> UK house prices fell by 0.7% in December, falling by the most in monthly terms since July 2012. Overall, the UK construction sector ended 2018 on a negative note on the back of subdued demand for commercial projects and the growing risk of a no-deal Brexit.

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Standard and General purpose committee (Electronically)

Committee: London Borough of Merton Pension Committee

Date: 28 March 2019

Wards: All

Subject: Merton Pension Fund 2018/19 – The Annual Audit Plan and Preparatory Activity

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

RECOMMENDATION

Members are asked to note the 2018/19 Annual Audit Planning Report from our External auditors Ernest and Young that relates to the Merton Pension Fund's financial accounts, as set out in Appendix 1.

That Committee notes the preparatory activity undertaken and underway by Officers, as set out in the main report.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

This report presents the Merton Pension Fund's 2018-19 audit plan prepared by the Council's external auditors Ernst and Young LLP. This report sets out details of their proposed audit scope for the Merton Pension Scheme for the year ending 31 March 2019.

2. DETAIL

- 2.1 The purpose of the audit planning report is to set out to the Committee the key considerations of planning for this year's audit with a view to ensuring that the year-end activities can be managed smoothly.
- 2.2 The responsibilities of the auditor are set out in Appendix 1 – The Audit planning Report. The auditors are asked to treat the Local Government Pension Scheme as a Stand-alone body, with a separate audit plan and report to the pension Committee.

- 2.3 The precise details of approach to be adopted by the auditor are laid out in the Appendix to this report.

Preparatory Activity for 2018/19 Statement of Accounts

- 2.4 In general, officers have commenced and progressed preparations for financial year-end from a much earlier point in the year. The officers had the initial meeting with the auditor in February 2019.
- 2.5 There has been extensive engagement between with Pension Shared Services (for the pension administration) and Pension Team at Merton to ensure that planning for year-end is embedded, and therefore laying the groundwork for a trouble-free exercise.

3. ALTERNATIVE OPTIONS

- 3.1. N/A

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. Although the Pension Fund's Statement of Accounts and Annual Report are a statutory document whose format is dictated by statute and regulation, it is produced by the Pension team at Merton by closely working with pension Shared services and input from the Fund's investment managers and the Fund custodians.

5 TIMETABLE

- 5.1. The 2018/19 reporting cycle opens formally with this report, and will be continued with presentation of the final Pension Fund Statement of Accounts and Annual report in June 2019.
- 5.2 Appendix 1 – Section 6 details the EY audit time table

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 There are no direct financial implications in agreeing the recommendations in this report. The annual audit fee of £16,172 will be paid by the Pension Fund

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practice.
- 7.2 The Pension Fund accounts are governed by the overall financial framework for local authorities, and in conjunction with the full Code of Practice on Local Authority Accounting in the United Kingdom: 2018/19 Accounts ('The Code').

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. N/A

9 CRIME AND DISORDER IMPLICATIONS

9.1. N/A

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. N/A

11 APPENDICES

EY – Pension Fund audit plan 2018-19

12 BACKGROUND PAPERS

12.1.

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Committee: London Borough of Merton Pension Committee

Date: 28 March 2019

Wards: All

Subject: 2019 Actuarial valuation

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

Recommendations:

Review and approve the March 2019 Triennial valuation Time table and the process

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1. The LGPS Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation date is at 31 March 2019.
- 1.2. The purpose of the valuation The purpose is to value the assets and liabilities of each individual employer and the pension fund as a whole with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the deficit recovery period
- 1.3. This report summarises the plan for the valuation which has been discussed with the scheme actuary, Barnett Waddingham. Further background to the valuation process was provided in the presentation by Barnett Waddingham at the Committee training session in November 2018.
- 1.4. The Triennial valuation is calculated as at 31 March 2019 and will set the contribution and the deficit recovery plan from April 2020 to March 2023. At the 2016 valuation the Merton Pension Fund was assessed to have a funding level of 94%, and a 12 years' recovery period to be fully funded.

2 DETAILS

VALUATION PROCESS AND TIME TABLE

- 2.1. An actuarial valuation aims to set a suitable level of employer contributions to ensure that the Fund achieves its long-term solvency objective. As part of the valuation the actuary estimates the scheme's long-term liabilities, compares the liabilities with the current value of the Fund's assets and calculates the surplus or deficit.
- 2.2. The Fund officers have already started planning for the 2019 valuation in conjunction with the Fund's Actuary. The table detailed below shows the agreed timetable of the valuation process.

2019 Valuation timetable

	Event	Responsible	Completed by
1	Pre valuation meeting: Initial discussions on key issues including valuation timetable,	Actuary/Fund	09-Nov-18
2	Report to the Pension Committee informing the valuation process and the time table	Fund	28-Mar-19
3	<i>Pension Committee- June 2019</i>		<i>27-Jun-19</i>
4	Membership data submission	Fund	01-Jul-19
5	Cash flow and Fund asset value submission	Fund	08-Jul-19
6	Clean data sign-off	Actuary	01-Aug-19
7	Initial whole Fund results	Actuary	31-Aug-19
8	Discussion of initial results and agree the way forward.	Actuary/Fund	04-Sep-19
9	<i>Pension Committee- Sept 2019</i>		<i>24-Sep-19</i>
10	Issue results to SAB	Actuary	TBC
11	FSS/ISS	Actuary /Investment consultant	Oct/Nov 2019
12	Individual employers initial results	Actuary	01-Dec-19
13	Valuation results/ proposed contribution strategy presented to the Pension Committee	The Fund actuary and Investment consultant.	11-Dec-18
14	Employers open day to discuss their individual results.	Actuary/Fund	10-Jan-20
15	Final Valuation Report presented to the Pension Committee	Fund/actuary	18-Mar-20
16	Revised investment strategy based on the agreed Funding strategy presented to the Pension committee	Investment consultant/Fund	18-Mar-20
17	Final valuation sign off (Rate adjustment certificate)	Actuary	31-Mar-20

Section 13 Report on 2016 Valuation

- 2.4 Under the Public Service Pensions Act 2013, the Ministry of Housing, Communities and Local Government (MHCLG) is required to commission a

“Section 13” valuation following each Triennial Actuarial Valuation. The aim is to look at the valuation results for each LGPS fund and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- ✓ Is compliant with the LGPS Regulations
- ✓ Is not inconsistent with other Funds
- ✓ Will ensure solvency
- ✓ Will ensure long-term cost efficiency.

2.4 In September the Section 13 report on the 2016 valuation was published by the Government Actuary’s Department (GAD). The report concluded that all valuations were carried out in a way that was compliant with the LGPS regulations. However, it made a number of recommendations to the Scheme Advisory Board (SAB) around the issue of consistency, including that it should consider what steps should be taken to achieve greater clarity and consistency.

3 ALTERNATIVE OPTIONS

3.1. N/A

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. There has been discussions and meetings with the Fund actuary and the investment consultant on the process and the valuation assumptions. The valuation will be carried out in accordance with the LGPS regulation.

5 TIMETABLE

5.1. Please see section 2 of this report.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

The expected standard fee for the 2019 valuation is £19,870 and any other additional work is charged at time-cost or if it involves a more significant piece of work we will agree a fee beforehand. All costs will be paid by the Pension Fund.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. N/A

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. N/A

9 CRIME AND DISORDER IMPLICATIONS

9.1. N/A

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. N/A

11 APPENDICES –

12 BACKGROUND PAPERS

12.1. LGPS Regulations, the fund Actuary reports

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Committee: London Borough of Merton Pension Committee

Date: 28 March 2019

Wards: All

Subject: 2019 London Collective Investment Update March

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

This document replaces the document published with the original agenda as it has recently come to light that the original document contained information which was exempt from publication under Schedule 12A of the Local Government Act 1972 (information relating to the financial or business affairs of the Council).

Recommendations:

No recommendation- information only

Merton Pension Fund is a shareholder of the London LGPS CIV Ltd which is authorised and regulated by the Financial Conduct Authority. All thirty-two London authorities (including the City of London) are members of the London CIV.

Members are asked to note the update on London CIV

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides the Pension Committee an update on LCIV's structure, governance arrangements and the investment options available to the Local Authorities to invest via the LCIV platform.
- 1.2 The London CIV was launched in December 2015 and aim to deliver broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance."
- 1.3 London CIV's currently have £8.1bn AUM across 14 sub-funds, on London CIV platform and £9bn on its passive holdings via Black rock and Legal & General.

2. DETAIL

2.1 As at end of December 2018 Merton Pension Fund had invested £260m across five LCIV sub funds and another £68m via Blackrock Low carbon passive fund. In total Merton Pension Fund have invested £334m. This is 49.9% of the total Fund. This is line with the government pooling regulation.

2.2 The table below details the LCIV offers as at end of February 2019.

Fund	Inception Date	AUM (£m) (28/02/2019)	# LLAs
UK Equities			
LCIV UK Equity Fund	18-May-17	£412m	2
Global Equities			
LCIV Income Equity Fund	08-Nov-17	£230m	2
LCIV Global Equity Focus Fund	17-Jul-17	£735m	5
LCIV Global Equity Fund	22-May-17	£584m	3
LCIV Sustainable Equity Fund	18-Apr-18	£267m	2
LCIV Global Alpha Growth Fund	11-Apr-16	£2,387m	13
LCIV Global Equity Alpha Fund	02-Dec-15	£114m	1
Emerging Market Equities			
LCIV Emerging Market Equity Fund	11-Jan-18	£359m	6
Multi Asset			
LCIV Real Return Fund	16-Dec-16	£185m	2
LCIV Global Total Return Fund	17-Jun-16	£308m	5
LCIV Absolute Return Fund	21-Jun-16	£877m	10
LCIV Diversified Growth Fund	15-Feb-16	£654m	9
Fixed Income			
LCIV MAC Fund	31-May-18	£655m	9
LCIV Global Bond Fund	30-Nov-18	£171m	2
Total AUM		£7.94bn	

People

2.3 Since the last update to the Pension Committee (March 2018) the LCIV had significant changes in its governance arrangements and staffing. As at March 2019 it has 25 staff in post. This is a 10 FTE increase since March 2018. This makes the pool have sufficient resources to engage, communicate and provide more investment options to the local Authorities in accordance with their investment strategy.

2.4 The LCIV welcomed its new Chief Executive Officer, Mike O'Donnell in March 2019. Mr O'Donnell joins the Local Government Pension Scheme pool from his roles as associate director of local government at the Chartered Institute of Public Finance & Accountancy, and interim executive director for financial sustainability at Newham LBC.

2.5 He also spent 10 years as finance director at Camden LBC, and eight years as non-executive director and chair of the audit and risk committee at the London Pensions Fund Authority

2.6 The London CIV is currently in the process of recruiting for the chief investment officer post.

Governance Arrangements and Merton involvement.

- 2.7 London CIV commissioned a governance review from Willis Towers Watson in early 2018. This. The Review and feedback from shareholders showed that the London CIV needs to change its Governance Arrangements and clarify its purpose and future strategy.
- 2.8 Following on from the governance review LCIV consulted on the investment strategy and on proposals for revised governance arrangements. The new governance arrangements were presented and approved at the LCIV AGM on 12th July 2018. Please see appendix 1 for more detail on the governance arrangements.
- 2.9 Merton Pension Fund chair Cllr. Owen Pritchard attends the Shareholders meeting along with the other thirty-one Boroughs Pension Committee chairs. They meet twice a year.
- 2.10 Steven Alambritis, Leader of the Council sits on the London CIV Board as a Shareholders representative. The Board is made up 12 people; one Independent Chair, 2 Non-executive directors nominated by LLAs (Merton and Wandsworth) ,5 Non-Executive Directors,3 Executive Directors and one Treasurer (observer)
- 2.11 Merton Director of Corporate Services -Caroline Holland is a member of the Shareholders Committee. This committee is made up of 12 plus London CIV Chair (8 members & 4 Treasurers) and meet every quarter.

3 ALTERNATIVE OPTIONS

- 3.1. N/A

4 CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1. N/A.

5 TIMETABLE

- 5.1. N/A

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

N/A

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. N/A

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. N/A

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. N/A

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. N/A

11 APPENDICES –

- 11.1 LCIV Governance arrangement report

12 BACKGROUND PAPERS

- 12.1. London CIV reports

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