

Merton Council

Pension Fund Investment Advisory Panel Agenda

Membership

Councillors:

Cllr Imran Uddin (Chair)
Cllr Adam Bush (Vice Chair)
Cllr Mark Allison

Officers:

Geoff Norcott (Pensioner Rep)
Caroline Holland (LBM)
Paul Dale (LBM)
Miriam Adams (LBM)
GMB Union Rep

Substitute Members:

Date: Tuesday 23 June 2015

Time: 11.31 am

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: communications@merton.gov.uk, 020 8545 3181

Pension Fund Investment Advisory Panel Agenda

23 June 2015

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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.



Agenda

Pension Fund Advisory Committee Meeting

Tuesday 23 June 2015 @ 7.00pm

Members Cabinet Meeting Room (Cabinet Meeting Room 1st floor – Civic Centre)

Distribution: *Cllr Imran Uddin(Chair), Cllr Adam Bush (Vice Chair), Cllr Mark Allison, Geoff Norcott (Pensioner Rep), Caroline Holland (LBM), Paul Dale (LBM), Miriam Adams (LBM), GMB Union Rep*

Additional Attendees: Michael Yates (Ernst & Young LLP)

Apologies for absence:

No.	Agenda Item	
1.	<ul style="list-style-type: none">- Introduction- Apologies for absence- Members declaration of interest	
2.	<ul style="list-style-type: none">• Presentation of minutes of last meeting (17.03.15)	
3.	<ul style="list-style-type: none">• Presentation of Full Year Performance by StateStreet Analytics (WM)	
4.	<ul style="list-style-type: none">• Presentation of draft 2014/15 Pension Fund Accounts	
5.	<ul style="list-style-type: none">• Quarterly Performance Review – March 2015 Quarter Ending	
6.	<ul style="list-style-type: none">• Asset Allocation – Update (verbal) and copy of report to GP Committee	
7.	<ul style="list-style-type: none">• Membership Performance Monitoring 31.03.2015	
8.	<ul style="list-style-type: none">• Update on London CIV (verbal)	
9.	<ul style="list-style-type: none">• Updated Risk Register	
	<u>Any Other business</u>	
10.	<ul style="list-style-type: none">• Date of next Meeting	

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Committee: Pension Fund Advisory Committee

Date: 23 June 2015

Agenda item: 3

Wards: All

Subject: Annual Performance Review by StateStreet Global Services Performance Services (WM)

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact office: Paul Dale

Access to Information: This report is classified as Public

Recommendations:

- a. That the Panel note the contents of the presentation attached as appendix A to this report
 - b. Note the performance of the Merton Pension Fund in comparison with its peers in the local authority universe; and
 - c. Note the performance of investment managers as at 31 March 2015.
-

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

The report summaries the key facts in the WM presentation attached as appendix a to this report.

2. BACKGROUND

- 2.1 The Fund's investment performance as a whole has been reviewed by WM Company now known as StateStreet Global Services Performance Services. In addition to fund performance, a review against other LGPS Funds in the local authority universe is also conducted alongside their review of each manager's performance against their peers.

3. DETAIL

- 3.1 Average local authority pension fund returned 13% in 2014/15, 11% per annum over three years and 9% per annum over five years. Merton returned 12.6%, 10.4% and 8.8% respectively.
- Equity markets performed strongly but with marked regional differences. Domestic equities returned 6%. Japan was the strongest performing of the major overseas markets returning 30% to local investors, but a slightly lower 27% to UK investors as the Yen continue to weaken against Sterling. Pacific and emerging markets returned 16% and 14% respectively whilst Europe returned 9%.

After the near flat outcome in 2013/14, UK bonds bounced back strongly, producing double digit returns.

Alternative investments in aggregate also enjoyed a good year. Pooled multi asset (diversified growth) investments returned 10% while property returned 16% for the year.

- 3.2 Manager performance did not make significant contribution to the performance of the Fund. The largest contributor to performance of the fund was from Aberdeen in their management of the equity portfolio. On the other hand the manager's performance in the bond portfolio was down 0.3% against a benchmark of 0.60%.

4. CONSULTATION UNDERTAKEN OR PROPOSED

N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

N/A

6. LEGAL AND STATUTORY IMPLICATIONS

There are no legal implication contained within the report.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

N/A

8. CRIME AND DISORDER IMPLICATIONS

N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

N/A

10. APPENDICES

Appendix A: London borough of Merton Performance Review Period Ending 31 March 2015 by StateStreet Global Services Performance Services.

11. BACKGROUND PAPERS

There are not background papers to this report.

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Committee: Pension Fund Advisory Committee

Date: 23 June 2015

Agenda item: 4

Wards: All

Subject: Draft Pension Fund Accounts 2014/15 and Audit Progress Report

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact office: Paul Dale

Access to Information: This report is classified as Public

Recommendations:

1. Note the contents of this report; and
 2. Note the draft 2014/15 Pension Fund Accounts included as Appendix A to this report
 3. Note the Audit Progress Report from Ernst & Young included as Appendix B
 4. Note the Annual Audit Fee letter 2014/15 for the Pension Fund included as Appendix C
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Pension Fund accounts have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) governing the preparation of the 2014/15 financial statements for Local Government Pension Scheme funds.

The London Borough of Merton is the reporting entity for this pension fund. The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 (as amended 2013)

The actuarial present value of promised retirement benefits is valued on an International Accounting Standard (IAS) 19 / 26 basis.

2. FUND ACCOUNT AND KEY FACTS

- 2.1 The fund net asset available to fund benefits as at 31 March 21015 was £542,590k (2013/14 £472,250k). £35,323k was received in contributions and transfers in from other funds while £23,223k was paid out in benefit obligations,

transfers out of the fund and fund related expenses. There are currently 11 contributing employers in the Fund including the council.

- 2.2 The fund asset is managed by four investment managers Aberdeen Asset Management 44%, UBS 55% and BlackRock 1%
- 2.3 The net asset of £542.6m was up by £70.4m from last year. This increase was as result of the combination of income earned from investments, net income from contributions and increased valuation of its investments

3. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 3.1 All relevant financial and risk implications have been included in the fund accounts appendix A to this report.

4. LEGAL AND STATUTORY IMPLICATIONS

- 4.1 All relevant implications are included in the report.

5. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 5.1 N/A

6. CRIME AND DISORDER IMPLICATIONS

- 6.1 N/A

7. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 7.1 N/A

8. APPENDICES

- 8.1 Draft Pension Fund Accounts 2014/15.

9. BACKGROUND PAPERS

- 9.1 Draft Pension Fund Accounts 2014/15.

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Pension Fund Accounts

Fund Account	Notes	2013/14 £000	2014/15 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(20,863)	(34,340)
Transfers in from other pension funds	8	(765)	(983)
Total Income		(21,628)	(35,323)
Benefits	9	20,265	22,080
Payments to and on account of leavers	10	1,524	1,143
Total Expenditure		21,789	23,223
Net (additions)/withdrawals from dealing with members		161	(12,100)
Management expenses (2013/14 restated)	11/14	1,499	856
Returns on Investments			
Investment and other income	12	(9,512)	(10,954)
Taxes on Income	13	296	316
Gains and losses on disposal and change in the market value of investments: (2013/14 restated)	15.3	(8,475)	(48,464)
Net Returns on Investments		(17,691)	(59,102)
Net (increase)/decrease in the net assets available for benefits during the year		(16,031)	(70,346)

Note: As at 31st March 2014, the net assets totalled £472.2m. During 2014/15, the fund's net assets increased by £70.4m to £542.6m at 31st March 2015.

Net Assets Statement

2013/14 £000		Notes	2014/15 £000
469,578	Investment assets	15	528,108
2,535	Cash deposits	15	2,145
472,113			530,253
0	Cash Deposits (Internally managed funds)	15	13,000
(2,163)	Investment liabilities	15	(1,681)
3,170	Current assets	20	1,586
(877)	Current liabilities	21	(568)
472,243	Net assets of the fund available to fund benefits at period end		542,590

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

1. Description of Fund

The London Borough of Merton Pension Fund (“the fund”) is part of the Local Government Pension Scheme and is administered by the London Borough of Merton (“the Council”). The Council is the reporting entity for this Pension Fund.

The Local Government Pension Scheme Regulations require the authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Body for these arrangements.

(a) General

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended), and;
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

A Pension Fund Advisory Committee (PFAC) oversees and advises on investment of the Fund. This Committee comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The authority takes independent professional advice on investment policy and strategy. The Committee is not a full Committee and is ordinarily referred to as a Panel.

(b) Membership

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Body. In addition to the Council, the Admitted and Scheduled Bodies that currently contribute to the fund are:

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> • Greenwich Leisure • Merton Priory Homes 	<ul style="list-style-type: none"> • Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • St Mark’s Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme)

The following table summarises the membership numbers of the scheme.

2013/14 Restated		2014/15
	Active Members	
2,984	London Borough of Merton	3,390
174	Scheduled Bodies	215
107	Admitted Bodies	89
3,265		3,694
	Pensioners	
3,183	London Borough of Merton	3,264
139	Scheduled Bodies	148
86	Admitted Bodies	97
3,408		3,509
	Deferred Pensioners	
3,710	London Borough of Merton	3,943
193	Scheduled Bodies	226
108	Admitted Bodies	114
4,011		4,283

Note: The figure for Deferred Pension has been restated for 2013/14 to include 'Undecided' and 'Frozen' members, who do not contribute to the Fund.

(c) Funding

The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investment of a Pension Fund administered by the Council in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013.

The rates of contribution paid by employees and employers are determined by national regulations, as are the scheme's benefits. The Pension Scheme is financed by contributions from employees and employers, together with income and proceeds from investments. Contributions are made by active members of the fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2015. The Employee contributions are matched by the employer contributions which are set based on triennial actuarial funding valuations. The latest valuation occurred in 2013. Currently, employer contribution rates range from 12.0% to 24.2%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

The Defined Benefits Scheme provides payment of benefits in the form of retirement pensions, ill health provision and death grants where death occurs either in service or in retirement.

The benefits payable in respect of service from 1 April 2014 are based on career average revalued earnings rather than final salary. The detail of the changes to retirement pensions are shown in the following table:

Pre 1st April 2014	Post 1st April 2014
Each year worked is worth 1/60 x final pensionable salary. Pensionable pay excludes non-contractual overtime and non-pensionable additional hours.	Each year worked is worth 1/49 x Career Average Revalued Earnings (CARE). Pensionable pay includes non-contractual overtime and additional hours.

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

2. Basis of Preparation

The Statement of Accounts summarises the Fund’s transactions for the 2014/15 financial year and its financial position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the ‘Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in Note 19.

The Fund Account is operated on an accruals basis except where otherwise stated.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contributions

Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers’ deficit funding contributions are made on the advice of the authority’s actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refunds of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.2 Transfers

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

The figure shown as investment income is made up of different types of income (dividend income for equity, rental income for property, interest income for the bond yields).

3.4 Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3.5 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.

Revenue account – expense items

3.6 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.7 Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

By virtue of the Council being the Administering authority, VAT input tax is generally recoverable on all fund activities.

3.8 Management Expenses

All management expenses are accounted for on an accruals basis.

(a) Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from fund assets by the fund managers.

A proportion of the council's costs representing management time spent by officers on investment management are charged to the fund.

(b) Oversight and Governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.9 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1st December 2013.

Net Asset Statement

3.10 Investment Assets

The Pensions SORP requires that investments should be included at their market value at the date of the Net Assets Statement, where such a value is available. Changes in market value are debited or credited to the Fund Account. The SORP promotes the use of bid values for market values but only where they are quoted prices in an active market. If a market is not active or has not been active since significant change in economic circumstances, then fund managers may provide an alternative valuation, which in their professional opinion provides a more reliable basis for market value. Based upon these principles, investments are valued as follows:-

- Quoted securities are valued at current market "bid" price.
- Unquoted securities are valued using professional estimates of fair value provided by investment managers, or otherwise at the lower of estimate or book value where considered more prudent.
- Pooled investment vehicles are valued at bid price where available in an active market or otherwise at a single closing price.
- The two UBS Property Holdings are valued as follows: The UBS Triton Property Unit Trust (UBS Triton Trust) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, tax, income and cash balances. The UBS Life Triton Property Fund (UBS Life Triton) price is based upon the UBS Triton Property Fund (the Partnership) price after taking into account management fees and expenses, income and cash balances. UBS Life Triton Is valued at Bid Price.

- Property investments are in pooled vehicles rather than direct investments in property. Property investments (i.e. managed funds) are valued at bid prices where available and representative, or at a single price provided by the fund manager where there are no representative bid/offer spreads and the chosen single price better represents fair value.
- Derivatives are used to effect efficient management of the investment portfolio, and not as an investment class nor for speculative purposes. These are valued from prices set by independent participants in the market, with variance margins calculated against published FTSE indices. The value of futures is determined using fair value for the asset and book cost for the liability.

3.11 Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

3.12 Movement in the net market value of investment

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.13 Foreign currency

Foreign currency transactions are converted into Sterling by the investment managers. This is done at London rates prevailing at close of business on the 31 March 2015.

3.14 Cash

Cash comprises cash in hand and demand deposits.

3.15 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 IAS19 and relevant actuarial standards.

As permitted under IAS26, 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).

3.16 Provisions

Provisions are liabilities of uncertain timing or amount. Provision is made for unusual items which meet the definition of a provision but only when these are judged to be material to the accounts.

3.17 Additional Voluntary Contributions

Merton Pension fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund now only uses one provider, the Prudential PLC. The Bank

of Ireland has ceased to exist as a provider and any outstanding accounts with them have been transferred to the Prudential PLC.

AVC's are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 22).

3.18 Going Concern

The Pension Fund Accounts have been prepared on a going concern basis.

4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

4.1 Pension Fund Liability

An actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the pension fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2015 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £13.7m and a -0.1% reduction would increase the obligation by £14.0m. An adjustment to the mortality age rating assumption of -1 yr would increase the obligation by £27.6m.

6. Events After The Reporting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and;
- b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

7. Contributions Receivable

2013/14 £000		2014/15 £000
	By Category	
16,069	Employers	29,005
4,794	Members	5,335
20,863	Total	34,340

Note: Central and Cecil Housing Trust ceased to participate in the fund 31 March 2014. A full cessation payment of £1,593k is included in 2014/15 employer figures (Admitted Body).

2013/14 £000		2014/15 £000
	By Authority	
19,591	Administering	31,248
604	Scheduled	876
668	Admitted	2,216
20,863	Total	34,340

2013/14 £000		2014/15 £000
	By Type	
10,490	Employers Normal	12,860
4,794	Employees Normal	5,335
4,800	Deficit Funding	15,097
779	Employers Additional	1,048
20,863	Total	34,340

8. Transfers In From Other Pension Funds

2013/14 £000		2014/15 £000
765	Individual Transfers	983
765	Total	983

9. Benefits Payable

2013/14 £000		2014/15 £000
	By Category	
17,582	Pensions	18,473
2,301	Commutations and lump sum retirement benefits	2,939
382	Lump sum death benefits	668
20,265	Total	22,080

2013/14 £000		2014/15 £000
	By Authority	
19,218	Administering	20,276
607	Scheduled	1,066
440	Admitted	738
20,265	Total	22,080

10. Payments to and on Account of Leavers

2013/14 £000		2014/15 £000
1,517	Individual Transfers	1,109
7	Refunds of Contribution	40
0	State Scheme Premiums	(6)
1,524	Total	1,143

11. Management Expenses

2013/14 £000 Restated		2014/15 £000
426	Administrative Costs	332
892	Investment management expenses	329
181	Oversight and governance costs	195
1,499	Total	856

Note: Investment management expenses includes £131k transaction costs (2013/14: £124k), and indirect costs incurred through the purchase and sales of investments. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15.3).

12. Investment Income

2013/14 £000		2014/15 £000
1,054	Fixed Interest Securities	2,697
7,438	Equity dividends	6,839
84	Pooled Investments	184
470	Pooled Property Investments	518
466	Other	716
9,512	Total	10,954

13. Taxes on Income

2013/14 £000		2014/15 £000
269	Non-Recoverable Tax	268
27	Withholding Tax	48
296	Total	316

14. Investment Expenses

2013/14 £000		2014/15 £000
887	Management Fees	300
5	Custody Fees	29
892	Total	329

Notes: (1) Management Fees include a rebate of £257k for a retrospective VAT claim for the years 2010 to 2012. (2) The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

15. Investment

15.1 Asset management arrangements

The management of Pension Fund investments is delegated to external investment managers. The table below shows the market value of the assets (including accrued dividends) by fund manager and the proportion managed by each manager as at 31 March 2015. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

2013/14		Fund Manager	2014/15	
£000	%		£000	%
202,683	43	Aberdeen	231,570	44
261,859	56	UBS	290,829	55
5,408	1	RREEF/Blackrock	6,173	1
469,950	100	Total	528,572	100

Note: £13m internally managed funds is not included above.

15.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2015 is over page below. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2014 £000		Market Value 31 March 2015 £000
	Investment Assets	
108,064	Fixed Interest Securities	127,116
189,623	Equities	200,755
155,516	Pooled Investments	181,736
13,197	Pooled Property Investments	15,391
2,159	Derivative Contracts - Futures	1,682
2,535	Cash Deposits	2,145
1,019	Investment income due	1,428
472,113	Total Investment Assets	530,253
	Investment Liabilities	
(2,163)	Derivative Contracts - Futures	(1,681)
(2,163)	Total Investments liabilities	(1,681)
0	Cash Deposits (Internally Managed Funds)	13,000
469,950	Net Investment assets	541,572

15.3 Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2014/2015. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Agenda Item 4 Appendix A

	Market Value 1 April 2014 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2015 £000
Fixed Interest Securities	108,064	5,068	(2,639)	16,623	127,116
Equities	189,623	30,550	(24,221)	4,803	200,755
Pooled Investments	155,516	54,498	(53,235)	24,957	181,736
Pooled Property	13,197	220	(12)	1,986	15,391
	466,400	90,336	(80,107)	48,369	524,998
Derivatives (Futures)					
Future contracts	2,159	9,468	(10,068)	123	1,682
Cash Liability	(2,163)	0	0	482	(1,681)
	466,396	99,804	(90,175)	48,492	524,999
Other Investment Balances					
Cash UK (Fund Managers)	2,535			(482)	2,145
Investment Income Due	1,019				1,428
Realised Loss on FX	0			(28)	0
	3,554				3,573
Total Investments at Market Value	469,950			48,464	528,572
Cash Deposits	0	13,000			13,000
Net Investment Assets	469,950				541,572

Note: (1) Transaction costs have been reported separately for the first time this year. See Note 14. (2) Cash deposits of £13m have been internally managed.

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2013/2014. Future contracts have been restated to account for Purchases and Sales within the Future contract rather than the cash liability.

	Market Value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 March 2014 £000
Fixed Interest Securities	113,623	30,845	(30,121)	(6,283)	108,064
Equities (restated)	177,106	26,681	(20,584)	6,420	189,623
Pooled Investments	147,737	5,311	(4,815)	7,283	155,516
Pooled Property (restated)	11,681	545	0	971	13,197
	450,147	63,382	(55,520)	8,391	466,400
Derivatives (Futures)					
Future contracts (restated)	1,461	9,547	(8,938)	89	2,159
Cash Liability (restated)	(1,479)	0	0	(684)	(2,163)
	450,129	72,929	(64,458)	7,796	466,396
Other Investment Balances					
Cash UK (Fund Managers)	2,226			679	2,535
Investment Income Due	974				1,019
	3,200				3,554
Total Investments at Market Value	453,329			8,475	469,950

Note: Transaction costs have been reported separately and subsequently 13/14 figures for equities and property purchases restated.

15.4 Detail analysis of investments (excluding derivative contracts)

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'. The analysis excludes derivatives.

Market Value 31 March 2014 £000		Market Value 31 March 2015 £000
	Fixed Interest Securities	
81,495	Public Sector : UK quoted	95,765
26,569	: Overseas quoted	31,351
108,064		127,116
	Equities (Direct)	
167,425	UK quoted	185,369
21,769	Other European quoted	15,386
139	American	0
290	Other Overseas	0
189,623		200,755
	Pooled Investments	
32,376	UK (Equities)	39,917
15,116	Other European (Equities)	28,203
36,011	American (Equities)	54,064
12,944	Japanese (Equities)	23,063
45,688	Other Overseas (Equities)	20,336
13,381	Developing Markets (Equities)	16,153
5,105	Property Managed Fund/Units quoted	6,131
8,092	Property Managed Fund/Units un-quoted	9,260
3,554	Other Investment Balances	3,573
172,267		200,700
0	Cash Deposits (Internally Managed Funds)	13,000
469,954	Total	541,571

15.5 Analysis of derivatives

Futures contracts are used to gain exposure to investment markets without the need to purchase underlying stocks and shares. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

The derivative instruments, which are used by the fund, are FTSE future contracts, which have been applied to the active and passive sub funds managed by UBS Asset Management. At 31 March 2015, the value of FTSE futures amounted to less than 0.5% (0.7% in 2013/14) of all equity investment in the fund.

The following table reflects the fund's exposure to future contracts.

Type	Expires	Economic exposure £000	Market value 31 March 2014 £000	Economic exposure £000	Market value 31 March 2015 £000
UK Equities	Three – Six months	2,163	2,159	1,681	1,682

15.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2015.

15.7 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (All these investments are pooled).

Security	% Market Value
Aberdeen Global II Index Linked	12.13
UBS Life USA Equity Tracker	9.08
UBS Life UK Equity Tracker	6.18
Aberdeen Global II Global Aggregate	5.76
UBS Life Europe Ex UK Equity Tracker	5.23

The largest single direct holding is HSBC at 2.09%.

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2014				31 March 2015		
Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
			Financial Assets			
108,064			Fixed Interest Securities	127,116		
189,623			Equities	200,755		
155,516			Pooled Investments	181,736		
13,197			Pooled Property Investments	15,391		
2,159			Derivative Contracts	1,682		
	2,535		Cash		2,086	
1,019			Other Investment Balances	1,428		
	3,170		Debtors		1,587	
469,578	5,705	0		528,108	3,673	0
			Financial Liabilities			
(2,163)			Derivative Contracts	(1,681)		
		(877)	Creditors			(568)
(2,163)	0	(877)		(1,681)	0	(568)
467,415	5,705	(877)		526,427	3,673	(568)

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2014 £000		31 March 2015 £000
	Financial Assets / Liabilities	
8,385	Fair Value through profit and loss (2013/14: Restated)	48,341
90	Loans and Receivables	123
8,475	Total	48,464

16.3 Valuation of financial Instruments carried at fair value

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the fund are classified as level 1, 2 and 3, as follows:

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. Listed investments are shown at bid prices. The bid value of investment is based on the bid market quotation of the relevant stock exchange.

Level 2 – those financial instruments where market prices are not available. For example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – those financial instruments where at least one input, that 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 of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 and 2, based on the level at which the fair value is observable.

31 March 2014			31 March 2015	
Quoted market price Level 1	Quoted market price Level 2		Quoted market price Level 1	Quoted market price Level 2
£000	£000		£000	£000
456,380	13,197	Financial Assets	525,769	15,391
2,535		Fair Value through profit and loss	2,086	
		Loans and Receivables		
(2,159)		Financial Liabilities	(1,682)	
		Fair Value through profit and loss		
456,756	13,197	Total	526,173	15,391

16.4 Fair value of financial instruments and liabilities

The following table compares the carrying value to the fair value of financial assets and financial liabilities. The derivatives (both assets and liabilities) are recognised at market value.

31 March 2014			31 March 2015	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial Assets		
361,773	469,578	Fair Value through profit and loss	422,097	541,160
2,532	2,535	Loans and Receivables	2,048	2,086
		Financial Liabilities		
(2,163)	(2,159)	Fair Value through profit and loss	(1,681)	(1,682)
362,142	469,954	Total	422,464	541,564

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The fund's main long-term risk is that the fund's assets will fall short of its liabilities of paying benefits to its members. Investment risk management aims to reduce the risk of the overall reduction of the fund while increasing returns. To achieve this, the fund is diversified through its asset allocation thereby reducing its price, currency and interest rate risks. Liquidity risk in the fund is managed by monitoring the cash flow forecast of the fund and ensuring that there is sufficient cash to pay its benefits payable obligations. The Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund advisory committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. The Statement of Investment Principles and Risk Register are reviewed regularly to reflect changes in activity and in market conditions. The fund also ensures reputable investment managers are used through its rigorous fund manager's selection process. In addition the fund employs an independent advisor who provides advice on investment issues.

17.2 Market risk

The fund is exposed to market risk from its investment activities especially through its equity holdings. Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risks on equity investments. The Fund has one future valued at £1,681,750 as at 31 March 2015 (£2,159,355 as at 31 March 2014).

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. The London Borough of Merton asset allocation is predominantly in equities, the majority of which are priced in Pounds Sterling. Riskier assets in the fund such as equities display greater potential price volatility than bonds. The fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the council to ensure they are within limits specified in the fund investment strategy.

Asset Type	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,086	0.01	2,086	2,085
Investment portfolio assets				
UK Equities	225,363	10.19	248,327	202,398
Overseas Equities	157,206	9.03	171,401	143,010
Bonds and Index Linked	127,117	8.14	137,464	116,769
Property	15,391	5.02	16,163	14,618
Income Due	1,402	0.00	1,402	1,402
Fixed Deposits (Internally managed)	13,000	0.00	13,000	13,000
Total Assets	541,565		589,843	493,282

Note: The % change for Total Assets includes the impact of correlation across asset classes

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents				
Cash	2,440	0.02	2,440	2,440
Investment portfolio assets				
UK Equities	200,763	12.08	225,015	176,511
Overseas Equities	144,477	11.56	161,179	127,775
Bonds and Index Linked	108,064	6.45	115,034	101,094
Property	13,197	4.45	13,784	12,610
Income Due	1,011	0.00	1,011	1,011
Total Assets	469,952		518,463	421,441

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2015 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

Potential price changes are 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 will depend largely on fund asset allocations. The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-)
UK Equities	10.19%
Overseas Equities	9.03%
Bonds and Index Linked	8.14%
Cash	0.01%
Property	5.02%

17.5 Interest rate risk

Generally fixed interest rate investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As at 31 March 2015, the fund's fixed rate investments were in pooled investments. These internally managed investments are of very short duration.

17.6 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 GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2015.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	157,206	5.69	166,147	148,264
Overseas Bonds	31,351	5.69	33,135	29,568
Total Overseas Assets	188,557	5.69	199,282	177,832

The table below shows the currency exposure by asset type as at 31 March 2014.

Asset Type	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	144,477	5.16	151,930	137,025
Overseas Bonds	26,569	5.16	27,939	25,199
Total Overseas Assets	171,046		179,869	162,224

The following table calculates the aggregate currency exposure within the fund as at 31 March 2015. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Currency	Value at 31 March 2015 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	771	6.19	819	723
EURO	9,675	6.15	10,270	9,080
Norwegian Krone	582	8.64	632	531
Swedish Krona	2,561	7.30	2,748	2,374
Swiss Franc	4,448	9.34	4,864	4,033
US Dollar	31,358	7.78	33,798	28,918
Total	49,395		53,131	45,659

Currency	Value at 31 March 2014 £000	% Change	Value on Increase £000	Value on Decrease £000
Danish Krone	518	6.26	550	485
EURO	9,271	6.31	9,857	8,686
Norwegian Krone	506	8.79	550	462
Swedish Krona	2,203	7.03	2,358	2,049
Swiss Franc	3,124	7.42	3,356	2,892
US Dollar	131	8.07	141	120
Total	15,753		16,812	14,694

17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or 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.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The average long term credit rating in the bond portfolio is AA as at 31 March 2015. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality.

Credit Quality	Value at 31 March 2014	Value at 31 March 2015
AAA	2,270	3,432
AA	80,838	93,049
A	11,240	11,949
BBB	11,456	16,017
BB or below	648	1,271
Cash	0	1,398
Settled Cash	0	36
	106,452	127,152
A	0	3,000
N/A	0	10,000
	0	13,000
Total	106,452	140,152

The fund's cash balance under its treasury management arrangements as at 31 March 2015 was held with Lloyds bank with a credit rating of A.

17.8 Liquidity risk

The Council has immediate access to its pension fund cash holdings to enable it to meet its financial obligations when due. Within the bond portfolio, the fund is permitted to hold up to 10% of the fund in cash for this reason and to ensure that the fund has available an element of cash to ensure that settlement of the segregated securities traded in the portfolio do not take the cash accounts overdrawn.

Fund cashflow is periodically reviewed by the Pension Fund Panel on a quarterly basis.

17.9 Refinancing risk

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

18. Funding Arrangements

18.1 Actuarial position

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The main purpose of the actuarial valuation is:

- (i) to determine the accrued position of the fund (for which the valuation of assets is based on the 'assessed value approach') and;
- (ii) to establish appropriate contribution arrangements required to support accruing benefits (for which the 'projected unit' actuarial method is adopted).

18.2 Actuarial assumption

Barnett Waddingham LLP carried out the last actuarial valuation in 2013. This gave an assessment of the value of the fund as at 31 March 2013. The results of the actuarial valuation showed that the assessed value of assets held by the Fund at 31st March 2013 was £451.0m, whilst the liabilities accrued in respect of pensionable service were £504.2m. The assessed actuarial value of £451.0m was different to the market value of the assets at 31 March 2013 (shown in Note 18.4) because the actuarial value is based on the average asset value over 6 months straddling the valuation date.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to the rate of price inflation, general pay escalation and the rate of dividend growth. The 'statistical' assumptions cover matters such as future rates of withdrawal and retirement from service, rates of mortality, the proportion of members married and the progression of pensionable pay from age to age, attributable to increasing responsibility and promotion.

The following tables show financial assumptions used in the actuarial valuation. Following a change in valuation results presentation since the last valuation only nominal returns are now reported.

Future Assumed Returns at 2013 % p.a.		Risk Adjusted Discount Rate Weighting %
Equities	6.9	71
Gilts	3.3	25
Cash	3.1	1
Property	6.0	3
Expense allowances	0.1	-
Financial Assumptions	2013	2010
Discount Rate	5.9	6.7
Retail Price Index (RPI)	3.5	3.5
Consumer Price Inflation (CPI)	2.7	3.0
Pension & Deferred Pension Increases	2.7	3.0
Short Term Pay Increase	In line with the CPI assumption for the 2 yrs to 31 March 2015	Pay freeze for those earning over £21k for the 2 years to 31 March 2012
Long Term Pay Increase	4.5	5.0

18.3 Funding policy

In line with the Local Government Pension Scheme Regulations 2013, the funds actuary undertakes a funding valuation every three years. The next valuation is in 2016. The Regulations require the Actuary to set the employer's contribution rate for the authority and Scheduled and Admitted Bodies, so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases. The funding objective is to ensure that the Scheme's assets and income are adequate to finance scheme members' benefits when they fall due.

The actuary has recommended contribution rates that recover past service deficit in the Fund over the next twelve years from 1st April, this is consistent with the funding strategy.

18.4 Funding position

The overall funding level increased from 84% in 2010 to 89% in 2013.

Investment returns were higher than assumed and pay increases lower than assumed.

The table below shows the funding level and deficit for the past three triennial valuations.

	2007 Valuation	2010 Valuation	2013 Valuation
Funding Level %	90.5	84.0	89.0
Funding (Deficit) £m	(33.5)	(67.2)	(53.2)

The funding deficiency of £53.2 million at the time of the 2013 valuation was equivalent to 11% of accrued liabilities, compared to 16% as at the time of the 2010 valuation.

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2011 to 31 March 2014 is 21.4% of pensionable payroll. From 1st April 2014 to 31st March 2017 the Common Rate of Contribution will be 21% of pensionable pay.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 and 2013 actuarial valuation reports.

The table below shows the reconciliation of past service position from 2010 and 2013 valuations.

	Funding Position £m	
Deficit at 2010 Valuation	(67)	
Deficit Funded (Use of Surplus)		18
Financial Loss	(14)	
Experience		11
Change in Assumptions	(1)	
Deficit at 2013 Valuation	(53)	

The following tables show the past service funding position for the 2010 and 2013 valuations.

	31 March 2013 £000	
Asset Value		450,974
Past Service Liabilities		
Active Members	165,417	
Deferred Pensioners	87,644	
Pensioner Members	251,112	
Total		504,173
Surplus (Deficit)		(53,199)
Funding Level		89%
Employer Contribution Rates		% of Payroll
Future Service Cost		14.0
Deficit Recovery (12 years)		7.0
Total Contribution Rate		21.0

The funding position is a statement that encapsulates the liability to finance pension payments over many years, and does not imply that there is any difficulty in financing them in the short term. Investments in support of the Local Government Pension Scheme are long-term investments, and there is an expectation that over the long

term the value of the fund will ride-out the cyclical movements of the investment markets, and support an adequate funding level.

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS 26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2015, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

	Assumptions as at 31/03/15 %
Inflation/Pension increase rate	2.4
Salary rate increase	4.2
Discount Rate	3.3

The value of the Fund's promised retirement benefits as at 31 March 2015 was

Year Ended	31/03/14 £m	31/03/15 £m
Present value of promised retirement benefits	685.2	816.1

20. Current Assets

	31/03/14 £000	31/03/15 £000
Debtors		
Contributions due	1,245	1,358
Sundry Debtors	821	41
Cash in Hand	1,104	187
Current Assets	3,170	1,586

Analysis of Debtors

	31/03/14 £000	31/03/15 £000
Administering Body	1,140	1,242
Admitted and Scheduled Bodies	105	116
Sundry Debtors	821	41
Current Debtors	2,066	1,399

21. Current Liabilities

Creditors	31/03/14 £000	31/03/15 £000
Cash overdrawn	(217)	(1)
Fund Managers Fees	(160)	(267)
Sundry	(500)	(48)
Payroll	0	(252)
Current Liabilities	(877)	(568)

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the pension fund accounts but are paid over by the Council's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2014/15 to AVC schemes outside the authority's responsibility was £0.144m (£0.187m at 31 March 2014). The external providers have reported that at 31 March 2015 the total value of accumulated AVCs is £1.663m (£1.450m at 31 March 2014).

23. Related Parties

Related parties to the pension fund include: -

- i) **The London Borough of Merton**, a separate pension fund bank account is in full operation which holds pension fund cash balances. The Council recharges the Fund for incurred overheads while the pension fund recharges the council for any employers recharge to pensioners pay.
- ii) **The Admitted and Scheduled bodies** who make employer contributions to the fund.
- iii) **Local authority elected members and senior management officers** who sit on the Pension Fund Advisory Panel.

There is one Pensioner representative on the Panel who is in receipt of pension benefits. The senior officer in the financial management of Merton Pension Fund is the Director of Corporate Services who is remunerated by Merton Council as the administering authority. They are not paid directly by the Merton Pension Fund. However the pension fund is recharged by the Administering Authority for officers time spent in the management of the pension fund. Further information on remuneration is available within the financial statements of Merton Council.

There have been no related-party disclosures, or material declarable transactions with the Pension Fund during the financial year other than administrative services

and the use of the council's financial systems which may result in occasional cross transactions. The former were undertaken by the Council on behalf of the Pension Fund, at a cost, of £0.332m, (£0.426m in 2013/14).

24. Contingent and Contractual Liabilities

Following a bulk transfer and cessation valuation for South Thames College (previously Merton College) by the Fund Actuary for the fund and the LPFA, a net payment of £1.9m will be made in April 2045. The cessation valuation also reflects the current status of the employer.

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Committee: Pension Fund Advisory Committee

Date: 23 June 2015

Agenda item: 5

Wards: All

Subject: Performance for the Quarter Ending March 2015 and Position Statement

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact office: Paul Dale

This is a Public Document

Recommendations:

- a.) Note the content of this report; and
- b.) Note the concerns raised by AllenBridge Epic regarding individual manager and Fund performance

1.0 Purpose of report and executive summary

- 1.1 This report includes details of the investment performance of Merton's Pension Fund for the quarter ending March 2015. Individual investment managers have provided performance reports for the various portfolios, in addition to a quarterly performance report from State Street Analytics. This report is intended to give the Committee a basis on which to review performance of the Fund as at 31 March 2015 and provide a platform to discuss future actions for the Fund or tactical investment changes.

2. Fund Performance

2.1 Fund Asset Allocation and Performance

The table below shows the fund strategic asset allocation as at 31 March 2015 against the asset allocation of the Fund's benchmark. At the end of the period, 73.7% of total Fund assets invested in equity, 41.31% was actively managed and 58.69% is passively managed.

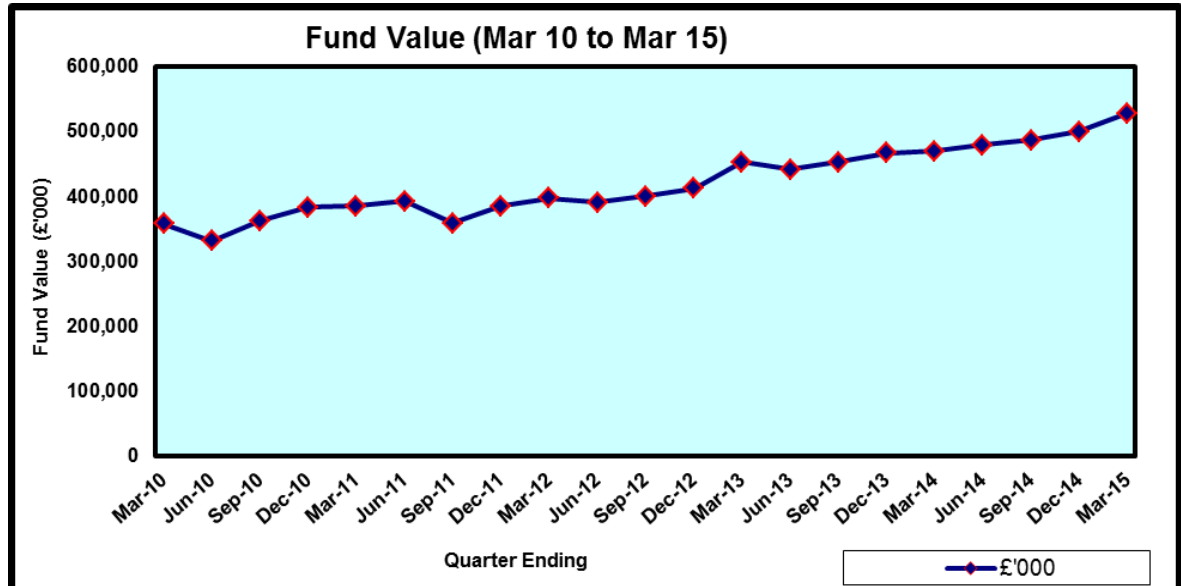
At 31/12/2014	Total Equity	Total Bonds	Cash/Alts	Property	Total Fund
	%	%	%	%	%
Fund Asset Allocation	72.7	24.1	0.4	2.9	100.0

Asset of Fund Benchmark	70.6	24.5	0.0	4.9	100.0
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The Fund's marginally out performed its benchmark by 0.1% this quarter. On a year to date basis the Fund underperformed against its benchmark by 0.4%. The table below summarises the capital movement and increase in market values reinvested in the quarter between the managed funds.

Fund	31/12/14 Values	Transactions	Capital Gain/loss	Income	31/03/15 Values	% of Total Fund
UBS Passive	212,206	544	13,477	515	226,227	43
Aberdeen Fixed Income	122,621	2,685	1,846	2,692	127,152	24
Aberdeen Active Equity	97,269	720	6,440	843	104,430	20
UBS Active Equity	52,584	322	1,889	265	54,796	10
UBS Property	9,588	119	229	89	9,936	2
BlackRock Property	5,977	69	85	50	6,131	1
Total External Fund	500,246	4,459	23,966	4,455	529,671	100
Internal Cash from Contributions	0				13,000	
Total	500,246				542,671	

Value of investment managed by external managers increased in value by £29.4m from last quarter. The chart below shows Fund annual market values between March 2010 to March 2015.



The Fund's assets are invested in various sectors and geographical locations. During the quarter ending March 2015, UK equities in the fund underperformed while overseas equities outperformed benchmark.

The table below show the performance of the whole fund in the various geographical areas it is invested in relative to Benchmark at the end of the quarter.

Sector	Fund Return Dec 2014 %	Closing Value March 2015	Fund Return March 2015 %	Benchmark %
UK Equities	215,102	226,951	4.6%	4.7%
Overseas Equities	146,596	157,216	9.3%	9.3%
• North America	52,741	54,064	5.9%	5.9%
• Continental Europe	38,523	43,598	11.4%	10.9%
• Total Far East	40,760	43,400	12.0%	12.8%
• Other Intl Equities	14,571	16,154	8.7%	7.32%
UK Bonds	31,186	31,991	4.6%	4.0%
Overseas Bonds	29,428	31,351	3.9%	3.0%
UK Index-Linked	61,964	63,774	3.3%	3.3%
Cash Alternatives	874	1,909	0.8%	
Property	15,096	15,479	3.0%	2.8%
Total	500,246	528,671	5.7%	5.6%

3. INVESTMENT MANAGER PERFORMANCE

3.1 UBS

UBS manages three funds for LB Merton pension fund.

The UBS active equity fund closed at a market value of £54.4m (December 2014 52.5m). The table below shows the movement during the period within the portfolio.

	31/12/2014 Values		Purchases	Sales	Gain/Loss	Income	31/03/2015	
	£'000	%					£'000	£'000
Total Equities	52,253	99	2,848	2,583	1,889	324	54,408	99%
Cash & Cash Alternatives	331	1	2,929	2,873	0	0	388	1%
Total	52,584	100	5,777	5,455	1,889	265	54,796	100

Performance of the UBS Active Equity Fund over various time periods

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	4.1	5.0	-0.8	Under performance
Last 12 months	5.0	7.3	-2.1	Under performance
Last 3 years	9.1	10.1	-1.0	Under performance

Last 5 years	6.6	7.6	-0.9	Under performance
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For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the Benchmark by 1% per annum. For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the Benchmark by 2.0% per annum.

The UBS Global Equity fund (passive portfolio) closed at market value of £226.2m (212.2m December 2014). The increase is mainly income from dividend and some capital gains from valuations. The aim of this fund is for the manager at the minimum to replicate track the performance of the benchmark.

The table below shows the movement of assets during the quarter.

	Asset Allocation							
	Market Value 31/12/2014		Purchases	Sales	Gain/Loss	Income	Market Value 31/03/2015	
	£'000	%	£'000				£'000	%
UK Equities	116,825	55	4,336	1,867	4,888	542	124,182	55
North America	45,087	21			2,662		47,749	21
Continental Europe	24,800	12			2,707	0	27,749	12
Japan	13,223	6			2,163		13,886	6
Total Pacific (ex Japan)	12,445	6			1,057		13,503	6
Cash & Alternatives	-175	0	6,084	6,509	0	1	-600	0
Total	212,206	100	10,420	9,876	13,477	515	226,227	100

This table shows the performance of the portfolio.

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	6.6	6.6	0.0	In line with benchmark
Last 12 months	12.3	12.1	0.2	In line with benchmark
Last 3 years	12.9	12.8	0.1	In line with benchmark
Last 5 years	9.6	9.6	0.0	In line with benchmark

The benchmark - the manager is to track the Benchmark index over rolling three year periods

There passive portfolio includes investments in 7 pooled funds namely (UK Life Equity Tracker Fund, UK Life Equity Small Cap Tracker Fund, UK Life Large & Mid Cap Tracker Fund, UK Life Europe Ex-UK Equities Tracker Fund, Japan Equity Tracker Fund, Pacific Ex-Japan Tracker Fund and North America Equity Tracker fund . Total exposure to all seven pooled funds at 31 March 2015 was £138.4m.

UBS Property Fund

The UBS Property fund closed at a total market value of £9.9m. The fund underperformed against benchmark by 3.3%.

The three tables below show that the UBS Triton performance comprises of capital and income that the returns of 3.3% can be attributed to performance in each of the two sub funds.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/0/2015	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund
Property	9,119	95%			229	89	9,348	94
Cash& Money Mkt Instruments	469	5%	119		0		588	6
Total	9,588	100%	119		229	89	9,936	100

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	3.3	2.8	0.5	Out performance
Last 12 months	19.0	16.6	2.4	Out performance
Last 3 years	6.1	9.4	-3.3	Under performance

The table below shows the performance of sub-funds that make up the Portfolio

	Q1 2015 %	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
UBS Triton Property Fund (gross)	+3.5	+19.7	+6.3	+7.4	+2.6
UBS Triton Property Fund (net) ¹	+3.3	+19.1	+5.6	+6.7	+1.8
UBS Life Triton (A units)	+3.4	+19.0	+6.2	+7.2	+2.4
UBS Life Triton (B units)	+3.2	+18.1	+5.4	+6.4	+1.6
AREF/IPD UK QPFI All Balanced Fund Wtd Avg ²	+2.8	+16.6	+9.4	+8.6	+4.7

Triton Fund Modernisation – update

The daily dealing of redemptions in the UBS Life Triton feeder fund has been suspended since 19 December 2014 following receipt of a redemption request expected to be paid in July 2015. However the manager will not recommence daily dealing until January 2016 due to redemption receive in April 2015.

3.2 Aberdeen Asset Management

Aberdeen manages one equity fund on a segregated mandate and one bond fund.

Aberdeen Equity fund

Although an active mandate, the fund is held in 33.2% pooled funds and 66.8% segregated assets including cash. The investment manager is expected to outperform benchmark by 1.25% over rolling three year periods. The Fund closed at £104.4m. Over the past 12 months the fund has increased in value by 10.88%. UK equity component in the fund increased in value by 5.40% in the

The quarter's performance of the portfolio is detailed in the table below

Period	Fund %	Benchmark %	Variance %	Comments
Last 3 months	7.5	7.1	0.3	Marginal out performance
Last 12 months	11.0	10.8	0.1	Marginal out performance
Last 3 years	10.9	11.0	-0.1	Under performance
Last 5 years	9.9	7.8	1.9	Out performance

The table below shows in detail the attribution from the various sectors the Aberdeen fund is invested in. UK Equities remains the main detractor for the Aberdeen equity fund.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/ Loss	Income	£'000	% of Fund
UK Equities	51,769	53	2,740	2,098	2,223	619	54,634	52
North America	7,654	8		1,700	361	2	6,315	6
Continental Europe	13,723	14	1,430	670	1,607	94	16,091	15
Japan	9,122	9	8,001	8,971	1,026	33	9,178	9
Total Pacific (Ex. Japan)	5,970	6	350		514	32	6,834	7
Other Intl Equities	8,826	9	350		705	47	9,880	9
Cash/Alternatives	206	0	16,105	14,817	4	0	1,497	1
Total	97,269	100	28,976	28,256	6,440	843	104,430	100

	Portfolio		Benchmark Attributes		Attributes from Manager's Management of Stocks		Total %
	Weight %	Return %	Weight %	Return %	Asset Allocation Attributes	Stock Selection Attributes	
					%	%	
TOTAL	100.0	10.88	100	10.79	0.28	-0.19	0.09
UK	52.3	4.46	53.7	6.57	0.06	-1.18	-1.13
Overseas	46.2	19.04	46.3	16.06	0.30	0.99	1.29
North America	6.0	21.15	5.9	25.14	-0.16	-0.15	-0.30
Europe ex UK	15.4	9.87	15.0	7.69	0.04	0.34	0.38
Japan	8.8	38.84	7.9	26.04	0.17	0.90	1.07
Asia Pacific ex Japan	6.5	18.39	7.4	19.71	0.13	-0.10	0.03
Emerging Markets	9.5	13.61	10.0	13.19	0.12	-0.01	0.11
TOTAL CASH	1.4	0.24					
TOTAL	100		100		-0.08	0.00	-0.08

Aberdeen Bond Fund

The fund closed at £127.1m. March quarter saw the fund underperform its benchmark by 0.3%. The manager's objective is to outperform its benchmark by 0.60% on a three year rolling period. Assets invested in continue to be of high grade credit quality with the minimum credit limit for assets being Fitch AA. Members should note that in the current economic climate, investing in high the credit quality names may mean lower returns because of the price investors will pay for security of capital.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/Loss	Income	£'000	% of Fund
UK Bonds	31,186	25	1,033	636	407	995	31,991	25
Overseas Bonds	29,428	24	1,352		571	598	31,351	25
UK Index-Linked	61,964	51	1,145	198	863	1,176	63,774	50
Cash/Alternatives	42	0	3,519	3,530	4		36	
Total	122,621	100	7,049	4,364	1,846	2,692	127,152	100

Period	Portfolio	Benchmark	Variance	Comments
March 2015 Qtr	3.7	3.4	0.3	Out performance
Year to date	17.9	18.2	-0.3	Underperformance
3 years	7.6	7.5	0.1	Marginal out performance. Manager not met benchmark
5 years	8.5	8.8	-0.3	Underperformance

3.3 BlackRock

The long term objective of the Fund is to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

	Market Value 31/12/2014		Asset Allocation				Market Value 31/03/2015	
	£'000	% of Fund	Purchases	Sales	Gain/Loss	Income	£'000	% of Fund
Cash/Alternatives			68	69				
UK Property	5,977	100	69		85	50	6,131	100
Total	5,977	100	138	69	85	50	6,131	100

	Portfolio	Benchmark	Variance	Comments
March 2015	2.3	2.8	-0.5	Underperformance
Year to date	14.0	16.6	-2.3	Underperformance

- 4. OTHER ISSUES AFFECTING THE FUND**
 - 4.1 UBS Triton redemption and Fund outperformance.
- 5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**
 - 5.1 All relevant implications are included in the report.
- 6. LEGAL AND STATUTORY IMPLICATIONS**
 - 6.1 N/A
- 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**

All managers investors reports and State Street Analytics performance Report

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Committee: Pension Fund Advisory Committee

Date: 23 June 2015

Agenda item: 7

Wards: All

Subject: Pension Fund Membership Monitoring 31 March 2015 and Fund Update

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Imran Uddin

Contact office: Paul Dale

This report is a public document

Recommendations:

1. Note and comment on the report; and
 2. Note the key changes in membership since the last report.
-

PURPOSE OF REPORT AND EXECUTIVE SUMMARY

This report includes details of London Borough of Merton Pension Fund scheme membership for the quarter ending 31 March 2015, financial years 2007/08 to 2014/15 forecast membership numbers for 2015/16. The report is intended to provide trend on the scheme membership of the Fund with a view to provide a basis for membership increase drive.

SCHEME MEMBERSHIP

At the end of 31 March 2015, total membership of the fund was 11,486

The table below shows the breakdown of membership by employers in the Fund.

Category	Dec 2014	Mar 2015	Variance
Actives			
• Administering Authority	3,426	3,390	-36
• Scheduled Bodies	200	215	15
• Admitted Bodies	89	89	0
	3,715	3,694	-21
Pensioners & Dependants			
• Administering Authority	3,227	3,264	37
• Scheduled Bodies	147	148	1
• Admitted Bodies	96	97	1
	3,470	3,509	39
Deferred			
• Administering Authority	3,098	3,106	8

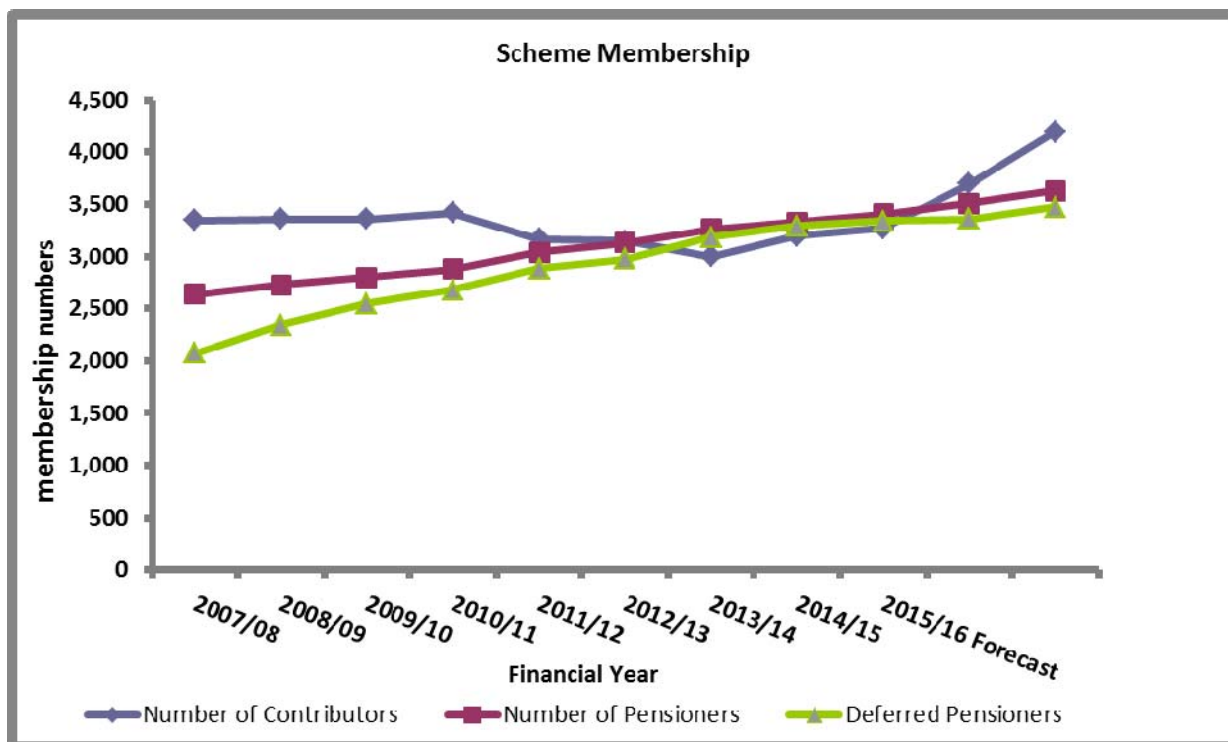
• Scheduled Bodies	152	149	-3
• Admitted Bodies	98	100	2
	3348	3,355	7
Undecided			
• Administering Authority	357	374	17
• Scheduled Bodies	42	45	3
• Admitted Bodies	12	9	-3
	411	428	17
Frozen			
• Administering Authority	462	463	1
• Scheduled Bodies	31	32	1
• Admitted Bodies	5	5	0
	498	500	2
Total Whole Fund	11,442	11,486	44

The table below shows the membership breakdown between active contributors, pensioners and deferred members since 2007/08 to date. Active membership of the Fund will continue to increase slightly due to the effect of new employees automatically being enrolled in the fund as a result of auto-enrolment and the assumption that the council as the major employer in the Fund does not have planned large scale redundancies.

Membership Numbers	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16 Forecast
Number of Contributors	3,355	3,415	3,168	3,147	3,055	3,196	3,265	3,694	4,190
Number of Pensioners	2,799	2,879	3,040	3,132	3,260	3,330	3,408	3,509	3,630
Deferred Pensioners	2,548	2,679	2,885	2,973	3,193	3,293	3,344	3,355	3,470
Total	8,702	8,973	9,093	9,252	9,508	9,819	10,017	10,558	11,290

Data above excludes undecided and frozen members

Graphical representation of the Pension Fund Scheme membership actuals and 2015/16 forecast at 31 March 2015.



KEY SCHEME MEMBERSHIP UPDATES

There are no large bulk transfers in and out of the Fund during the quarter.

Employers Update

Catch 22 Charity Limited to join the Fund in June 2015 as Admitted Body.

CONSULTATION UNDERTAKEN OR PROPOSED

N/A

FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

This paper address the membership of the fund without detail on the financial implications of the impact of changes in pension deficit or benefits paid.

LEGAL AND STATUTORY IMPLICATIONS

All relevant implications are included in the report.

HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

This report has not direct human rights, equalities and community cohesion implications

CRIME AND DISORDER IMPLICATIONS

This report has no crime and disorder implications

RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

N/A

APPENDICES

There are no appendices to this report

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Committee: Pension Fund Advisory Panel

Date: 23 June 2015

Agenda item: 9

Wards: All

Subject: Pension Fund Risk Register

Lead officer: Caroline Holland Director of Corporate Resources

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

Contact office: Paul Dale

This document is a public document

Recommendations:

- a.) Note and approve the updated risk register
-

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

The Risk Register (Appendix A to this report) has been set up using the Council's risk monitoring system which produces a risk status of Red, Amber or Green. The Committee approved a Risk Register for Merton Pension Fund on 14 December 2011 since then updates have been presented to Committee periodically.

2. On 2 December 2014, the committee requested that mitigating strategies for all risks should be included in the risk register. The risk register has also been updated with new risks and risks like those pertaining to the 2014 LGPS changes have been removed as the issues have been implemented.
 - 2.1 New risks added include MPF7 - Fund Manager House collapse or failure to safeguard records and MPF8 – Custodian House collapse or failure to safeguard records. New banking regulations designed by the FCA, Bank of England and the ECB are all expected to reduce bank collapse. It is still a risk the Fund is exposed to.
 - 2.2 MPF16 Employer admissions and cessation implementation risk has been added to the register to reflect recent changes in employer workplace changes. Shared services, Outsourcing and legislative changes which affect schools being the key sources of new admissions to the Fund.
 - 2.3 The risk register is also monitored alongside other council corporate risk. Annual updates will also be presented to the Committee.

3. CONSULTATION UNDERTAKEN OR PROPOSED

- 3.1 N/A

- 4. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**
- 4.1 Some of the risks may have potential financial implications for the Fund
- 5. LEGAL AND STATUTORY IMPLICATIONS**
- 5.1 Failure to mitigate some risks could lead to potential litigations
- 6. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
- 6.1 N/A
- 7. CRIME AND DISORDER IMPLICATIONS**
- 7.1 N/A
- 8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**
- 8.1 The report considers the key risks to the Pension Fund
- 9. APPENDICES**
- 9.1 Detailed risk register (appendix a)
- 10. BACKGROUND PAPERS**
- 10.1 There are no background papers

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