

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### Membership

#### Distribution:

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

#### Additional Attendees:

Mercer Investment Consultants  
Fund Manager  
External Auditors – Ernst & Young

**Date: Thursday 10 September 2020**

**Time: 6.00 pm**

**Venue: This will be a virtual meeting and therefore will not take place in a physical location, in accordance with s78 of the Coronavirus Act 2020.**

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](mailto:Merton.PensionFund@merton.gov.uk) or telephone [020 8545 3458](tel:02085453458).

All Press contacts: [communications@merton.gov.uk](mailto:communications@merton.gov.uk), 020 8545 3181

# Pension Fund Investment Advisory Panel Agenda

## 10 September 2020

- 1 Apologies for absence
- 2 Declarations of pecuniary interest
- 3 Minutes of the previous meeting 1 - 2
- 4 Quarterly Performance Review (April-June 2020) 3 - 18
- 5 AOB
- 6 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).
- 7 Minutes of the previous meeting (exempt)
- 8 Merton Pension Fund - Audit Report - Ernst & Young
- 9 Process to measure performance of the manager - (Benchmark for DGF & MAC Fund)
- 10 Quarterly fund & investment managers performance review (April-June 2020)
- 11 Update on MAC Fund - Mercer
- 12 Presentation by Fund Manager - CQS
- 13 Revised Investment Strategy - Mercer
- 14 AOB
- 15 Future meeting dates  
Future Meeting Dates:
  - 25 November 2020
  - 10 March 2021

### 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. For further advice please speak with the Managing Director, South London Legal Partnership.

**Attendance:**

Cllr. Owen Pritchard (Chair),  
Cllr Adam Bush (Vice Chair)  
Cllr. David Williams  
Gwyn Isaac (GMB Union Rep)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)

**1.0 MEETING (Part 1)**

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

**2. Minutes of Last Meeting Held (Part 1) - 09 January 2020 (Decision making)**

- 2.1 Agreed as a true record.

**3. Quarterly Fund Performance Review (Sept 2019 to March 2020) (For Information)**

- 3.1 Over the 3 months to 31 March 2020, total Fund assets returned a negative 12.5% compared to the target of 1.2%. This equates to underperformance by 13.5%.
- 3.2 The Fund's total market value decreased by £98.7m over the quarter, from £787.2m to £688.5m. Over the last 12 months, the Fund performance was -4.3%, and 3 year annualised performance was 1.6%. The annual performance target is 4.8%.

**4. Merton Pension Fund –Audit Plan – 2019-20 (For Information)**

- 4.1 RK presented the report and informed that the audit is underway and good progress has been made.
- 4.2 AB asked whether more work is required due to COVID-19?
- 4.3 RK responded by saying a going concern statement has been completed and has been presented to the auditors
- 4.4 NS gave assurance by mentioning that the fund is still 103% funded as at 31 March 2020 - post one year of the triannual valuation and after the market affect in Q1 2020 due to the global pandemic.
- 4.5 Asset value at June 2020 is back to Dec 2019 levels.

**5. AOB**

OP – Proposed a change to the structure and frequency of meetings.

MA did not agree so proposal dropped.

9. Future Meeting Dates
  - 10 Sept 2020



## Committee:

**London Borough of Merton Pension Committee Date: 10 September 2020**

## London Borough of Merton Pension Board

Wards: All

**Subject: Merton Pension Fund Performance – June 2020**

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 quarters ending 30 June 2020, 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 ending 30 June 2020. 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 June 2020. The report provides 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 Mercer provides useful analysis and insights of the Pension Fund activities and results for the quarters ending June 2020.

The table overleaf shows the performance for the quarter.

# PERFORMANCE SUMMARY

## PERIOD ENDING 30 JUNE 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	15.9	n/a	2.9	n/a	6.0	n/a
UBS Alternative Beta	16.0	15.8	2.7	2.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	23.0	19.8	9.4	5.9	n/a	n/a
LCIV Global Alpha Growth Fund	28.0	19.6	17.4	5.3	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	18.2	18.0	6.8	6.3	n/a	n/a
<b>Global Equities</b>						
UBS HALO EM Fund	20.8	21.0	-10.7	-15.4	n/a	n/a
LCIV Emerging Market Equity Fund	21.3	18.5	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	6.3	1.3	2.7	4.8	n/a	n/a
LCIV Diversified Growth Fund	8.3	0.9	-2.3	4.1	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		9.7 / 11.5		0.6 / 2.1		
<b>Diversified Growth Fund</b>		9.7		0.6		
UBS Triton Property Unit Trust	-1.9	-2.0	-1.7	-2.6	4.4	3.4
BlackRock UK Property Fund	-1.2	-2.0	-2.8	-2.6	3.3	3.4
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.	-	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	19.4	1.8	17.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-0.1	2.4	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Permira Credit Solutions IV	-	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	0.5	1.7	-0.9	7.0	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Wells Fargo - RMF	-6.4	-6.4	n/a	n/a	n/a	n/a
<b>Bonds</b>						
LCIV MAC Fund	12.7	1.2	-4.5	4.9	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		10.2 / 11.7		-0.7 / 2.2		
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>		14.1		4.2		5.9
<b>Strategic Target (4.8% p.a.)</b>		1.2		4.8		4.8

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

\* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 year benchmark returns.

2.2 Over the 3 months to June 2020, total Fund assets returned 14.1% compared to the target of 1.2%. This equates to outperformance by 12.9%. The Fund's total market value increased by £96m over the quarter, from £689m to £785m. Over the last 12 months, the Fund performance was 4.2%, and 3 year annualised performance was 5.9%. The annual performance target is 4.8%. The table below shows the total fund valuation and the movements in investments during the respective quarter.

## VALUATION SUMMARY

### 31 MAR 2020 TO 30 JUN 2020

Manager / Fund	31 March 2020				30 June 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,116	7.6	-7,000	10,309	55,425	7.1
UBS Alternative Beta	66,021	9.6	-	10,510	76,531	9.8
LCIV RBC Sustainable Equity Fund	71,357	10.4	-	16,347	87,704	11.2
LCIV Global Alpha Growth Fund	70,161	10.2	-	19,606	89,767	11.4
BlackRock World Low Carbon Equity Tracker Fund	68,529	10.0	-	12,502	81,031	10.3
<b>Global Equities</b>	<b>328,185</b>	<b>47.7</b>			<b>390,458</b>	<b>49.8</b>
UBS HALO EM Fund	41,305	6.0	-	8,685	49,990	6.4
LCIV Emerging Market Equity Fund	25,753	3.7	-	5,469	31,222	4.0
<b>Emerging Market Equities</b>	<b>67,058</b>	<b>9.7</b>			<b>81,212</b>	<b>10.3</b>
LCIV Global Total Return Fund	32,909	4.8	-	2,024	34,933	4.4
LCIV Diversified Growth Fund	30,019	4.4	-	2,519	32,538	4.1
<b>Diversified Growth Fund</b>	<b>62,928</b>	<b>9.1</b>			<b>67,471</b>	<b>8.6</b>
UBS Triton Property Unit Trust	16,834	2.4	-136	-443	16,255	2.1
BlackRock UK Property Fund	7,553	1.1	-	-150	7403	0.9
<b>Property</b>	<b>24,387</b>	<b>3.5</b>			<b>23,658</b>	<b>3.0</b>
MIRA Infrastructure Global Solution II, L.P.*	11,657	1.7	-3,210	-	8,446	1.1
Quinbrook Low Carbon Power LP	7,292	1.1	-	1,411	8,703	1.1
JP Morgan Infrastructure Fund	18,863	2.7	-	-26	18,837	2.4
<b>Infrastructure</b>	<b>37,812</b>	<b>5.5</b>			<b>35,986</b>	<b>4.6</b>
Permira Credit Solutions IV*	4,431	0.6	5,222	-	9,653	1.2
Churchill Middle Market Senior Loan Fund II	11,536	1.7	1,466	64	13,066	1.7
<b>Private Credit</b>	<b>15,967</b>	<b>2.3</b>			<b>22,719</b>	<b>2.9</b>
<b>Growth Assets</b>	<b>536,337</b>	<b>77.9</b>			<b>621,505</b>	<b>79.2</b>
Wells Fargo – RMF	88,960	12.9	-	2,426	91,386	11.6
<b>Bonds</b>	<b>88,960</b>	<b>12.9</b>			<b>91,386</b>	<b>11.6</b>
LCIV MAC Fund	59,756	8.7	-	7,606	67,362	8.6
<b>Multi Asset Credit</b>	<b>59,756</b>	<b>8.7</b>			<b>67,362</b>	<b>8.6</b>
<b>Stabilising Assets</b>	<b>148,716</b>	<b>21.6</b>			<b>158,747</b>	<b>20.2</b>
<b>Cash</b>	<b>3,596</b>	<b>0.5</b>	<b>958</b>	<b>-</b>	<b>4,555</b>	<b>0.6</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>688,649</b>	<b>100.0</b>	<b>-2,700</b>	<b>98,858</b>	<b>784,807</b>	<b>100.0</b>

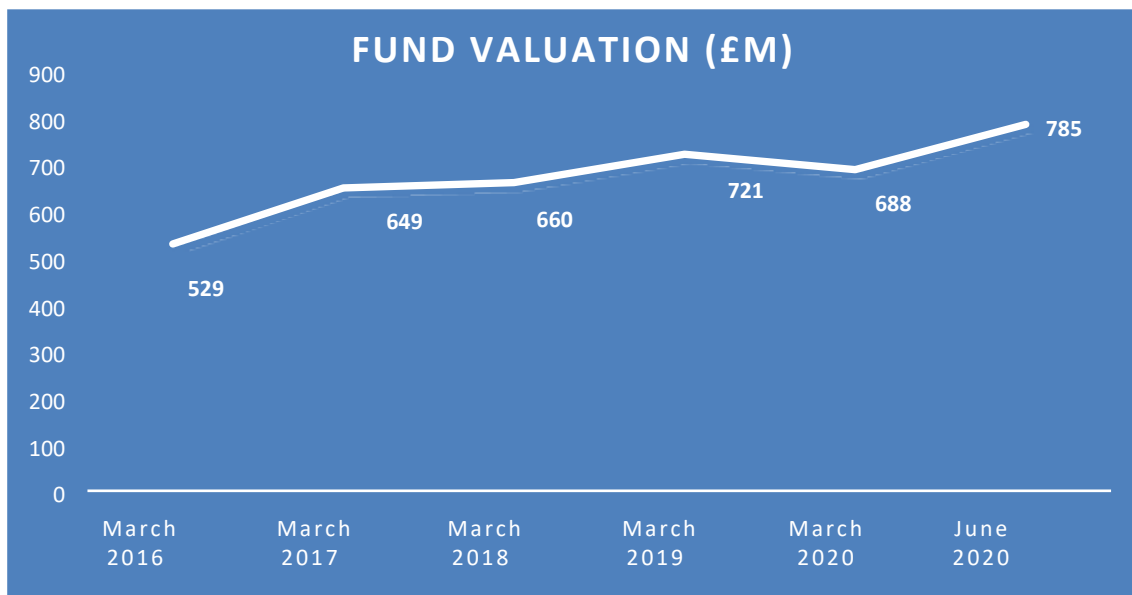
- 2.3 The Fund is an open fund and long-term investment focused. The Fund will continue work on this basis and avoid crystallising any losses from the short-term events.

## STRATEGIC ASSET ALLOCATION 30 JUNE 2020

### Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	390,458	49.8	40.0	9.8	15-85
Emerging Market Equities	81,212	10.3	10.0	0.3	0-20
Diversified Growth Fund	67,471	8.6	10.0	-1.4	0-20
Property	23,658	3.0	5.0	-2.0	0-10
Private Credit	22,719	2.9	7.5	-4.6	0-10
Infrastructure	35,986	4.6	7.5	-2.9	0-15
Bonds	91,386	11.6	10.0	1.6	0-30
Multi Asset Credit	67,362	8.6	10.0	-1.4	0-20
Cash	4,555	0.6	0.0	0.6	-
<b>TOTAL MERTON PENSION FUND</b>	<b>784,807</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

- 2.4 The following graph illustrates the Fund's market value trend over the past 5 years and as at 30 June 2020. It shows that in this period the Fund value has appreciated by £256m or 33%.





### **3.0 Market Background/Outlook**

- 3.1 The second quarter of 2020 saw a strong recovery for global equity markets. Governments, including the US, China Germany and the UK implemented larger financial fiscal stimulus packages towards the end of the Q1 2020 in response to the Covid-19 pandemic. Stimulus measures taken by the central banks across the globe proved to be a large support to their respective economies. This was against the backdrop of growth slowdown and sell offs earlier this year caused by the pandemic.
- 3.2 The property market continued to struggle in the second quarter of 2020 with the pandemic inducing a decelerating of capital and rental values.

### **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

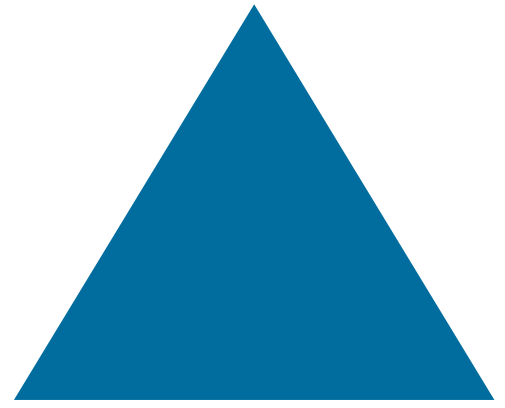
### **8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.1 Risk management is an integral part of designing the investment portfolio of the fund.

### **9. BACKGROUND PAPERS**

- 9.1 Mercer Investment Consultants performance report.

This page is intentionally left blank



**MERTON PENSION FUND**  
**INVESTMENT PERFORMANCE REVIEW**  
**QUARTER ENDING 30 JUNE 2020**

**SHORT REPORT**



# STRATEGIC ASSET ALLOCATION

## 30 JUNE 2020

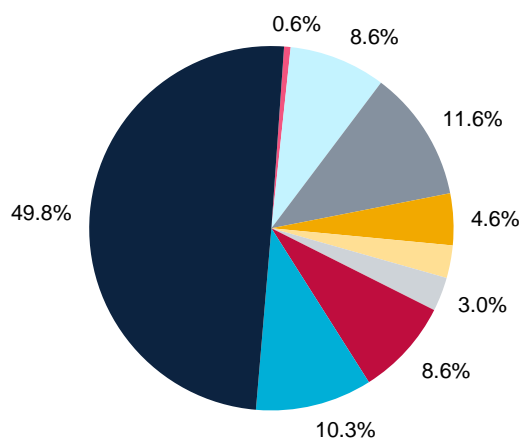
### Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	390,458	49.8	40.0	9.8	15-85
Emerging Market Equities	81,212	10.3	10.0	0.3	0-20
Diversified Growth Fund	67,471	8.6	10.0	-1.4	0-20
Property	23,658	3.0	5.0	-2.0	0-10
Private Credit	22,719	2.9	7.5	-4.6	0-10
Infrastructure	35,986	4.6	7.5	-2.9	0-15
Bonds	91,386	11.6	10.0	1.6	0-30
Multi Asset Credit	67,362	8.6	10.0	-1.4	0-20
Cash	4,555	0.6	0.0	0.6	-
<b>TOTAL MERTON PENSION FUND</b>	<b>784,807</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

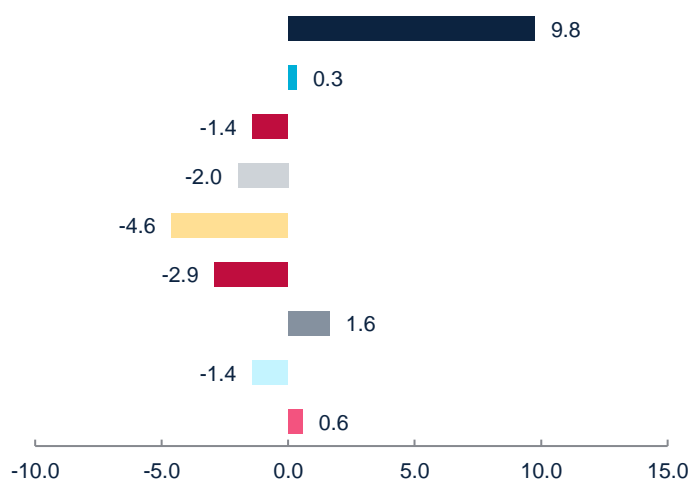
### Points to note

- 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, in particular the less liquid ones such as private credit and infrastructure, will be under or overweight for an interim period until the portfolio is fully constructed.
- The allocation to Global Equities increased by c.2% to 49.8% over the quarter, thereby being 9.8% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions the remaining c.£55.4m from UBS Passive Equity to Private Credit and Infrastructure.

### Actual Asset Allocation as at 30 June 2020



### Deviation from Strategic Allocation (%)



Note: Totals may not sum due to rounding.

# VALUATION SUMMARY

## 31 MAR 2020 TO 30 JUN 2020

Manager / Fund	31 March 2020				30 June 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,116	7.6	-7,000	10,309	55,425	7.1
UBS Alternative Beta	66,021	9.6	-	10,510	76,531	9.8
LCIV RBC Sustainable Equity Fund	71,357	10.4	-	16,347	87,704	11.2
LCIV Global Alpha Growth Fund	70,161	10.2	-	19,606	89,767	11.4
BlackRock World Low Carbon Equity Tracker Fund	68,529	10.0	-	12,502	81,031	10.3
<b>Global Equities</b>	<b>328,185</b>	<b>47.7</b>			<b>390,458</b>	<b>49.8</b>
UBS HALO EM Fund	41,305	6.0	-	8,685	49,990	6.4
LCIV Emerging Market Equity Fund	25,753	3.7	-	5,469	31,222	4.0
<b>Emerging Market Equities</b>	<b>67,058</b>	<b>9.7</b>			<b>81,212</b>	<b>10.3</b>
LCIV Global Total Return Fund	32,909	4.8	-	2,024	34,933	4.4
LCIV Diversified Growth Fund	30,019	4.4	-	2,519	32,538	4.1
<b>Diversified Growth Fund</b>	<b>62,928</b>	<b>9.1</b>			<b>67,471</b>	<b>8.6</b>
UBS Triton Property Unit Trust	16,834	2.4	-136	-443	16,255	2.1
BlackRock UK Property Fund	7,553	1.1	-	-150	7403	0.9
<b>Property</b>	<b>24,387</b>	<b>3.5</b>			<b>23,658</b>	<b>3.0</b>
MIRA Infrastructure Global Solution II, L.P.*	11,657	1.7	-3,210	-	8,446	1.1
Quinbrook Low Carbon Power LP	7,292	1.1	-	1,411	8,703	1.1
JP Morgan Infrastructure Fund	18,863	2.7	-	-26	18,837	2.4
<b>Infrastructure</b>	<b>37,812</b>	<b>5.5</b>			<b>35,986</b>	<b>4.6</b>
Pemira Credit Solutions IV*	4,431	0.6	5,222	-	9,653	1.2
Churchill Middle Market Senior Loan Fund II	11,536	1.7	1,466	64	13,066	1.7
<b>Private Credit</b>	<b>15,967</b>	<b>2.3</b>			<b>22,719</b>	<b>2.9</b>
<b>Growth Assets</b>	<b>536,337</b>	<b>77.9</b>			<b>621,505</b>	<b>79.2</b>
Wells Fargo – RMF	88,960	12.9	-	2,426	91,386	11.6
<b>Bonds</b>	<b>88,960</b>	<b>12.9</b>			<b>91,386</b>	<b>11.6</b>
LCIV MAC Fund	59,756	8.7	-	7,606	67,362	8.6
<b>Multi Asset Credit</b>	<b>59,756</b>	<b>8.7</b>			<b>67,362</b>	<b>8.6</b>
<b>Stabilising Assets</b>	<b>148,716</b>	<b>21.6</b>			<b>158,747</b>	<b>20.2</b>
<b>Cash</b>	<b>3,596</b>	<b>0.5</b>	<b>958</b>	<b>-</b>	<b>4,555</b>	<b>0.6</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>688,649</b>	<b>100.0</b>	<b>-2,700</b>	<b>98,858</b>	<b>784,807</b>	<b>100.0</b>

NOTE: ESTIMATED INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO c.£1.125m.

\* Valuation as at 30.06.20 is based on the 31.03.20 valuation plus cashflows in Q2 2020. Valuation for 30.06.2020 was not available at the time of writing this report.

# PERFORMANCE SUMMARY

## PERIOD ENDING 30 JUNE 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	15.9	n/a	2.9	n/a	6.0	n/a
UBS Alternative Beta	16.0	15.8	2.7	2.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	23.0	19.8	9.4	5.9	n/a	n/a
LCIV Global Alpha Growth Fund	28.0	19.6	17.4	5.3	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	18.2	18.0	6.8	6.3	n/a	n/a
<b>Global Equities</b>						
UBS HALO EM Fund	20.8	21.0	-10.7	-15.4	n/a	n/a
LCIV Emerging Market Equity Fund	21.3	18.5	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	6.3	1.3	2.7	4.8	n/a	n/a
LCIV Diversified Growth Fund	8.3	0.9	-2.3	4.1	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		<i>9.7 / 11.5</i>		<i>0.6 / 2.1</i>		
<b>Diversified Growth Fund</b>		9.7		0.6		
UBS Triton Property Unit Trust	-1.9	-2.0	-1.7	-2.6	4.4	3.4
BlackRock UK Property Fund	-1.2	-2.0	-2.8	-2.6	3.3	3.4
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.	-	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	19.4	1.8	17.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-0.1	2.4	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Permira Credit Solutions IV	-	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	0.5	1.7	-0.9	7.0	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Wells Fargo - RMF	-6.4	-6.4	n/a	n/a	n/a	n/a
<b>Bonds</b>						
LCIV MAC Fund	12.7	1.2	-4.5	4.9	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		<i>10.2 / 11.7</i>		<i>-0.7 / 2.2</i>		
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>						
<b>Strategic Target (4.8% p.a.)</b>		<b>1.2</b>		<b>4.8</b>		<b>4.8</b>

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

\* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 year benchmark returns.

# MARKET BACKGROUND

## PERIOD ENDING 30 JUN 2020

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.2	-13.0	-1.6
Overseas Developed	19.9	6.5	8.8
North America	21.9	10.9	12.5
Europe (ex UK)	18.9	0.7	3.8
Japan	12.2	6.8	4.9
Asia Pacific (ex Japan)	21.6	-5.4	2.2
Emerging Markets	18.9	-0.4	4.6
Frontier Markets	17.5	-25.1	-8.2
Hedge Funds**	6.2	-0.7	2.1
Commodities**	11.0	-35.6	-10.8
High Yield**	11.0	-1.5	1.8
Emerging Market Debt	10.2	0.1	2.8
Senior Secured Loans**	10.8	-2.0	0.8
Cash	0.2	0.8	0.7

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	3.9	19.8	10.2
Index-Linked Gilts (>5 yrs)	11.5	11.9	7.6
Corporate Bonds (>15 yrs AA)	16.3	17.0	8.9
Non-Gilts (>15 yrs)	13.3	13.9	7.7

Exchange Rates (GBP)			
Against US Dollar	-0.4	-2.9	-1.7
Against Euro	-2.7	-1.6	-1.1
Against Yen	-0.4	-2.8	-3.0

Inflation Indices			
Price Inflation – RPI	0.0	1.1	2.4
Price Inflation – CPI	0.0	0.6	1.7
Earnings Inflation*	-0.9	-0.1	2.1

Yields as at 30 June 2020	% p.a.
UK Equities	4.66
UK Gilts (>15 yrs)	0.58
Real Yield (>5 yrs ILG)	-2.38
Corporate Bonds (>15 yrs AA)	1.45
Non-Gilts (>15 yrs)	2.07

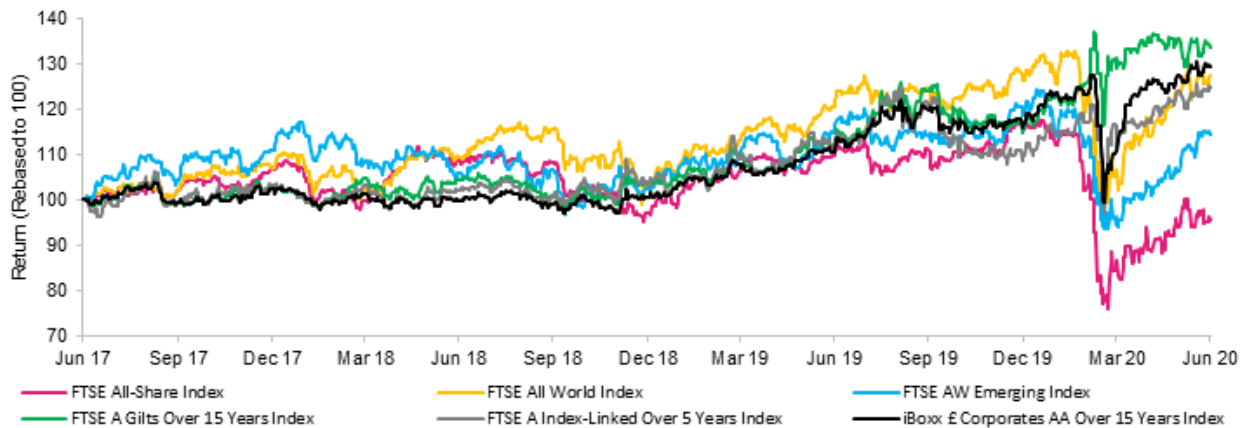
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.87	0.53	1.05
UK Gilts (>15 yrs)	-0.17	-0.82	-1.22
Real Yield (>5 yrs ILG)	-0.46	-0.49	-0.81
Corporate Bonds (>15 yrs AA)	-0.86	-0.80	-1.11
Non-Gilts (>15 yrs)	-0.74	-0.71	-0.87

Source: Refinitiv

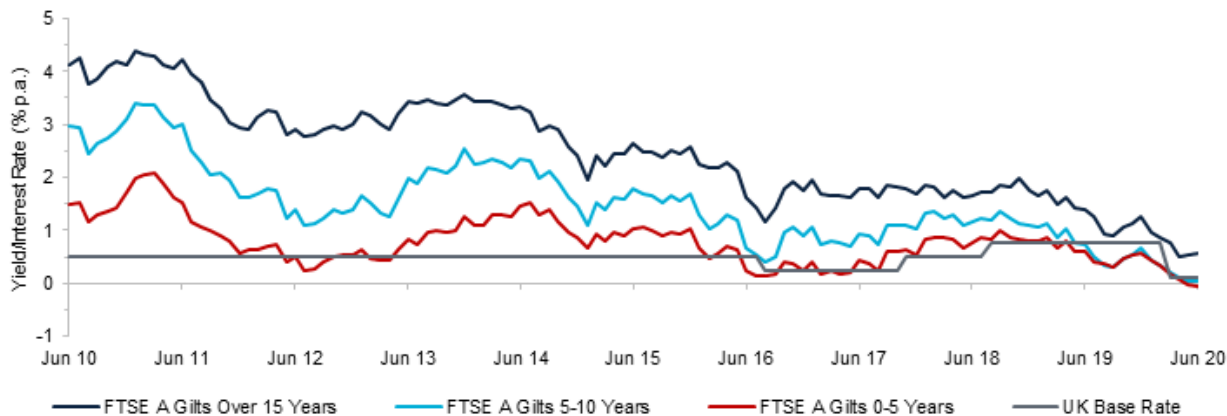
Note: \* Subject to 1 month lag \*\* Local Currency / GBP Hedged

# MARKET SUMMARY CHARTS

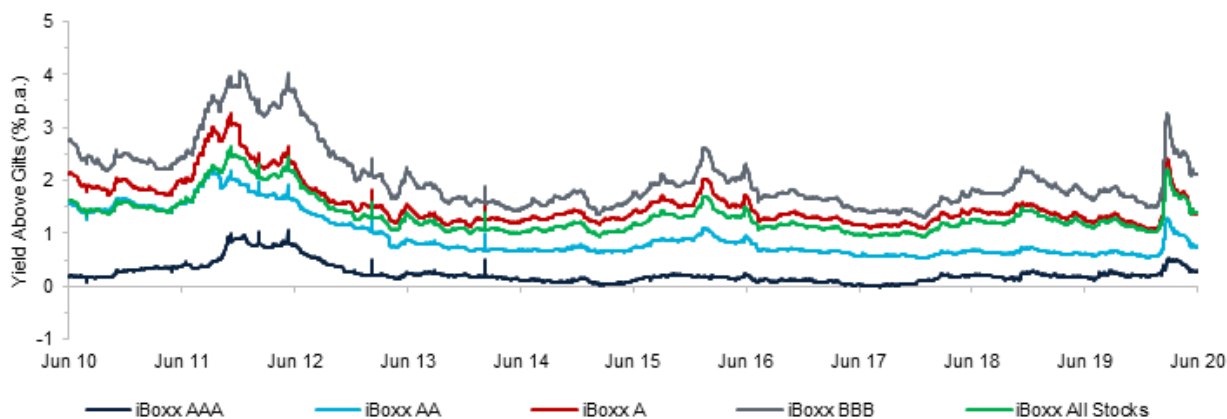
## Market performance – 3 years to 30 June 2020



## UK government bond yields – 10 years to 30 June 2020



## Corporate bond spreads above government bonds – 10 years to 30 June 2020



Source: Refinitiv



# MARKET EVENTS

What is Happening?		
Asset Class	Positive Factors	Negative Factors
<b>United Kingdom</b>	<ul style="list-style-type: none"> <li>The FTSE 100 index posted its highest quarterly returns in over a decade as it joined in the global equity market rally following the collapse in markets in the first quarter.</li> </ul>	<ul style="list-style-type: none"> <li>Dividend pay-outs have dropped to their lowest level since 2014, as UK businesses struggle to protect their balance sheets from the financial impact of COVID-19.</li> </ul>
<b>North America</b>	<ul style="list-style-type: none"> <li>The S&amp;P 500 index gained more than 20% in Q2 2020, posting the largest gain since Q4 1998. Stimulus measures announced by central banks around the world, including a series of interventions by the US Federal Reserve boosted investor sentiment.</li> </ul>	<ul style="list-style-type: none"> <li>The near term outlook remains uncertain due to rising unemployment, strained relations with China and the emergence of a second wave of COVID-19 infections.</li> </ul>
<b>Europe (ex UK)</b>	<ul style="list-style-type: none"> <li>The FTSE AW Dev Europe (ex UK) Index rose 12.2% in Q2 2020. The European Central Bank (ECB) announced an unprecedented Euro 750bn stimulus package in a bid to mitigate the economic impact of COVID-19.</li> </ul>	
<b>Japan</b>	<ul style="list-style-type: none"> <li>Despite a rise in COVID-19 cases globally, Japanese equities performed positively over the quarter. The TOPIX returned 11.7% in GBP terms.</li> </ul>	
<b>Asia Pacific (ex Japan)</b>	<ul style="list-style-type: none"> <li>The FTSE AW Dev Asia Pacific (ex-Japan) Index posted positive returns of 21.1%, outperforming the FTSE All-World Index. Markets were supported by fresh stimulus extended by major governments and steady reopening of economies coming out of lockdowns. Hopes of recovery in global demand and lower oil prices helped overall outperformance.</li> </ul>	<ul style="list-style-type: none"> <li>No definite timelines for COVID-19 vaccines, fear of a 'Second Wave' and deteriorating Sino-US relations are likely to add to market volatility in near future.</li> </ul>

## What is Happening?

Asset Class	Positive Factors	Negative Factors
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>Emerging Market (EM) equities rebounded significantly in the second quarter of 2020 (the MSCI EM Index returned 18.1% in USD terms) with a modest recovery in capital flows witnessed during the quarter. Chinese stocks were the biggest contributors to the index as the country's business activity recovered steadily. Monetary policies adopted by EM central banks helped support their respective economies.</li> </ul>	<ul style="list-style-type: none"> <li>COVID-19 infection rates continue to rise in many emerging countries, hurting optimism over a smooth unlock in the region. Weak healthcare and financing aids have been major risks for the region resulting in a slower growth recovery rate and increased market volatility.</li> </ul>
<b>Conventional Gilts</b>	<ul style="list-style-type: none"> <li>UK nominal gilts performed well as yields fell over the quarter.</li> <li>Globally, government bond yields fell due to the monetary policy measures undertaken amidst concerns over the economic impact of the COVID-19 pandemic. Additionally, the increased demand for liquid assets supported this asset class.</li> <li>Demand for UK nominal gilts outstripped the increased bond supply. Consequently, yields at the shorter end of the curve entered negative territory.</li> </ul>	
<b>Index-Linked Gilts</b>	<ul style="list-style-type: none"> <li>UK index-linked gilts performed well as yields fell over the quarter. UK index-linked yields fell more than the UK nominal yields due to an increase in inflation expectations, notably beyond the shorter end of the curve.</li> </ul>	
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>UK corporate bonds generated positive returns over the quarter due to a fall in gilt yields and narrower credit spreads.</li> <li>The UK government and central bank announced a number of fiscal and monetary measures to provide support to businesses that have been adversely impacted by the COVID-19 pandemic.</li> </ul>	

## What is Happening?

Asset Class	Positive Factors	Negative Factors
<b>Commodities</b>	<ul style="list-style-type: none"> <li>The S&amp;P GSCI Index rallied in Q2 2020, recovering some of the ground lost in Q1 (amidst the COVID-19 pandemic), aided by US dollar weakness. The energy component posted a sharp gain, as OPEC and Russia agreed to make temporary production cuts. Precious metals posted a gain despite a fall in Palladium prices.</li> </ul>	<ul style="list-style-type: none"> <li>Energy prices encountered very sharp falls as economic activity around the globe came to a standstill as a result of the ongoing COVID-19 pandemic, and this was exacerbated by disagreement between OPEC members about production. WTI and Brent Crude Prices plunged with Natural Gas declining to its lowest level since 2000.</li> </ul>
<b>UK Property</b>		<ul style="list-style-type: none"> <li>In Q2 2020, the IHS Markit/CIPS UK construction purchasing managers' index (PMI) fell to 30.8, significantly lower than the crucial 50-point threshold level. The construction PMI dropped to 8.2 in April which was the lowest since the PMI survey began 23 years ago. However, in May and June, the construction PMI pared back some of the loss and rose to 28.9 and 55.3 respectively. Reopening of the UK construction supply chain had helped to ease the downturn in UK construction output. Nevertheless, construction companies continued to face challenges in securing new work against an unfavourable economic backdrop.</li> </ul>

## **CONTACT**

**ANIKET BHADURI**

Director

+44 (0)207 895 7773

aniket.bhaduri@mercer.com

**ROSS PALMER**

Senior Associate

+44 (0)1483 777 447

ross.palmer@mercer.com

Whilst all reasonable care has been taken in the preparation of this presentation no liability is accepted under any circumstances by Mercer or Jardine Lloyd Thompson for any loss or damage occurring as a result of reliance on any statement, opinion, or any error or omission contained herein. Any statement or opinion unless otherwise states should not be construed as independent research and reflects our understanding of current or proposed legislation and regulation which may change without notice. The content of this document should not be regarded as specific advice in relation to the matters addressed.

Services provided by Mercer, a trading name of JLT Benefit Solutions Limited, which is authorised and regulated by the Financial Conduct Authority. JLT is part of Mercer, a Marsh & McLennan company. Registered Office: The St Botolph Building, 138 Houndsditch, London EC3A 7AW. Registered in England No 02240496. VAT NO. 244 2517

79

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

## **Committee:**

**London Borough of Merton Pension Committee**

**Date: 10 September 2020**

**London Borough of Merton Pension Board**

Wards: All

**Subject: Merton Pension Fund – 2019/20 statement of accounts and the annual report**

**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:**

A. Members are asked to note the content of this report and approve the attached.

- (1) Merton Pension Fund Financial Statements and Annual Report 2019/20 - Appendix 1.
  - (2) Note the Letter of Representation as set out in Appendix 1.
  - (3) Note the External Auditor's Report as set out in Appendix 1.
- 

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

1.1. This report presents to Committee the Merton Pension Fund's Annual Report and the Auditor Report for the year-ended 31 March 2020.

## **2 DETAILS**

- 2.1. The Council's external auditors Ernst & Young (EY) have completed the major part of their annual audit into the Pension Fund and are likely to provide an unqualified opinion as long as all the remaining testing is satisfactory.
- 2.2. The audit report will be presented by EY at the Pension Fund Advisory Committee (PFAC) on the 10 September 2020 and will be signed off after presenting to the General Purpose Committee on the 22 September 2020.
- 2.3. The Annual Report will be published on the Councils website following the audit sign off with the audit opinion on the pension fund statement of accounts. The deadline to publish the Annual Report is 1 December 2020.

- 2.4. This report presents the audit report to the 2019/20 Annual Pension Fund Report and the Statement of Accounts. The Statement of Accounts has been prepared in accordance with The 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and CIPFA guidance on Accounting for Local Government Pension Scheme.
- 2.5. The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance, and helps to demonstrate effective management of Fund assets.
- 2.6. The accounts comprise two main statements with supporting notes. The main statements are:
- Dealings with Members, Employers and Others, which is essentially the fund's revenue account
  - The Net Assets Statement, which can be considered as the funds balance sheet
- 2.7. Due to the impact of the COVID-19 pandemic the fund lost the value it had gained throughout the year and showed a net asset value of £689m (March 2019 £721m)
- 2.8. In 2019/20, the Fund recorded a total income of £50.7m. From which, £37.7m was from dealings with members and £13m from investment income. The council is the administering authority and the major employer (92%) of the Fund and in the year made a total employer and employee contribution of £22.7m.
- 2.9. In 2019/20 the Fund's total expenditure was £33.9m, with the major expenditure being benefit payments to the members of £32.2m.
- 2.10. Overall, Fund membership increased marginally. As at 31 March 2020, the Fund has 4,341 active members, 5,960 deferred and 4,017 pensioners.

### **3 ALTERNATIVE OPTIONS**

- 3.1. None

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. Not Applicable

### **5 TIMETABLE**

- 5.1. Audit time table as published on the audit plan

### **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1. The standard audit fee of £16.1k plus there will be an additional changes for the enhanced testing onto the triannual valuation and currency hedging put in place.

### **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. None

### **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. None



**9 CRIME AND DISORDER IMPLICATIONS**

9.1. None

**10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

10.1. None

**11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Draft Annual Report
- The Audit report from EY

**12 BACKGROUND PAPERS**

12.1. None

This page is intentionally left blank

# Merton Pension Fund Audit results report

Year ended 31 March 2020

27 August 2020

Page 25

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world



London Borough of Merton  
Pension Fund Advisory Panel

27 August 2020

Dear Panel members

We are pleased to attach our audit results report for the forthcoming meeting of the Pension Fund Advisory Panel. This report summarises our preliminary audit conclusion in relation to the audit of the Merton Pension Fund (the Fund) for 2019/20. We will issue an updated report for the Standards and General Purposes Committee meeting on 22 September 2020.

At the date of this report our audit of the Fund's accounts for the year ended 31 March 2020 remains in progress. However, subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 7, as per our update to the Standards and General Purposes Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion.

This report is intended solely for the use of the Pension Fund Advisory Panel and Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Panel meeting on 10 September 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

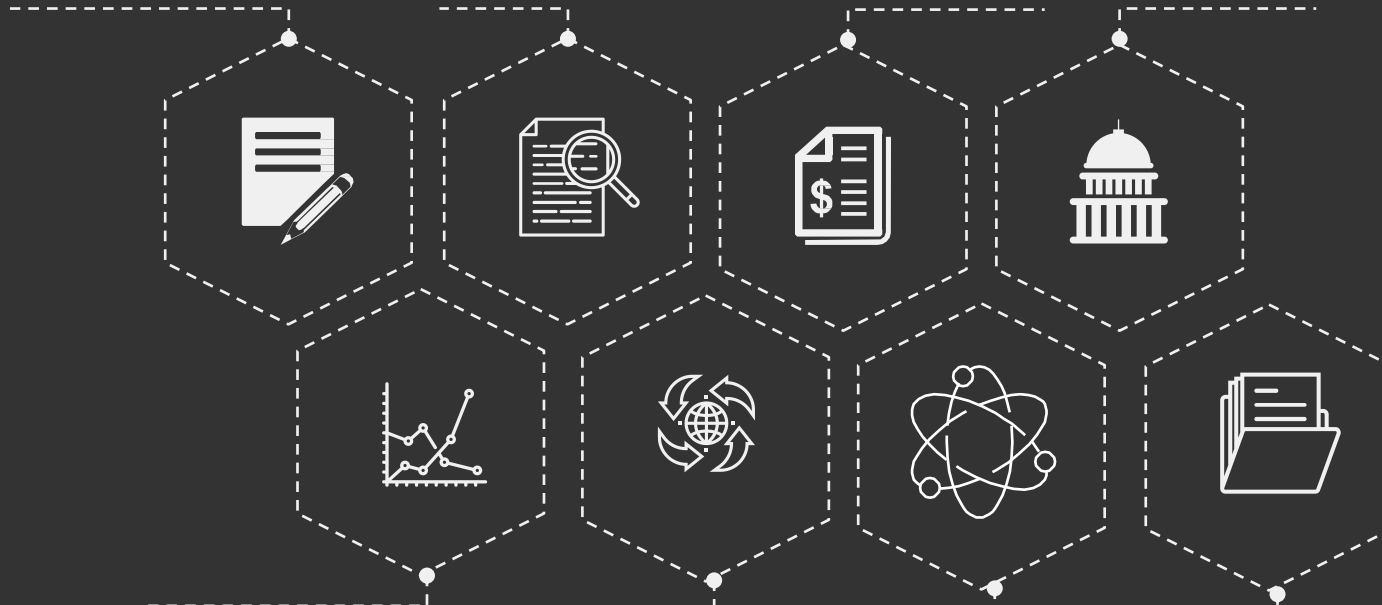
# Contents

**01** Executive Summary

**02** Areas of Audit Focus

**03** Audit Report

**04** Audit Differences



**05** Other reporting issues

**06** Assessment of Control Environment

**07** Independence

**08** Appendices

Page 27

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





01

# Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 12 March 2020 Standards and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions which we reported to the Committee in July 2020:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

▶ **Disclosures on Going Concern** - The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Fund's actual year end financial position and performance.

▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Fund.

▶ **Changes in materiality** - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£7.2m	£5.4m	£0.360m
Final	£6.9m	£5.2m	£0.345m

# Executive Summary

## Scope update (continued)

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

### **Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.**

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Fund and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 25.

## Status of the audit

We have substantially completed our audit of Merton Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Testing data relating to a sample of 75 fund members to inform our work on the triennial valuation.
- Reviewing the final version of the statements, which the Fund is updating for the most recent audited accounts for one investment.
- Consideration of post balance sheet events.
- Receipt and review of the management representation letter.

## Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to the classification of investment assets. We include further details in Section 4.



# Executive Summary

## Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error - Posting of investment journals	We have completed our testing and found no indications of management override of controls.
Risk of incorrect valuation and related accounting treatment in relation to the Fund's new currency hedge instrument	We have completed our testing, subject to review, and have nothing to report

Other area of audit focus	Findings & conclusions
Going concern <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 31</span>	<p>Note 2 of the draft accounts stated that they are prepared on a going concern basis but include no further disclosures.</p> <p>Following audit queries, the Fund prepared a going concern assessment and drafted an associated disclosure. We scrutinised the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Section 151 officer's response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. The Fund is currently 103% funded and has neutral cash flow with the majority of the investment income being reinvested into the respective investment for more growth.</p>
Post balance sheet events	<p>Note 6 of the draft accounts stated that there were no events after the balance sheet date.</p> <p>Following audit queries, the Fund has considered the impact of the Covid-19 pandemic on the valuation of its investment assets after the 31 March 2020. The Fund has now updated Note 6 to reflect the movements in asset values and reference to its focus on long term investments.</p> <p>We are satisfied with the revised Note 6.</p>

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

There are no other considerations or matters that could have an impact on these issues; and

You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.



## Executive Summary

---

### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

### Other reporting issues

We have no other matters to report.

### Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



# 02 Areas of Audit Focus



## Areas of Audit Focus

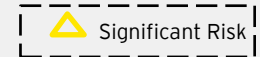
### Significant risk

#### Risk of manipulation of Investment income and valuation

##### What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.



Page 34

##### What did we do and what judgements did we focus on?

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- Reviewed accounting estimates for evidence of management bias,

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.



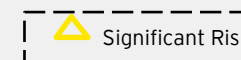
## Areas of Audit Focus

### Significant risk

#### Risk of incorrect valuation and related accounting treatment in relation to the Fund's new currency hedge instrument

##### What is the risk?

In December 2019 the Fund signed an agreement to enter into a US & Euro currency hedge. Based on our discussions with officers at the time we identified uncertainty over the valuation and accounting treatment of this new, unusual (relative to the fund's previous investment portfolios) and high value financial instrument which required the involvement of a third party to support management's valuation assertion and its accounting treatment in the 19/20 pension fund accounts.



##### What did we do and what judgements did we focus on?

Page 25  
Management needed to make judgements over the valuation of the instrument and its associated year end accounting treatment. We spent time in discussion with officers before the preparation of the accounts to understand the basis of the hedging instrument. However, at that stage officers were unclear of the full basis of valuation and accounting treatment. The draft accounts disclosed the instrument as 'overseas bonds'. However, on receipt of the year end valuation report for the £102m instrument we identified that it actually comprised of £25.8m cash (held by the fund manager), £69.8m fixed income equities (split £65.8m UK quoted and £4m overseas quoted) and £6.7m forward currency contract. Essentially, only the £6.7m classified as an level 3 investment. We used our derivative specialists to confirm the valuation of the £6.7m. The remaining investments of cash and quoted investments should be classified as level 1 investments and we were able to agree the valuation to quoted prices and confirmation with the fund manager of the cash held.

##### What are our conclusions?

The draft accounts incorrectly disclosed the classification of the investment. Officers have revised the accounts to reflect the appropriate accounting disclosure for the investment which comprises largely of quoted investments, cash held by the fund manager and a relatively smaller element which classifies as a forward currency contract.



## Areas of Audit Focus



### Going concern disclosure

There is presumption that the Fund will continue as a going concern. However, the current and future uncertainty presented by the Covid-19 pandemic increases the need for the Fund to undertake a going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, this year, for example, we have requested evidence of the going concern assessment up to and including around September / October 2021.

The draft accounts included a statement that the accounts had been prepared on a going concern basis. However, following audit enquiry the Fund carried out an assessment of the impact of the Covid-19 pandemic on its income, expenditure, investment assets, cashflow as well as considering the recent triennial valuation. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

The Fund's assessment focuses on the fact that the recent triennial valuation reported that it was 103% funded. The Fund's assessment also considered future cashflows and the potential impact of Covid-19. The Fund has asserted that it has neutral cash flow with the majority of the investment income being reinvested into the respective investment for more growth. The Fund has used its assessment to derive an additional disclosure around going concern at Note 2 of the accounts.

We have now reviewed the new going concern disclosure and are satisfied that it adequately reflects the Fund's assessment and informs the reader of the impact of the pandemic on the Fund.



### Post balance sheet events consideration and disclosure

The Covid-19 pandemic has had an ongoing impact on stock markets around the world. As a result, there is a need for the Fund to consider the current impact on investment asset values. The draft accounts at Note 6 stated that there were no post balance sheet events. Following audit enquiry, the Fund has now considered the ongoing impact of the pandemic on its asset values. The Fund has now included a revised Note 6 which we agree adequately reflects the non-adjusting movement in asset values since the 31 March 2020.





# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERTON PENSION FUND

##### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.





# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Responsibilities, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the members of Merton Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.



# 04 Audit Differences





## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

There were no uncorrected misstatements.

As outlined earlier in the report, the Fund has included additional disclosure in respect of going concern at Note 2 and events after the reporting date at Note 6. In addition, the Fund has agreed to make the following changes arising from the audit.

Item	Change
Note 14 - Investments	Change in total for Investments. Previously £690,156m should now be £684,822m due to latest information from Private Market investments (private debt and infrastructure investments).
Note 14.1 - Asset management arrangements	£150k relating to LCIV subscription should be included.
Note 14.2 - Analysis of investment assets and income	Reclassification of the currency hedge into its appropriate bond, derivative and cash classifications.
Note 14.3 - Reconciliation of movement in investments and derivatives	Change in market value: <ul style="list-style-type: none"> <li>- Infrastructure from £2.367m to £0.787m.</li> <li>- Pooled property from £0.787m to -£0.537m.</li> </ul>
Note 15 - Fair value - Basis of valuation	Splitting pooled properties between level 1 (£7.553m) and level 2 (£16.659m) .





## 05 Other reporting issues

## Other reporting issues

---

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We have yet to complete our audit of the LB Merton Statement of Accounts

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.





06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.





**07** Independence

# Independence

## Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Standards and General Purposes Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 22 September 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

## Page 18 Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan and subsequent reporting to the Standards and General Purposes Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee - Code work	16,170	<b>16,170</b>	16,170
Additional work and associated fees:			
New LCIV arrangements	-	-	2,000
New significant risk relating to US currency hedge (1)	2,250	1,000-5,000	-
Going concern and PBSE assessments and disclosures including EY consultations (2)	2,500-6,000	-	-
Work on the 2019 triennial valuation of the Fund (3)	5,000-9,000	TBC	-
<b>Total indicative Pension Fund fee</b>	<b>TBC</b>	<b>TBC</b>	<b>18,170</b>

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Director of Corporate Services and then PSAA.

1. We reported in the Audit Plan that the new significant risk would necessitate an additional fee. In light of the actual valuation, our additional input was less than anticipated but has led to changes to the disclosure of the new investment.
2. We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.
3. We reported in the Audit Plan that as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date. This work is in progress and we will quantify the final fee on completion.

## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
  - A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
  - A narrow list of permitted services where closely related to the audit and/or required by law or regulation
  - Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
  - Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
  - A requirement for the auditor to notify the Standards and General Purposes Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
  - A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)








Page 52

# 08 Appendices

## Appendix A

# Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - dated February 2020	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - dated February 2020	
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - September 2020	

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Merton Pension Fund's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - September 2020
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility.</li> </ul>	Audit Results Report - September 2020



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report - September 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> <li>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	Audit Plan - dated February 2020 and Audit Results Report - September 2020

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Details of any contingent fee arrangements for non-audit services</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report - September 2020

Page 56

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report - September 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report - September 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - September 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - dated February 2020 and Audit Results Report - September 2020

## EY | Assurance | Tax | Transactions | Consultancy

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2020 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)

# LONDON BOROUGH OF MERTON PENSION FUND



## ANNUAL REPORT 2019-20

<i>Merton Pension Fund Introduction</i>	6
<i>Statement of Responsibilities of the Pension Fund</i>	9
<i>Management and Advisors of the Fund</i>	10
<i>Risk Management</i>	12
<i>Financial Performance</i>	15
<i>Investment Policy and Performance</i>	17
<i>Pension Administration Report</i>	26
<i>Asset Pools</i>	30
<i>Actuary's Statement as at 31 March 2020</i>	33
<i>Pension Fund Accounts</i>	36
<i>Governance Arrangements</i>	63
<i>Governance Compliance Statement</i>	67
<i>Funding Strategy Statement</i>	68
<i>Investment Strategy Statement</i>	69
<i>Communications Policy</i>	70
<i>Independent Auditors Statement &amp; Report</i>	71

***Chair's Statement.***

Very best wishes,

**Councillor Owen Pritchard**

Chair- Merton Pension Fund Advisory Panel

## ***Merton Pension Fund Introduction***

The Merton Pension Fund is a Local Government Pension Scheme (LGPS) that provides defined benefit pensions to its members.

The Scheme is governed by the Public Service Pensions Act 2013 and 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) Regulations 2016.

The Regulations prescribe the content of the report and this report complies with these regulations.

The Local Government Pension Scheme (LGPS) provides defined benefit pensions determined by national regulations. The benefits are mandatory, and not subject to local amendment or Pension Fund performance and they are adjusted for inflation. The liability to pay these benefits, both currently and in future years is financed by employee and employer contributions and income from the investments of the Pension Fund.

The scheme has to be fully funded or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources.

Employee contribution rates are set by statutory regulations and therefore fixed. The employer contribution is determined, triennially, by an actuarial review that takes into account both the amount of employee contribution and the value and investment return of the Pension Fund. Thus the amount and performance of Pension Fund investment is significant to the level of the employer contribution, and supports the need for effective management of the Fund.



The London Borough of Merton is the administrating body and the main employer of the Fund, owning 92% of the Fund. The Fund also has other employers who provide services to the Council and/or to the Borough. There are currently 29 employers admitted to the Fund, these are made up of academies, housing associations and community admission bodies. As at 31 March 2020 the Fund had 14,318 total members. Being 4,341 active members; 5,960 deferred and 4,017 pensioners. There are 17 employers currently contributing to the fund, as shown in the following table.

### Administering, Scheduled and Admitted Bodies as at 31 March 2020

#### Administering Body

- LB Merton

#### Scheduled Bodies

- Wimbledon and Putney Commons Conservators
- Harris Academy Merton
- Harris Academy Morden
- Harris Academy Primary
- Harris Academy Wimbledon
- St. Marks Academy
- Benedict Academy
- Park Community School
- CHAS
- Beecholme Academy
- Aragon
- Stanford Primary Academy
- Chapel Street

#### Admitted Bodies

- Greenwich Leisure
- Merton Priory Homes
- CATCH 22

As at 31 March 2020 the Fund net asset value was £689m. This showed a decrease of £32m from the previous year. The Fund Investments are managed by external

Fund managers who have been appointed through a rigorous selection process. Each quarter the Fund managers' performance is measured against the set benchmark to which they are held accountable. In the financial year 2019/20 the Fund had a total income of £51m and total expenditure of £34m.

The pension administration is managed by the Wandsworth pensions shared services.

## ***Statement of Responsibilities of the Pension Fund***

### The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For the Council, that officer is the Director of Corporate Services;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Pension Fund Advisory Panel has examined the Pension Fund accounts and annual report and authorised the Chairman of the General Purpose Committee to approve them on its behalf.

### The Responsibilities of the Director of Corporate Services.

The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records, which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other Irregularities.

**CAROLINE HOLLAND**

Director of Corporate Services

## ***Management and Advisors of the Fund***

Below is a list of the Pension Fund internal management contact, external managers and advisers.

### 1. Scheme Administrator (Section 151 Officer Local Government Act)

Caroline Holland,  
London Borough of Merton,  
Merton Civic Centre,  
Morden, Surrey, SM4 5DX

### 2. Investment Managers

Aberdeen Asset Management	BlackRock
UBS Asset Management	Quinbrook Infrastructure Partners
Macquarie	Churchill
JP Morgan	Permira
London Collective Investment Vehicle (LCIV)	

### 3. Custody

State Street Global Services	J.P. Morgan Custody Services
Northern Trust	BNP Paribas.

### 4. AVC Providers

Prudential PLC

### 5. Investment Adviser

JLT Employee Benefits

### 6. Fund Actuary

Barnett Waddingham LLP,

7. Legal Advisers

London Borough of Merton –Shared Legal Services

8. Bankers

Lloyds Bank Plc

9. Auditor

Ernst & Young LLP

10. Scheme Administration

Pensions Shared Service, London Borough of Wandsworth

11. Performance Monitoring and Analysis.

- JLT Employee Benefits
- Pensions & Investment Research Consultants Limited (PIRC Limited)

## ***Risk Management***

The risks to the sustainability and affordability of financing the Pension Scheme in its present form are apparent through actuarial and other advice. Triennial and interim actuarial reviews and the annual IAS26 report by the Fund's actuary, focus the governance process on the risks inherent in the mechanism of the scheme's financing; (i.e. the relationship between employee and employer contributions and the value and income of the Pension Fund.) Data obtained regarding risks allows those concerned with the Fund's governance and management to consider and take advice on how to mitigate them.

Risk in the Pension Fund can be broadly classified into two types:

1. Fund management risk considers the risk associated with investments, strategic risk and investment related regulations.
2. Administration risk includes the risk associated with Regulations and internal systems and processes.

In managing the Pension Fund, it is not possible to avoid risk, so the main focus is identifying, monitoring, controlling, managing, mitigating or transferring risk.

Assurance is sought over third party operations through the review of AAF01 /06 and SSAE16 reports of fund managers and custodians on an annual basis by Members of the Panel.

Third party risks such as late payment of contributions are managed through monthly monitoring of payment schedules and reconciliation of payments received.

Investment risk is managed through regular review of performance and against the investment strategy agreed by the Panel. The Fund also obtains on a need-by-need basis advice from professional advisers including JLT Employees Benefits, Barnet Waddingham LLP, and PIRC. The key risk areas and the means of mitigating them are as follows:

Type of Risk	Mitigation Details
<p><b>Financial Risk</b> The risk that investment strategy fails to produce the investment return assumed in funding strategy and actuarial assessment.</p>	<p>Investment asset allocation has been guided by an asset/liability modelling exercise, and consideration of the Authority’s tolerance of volatility in the employer contribution. Monitoring of the Fund’s investment allows any significant drift of allocations away from their target level and corrected where necessary. The Fund policy to diversify investment across a range of asset classes, sectors, markets, and investment managers, and to avoid excessive concentration of investment in any one stock or area.</p>
<p><b>Demographic Risk</b> The risk that a continuing improvement in mortality rates increases the Fund’s liabilities.</p>	<p>The general increase in life expectancy of 1 year, for all members of the Fund, will reduce the funding level by between 2% to 3%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.</p>
<p><b>Regulatory Risk</b> The risk of changes in the Regulations governing the Scheme or its tax status.</p>	<p>The Administering Authority monitors and participates in the consultation process for changes in Regulations and seeks advice from the Fund actuary, LGA, London CIV, PLSA and CIPFA on the financial implications of any proposed changes.</p>
<p><b>Governance Risk</b> The risk of structural changes in an individual employer’s membership or closure to new membership, or their financial stability, or their ceasing to exist without having fully funded their pension liabilities.</p>	<p>These risks are addressed by the Administering Authority maintaining adequate contact with the individual employers participating in the Fund, and ensuring that it has current information on their status. Scheduled and Admitted bodies considered a significant risk might be asked to provide an indemnity or performance bond. Costs incurred where contributions due are paid significantly later than expected can be recovered from the relevant employer.</p>



<p><b>Asset Security Risk</b> The risk of loss of investment assets or cash by fraud or negligence</p>	<p>The processing of investments is split between investment managers, who make decisions on the purchase and sale of investments, and separate, independent custodians who settle and pay investment transactions and receive proceeds.</p> <p>The Authority obtains AAF01/06 and SSAE16 audit reports (an in-depth audit examination of an organisation’s internal control) on its investment managers to ensure that they are handling the Authority’s investment affairs in a proper and secure manner; it also monitors the creditworthiness of the custodians that hold assets and cash.</p>
--	--

**Risk Register**

The risk register is a tool used to effectively identify, prioritise, manage and monitor risks associated with the Merton Pension Fund.

It assists the Fund by:

- identifying managed and unmanaged risks
- providing a systematic approach for managing risks
- implementing effective and efficient control
- identifying responsibilities
- identifying risks at the planning stage and monitoring the risks
- helping the Fund to achieve its objectives

The Pension Fund Risks are identified and managed as part of the Corporate Risk Register. The risk listed on the registered are reviewed and updated every quarter.

## Financial Performance

During the year, the Fund received £37.7m in contributions and transfers in and paid out £32.2m in benefits and payments to leavers. This showed a net addition of £5.5m from dealing with members. The fund accounted for £13.0m investment income in year.

### Analytical Review

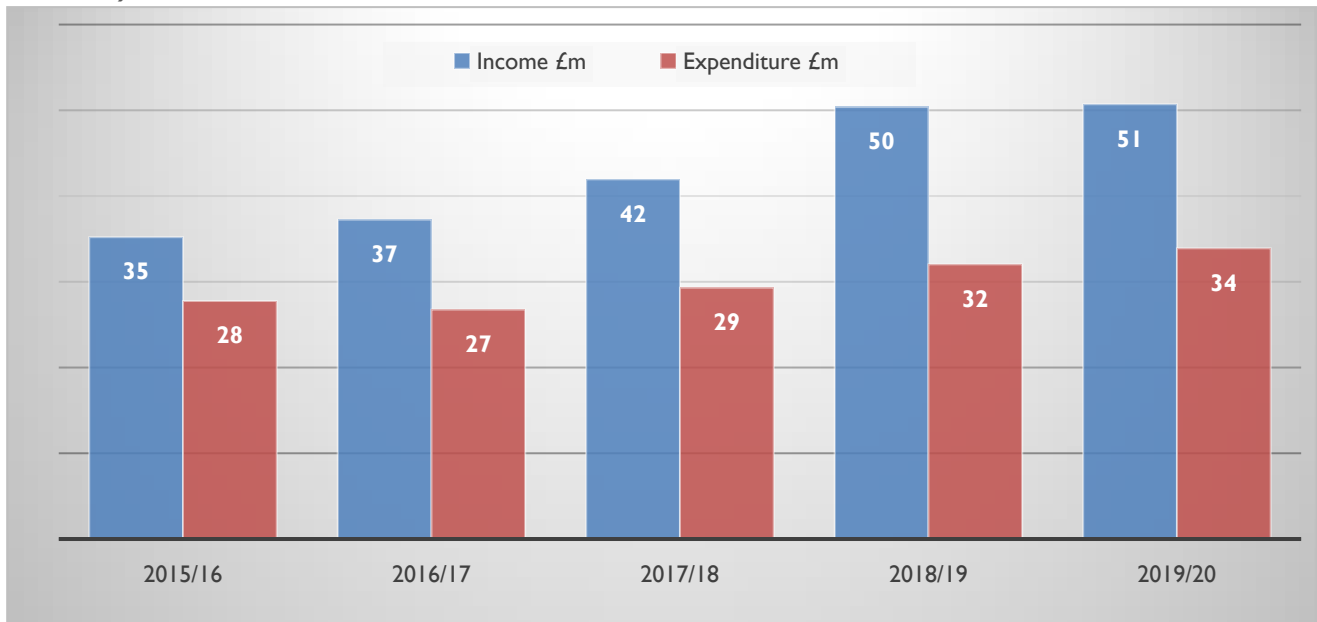
Fund Account	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Contributions Income	-24,139	-25,923	-29,493	-42,386	-37,738
Benefits paid	26,530	24,903	27,441	31,058	32,169
<b>Net Dealings with Members</b>	<b>2,391</b>	<b>-1,020</b>	<b>-2,052</b>	<b>-11,328</b>	<b>-5,569</b>
Management Expenses	1,230	1,854	1,869	1,133	1,701
Returns on Investments	-11,064	-11,326	-12,457	-8,014	-13,011
Change in Market Value	19,211	-109,202	4	-39,893	48,680
<b>Net (Increase)/Decrease in Fund</b>	<b>11,768</b>	<b>-119,694</b>	<b>-12,636</b>	<b>-58,102</b>	<b>31,801</b>

Overall member contributions have increased by 19.1% over the past five years. (01/04/2015 to 31/03/2020). This is due to a natural increase in employer and employees' contributions, bulk transfers and auto enrolment. The employers' contributions were reviewed and agreed as a part of the Fund's triennial valuation in 2016. The March 2019 valuation has recently been completed.

Over the 5 years there has been an increase in the Fund of £159m. This increase is primarily due to change in market and the implementation of the new diversified investment strategy in 2018.

The table below summaries the Fund's income and expenditure for the past five years to 2019/20.

**Pension Scheme Income and Expenditure for the past 5 years (including investment income)**



**Code of Transparency**

The LGPS Scheme Advisory Board has developed the Code of Transparency to assist LGPS funds in obtaining data they will require to report costs incurred by their investment funds

The Fund uses pooled investment vehicles for which it does not receive separate fee invoices but rather the fees are taken directly from the asset value of the fund so the code has helped to make identification of these fees easier. All fund managers provide a full breakdown of fees which are borne by the Fund.

## ***Investment Policy and Performance***

### **Introduction to Investment Policy**

The overall responsibility for the Pension Fund and its investment rests with the Council of the London Borough of Merton in its role as administering authority, which exercises this responsibility via the Pension Fund Advisory Panel, assisted by Merton Pension Board.

The investment objective is to achieve a fund value and investment performance that allows the actuarial assessment to determine a tolerably stable, minimised, employers' contribution.

Regulations require that the administering authority shall obtain and give regard to proper advice. It must also consider the appropriateness of investments and the need for diversification and management of risk.

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

Local Government Pension Scheme Regulations 2013 (The Regulations 7 (1)) requires administering authorities to formulate an investment strategy statement (ISS) Accordingly, administering authorities are required to prepare and maintain an Investment Strategy Statement (ISS) advising how their investment strategy has been determined and implemented in accordance with the Regulation 7 guidance including:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

- The authority's policy on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and,
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

# MERTON PENSION FUND ANNUAL REPORT 2019/20

## Performance summary – Period ending 31 March 2020

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	-15.6	n/a	-4.0	n/a	1.3	n/a
UBS – Alternative Beta	-16.0	-16.1	-4.4	-4.7	n/a	n/a
LCIV RBC Sustainable Equity Fund	-14.7	-15.7	-4.5	-5.8	n/a	n/a
LCIV Global Alpha Growth Fund	-13.2	-15.8	-1.3	-6.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	-14.6	-14.6	-1.1	-1.5	n/a	n/a
<b>Global Equities</b>						
UBS – HALO EM Fund	-18.1	-20.1	-9.3	-14.2	n/a	n/a
LCIV Emerging Market Equity Fund	-17.7	-18.4	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	-4.8	1.5	-2.3	6.5	n/a	n/a
LCIV Diversified Growth Fund	-14.1	1.0	-8.2	4.2	n/a	n/a
<b>Diversified Growth Fund</b>						
UBS Triton Property Unit Trust	-0.7	-1.3	0.9	0.0	6.1	4.9
BlackRock UK Property Fund	-2.5	-1.3	-1.2	0.0	4.4	4.9
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.	6.7	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	-13.0	1.8	-10.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	6.5	2.4	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Pemira Credit Solutions IV	-5.0	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	4.9	1.7	7.7	7.0	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Wells Fargo - RMF	-8.9	n/a	n/a	n/a	n/a	n/a
<b>Bonds</b>						
LCIV MAC Fund	-16.9	1.2	-13.8	4.9	n/a	n/a
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>						
	-12.5		-4.3		1.6	
Strategic Target (4.8% p.a.)	1.2		4.8		4.8	

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

\* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 year benchmark returns.

## Environmentally and Socially Responsible Investment and Governance

The Merton Pension Fund is committed to being a long-term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material Environmental, Social and Governance (ESG) factors within its investment analysis and decision making.

The Fund policy regarding ESG considerations is set out in the Responsible Investment Policy and addressed within the Investment Strategy Statement, available via the following link:

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

## Subscriptions to Supporting Organisations

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS Funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.

The Fund is also member of the Pensions and Lifetime Savings Association, which provides access to advisory, conference and training services.

## Fund Valuation

## MERTON PENSION FUND ANNUAL REPORT 2019/20

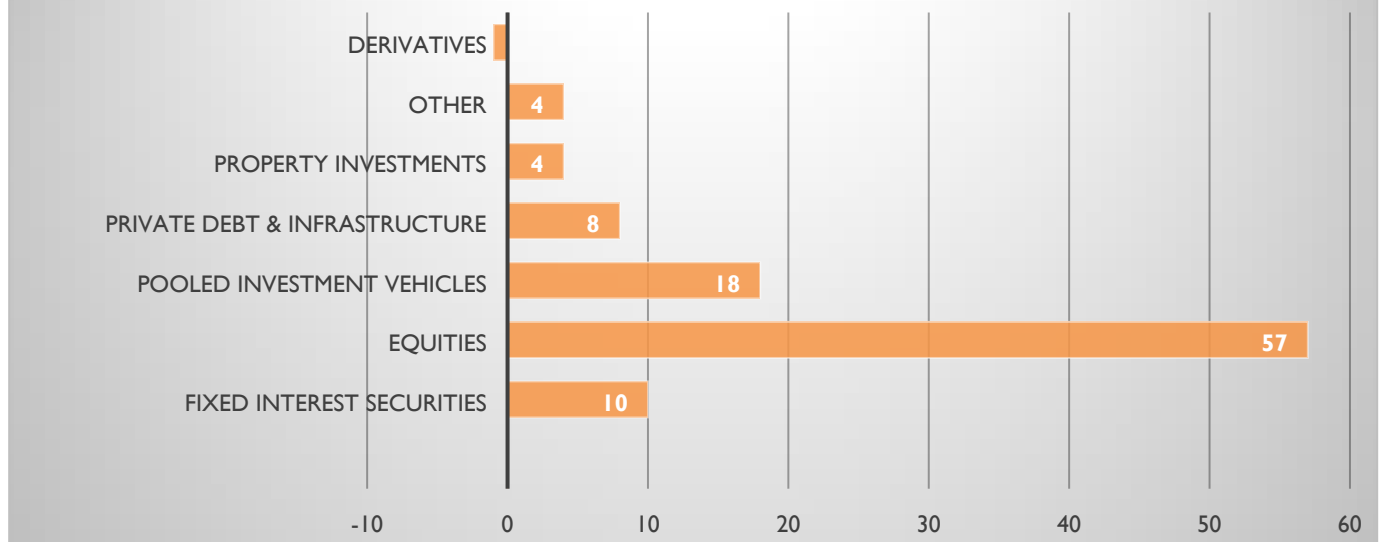
As at 31 March 2020, the value of the Fund was £689m a decrease of £32m on the value of the Fund from the previous year.

The change in the Fund value over the period is a combination of the net money flows into or out of the Fund, Investment Income received and any gain or loss on the capital value of the investments. The main types of investments and their value are shown below.

Net Asset Value	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Fixed Interest Securities	131	153	152	88	70
Equities	194	237	244	451	395
Pooled Investment Vehicles	180	233	236	136	123
Property Investments	21	21	23	24	24
Private Debt	0	0	0	3	16
Infrastructure	0	0	0	6	38
Derivatives	0	0	0	0	-7
Other	5	7	7	15	31
<b>Total Investment Assets</b>	<b>531</b>	<b>651</b>	<b>663</b>	<b>721</b>	<b>690</b>



### 2019-20 Percentage Asset Allocation



### Fund Managers Performance

The Fund's investments are managed by external fund managers in eight different asset classes. Fund managers are awarded active or passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast passive managers will buy and hold investments to replicate a market index.

The managers have full discretion and operate within agreed deadlines specified in the Investment Management Agreement (IMA) and in accordance with the Fund's Investment Strategy Statement to make investment decisions without referral to the Authority; provided that the activity and action are in compliance with the IMA.

The Council holds fund managers accountable for decisions on asset allocation within the benchmark under which they operate. Managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Panel meeting in discussion with the Investment Adviser and Officers, and they are called to a Panel meeting if there are issues that need to be addressed. Officers

meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above

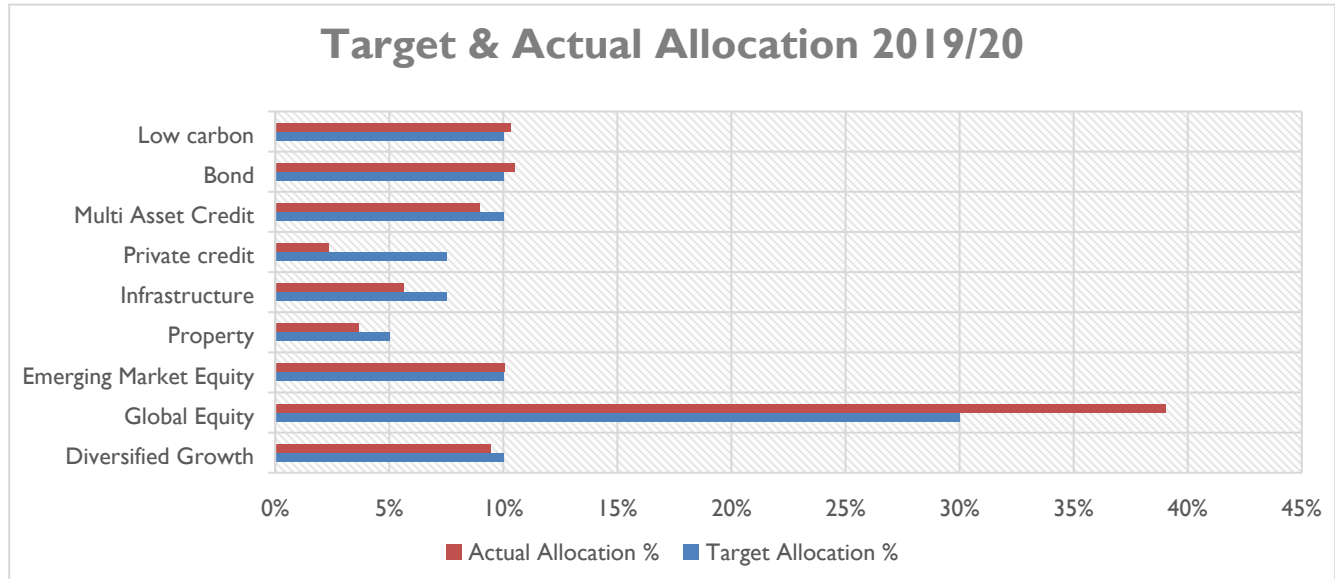
Over the 12 months to 31 March 2020, total Fund assets returned -4.3% compared to the target of 4.8%. This equates to underperformance by 9.9%. The Fund's total market value decreased by £32m over the quarter, from £721m to £689m.

The Funds 3 year annualised performance is 1.6% against a target of 4.8%.

PERFORMANCE SUMMARY 31 MARCH 2020

**Asset Allocation**

The Merton Pension Fund investment portfolio is a well-diversified portfolio and in 2019–20 the fund moved 92% of the assets on to the new strategies. It is important to note that 52% of the fund’s assets were transited on the LCIV pool. The Chart below shows the fund asset classes and the current allocation as at March 2020.



The actual asset allocation may fluctuate from the target allocations due to the relative movement of investment values in the markets, or because an investment manager believes that a marginally different allocation would, at a particular time, improve the Fund’s investment performance. Please find below the asset allocation by fund managers,

Actual Asset Allocation by Manager

Investment Manager	31-Mar		31-Mar	
	2019		2020	
	£000	%	£000	%
Aberdeen Asset Management	116617	16	7	0%
UBS Asset Management	222988	31	176181	26%
Blackrock (10% LCIV, 1% property)	78,321	11	76,197	11%
Baillie Gifford (LCIV)	103,991	15	100,180	14%
Pyrford (LCIV)	33,671	5	32,909	5%
RBC (LCIV)	74,694	11	71,358	10%
CQS (LCIV)	69,360	10	59,756	9%
JPM (LCIV)	0	0	25,753	4%
Quinbrook	4,389	1	7,339	1%
Macquarie	1,157	0	10,969	1.5%
Churchill	2,534	0	11,233	1.5%
JPM Infrastructure	0	0	19,445	3%
Permira	0	0	4,474	1%
Wells Fargo	0	0	88,961	13%
<b>Total Investment at Market Value</b>	<b>707,722</b>	<b>100</b>	<b>684,762</b>	<b>100%</b>

## Pension Administration Report

London Borough of Merton, as administering authority is responsible for administering the Pension Fund. The Council is currently in a shared service arrangement with London boroughs of Wandsworth & Richmond, Camden and Waltham Forest.

### Management Performance – Membership

5 Year Membership Data	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	% Change 16 to 20
Active Members	3,722	4,019	3,933	4,150	4,341	17%
Deferred Members	4,163	4,570	4,691	4,738	4,899	18%
Pensioner Members	3,615	3,725	3,849	3,926	4,017	11%
Frozen Refunds	532	669	803	854	1061	99%

Although there has been an increase in active members since 2016 both deferred and pensioner members continue to increase. Therefore, those drawing benefits or about to draw benefits are growing at a much faster rate than those contributing to the Fund.

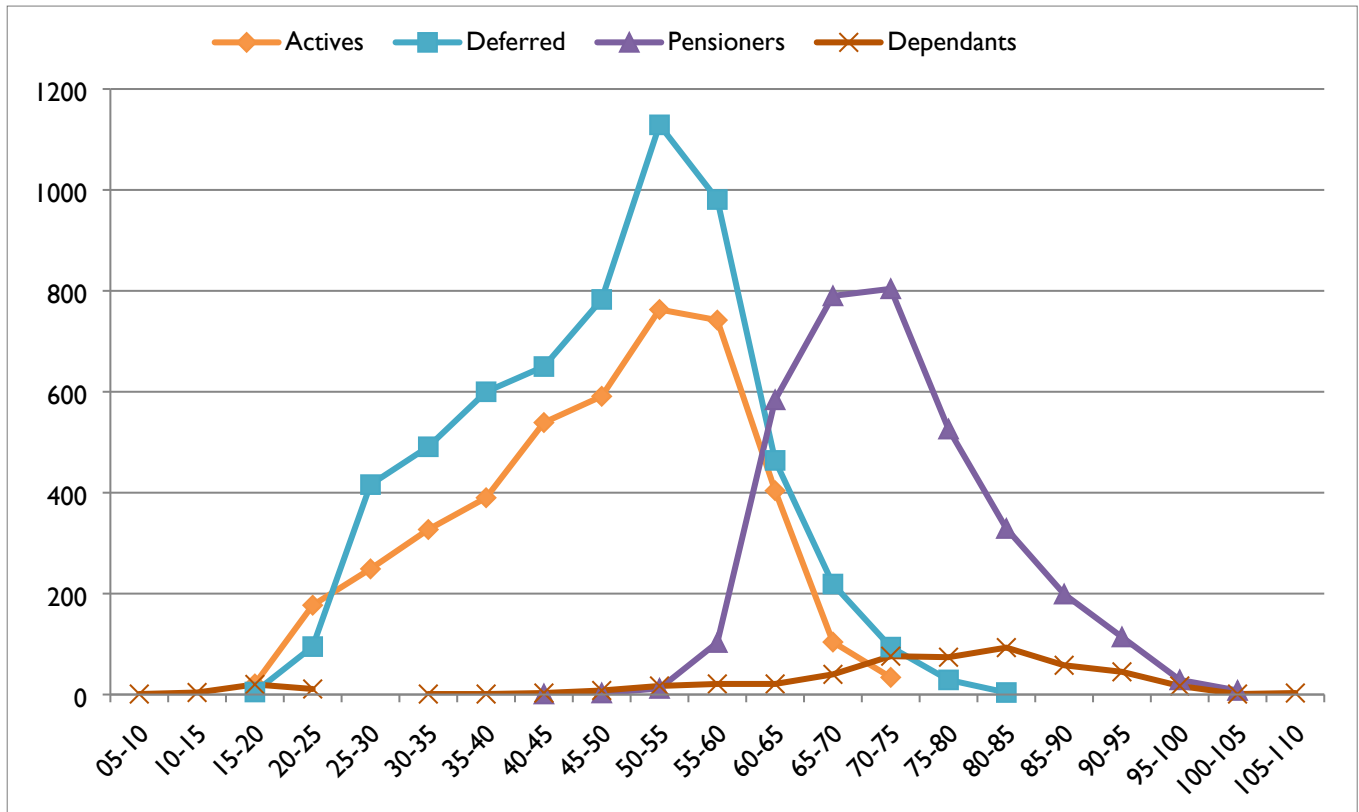
### Key Management Performance Indicators

The extent of compliance with key performance indicators is as follows:

Performance indicator	Target Response Time	2015/16	2016/17	2017/18	2018/19	2019/20
		%	%	%	%	%
Payment of Retirement Allowance	10 Days	92.21	89.42	97.69	96.92	99.74
Benefit Estimates	8 Days	95.31	96.82	99.72	97.05	97.87
Death Cases – First Letter	5 Days	97.92	81.16	79.37	91.45	85.44
Death Benefit Letters	5 Days	100.00	85.00	89.23	88.31	86.52
Onward Transfer Quotes	10 Days	100.00	80.00	80.77	85.27	90.86
Inward Transfer Quotes	10 Days	71.88	71.43	83.06	70.29	82.30

Age Profile /Longevity

The graph below provides an analysis in five-year bandings of active and deferred members, pensioners, widows and dependent’s. The graph shows that the age profile of members is conventional with the number of normal pensioners peaking at around 70yrs.



The average age of each category is indicated in the table below.

Category	Average age for category
Active Members	46 years 9 months
Deferred Members	48 years 0 month
Pensioners	72 years 5 months
Widows/Dependants	73 years 1 months

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31<sup>st</sup> March 2020 the assumed life expectancy from age 65 was as follows:

## MERTON PENSION FUND ANNUAL REPORT 2019/20

Life Expectancy from age 65 are		
Retiring March 2019	Males	21.4
	Females	24
Retiring in 20 years	Males	22.8
	Females	25.5

The actuary's analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer. Although life expectancy is assumed to be slightly less than in 2018.

### Pension Scheme Case Load

5 Year Case Type Analysis	March	March	March	March	March
	2016	2017	2018	2019	2020
Active members	3722	4020	3933	4149	4341
Retirements	94	68	87	71	60
Deaths	76	83	75	91	99
Transfers Received	29	26	92	73	79
Deferred Benefits	232	350	238	279	632
Transfers Paid	24	20	57	99	100
New Starters	365	664	614	544	902
Widows Benefits	22	30	18	36	29
Benefit Estimates	209	440	360	474	470
Redundancy Estimates	266	182	147	102	151
Transfer In Estimates	64	56	183	138	113
Transfer Out Estimates	40	60	104	129	186

Note: Estimates refer to cases where the member or the employer has requested a provisional calculation of the relevant benefit rather than the benefit event actually occurring.

Pension Scheme Case Load Trends

5 Year Analysis	March	March	March	March	March
	2016	2017	2018	2019	2020
% Retirement of active members (includes actual redundancies)	2.53	1.69	2.21	1.71	1.38
% Redundancy estimates of active members (not including bulk transfer)	7.15	4.53	3.74	2.46	3.48
% Change in Deferred Benefits	-20.27	50.86	-32.00	17.23	126.52
% Change in Redundancy Benefits (not including bulk transfers)	-20.45	-31.58	-19.23	-30.61	-0.84



## **Asset Pools**

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

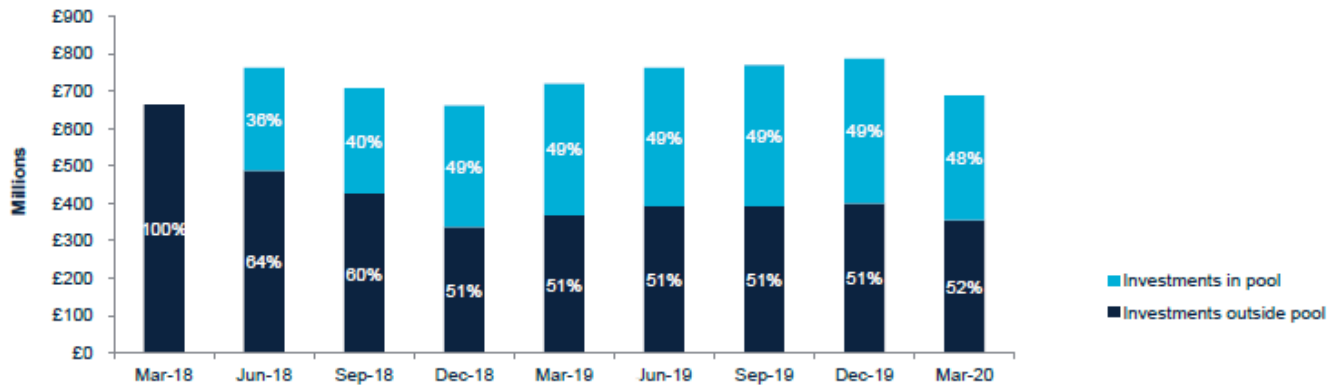
All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Merton made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016. Additionally, the Fund pays an annual service charge of £25k to support the work of the LCIV and a Development Funding Cost (DFC) of £85k as agreed in the LCIV AGM.

Establishment of the LCIV has significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with Merton Pension Fund.

The Fund had total LCIV holdings of £358m at 31 March 2020 accounting for 48% of total assets of the Pension Fund.

Proportion of Fund Allocated via LCIV



As a result of the transition to the new strategic asset allocations set out in the 2017 Strategy Review, the proportion of the Fund invested in the pool has remained broadly unchanged at 48% in Q1 2020.

Note that the BlackRock World Low Carbon Equity Tracker Fund has been classified as an LCIV fund.

The below table shows the LCIV sub funds held by Merton and their respective values as at 31 March 2020.

LCIV Valuation 31 March 2020

FUND	31 March 2020 £m
LCIV RBC Sustainable Equity Fund	71.36
LCIV Global Alpha Growth Fund	70.16
LCIV Emerging Markets	25.75
LCIV Global Total Return Fund	32.91
LCIV Diversified Growth Fund	30.02
LCIV MAC Fund	59.76
Blackrock World Low Carbon Equity Tracker Fund	68.53
<b>Total</b>	<b>358.48</b>

	31 March 2020 £m
LCIV RBC Sustainable Equity Fund	71.36
LCIV Global Alpha Growth Fund	70.16
LCIV Emerging Markets	25.75

## MERTON PENSION FUND ANNUAL REPORT 2019/20

LCIV Global Total Return Fund	32.91
LCIV Diversified Growth Fund	30.02
LCIV MAC Fund	59.76
Blackrock World Low Carbon Equity Tracker Fund	68.53
<b>Total</b>	<b>358.48</b>

## Actuary's Statement as at 31 March 2020

### Introduction

The last full triennial valuation of the London Borough of Merton Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

### 2019 valuation results

The 2019 valuation certified a primary rate of 19.0% of pensionable pay. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In addition, "secondary" contributions were required in order to target a fully funded position for the Fund's by no later than 31 March 2032. Some employers in the fund were in surplus at the 2019 valuation and so were certified with negative secondary contributions. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	-1.5%	-1.5%	-1.5%
Equivalent to total monetary amounts of	-£1,391,000	-£1,441,000	-£1,495,000

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period, details of which can be found in the formal report on the actuarial valuation dated March 2020.

### Contribution rates

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;

plus an amount to reflect each participating employer’s notional share of the Fund’s assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

**Asset value and funding level**

The smoothed market value of the Fund’s assets as at 31 March 2019 for valuation purposes was £718m which represented 103% of the Fund’s accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

**Assumptions**

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumption	31 March 2019
Discount rate	4.8% p.a.
Pension increases	2.6% p.a.
Salary increases	3.6% p.a.
Mortality	Members – S3PA Heavy tables with a multiplier of 110% for males and 105% for females and projected improvements in line with the 2018 CMI model allowing for an initial addition to improvements of 0.0% p.a., a long term rate of improvement of 1.25% p.a. and a smoothing parameter of 7.5 Dependants – S3DA tables with a multiplier of 70% for males and 80% for females and projected improvements in line with that of members
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

**Updated position since the 2019 valuation**

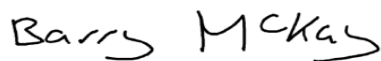
Returns were strong for the first three quarters following the valuation date; however, market movements in the final quarter have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were less than where they were projected to be based on the previous valuation.

The projected liabilities will have increased due to the accrual of new benefits net of benefits paid, but offset by lower levels of projected future inflation. However, the potential reduction in the value of the liabilities will be offset by lower expected future investment returns reflected in the discount rate underlying the valuation model.

On balance, we estimate that the funding position is likely to be slightly lower than the 2019 valuation position when compared on a consistent basis to 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.



**Barry McKay FFA**  
**Partner, Barnett Waddingham LLP**

## Pension Fund Accounts

2018/19 £000	Fund Account	Notes	2019/20 £000
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
(23,453)	Contributions	7	(24,910)
(18,933)	Transfers in	8	(12,828)
<b>(42,386)</b>	<b>Total Income</b>		<b>(37,738)</b>
25,816	Benefits	9	26,575
5,242	Payments to and on account of leavers	10	5,594
<b>31,058</b>	<b>Total Expenditure</b>		<b>32,169</b>
<b>(11,328)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(5,569)</b>
1,133	Management expenses	11	1,701
<b>(10,195)</b>	<b>Net (additions)/withdrawals including Fund management expenses</b>		<b>(3,868)</b>
	<b>Returns on investments</b>		
(8,021)	Investment income	12	(13,011)
7	Taxes on income	13	0
(39,893)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	48,680
<b>(47,907)</b>	<b>Net returns on investments</b>		<b>35,669</b>
<b>(58,102)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>31,801</b>
<b>(663,152)</b>	<b>Opening net assets of the scheme</b>		<b>(721,254)</b>
<b>(721,254)</b>	<b>Closing net assets of the scheme</b>		<b>(689,453)</b>

## Net Assets Statement

2018/19 £000		Notes	2019/20 £000
707,872	Investment assets	14	685,130
<b>707,872</b>	<b>Total Investments</b>		<b>685,130</b>
14,679	Current assets	20	5,662
(1,297)	Current liabilities	21	(1,339)
<b>721,254</b>	<b>Net assets of the Fund available to Fund benefits at period end</b>		<b>689,453</b>

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 (LGPS) and is administered by the London Borough of Merton (“the Authority”). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority 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 2016.

The Pension Fund Advisory Panel (PFAP) oversees and advises on investment of the Fund. This Panel 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 Public Service Pensions Act 2013 requires each Fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton’s Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAP. The Board has four members comprising two employers and two scheme member representatives.

#### (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 Authority. In addition to the Authority, the Admitted and Scheduled Bodies that currently contribute to the Fund are shown in the following table:



## MERTON PENSION FUND ANNUAL REPORT 2019/20

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> <li>• Greenwich Leisure</li> <li>• Merton Priory Homes</li> <li>• CATCH 22</li> </ul>	<ul style="list-style-type: none"> <li>• Wimbledon and Putney Commons Conservators</li> <li>• Harris Academy Merton</li> <li>• Harris Academy Morden</li> <li>• Harris Academy Primary</li> <li>• Harris Wimbledon</li> <li>• St Mark's Academy</li> <li>• Benedict Academy</li> <li>• Park Community School</li> <li>• CHAS (Contractors Health and Safety Assessment Scheme)</li> <li>• Beecholme Academy</li> <li>• Aragon Academy</li> <li>• Stanford Primary Academy</li> <li>• Chapel Street</li> </ul>

The following table summarises the membership numbers of the scheme.

2018/19		2019/20
	<b>Active Members</b>	
3,717	London borough of Merton	3,880
381	Scheduled bodies	415
52	Admitted bodies	46
<b>4,150</b>		<b>4,341</b>
	<b>Pensioners</b>	
3,643	London borough of Merton	3,715
164	Scheduled bodies	171
119	Admitted bodies	131
<b>3,926</b>		<b>4,017</b>
	<b>Deferred Pensioners</b>	
5,113	London borough of Merton	5,451
354	Scheduled bodies	390
125	Admitted bodies	119
<b>5,592</b>		<b>5,960</b>

### (c) Funding

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

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 31<sup>st</sup> March 2019. The employee contributions are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March

2019 (coming into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

#### **(d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

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 2019/20 financial year and its financial position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20', 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 accounts have been prepared on a going concern basis. The Merton Pension Fund is an open scheme with strong a covenant from the participating employers and therefore able to take a long term outlook when considering the general funding implications of external events.

The Fund was 103% funded at the 31 March 2019 valuation and remained the same as at 31 March 2020. The Fund is cash flow neutral with the majority of the investment income being reinvested into the respective investment for added growth. The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

### 3. Summary of Significant Accounting Policies

#### Fund account – revenue recognition

##### 3.1 Contribution Income

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).

Refund 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 to and from other schemes

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.

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.

The figure shown as investment income is made up of different types of income (dividend income for equity, interest income for bond and distributions for pooled investments).

#### Revenue account – expense items

##### 3.4 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.

### 3.5 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 LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

### 3.6 Management Expenses

The code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

#### (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 Authority'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.

### 3.7 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 1<sup>st</sup> December 2013.

### Net Asset Statement

#### 3.8 Investment Assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

### 3.9 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.

### 3.10 Foreign currency

All foreign currency investment transactions are converted into sterling at spot rate. The year end balances are converted using the 31<sup>st</sup> March rate to show the fair value of the investment.

### 3.11 Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

### 3.12 Cash and cash equivalents

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

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

The cash balance includes cash held by the Fund managers and within the Funds' bank account.

### 3.13 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).

### 3.14 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

### **3.15 Contingent Assets and Contingent Liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes

## **4. Critical Judgements in Applying Accounting Policies**

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

### **4.1 Pension Fund Liability**

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 2020 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

## MERTON PENSION FUND ANNUAL REPORT 2019/20

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 £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 yr. would decrease the obligation by £36.9m.  Mccloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.

### 6. Events After The Reporting Date

In March 2020 due to COVID19 pandemic the investments value dropped significantly but started to rise in April 2020. As at June 2020 the investments stands at £784.8m, showing an increase of 13.9% since March.

The Fund is an open fund and long term investment focused. The Fund will continue work on this basis and avoid crystallising any losses due to short term events.

### 7. Contributions Receivable

2018/19 £000	By Category	2019/20 £000
17,348	Employers	18,364
6,105	Members	6,546
<b>23,453</b>	<b>Total</b>	<b>24,910</b>

2018/19 £000	By Authority	2019/20 £000
21,371	Administering	22,680
1,609	Scheduled	1,829
473	Admitted	401
<b>23,453</b>	<b>Total</b>	<b>24,910</b>

## MERTON PENSION FUND ANNUAL REPORT 2019/20

2018/19 £000	By Type	2019/20 £000
13,570	Employers normal	14,415
6,044	Employees normal	6,546
3,620	Deficit Funding	3,709
219	Employers additional	240
<b>23,453</b>	<b>Total</b>	<b>24,910</b>

### 8. Transfers In From Other Pension Funds

2018/19 £000		2019/20 £000
4,523	Individual Transfers	3,165
14,410	Group Transfer	9,663
<b>18,933</b>	<b>Total</b>	<b>12,828</b>

**Note:** There were two group transfers in 2019/20 from Wansdworth. Legal Services transfer £3.4m. Regulatory Services transfer £6.3m.

### 9. Benefits Payable

2018/19 £000	By Category	2019/20 £000
21,548	Pensions	22,534
3,755	Commutations and lump sum retirement benefits	3,640
513	Lump sum death benefits	401
<b>25,816</b>	<b>Total</b>	<b>26,575</b>

2018/19 £000	By Authority	2019/20 £000
23,855	Administering	24,182
847	Scheduled	836
1,114	Admitted	1,557
<b>25,816</b>	<b>Total</b>	<b>26,575</b>

### 10. Payments to and on Account of Leavers

2018/19 £000		2019/20 £000
4,239	Individual transfers	5,461
843	Group transfers	0
112	Refunds of contribution	134
48	State scheme premiums	(1)
<b>5,242</b>	<b>Total</b>	<b>5,594</b>

### 11. Management Expenses



## MERTON PENSION FUND ANNUAL REPORT 2019/20

2018/19 £000		2019/20 £000
387	Administrative costs	632
434	Investment management expenses	654
312	Oversight and governance costs	415
<b>1,133</b>	<b>Total</b>	<b>1,701</b>

### 11a. Investment Management Expenses

2018/19 Fees Through E5 £000	2018/19 Fees deducted at source £000		2019/20 Fees Through E5 £000	2019/20 Fees deducted at source £000
424	961	Management fees	662	1,652
0	10	Performance related fees	0	11
10	0	Custody fees	(8)	0
0	75	Transaction costs	0	0
<b>434</b>	<b>1,046</b>	<b>Total</b>	<b>654</b>	<b>1,663</b>

**Note:** Fees deducted at source were calculated and deducted as part of the portfolio's daily Net Asset Value calculation.

### 12. Investment Income

2018/19 £000		2019/20 £000
1,054	Fixed income (Bonds)	629
3,361	Pooled equity investments	3,536
2,941	Pooled investments (Other)	1,691
803	Pooled property investments	890
0	Infrastructure	4,246
0	Private Debt	1,936
(138)	Other	83
<b>8,021</b>	<b>Total</b>	<b>13,011</b>

### 13. Taxes on Income

2018/19 £000		2019/20 £000
3	Non-recoverable tax	0
4	Withholding tax	0
<b>7</b>	<b>Total</b>	<b>0</b>

### 14. Investment

#### 14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value

## MERTON PENSION FUND ANNUAL REPORT 2019/20

of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2020

2018/19		Fund Manager	2019/20	
£000	%		£000	%
116,617	16	Aberdeen Asset Management	7	0
222,988	31	UBS Asset Management	176,181	25.7
78,321	11	Blackrock	76,107	11.1
103,991	15	Baillie Gifford (LCIV)	100,180	14.6
33,671	5	Pyrford (LCIV)	32,909	4.8
74,694	11	RBC (LCIV)	71,358	10.4
69,360	10	CQS (LCIV)	59,756	8.7
4,389	1	Quinbrook	7,339	1.1
1,157	0.2	Macquarie	11,277	1.7
2,534	0.4	Churchill	11,233	1.6
0	0	JPM Infrastructre	19,445	2.8
0	0	JPM Emerging Markets (LCIV)	25,753	3.8
0	0	Permira	4,474	0.7
0	0	Wells Fargo	88,961	13.0
150	0	LCIV Subscription	150	0
<b>707,872</b>	<b>100</b>	<b>Total</b>	<b>685,130</b>	<b>100</b>

### 14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2020 is shown in the following table.

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
	<b>Investment Assets</b>	
87,451	Fixed Income (bonds)	69,819
451,366	Pooled equity investments	395,323
135,955	Pooled investments (other)	122,684

MERTON PENSION FUND ANNUAL REPORT 2019/20

23,749	Pooled property investments	24,212
2,534	Private Debt	15,707
5,546	Infrastructure	37,687
0	Derivatives	(6,702)
991	Cash held with fund managers	25,851
129	Investment income due	399
<b>707,722</b>	<b>Total Investment Assets</b>	<b>684,980</b>
<b>0</b>	<b>Investment Liabilities</b>	<b>0</b>
<b>150</b>	<b>LCIV Subscription</b>	<b>150</b>
<b>707,872</b>	<b>Net investment assets</b>	<b>685,130</b>

### 14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2019/2020. 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.

	Market Value 1 April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the Year	Market Value 31 March 2020
	£000	£000	£000	£000	£000
<b>Bonds</b>	87,451	95,192	(87,451)	(25,373)	69,819
<b>Pooled Equity Investments</b>	0	33,225	0	362,098	395,323
<b>Pooled Investments Other</b>	587,322	1,691	(67,050)	(399,279)	122,684
<b>Private Debt</b>	8,080	13,388	0	(5,761)	15,707
<b>Infrastructure</b>	0	36,669	0	1,108	37,687
<b>Pooled Property</b>	23,749	1,000	0	(537)	24,212
	<b>706,602</b>	<b>181,165</b>	<b>(154,501)</b>	<b>(67,834)</b>	<b>665,432</b>
<b>Derivative Contracts</b>					
Forward Currency Contracts	0	0	0	(6,702)	(6,702)

**MERTON PENSION FUND ANNUAL REPORT 2019/20**

	706,602	180,083	(154,501)	(74,536)	658,730
<b>Other Investment Balances</b>					
Cash with Fund Managers	991			25,856	25,851
Investment Income Due	129				399
<b>External Investments at Market Value</b>	707,722				684,980
<b>LCIV Subscription</b>	150				150
<b>Investment Assets</b>	707,872			(48,679)	685,130

**Reconciliation of movements in investments and derivatives**

The table below shows the movement in the market value of investments held during the financial year 2018/2019.

	Market Value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the Year	Market Value 31 March 2019
	£000	£000	£000	£000	£000
<b>Bonds</b>	152,315	1,658	(68,960)	2,438	87,451
<b>Equities</b>	244,427	0	(244,427)	0	0
<b>Pooled Investments</b>	236,156	552,275	(238,696)	37,587	587,322
<b>Private Debt</b>	0	8,847	0	(767)	8,080
<b>Pooled Property</b>	22,896	218	0	635	23,749
	655,794	562,997	(552,083)	39,893	706,602
<b>Derivatives (Futures)</b>					
Future Asset	1,329	0	(1,329)	0	0
Future Liability	(1,348)	0	1,348	0	0
	655,775	562,997	(552,064)	39,893	706,602

MERTON PENSION FUND ANNUAL REPORT 2019/20

<b>Other Investment Balances</b>					
Cash with Fund Managers	2,829	0	0	0	991
Investment Income Due	1,434	0	0	0	129
<b>External Investments at Market Value</b>	<b>660,038</b>				<b>707,722</b>
<b>LCIV Subscription</b>	<b>150</b>				<b>150</b>
<b>Investment Assets</b>	<b>660,188</b>			<b>39,893</b>	<b>707,872</b>

#### 14.4 Detail Analysis of Investments

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

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
65,843	<b>Bonds</b>	
21,608	UK quoted	65,787
	Overseas quoted	4,032
<b>87,451</b>		<b>69,819</b>
0	<b>Pooled Investments</b>	
451,367	Emerging Markets (Equities)	67,058
66,595	Global Equities quoted	328,265
69,360	Diversified Growth	62,928
	Multi Asset Credit	59,756
<b>587,322</b>		<b>518,007</b>
7,918	<b>Pooled Property Investments</b>	
15,831	Property Managed Fund/Units quoted	7,553
	Property Managed Fund/Units unquoted	16,659
<b>23,749</b>		<b>24,212</b>

MERTON PENSION FUND ANNUAL REPORT 2019/20

	<b>Private Debt and Infrastructure</b>	
1,157	Macquarie	11,277
2,534	Churchill	11,233
4,389	Quinbrook	7,339
0	JPM	19,071
0	Permira	4,474
<b>8,080</b>		<b>53,394</b>
	<b>Derivatives</b>	
0	Forward Currency Contracts	(6,702)
129	Other Investment Balances	399
991	Cash with Fund Managers	25,851
<b>707,722</b>	<b>Total Investment Assets</b>	<b>684,980</b>
<b>150</b>	<b>LCIV Subscription</b>	<b>150</b>
<b>707,872</b>	<b>Total</b>	<b>685,130</b>

### 14.5 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2020.

### 14.6 Investments exceeding 5% of net assets

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

% Market Value 2018/19	Security	% Market Value 2019/20
7.2	Aberdeen Global II Index Linked	-
12.7	UBS Life World Equity Tracker	7.6

## 15. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
----------------------	---------------------	--------------------	------------------------------------	---

MERTON PENSION FUND ANNUAL REPORT 2019/20

Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments - Property Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012	Not required	Not required

### 15a Fair Value Hierarchy

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 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.

Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 – Where at least one input that could have a significant effect on the Instrument’s valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2019				31 March 2020		
Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000
674,922 1,120	23,749 0	8,080 0	Financial assets at fair value through profit and loss Loans and Receivables	588,827 26,250	16,659 0	53,394 0

MERTON PENSION FUND ANNUAL REPORT 2019/20

0	0	0	Financial liabilities at fair value through profit and loss	0	0	0
<b>676,042</b>	<b>23,749</b>	<b>8,080</b>	<b>Total</b>	<b>615,077</b>	<b>16,659</b>	<b>53,394</b>

## 16. Financial Instruments

### 16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2019				31 March 2020		
Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs		Designated at fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
			<b>Financial Assets</b>			
87,451	0	0	Bonds	69,819	0	0
587,321	0	0	Pooled Investments	518,007	0	0
23,749	0	0	Pooled Property Investments	24,212	0	0
8,080	0	0	Private Debt & Infrastructure	53,394	0	0
0	150	0	LCIV Subscription	0	150	0
0	0	0	Derivatives	(6,702)	0	0
0	991	0	Cash With Fund Managers	0	25,851	0



## MERTON PENSION FUND ANNUAL REPORT 2019/20

129	0	0	Other Investment Balances	399	0	0
0	467	0	Debtors	0	865	0
0	12,607	0	Cash	0	3,106	0
<b>706,730</b>	<b>14,215</b>	<b>0</b>		<b>659,129</b>	<b>29,972</b>	<b>0</b>
			<b>Financial Liabilities</b>			
0	0	(1,297)	Creditors			(1,339)
<b>0</b>	<b>0</b>	<b>(1,297)</b>				<b>(1,339)</b>
<b>706,730</b>	<b>14,215</b>	<b>(1,297)</b>		<b>659,129</b>	<b>29,972</b>	<b>(1,339)</b>

### 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 2019 £000		31 March 2020 £000
39,893	<b>Financial Assets</b> Fair Value through profit and loss	(48,680)
<b>39,893</b>	<b>Total</b>	<b>(48,680)</b>

## 17. Nature and Extent of Risks Arising From Financial Instruments

### 17.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. 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 Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, JLT Employee Benefits, who provides advice on investment issues.

### 17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control

market risk exposure within acceptable parameters, while optimising investment return.

### 17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	69,819	7.6	75,125	64,513
Equities & Emerging Markets	395,323	11.8	441,971	348,675
Diversified Growth	62,928	5.9	66,641	59,215
Multi Asset Credit	59,756	7.6	64,297	55,215
Pooled Property	24,212	3.6	25,084	23,340
Private Debt & Infrastructure	53,394	4.2	55,637	51,151
Cash	25,851	0.9	26,084	25,618
Derivatives	(6,702)	0.0	(6,702)	(6,702)
Income Due	399	0.0	399	399
LCIV Subscription	150	0.0	150	150
<b>Total Assets</b>	<b>685,130</b>	<b>8.3</b>	<b>748,685</b>	<b>621,575</b>

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	87,451	9.6	95,862	79,040
Equities	451,367	8.7	490,463	412,271
Diversified Growth	66,595	3.5	68,902	64,288
Multi Asset Credit	69,360	9.6	76,019	62,701
Pooled Property	23,749	3.4	24,556	22,942
Private Debt and Infrastructure	8,080	5.5	8,522	7,638
Cash	991	0.6	997	985
Income Due	129	0.0	129	129
LCIV Subscription	150	0.0	150	150
<b>Total Assets</b>	<b>707,872</b>		<b>765,599</b>	<b>650,144</b>

**Note:** The % change for total assets includes the impact of correlation across asset classes

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 2020 asset mix as shown in the following table (Note 17.4):

### 17.4 Other price risk

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

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund’s investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %
Bonds and Index Linked	7.6
Equities	11.8
Diversified Growth	5.9
Multi Asset Credit	7.6
Property	3.6
Private Debt and Infrastructure	4.2
Cash	0.9

### 17.5 Interest rate risk

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

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

### 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 2020.

## MERTON PENSION FUND ANNUAL REPORT 2019/20

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	4,032	7.4	4,330	3,734
Private Debt & Infrastructure	48,920	7.4	52,540	45,300
<b>Total Overseas Assets</b>	<b>52,952</b>		<b>56,870</b>	<b>49,034</b>

The table below shows the currency exposure by asset type as at 31 March 2019.

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,608	9.3	23,626	19,590
Private Debt & Infrastructure	8,080	9.3	8,835	7,325
<b>Total Overseas Assets</b>	<b>29,688</b>		<b>32,461</b>	<b>26,915</b>

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2020. 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.

Assets exposed to currency risk	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	4,032	8.5	4,375	3,689
Private Debt & Infrastructure (US Dollar)	48,920	8.5	53,078	44,762
<b>Total</b>	<b>52,952</b>		<b>57,453</b>	<b>48,451</b>

Assets exposed to currency risk	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	21,608	9.30	23,626	19,590
Private Debt & Infrastructure (US Dollar)	8,080	9.30	8,835	7,325
<b>Total</b>	<b>29,688</b>		<b>32,461</b>	<b>26,915</b>

### 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.

The average long-term credit rating in the bond portfolio is AA as at 31 March 2020. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality for the Bond portfolio.

Value at 31 March 2019 £000		Value at 31 March 2020 £000
4,466	AAA	25,851
64,005	AA	0
0	AA-	69,819
8,318	A	0
8,931	BBB	0
700	BB or below	0
1,138	Cash	0
8	Settled Cash	0
<b>87,566</b>	<b>Total</b>	<b>95,670</b>

### 17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2020 was £3.1m (31 March 2019: £12.6m).

### 17.9 Refinancing risk

This is the risk that the Authority will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

## 18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a Funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 (effective from April 2020) and the next valuation will take place as at 31 March 2022.

The key elements of the Funding policy are:

- 1) To ensure the long-term solvency of the Fund, i.e. that sufficient Funds are available to meet pension liabilities as they fall due for payment;
- 2) To ensure that employer contribution rates are as stable as possible;
- 3) To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;

- 4) To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;
- 5) To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2019 actuarial valuation, the Fund was assessed as 103% Funded. This corresponded to a surplus of £20m at that time of the valuation.

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

	2013 Valuation	2016 Valuation	2019 Valuation
Funding Level %	89.0	94.0	103.0
<b>Funding Deficit)/surplus £m</b>	<b>(53.2)</b>	<b>(32.7)</b>	<b>20</b>

The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £525.5m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558.2m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

### Financial Assumptions

Financial Assumption		31-Mar-19	31-Mar-16
Discount rate		4.80%	5.50%
Pay increase	Long Term	3.60%	3.90%
	Short Term	N/A	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020
Consumer price inflation (CPI)		2.60%	2.40%
Pension increases		2.60%	2.40%

Pension increases on GMP		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increases	For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
--------------------------	--	---	---

## 19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 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 2020, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31 March 2020 %
Inflation/Pension Increase Rate	1.9
Salary Rate Increase	2.9
Discount Rate	2.35

The value of the Fund’s promised retirement benefits as at 31 March 2020 was:

31 March 2019 £m		31 March 2020 £m
1,059.9	Present value of promised retirement benefits	975.4m

## 20. Current Assets

31 March 2019 £000	Current Assets	31 March 2020 £000
1,605	Contributions Due	1,691
467	Sundry Debtors	865

## MERTON PENSION FUND ANNUAL REPORT 2019/20

12,607	Cash	3,106
<b>14,679</b>	<b>Total</b>	<b>5,662</b>

### Analysis of Debtors

31 March 2019 £000	Current Debtors	31 March 2020 £000
1,442	Administering Body	1,530
163	Admitted and Scheduled Bodies	161
467	Sundry Debtors	865
<b>2,072</b>	<b>Total</b>	<b>2,556</b>

### 21. Current Liabilities

31 March 2019 £000	Creditors	31 March 2020 £000
(184)	Fund Managers Fees	(83)
(793)	Sundry	(928)
(320)	Payroll	(328)
<b>(1,297)</b>	<b>Total</b>	<b>(1,339)</b>

### 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 Authority'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 2019/20 to AVC schemes outside the Authority's responsibility was £0.438.5m (£0.415m at 31 March 2019). The external providers have reported that at 31 March 2020 the total value of accumulated AVCs is £2.72m (£2.47m at 31 March 2019).

### 23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.39m (2018/19: £0.41m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

No members of the pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.



In addition, the four local pension board members are active members of the pension Fund.

Each member of the pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

**Key Management Personnel**

The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2019 £	31 March 2020 £
Short-term benefits	84,068	80,412
<b>Total remuneration</b>	<b>84,068</b>	<b>80,412</b>

**24. Contingent Liabilities & Contractual Commitments**

Outstanding capital commitments (investments) at 31 March 2020 were £46.7 (31 March 2019 £41.2m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts ‘called’ by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

## **Governance Arrangements**

Merton Council's Pension Fund Advisory Panel (PFAP) advise in making Pension Fund management decision. The Council has delegated its responsibility of looking after the Pension Fund to the PFAP. This is a subcommittee of the Council, subject to the usual rules of political balance and access to information.

The PFAP has responsibility for all Fund matters including governance, investments, funding, accounting, employer, and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such, a new Board was created.

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board and was formed by 1 April 2015.

### **Delegation of functions**

Merton Council has delegated its Pension Fund management to PFAP.

In addition, and in accordance with the Public Service Pensions Act 2013, Merton Council has established a local Pensions Board 'the Board', for the purposes of assisting the administering authority (Merton) in the governance of the scheme.

The PFAP is advised by the Pension investment management team at Merton and the Fund's investment consultants.

The Director of Corporate Services is responsible for ensuring that the in-house team provides adequate support to both the PFAP and the Board. The investment managers make presentations to the PFAP at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. The public reports to the PFAP are published on the Council's website.

The Fund's procedures are subject to audit and scrutiny by both the Council's internal audit team and its external auditor, Ernst and Young LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

The terms of reference for the PFAP are:

- To establish, in consultation with relevant advisors, appropriate investment policy for the Pension Fund, and to advise General Purposes Committee accordingly,
- To advise officers on the exercise of their delegated powers concerning the management and investment strategy of the Pension Fund and to report to and advise General Purposes Committee as appropriate,
- To monitor the performance of the Pension Fund relative to its objectives, benchmarks and targets, and to prompt remedial action as necessary,
- To review the draft Annual Report and Accounts for the Pension Fund, and provide comments to the General Purposes Committee in respect of the investment matters reported therein.

### **The frequency of meetings**

The PFAP meets every quarter; additional meetings are convened as and when required. A yearly calendar giving details of the times and venue of the PFAP's meetings is posted on the Council's website.

The PFAP meetings are held in Merton Civic Centre, Morden and are open to members of the public.

### **Representatives**

The PFAP draws its membership from "interested parties" as follows:

- Membership: Voting – 3 Councilors
- Non-voting – Chief Finance Officer (or delegate),

- Treasury and Pensions Manager,
- Staff Side Representative,
- Pensioner Representative

Only the Councilor members have voting rights. The non-voting employee and pensioner representatives are elected through an election.

Provision is made for Councilor Members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

### **Pensions Board**

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

### **The frequency of meetings**

The Board will meet at least three times per year, but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website. The Board meetings are held in Merton Civic Centre.

### **Representatives**

- 2 Member Representatives;
- 2 Employer Representatives; and,
- 1 Further representative without voting rights to be appointed at the discretion of the Council.

All four/five members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

The terms of reference for the Pension Board are:

- (a) To secure compliance with:

i.) Regulations made under the Public Service Pensions Act 2013 that apply to the matters referred to in sections 5 and 6 of that Act.

ii.) Any other legislation relating to the governance and administration of the Scheme and any connected scheme

iii.) Any requirements imposed by the Pensions Regulator in relation to the Scheme.

(b) Ensure the effective and efficient governance and administration of the Scheme. Merton Council will ensure that all members of both the PFAP and the Board receive appropriate training and formally declare that they do not have conflicts of interest.

## ***Governance Compliance Statement***

The Governance Policy sets out London Borough of Merton's arrangement for carrying out its responsibilities as Administering Authority for Merton Pension Fund as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

The statement includes:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or;
- Membership of the pensions panel/committee and any associated sub committees within a matrix showing for each member: voting rights attendance at meetings.

The full version of the Governance Compliance Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

## ***Funding Strategy Statement***

The Funding Strategy Statement for the London Borough of Merton Pension Fund which is administered by London Borough of Merton has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013.

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of the Statement.

The purpose of the FSS is to explain the Fund's approach to meeting the pension scheme's liabilities and in particular:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met;
- to take a prudent longer-term view of funding those liabilities; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

The full version of the Funding Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

## ***Investment Strategy Statement***

Under the Public Service Pensions Act 2013 (The Act) the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State

Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the Fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The full version of the Investment Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>



## ***Communications Policy***

The Local Government Pension Scheme Regulations 2013 (Regulation 67) require each administering authority to prepare, publish and maintain a written statement setting out their policy concerning their communications with:

- a) prospective members;
- b) members;
- c) representatives of members; and,
- d) employing authorities.

In particular, the statement must set out their policy on—

- a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- b) the format, frequency and method of distributing such information or publicity; and
- c) the promotion of the Scheme to prospective members and their employing authorities.

### Enquiries

Any enquiries in relation to this Communication Policy Statement should be sent to:

E-mail: [pensions@wandsworth.gov.uk](mailto:pensions@wandsworth.gov.uk)

Telephone: 020 8871 8036

### Address:

Pensions Shared Service

Camden, Merton and Wandsworth & Richmond

PO Box 72351

London

SW18 9LQ

The full version of the Communications Policy is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

***Independent Auditors Statement & Report***

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted



This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank