

# 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

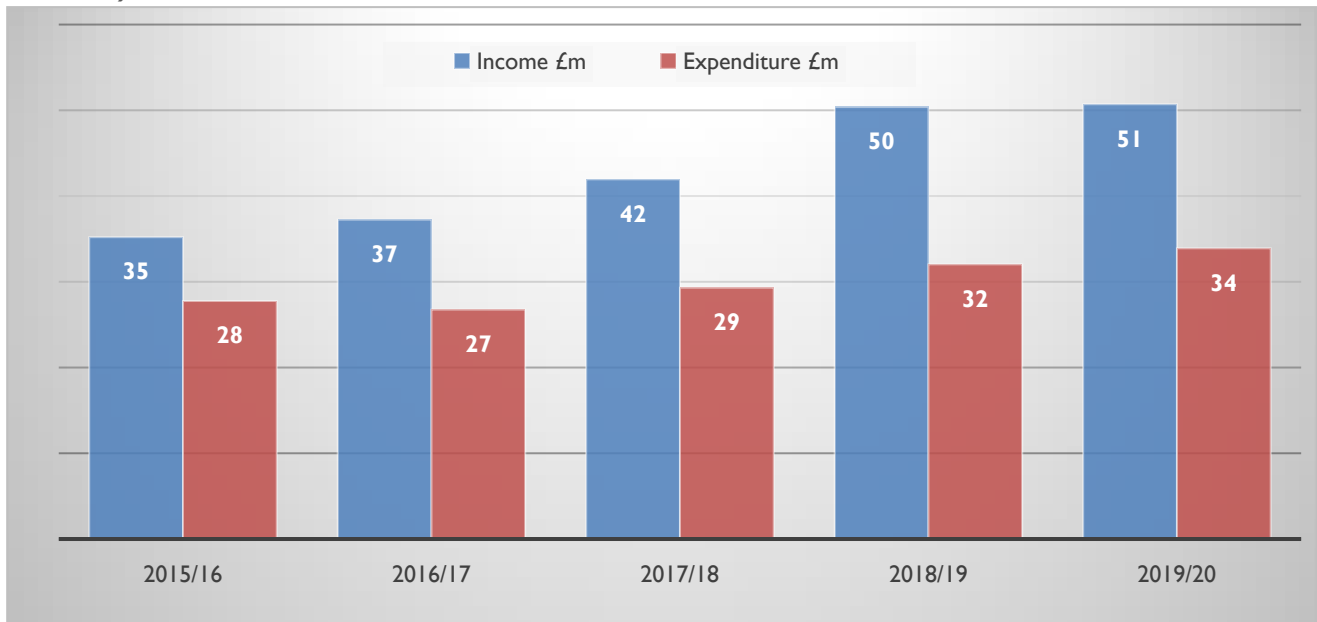
Fund Account	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Contributions Income	-24,139	-25,923	-29,493	-42,386	-37,738
Benefits paid	26,530	24,903	27,441	31,058	32,169
<b>Net Dealings with Members</b>	<b>2,391</b>	<b>-1,020</b>	<b>-2,052</b>	<b>-11,328</b>	<b>-5,569</b>
Management 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

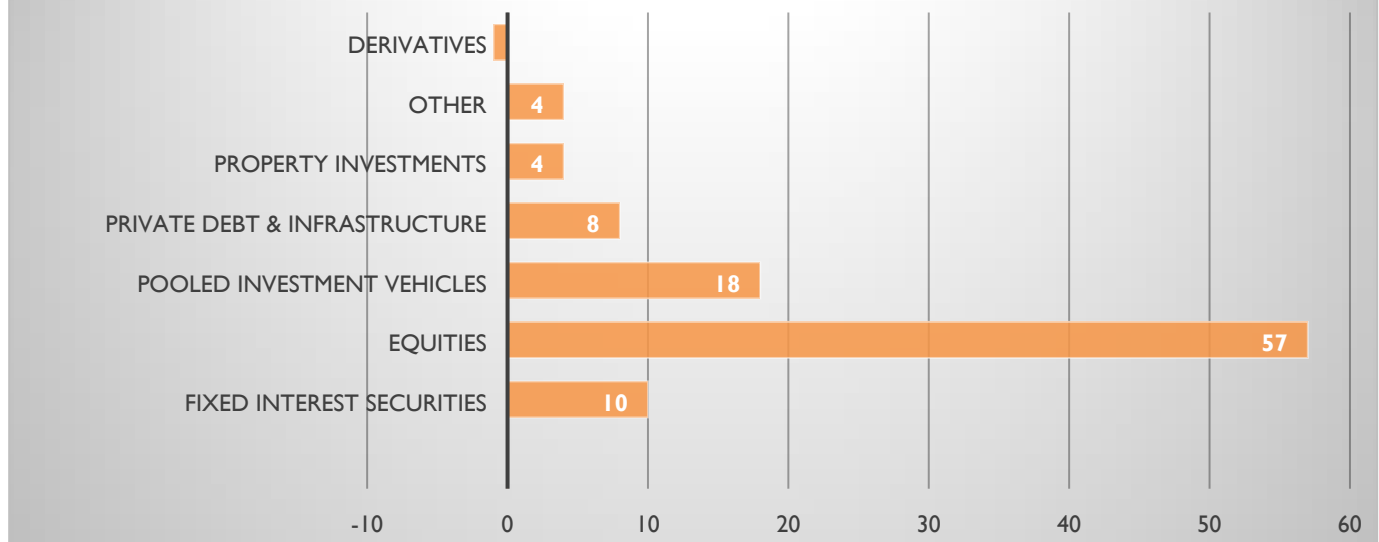
## MERTON PENSION FUND ANNUAL REPORT 2019/20

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

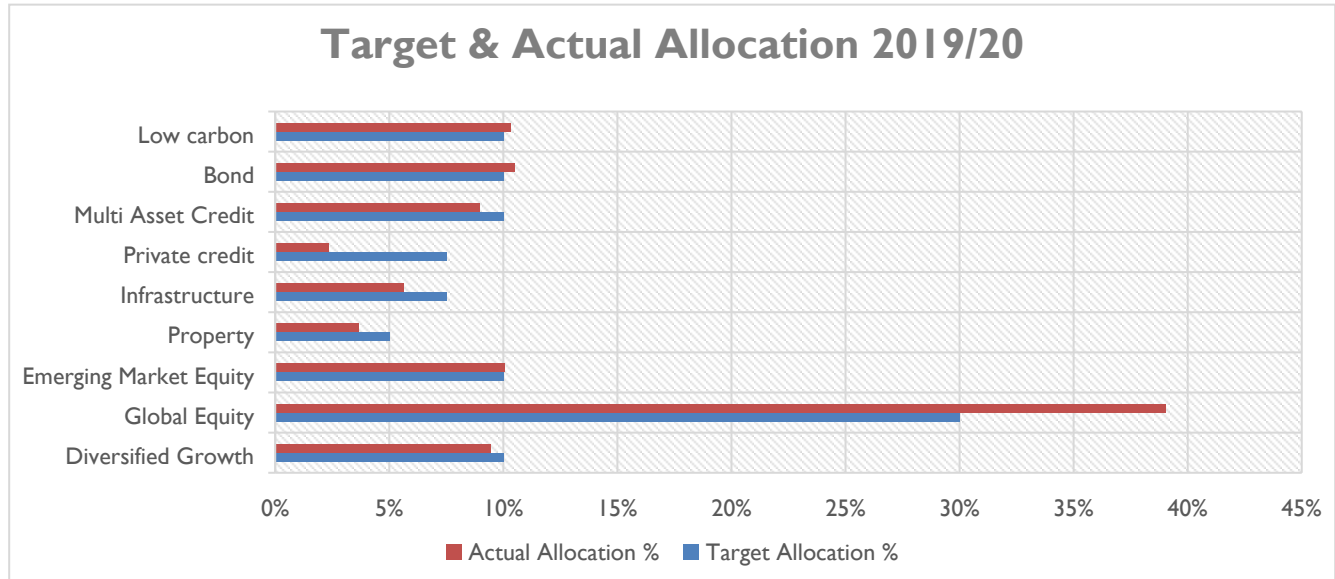
Over the 12 months to 31 March 2020, total Fund assets returned -4.3% compared to the target of 4.8%. This equates to underperformance by 9.9%. The Fund's total market value decreased by £32m over the quarter, from £721m to £689m.

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

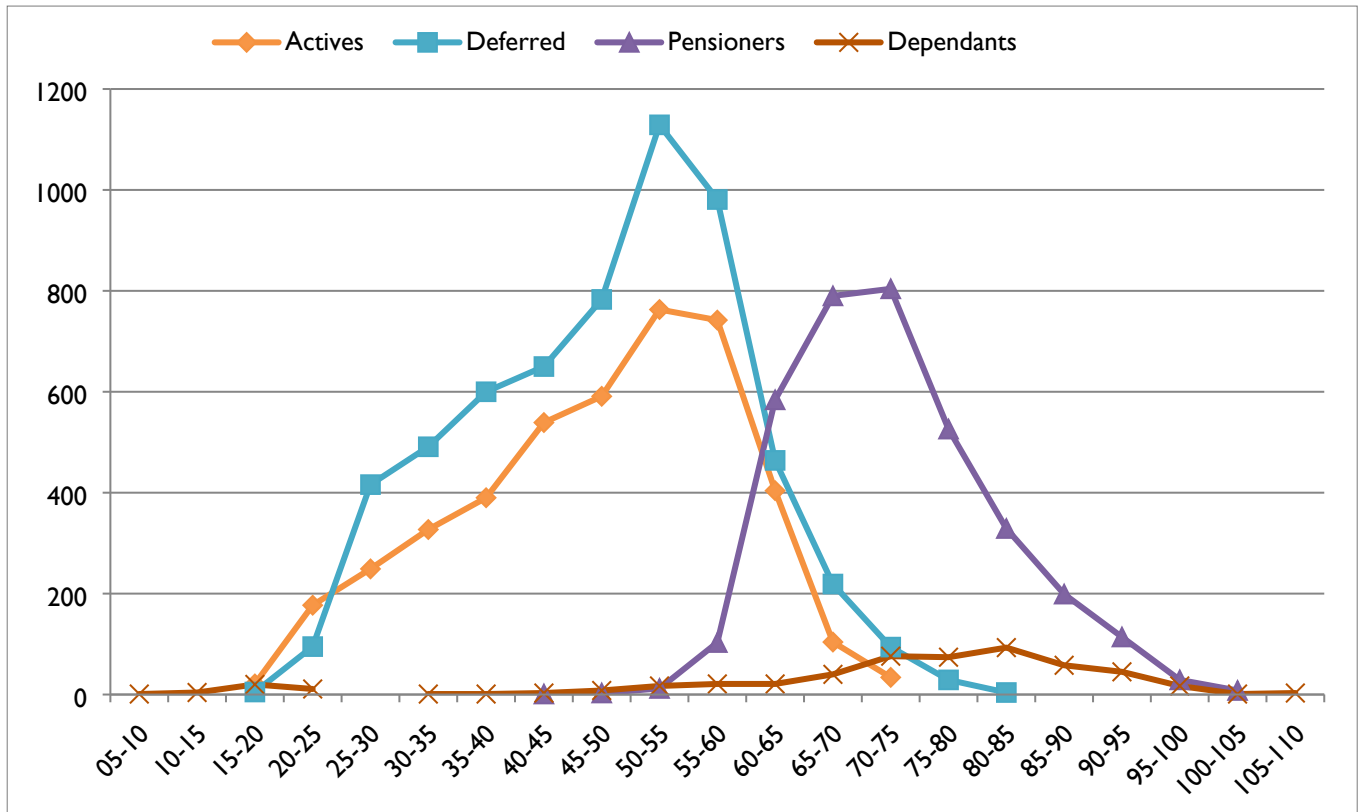
The extent of compliance with key performance indicators is as follows:

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.

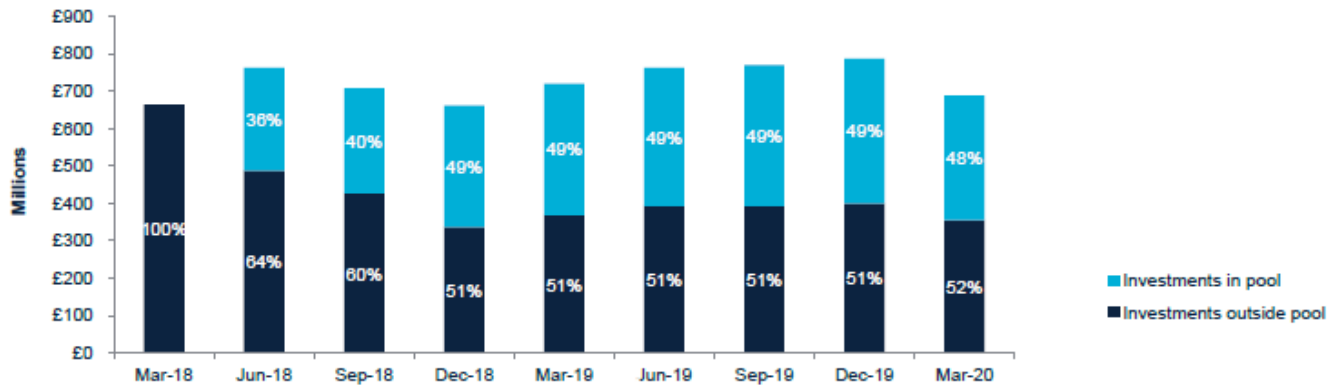
All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Merton made the decision at Council in February 2016 to 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**



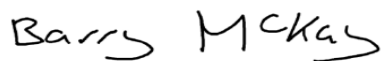
Returns were strong for the first three quarters following the valuation date; however, market movements in the final quarter have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were less than where they were projected to be based on the previous 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>
LCIV Subscription	150				150
<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