



**LONDON BOROUGH OF CAMDEN
PENSION FUND ANNUAL REPORT**

2018/19

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SECTION 1: FOREWORDS

Report of the Chair, Pension Committee

I am pleased to present the 2018/19 Annual Report for the London Borough of Camden Pension Fund. The past year has contained some important governance milestones for the Fund with the Pension Committee taking a number of key decisions in respect of the Fund's investment strategy and enhancing the way it discharges its asset stewardship responsibilities.



Cllr Rishi Madlani, Chair of the Pension Committee

The Fund takes a long term view when it comes to investment strategy, so given a recent review that led to the inclusion of an allocation to infrastructure and removal of hedge fund from the fund's strategic asset allocation, the Pension Committee opted to maintain the current asset allocation strategy in 2018/19. A review of the Fund's fixed income allocation resulted in the Pension Committee terminating Insight's mandate and recommended that assets currently under management with Insight are transferred to CQS, a sub fund of the London Collective Investment Vehicle (LCIV). The new manager will manage the assets under a Multi Asset Credit mandate. In deciding to terminate Insight, the Committee felt that the manager failed to generate sustained value to the Fund and also significantly underperformed relative to other bond managers.

The Fund grew by £79m to a net asset value of £1,659m during the year. Our investment approach remains well diversified, which will help us to avoid the adverse impacts of volatility in particular asset classes. In a good year for investment returns, which saw equity indices reach renewed record heights, albeit with high volatility throughout the year, it is reassuring to witness this strategy working to protect the Pension Fund's value. I am also encouraged by growth in the Fund's membership, with an additional 428 members joining the Fund in the year, bringing to total membership to 21,853.

The Pension Committee takes its asset stewardship responsibilities very seriously. We fundamentally believe in shareholder value. We believe that the value of our portfolio can be protected or enhanced by corporate engagement activity and we continue to play an active role in the Local Authority Pension Fund Forum (LAPFF).

I am also delighted with the progress with the continued effort of the Committee to reduce the Fund's carbon footprint. The Fund continues to engage with its three equity managers to ensure that managers are actively including climate change considerations in investment decisions where such considerations do not prejudice the financial interest of the Fund. In November, the Committee received an update report on the carbon footprint of the Fund's equity holdings (approximately 60% of the Fund's assets) which showed two of the managers are either at or below benchmark. The two companies which were identified as largely responsible for the managers' high carbon footprint are making progress toward achieving benchmark.

The Pension Board completed its fourth year of operation in 2018/19, after being introduced to ensure compliance with regulations, legislation and the Pensions Regulator, which has new jurisdiction over the LGPS. The Committee values the increased oversight of its administration of the LGPS and I am pleased to witness this governance arrangement working effectively on behalf of members and employers.

The composition of the Pension Committee was unchanged throughout financial year 2018/19 although the membership has since changed following local elections in May 2019. Cllrs Heather Johnson, Abdul Quadir, Stephen Clark, Shiva Tiwari, Ranjit Singh and Lorna Russell join me in continuing to serve on the Committee for this municipal cycle and I would like to welcome Cllr Hai who joins as a new Member. I would also like to extend my thanks to Cllr Awale Olad for his contribution this year, and in the past. The report includes information on attendance, training, seminars, etc. for the Members.

The committee takes very seriously the need to keep up to date with the changing world of Local Authority Pensions and endeavours to establish a regular training and learning schedule. The committee benefited from a session on Environment, Social and Governance as part of a member training programme that is geared toward providing members with appropriate and adequate training that will assist them discharge duties as trustees of the Fund.

I would like to thank our in-house team of officers: Jon Rowney, Kathy Freeman, Nigel Mascarenhas, Dapo Shonola, Mahmood Ali, our Pensions administration shared service, our independent adviser Karen Shackleton, our advisors Aon Hewitt/KPMG, our actuaries Hymans Robertson, and all members of the Committee and Pension Board for their work in what has been, and continues to be, challenging times.

Report of the Executive Director Corporate Services

This report details the financial position of the Pension Fund and the performance of the professional managers appointed to administer the investment portfolio.



**Jon Rowney, Executive Director
Corporate Services**

The London Borough of Camden (LBC) Pension Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Council is the administering authority for the LBC Pension Fund and operates the Fund in line with LGPS Regulations.

As the administering authority, the Council has a duty to ensure that the Fund is effectively managed, ensure that all contributions and investment and other amounts due to the Fund are collected and that surplus monies are invested in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement both of which are appended to this report. The Fund is also required to act in the best interest of fund members and ensure that cash is available to meet liabilities as they fall due. The Fund's fiduciary duty to fund retired member liabilities needs to be balanced against other issues include the Fund's strong commitment to Environment, Social and Governance (ESG) issues. The action taken by the Pension Committee of the Fund has resulted in a significant reduction in the proportion of fund assets invested in fossil fuel extractor companies in the past decade.

For most of the year, investors faced headwinds such as: the unease around high level of markets and the likelihood of a lasting correction due to anticipated slowdown in global growth; political uncertainties including concerns on Brexit and whether the UK will leave the European Union and the escalating trade war between the US and China. All of these impacted sentiments and made for a volatile environment for investors. The slowdown in global growth and continued absence of inflationary pressures has seen central banks adopt a more dovish stance. The United States Federal Reserve Bank has cut rates and indicated no rate rises this year, and the European Central Bank indicating no interest rate hikes until 2020. In the UK, the Bank of England Monetary Policy Committee announced a 0.25% increase in the Bank Rate in August 2018, the second such increase since the financial crisis of 2008.

This Fund is highly diversified and has asset allocations to equities, bonds, property, diversified growth funds, infrastructure and private equity. The last four asset classes belong to the alternative asset class and are important tools used to diversify away from traditional asset classes (equities and bonds). Within its equity asset allocation the fund also further diversifies into active and passive equity. Within the passive equity allocation it further has allocations to both UK and overseas equity. Diversification allows the Fund to manage the risk arising from significant losses in any one asset class whilst still providing ample opportunity for the Fund to achieve its long term strategic return of 3.8%.

The Fund is a member of London CIV which was formed as part of the Government pooling agenda aimed at reducing investment costs, gaining economies of scale and promoting investment in infrastructure in the LGPS. As at the end of the year, the Pension Fund had 54.7% of its assets invested via the London CIV platform and I am pleased to report to members that we are making excellent progress towards asset pooling - we expect the Fund's association with the London CIV to deliver better investment returns and reduce the cost of investing over time.

The Pension Fund's investments produced an overall return of 4.9% in 2018/19 which lagged the median return achieved by local authority pension funds. The underperformance relative to the average LGPS is due to the Fund's high allocation to diversified growth funds, the worst performing asset class in the year. The 4.9% returned by the Fund is still ahead of the Fund's 3.8% strategic benchmark (established in the 2016 Triennial Valuation). This performance has been delivered in the context of a positive year overall for financial markets, in spite of continuing volatility in the markets.

Equities had a difficult time as global markets plunged in Q4 2018 amidst concern over a global trade war before rebounding in Q1 2019 to deliver positive returns for the year across most regions. US equities in particular delivered excellent returns in the year assisted by the strength of the US Dollar. Despite the volatility in this quarter and to a lesser degree throughout the year, the Fund's equity allocation returned 6.2% for the Fund ahead of overall Fund performance of 4.9%.

Amongst other asset classes, the strongest returns came from private equity (15.3%), whilst overseas equities also saw robust gains (6%). UK equities had a steady year (5.7%). Corporate bonds (4%) experienced modest growth and given the continuing prevalence of low interest rates, investments in shorted dated cash instruments saw limited returns. Infrastructure (11.7%) had a strong year for those funds that were invested in this asset class.

Performance was varied during the year amongst the Fund's investment managers, although it remains the case that longer term returns will have a greater impact on the overall performance of the Fund compared to short term experience. The Fund's equity managers manage 62% of the Fund's assets and as such are a strong determinant of aggregate performance.

Baillie Gifford delivered absolute returns of 7.7%, but underperformed target 6.2%. Despite, a particularly strong Q1 2019 performance, Harris Associates delivered negative absolute return of 0.8% and significantly underperforming target by 14.6%. It can be noted that Baillie Gifford is ahead of target by 3.6% since inception whereas Harris is behind target in all time horizons including since inception. Harris has been slow to Legal and General manages UK and global passive equity allocations, which both delivered strong returns in line with their respective targets in 2018/19.

Of the Fund's bond managers, Insight Investment underperformed against their cash plus 4% target over the year with an overall negative return of 5.5% which is 10.3% behind target – the Pension Committee has decided to terminate the Insight mandate due to underperformance. The Legal and General index-linked gilts allocation provided

returns of 6.3%, which were ahead of the benchmark. The Fund's two property managers CBRE and Partners Group provided gains of 2% to 19%. CBRE outperformed its benchmark target along with the 2013 Partners Group fund which delivered absolute returns of 18.7% - other Partners Group funds (2009 and 2017) underperformed target.

Private equity manager HarbourVest delivered a return of 15.3% in 2018/19 which is significantly ahead of target of 7.3%. The manager's performance since inception is even more impressive at 15.6% ahead of target with absolute returns of 23.4%.

The Fund has three diversified growth managers as at March 2019. Barings, the first of these managers, provided returns of 1.6% against a target of 4.8% in the year, but 0.5% behind target since inception. The second manager, Standard Life, achieved negative absolute return of 0.3% against a target of 6.0% for the year, and has only delivered 0.5% absolute returns since inception lagging target by 5.2%. Ruffer also delivered negative returns of 1.0% resulting in 4.8% lag compared to target.

The Pension Committee meets four times a year to administer all matters concerning the Fund ensuring that all responsibilities of the Committee including those relating to the governance and monitoring of fund investments and discharge of fund liabilities are being undertaken in accordance with all applicable law, policy and guidance.

The Committee, supported by officers and advisers, remains highly aware of the need to monitor vigilantly managers' performance in order to deliver the returns needed to fund members' pensions. The Fund's continues to demonstrate its resolve to take decisive action in response to poor performance as evidenced by recent termination of the Insight mandate. However, it is also important to avoid crystallising losses which would otherwise be recovered in time, and thus any decision on the appointment, reappointment or termination of a mandate will be made with reference to an evaluation of a manager's ability to deliver strong performance in the future.

Looking forward to the year ahead, the triennial valuation of the Fund is already underway and should be completed over the coming months. This is an important exercise as it determines the contribution and deficit recovery rates for employers in the Fund. A review of the funding strategy statement and investment strategy are scheduled to take place next year both of which are critical to the Fund being able to continue to meet its liabilities.

The Fund has generated above target return in recent years, but the ongoing trade dispute between United States of America and China, Brexit and a general slowdown in global economic growth indicate that returns in the near term is likely to be modest compared to recent years. With a highly diversified portfolio of assets, the Fund is well placed to ride any short term reversal in asset values and the planned review of the investment strategy should ensure that any required adjustments to asset allocation/strategy are identified.

SECTION 2: OVERVIEW

The Pension Fund Annual Report

The Pension Fund Annual report pulls together many of the reports and statements which the Fund produces into a single, annual document. Scheme members and other interested parties should find the single publication a good source of information on key matters about the Fund.

The Report comprises a number of sections and appendices, in order to comply with the many regulatory requirements laid out in the Local Government Pension Scheme (Administration) Regulations 2008 and (subsequently) 2013 and 2016.

The body of the report contains sections on:

Scheme Management – Reports including the management of risks within the fund; the preparation of the accounts; responsibilities of the Executive Director Corporate Services; and report of scheme administration.

Scheme Governance – Reports on the governance structure and terms of reference of the Pension Committee, together with attendance and training.

Investment Policy & Performance – Investment market review with performance of the investment managers; detail of the Fund investments and asset allocation; and the corporate engagement undertaken on behalf of the Fund.

Actuarial Report – A summary report based on the most recent triennial valuation conducted by the fund actuary.

The sections thereafter introduce the main statements, which are included as appendices to the report, namely:

- 2018/19 Statements of Account
- Governance Compliance Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement

The Local Government Pension Scheme (LGPS)

The London Borough of Camden Pension Fund is a statutory funded scheme, governed by the Local Government Pension Scheme Regulations 2013 and subsequent amendments. It is a defined benefit scheme now based on career average revalued earnings (from 1 April 2014, previously final salary) which provides pension benefits to employees of the Council and other bodies which are set out in law. Employees have complete discretion on whether to be members of the scheme.

The Council is the administering authority and responsible for all aspects of the Fund's operations. The Executive Director Corporate Services is responsible for administration and preparation of the Fund's Statement of Accounts in accordance with the Pension Statement of Recommended Practice (SORP). The costs of administration and payment of pensions and benefits are chargeable to the Fund.

The scheme is required to be either fully funded or have a strategy to become so within a period defined by the Actuary. It is financed by contributions from employers and employees and investment income. Funds not immediately required to finance pensions and other benefits are invested in a selection of financial assets. These assets must be sufficient to meet the future pension entitlements of both past and present employees. This is achieved by adjusting the level of employers' contributions every three years following an actuarial review by an actuary, currently Hymans Robertson.

Contributions & Benefits

Legislation requires actuarial valuations of local authority pension funds to be undertaken every three years to calculate the funding level and determine the annual contributions to be made by the employing bodies. The valuation on which the employers' contributions for 2018/19 were based was carried out as at 31 March 2016, and applies to the three financial years from 1 April 2017.

Under the scheme regulations, employees contribute to the scheme according to set tiered contribution rates, based on pensionable pay. From 1 April 2018 – 31 March 2019 these rates were as follows:

<i>Band</i>	<i>Range</i>	<i>Contribution Rate</i>	<i>50/50</i>
1	Up to £13,700	5.50%	2.75%
2	£13,701 to £21,400	5.80%	2.90%
3	£21,401 to £34,700	6.50%	3.25%
4	£34,701 to £43,900	6.80%	3.40%
5	£43,901 to £61,300	8.50%	4.25%
6	£61,301 to £86,800	9.90%	4.95%
7	£86,801 to £102,200	10.50%	5.25%
8	£102,201 to £153,300	11.40%	5.70%
9	£153,301 or more	12.50%	6.25%

The LGPS is a defined benefit "career average" scheme. For each year of membership, a pension equal to a 49th of an employee's pensionable pay in that year will be accrued. Inflationary increases are added in subsequent years to ensure that the pension keeps up with the cost of living.

The administering authority is also required to make provision to enable employees to make additional voluntary contributions (AVC's) to purchase enhanced pension benefits. The AVC providers for the Camden Pension Fund are Phoenix Life and Prudential Assurance.

SECTION 3: SCHEME MANAGEMENT

Scheme Management and Advisers

The roles, names and addresses of officials responsible for the management and advice given to Fund can be found in **Appendix 4A**, as part of the Investment Strategy Statement.

Risk Management

The Camden Pension Fund has a [Funding Strategy Statement \(FSS\)](#) which is a summary of the Fund's approach to funding its liabilities. The FSS is reviewed in detail at least every three years in line with the triennial valuations. The Fund last reviewed its Funding Strategy in 2016 and was agreed in December 2016 by the Pension Committee – the FSS will be reviewed again in the last quarter of 2019.

There are four common approaches to dealing with identified risk:

- **Avoidance of risk** – desist from participating in the activity that gives rise to the risk in future.
- **Reducing the risk** – take action to minimise the likelihood of the risk occurring, or taking action to minimise impact if risk occurs.
- **Transferring risk** – total or part transfer of risk, mostly through insurance.
- **Accepting the risk** – acknowledge the cost of effectively dealing with risk is disproportionate to the potential benefit to be gained, or that any action taken may be limited in reducing the risk.

The Administering Authority has an active risk management programme in place and presents a [Risk Register](#) to the Pension Committee on an annual basis, and was last reviewed in July 2019. The measures that the Administering Authority has in place to control key risks are summarised under the following headings:

- **Financial** - relate to investment risks which can include interest rate, currency, market – these nature of these risks and how the fund deals with them are detailed in the fund's Statement of Account.
- **Demographic** - relate to changes in demography that fall outside of the actuary's assumptions and therefore lead to increased fund liability
- **Regulatory** – that the national scheme will be changed by government or that new regulations brought in by government will result in increased fund liability
- **Governance** - the arrangement for overseeing the strategic investment of fund assets including ESG related issues and admissions/cessation of fund employers is inadequate; and
- **Administrative** – that the process and resources in place to manage the daily operation of the fund are inadequate.

More information on risk can be found in the FSS under appendix 3C, and the ISS also outlines the Authority's approach to risk and the measurement and management of those risks. The risk register is appended at **Appendix 6**

Internal Audit

Internal Audit undertook a comprehensive audit of the pensions administration and investments functions in 2016/17. The scope of this audit extended to the following areas:

- Joiners, retirees and transfers
- Current scheme members
- Performance reporting and recording
- Communication
- Share service; and
- Readiness for Enterprise Resource Planning (ERP)

The 2016/17 Internal Audit report stated that the Council can take Moderate Assurance that the controls upon which the organisation relies to manage this area are operating effectively, indicating that an adequate control framework was in place. The review identified no critical or high priority findings.

A follow-up to the 2016/17 audit was undertaken in subsequent years, the latest of which took place in March 2019, confirmed that there is a largely sound system of control in place.

External Audit

Camden appointed Mazars who will be carrying out the external audit on the Statement of Accounts for both the Council and Pension Fund in 2018/19. This is Mazars first year auditing the Pension Fund Accounts and they take over from KPMG who had been the fund's auditors since 2012/13. Their report on the 2018/19 position can be found immediately following the Statement of Accounts on page 82.

Management of third party risks

All of our fund managers and our custodian have external verification of their internal controls by their own external auditors. External auditors comment on whether the controls were suitably designed and operated effectively throughout the reporting period.

(a) Fund Managers

For fund managers, auditors typically issue a report of the Statement on Standards for Attestation Engagements (SSAE 16) in North America, or Audit & Assurance Faculty (AAF 01/06) in the UK. The International Auditing & Assurance Standards Board (IAASB) has also developed the International Standard on Assurance Engagements (ISAE 3402) as a global standard of reporting, for use from 2012. These reports describe internal controls in operation, and tests of operating effectiveness in the third party's control environment. The statement also provides information on third party controls that may be relevant to the internal controls of clients.

Camden has obtained the following control reports, the most recent available for each fund manager. Some reports have been written to comply with more than one set of control standards, to cover a mixed client base.

Investment Company	Report Type	Reporting year to	Assurance Level	Auditor
Baillie Gifford & Co	ISAE 3402/ AAF 01/06	30th Apr 2019	Reasonable Assurance	PWC
Barings Asset Management Ltd	SOC1	30th Sep 2018	Reasonable Assurance	Grant Thornton LLP
Brevan Howard Capital Management Ltd	SSAE 16 / ISAE 3402	31 st Dec 2017	Reasonable Assurance	BDO Limited
CBRE Global Investment Partners	ISAE 3402	31 st Dec 2018	Limited Assurance	KPMG LLP
Harris Associates LP	SOC1	31 st Aug 2018	Reasonable Assurance	Ernst & Young LLP
HarbourVest Partners LLC	SOC1	30 th Sep 2018	Reasonable Assurance	Ernst & Young LLP
Insight Investment Management Ltd	ISAE 3402 / AAF 01/06	30 th Sep 2018	Reasonable Assurance	KPMG LLP
Legal & General Investment Management (Holdings) Ltd	ISAE 3402 / AAF 01/06	31 st Dec 2018		PwC
Partners Group Holding AG	ISAE 3402	31 st Dec 2018		PwC
Ruffer LLP	ISAE 3402 / AAF 01/06	31 Mar 2019	Reasonable Assurance	Ernst & Young LLP
Standard Life Investments Ltd	ISAE 3402 / AAF 01/06	30 th Sep 2018	Reasonable Assurance	KPMG LLP

(b) Custodian

JP Morgan serves as the Fund custodian. The control report for JP Morgan for the year to 31 March 2019 was prepared by PricewaterhouseCoopers in accordance with International Standard on Assurance Engagements (ISAE) 3402.

In each case the auditor assessed the internal control procedures as written in the report, and concluded that

- The report description fairly presents the investment management activities that were designed and implemented throughout the period;
- The controls related to the control objectives were suitably designed to provide reasonable assurance that the control objectives would be achieved if those procedures were complied with; and
- The control procedures that were tested were operating with sufficient effectiveness to provide reasonable assurance that the control objectives were achieved in the period.

(c) Pool operator – London LGPS CIV Ltd

Statement of Accounts for 2018/19

The Statement of Accounts for the financial year to 31 March 2019 have been compiled by officers of the Fund and submitted to the external auditors, Mazars. The statements and notes relating to the Pension Fund can be found in **Appendix 1** starting on page 43.

Responsibilities of the Executive Director Corporate Services

The Executive Director Corporate Services is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing the Statement of Accounts, the Executive Director 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 on Local Authority Accounting.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Review of Administration

Arrangements for Scheme Member & Pensioner Administration

The Local Government Pension Scheme regulations require employing and administering authorities to work together to ensure the effective running of the scheme. The administering authority is responsible for pension fund investments, the calculation and payment of benefits and for maintaining scheme member records and computerised administration systems. The employing authority is responsible for applications to join or leave the scheme, assigning employees to the correct contribution band, deciding when to pay retirement benefits and providing relevant employee data to the administering authority.

LB Camden is both an administering and employing authority. The pension administration function of the administering authority is carried out by the Pensions Shared Service (PSS), set up between Camden and Wandsworth, and now also covering Merton, Richmond and Waltham Forest. The employing authority role falls to Camden's Human Resources service although some employing authority functions (such as the calculation of final pay) are performed by the PSS.

There are a number of active Scheme employers within the Camden fund comprising of 23 admission bodies, 3 academies and one scheduled body not including LB Camden itself. For members in these arrangements it is their employer that carries out the employing authority functions.

There is another group of members who work in Camden's schools who are employed by Camden but are not paid through Camden's payroll system. The PSS do not have direct access to contractual information relating to the scheme members and therefore has to rely on the schools, admitted bodies and scheduled bodies to provide information on starters, leavers and amendments. High levels of the PSS's resources are dedicated to this group of staff as they are more onerous to administer than staff on Camden's payroll system. The PSS works with these employers in an effort to improve the quality and timeliness of this data.

Administration of the pension payments is undertaken by the PSS and the payroll is run on the Council's ORACLE system. The Fund provides for twelve monthly payments a year with a payslip posted to home addresses in March, April and May and also when the net pension differs by more than £1 from the previous month.

Internal Dispute Resolution Procedure (IDRP)

IDRP is a two stage system with Stage 1 being considered by the Head of Pension Shared Service. A notification of the right to access IDRP is included with any notification of decisions made by the Fund such as benefit notices. The Stage 2 officer is the Council's Borough Solicitor. The Stage 2 officer is the Council's Borough Solicitor. In 2018/19 there were two IDRP complaint at Stage 1 (not upheld) and nil at Stage 2.

Key Uses of Technology

The staff of the PSS have direct access to the payroll records of the majority of the scheme's active members through the Payroll/HR module of the Council's main financial information system, ORACLE. There are monthly interfaces from Oracle to the pensions administration system, ALTAIR. The interfaces allow transfer of data for new starters, contractual changes such as changes in hours and personal changes such as home addresses.

There is also an annual interface for posting pension contributions. For members that are not paid through ORACLE, such as staff working in schools or for external bodies that have an admission agreement with the Council, the PSS relies on these outside bodies to provide the data. To improve the timeliness and accuracy of data from external bodies the PSS commenced the onboarding of the i-Connect system which facilitates the electronic transfer of data monthly. Eight of the external bodies submitted their data via i-Connect negating the need for an end of year file.

The Scheme is also in the process of implementing i-Connect. This should improve the flow of data between PSS and payroll systems used by the different employers in the fund, which minimises manual intervention in the process. The system will directly take data from employers' payroll systems, automatically identifying new joiners, opt-outs and leavers and seamlessly generate an extract for submission to PSS in a single solution.

There is a range of pensions information available on the internet. Details of this information, and where it can be found, are contained within **Appendix 5: Camden Pension Fund Communications Policy Statement** on page 170.

Scheme Administration Costs

The cost of administration in 2018/19, including actuarial fees, was £534,829; this is equivalent to £24.47 per member.

Martin Doyle
Head of Pensions Shared Service

Administration Performance

Camden constantly monitors the performance of the administration shared service, who pay out Pension Fund benefits, against targets using a computerised workflow management system. The results achieved in 2018/19 are set out in the table below.

Work Area	Target	Actual 2017/18	Actual 2018/19
New Scheme Member	95.00%	99.55%	99.22%
Transfers In	95.00%	83.83%	94.87%
Early Leavers	95.00%	95.49%	98.03%
Redundancy	95.00%	75.00%	75.00%
Transfers Out	95.00%	74.27%	86.10%
Refunds	98.00%	99.28%	98.26%
Pension Sharing on Divorce	98.00%	100.00%	100.00%
Correspondence	98.00%	88.59%	97.13%
Retirements	98.00%	85.36%	92.71%
Deaths	98.00%	84.10%	88.78%

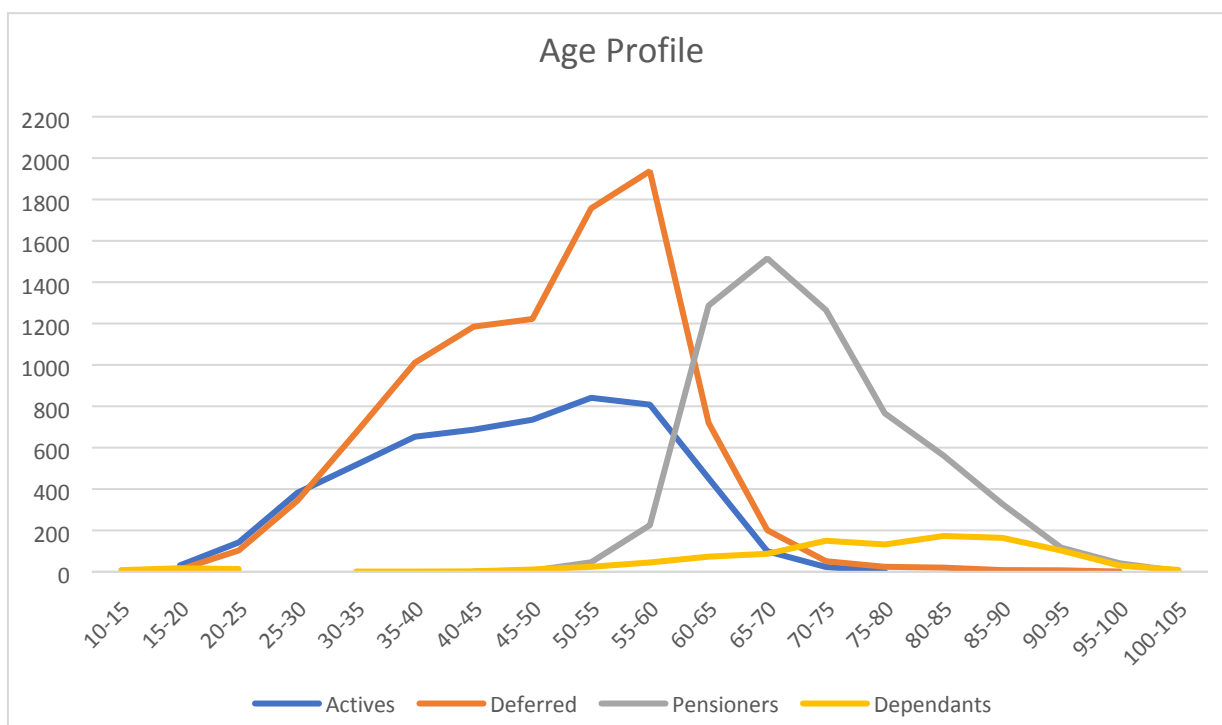
Cost of Service

	2014/15	2015/16	2016/17	2017/18	2018/19
Cost per member	£24.79	£22.54	£27.44	£23.45	£24.47

The costs are those purely attributable to the cost of administration (staff costs, overheads and administration systems £461k, and Actuaries costs £42k). Actuarial costs were lower in 2018/19 compared with the previous year as 2017/18. Investment costs are excluded from these figures.

Membership of the Fund

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Actives	4,886	5,054	5,154	4,940	5,194	5,371
Deferreds	7,811	8,070	8,370	8,925	9,224	9,276
Pensioners	6,358	6,466	6,663	5,834	5,985	6,163
Total	19,055	19,590	20,187	20,743	21,456	21,853



Pensioners with Enhanced Benefits

Year Ending 31st March	Ill Health	Early Retirement / Voluntary Redundancy	Total
2019	825	857	1682
2018	835	885	1720
2017	971	874	1,845
2016	889	1,029	1,918
2015	905	1,090	1,995
2014	901	1,116	2,017
2013	914	1,184	2,098
2012	939	1,236	2,175

SECTION 4: SCHEME GOVERNANCE

Introduction

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities to prepare and maintain a separate written statement on governance policy on pension fund matters. The Ministry for Housing, Communities and Local Government (MHCLG) has published draft regulations requiring pension funds to report on their governance arrangements against a set of best practice principles. Where a pension fund's compliance does not meet the required standards there is a requirement to explain, within the governance compliance statement, the reasons for not complying

The compliance principles are not mandatory but are considered best practice.

The London Borough of Camden Pension Fund's Governance Compliance Statement is attached as **Appendix 2** of this report. Additional compliance information is included in the Statement of Investment Principles in **Appendix 4**.

Governance Structure

The London Borough of Camden, in its role as administering authority, has executive responsibility for the Fund. The Pension Committee consider all matters relating to the management and administration of the Fund. The revised terms of reference were agreed at full council on 2nd March 2015 that the Audit and Corporate Governance (Pensions) Sub-Committee be established as a committee in its own right and is now called the Pension Committee. It became effective from the start of the 2015/16 municipal year. The terms were slightly amended just after the end of the financial year (regarding voting rights and delegation to the Chair outside of normal committee timescales where there is urgency). Council subsequently amended the terms of reference again on 17th May 2017 to take account of the requirement to formulate and maintain an Investment Strategy Statement, as introduced in the 2016 LGPS Regulations.

PENSION COMMITTEE TERMS OF REFERENCE

General

- To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972 and to administer all matters concerning the Council's pension investments in accordance with any applicable law and policy
- To make arrangement for the appointment of and appoint suitably qualified investment managers and custodians and to periodically review those arrangements
- To ensure that appropriate and sufficient training has been undertaken by all members of the Committee in order to discharge their functions
- To take proper advice from officers, investment consultants, independent investment adviser, pension board and actuary

Investment

- Set and review Investment strategy for the Fund
- To formulate and publish a Investment Strategy Statement
- At least once every three months, to review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers
- To determine the strategic asset allocation policy, the mandates to be given to the investment managers, the performance measures to be set for them and review investment management performance against targets
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles
- Ensure the Fund's voting rights are exercised in line with the Fund's voting policy to ensure the best outcome for the Fund's investment purposes and ensure engagement supports the investment strategy and Fund's performance, except co-filing requests put forward by the LAPFF; and support for resolutions in respect of companies that the Fund does not have a direct shareholding in, which remains a matter for the Executive Director Corporate Services in consultation with the Chair of the Pension Committee unless time allows for the matter to be reported to the Committee for decision.
- To receive and approve an Annual Report on the activities of the Fund prior to publication.
- To keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.

Liabilities

- To review the risks inherent in the management of the Pension Fund
- To review the strength of admitted bodies and ability to honour their liabilities
- To agree and keep under review a Contribution Strategy and agree the Triennial Valuation
- Admit new and exit ceasing employers as and when these arise
- To monitor liabilities and ensure progress towards full funded status of all employers
- To understand the maturity of the Fund and keep cash flow considerations under review

Membership and Voting Rights of the Committee

The membership of the Committee will consist of:

- 8 members (currently 7 from the majority party and 1 from the largest minority party) – one of these members will chair the Committee
- Officers of the Council (non-voting)
- Representatives of the unions (non-voting)
- A representative of the retired members (non-voting)

Decision Making Protocol

- The Committee should aim to reach consensus in decision-making. Where agreement cannot be reached a majority vote will apply. Voting rights are restricted to Members, with the Chair having the casting vote if required.
- For decisions to be valid at least three voting members of the Committee must be present.
- Committee members will receive training and guidance on all matters requiring a decision prior to meetings where these issues are on the agenda.

Members Code of Conduct

All members of the Pension Committee are bound by the members Code of Conduct set out in the Councils Constitution. Members are required to register disclosable pecuniary interests and, if any interest is not entered in the register, to disclose the existence and details of such interests to the meeting. Where such interests are relevant to matters being discussed at any meeting members are restricted in participating and voting at such meetings. In the interests of transparency, the Code of Conduct also requires the disclosure of non-pecuniary interests.

Pension Committee – 2018/19

The following table lists the membership of the Pension Committee during the year and their attendance at meetings.

Attendance at Pension Committee Meetings	30 Jul 2018	13 Sep 2018	29 Nov 2018	27 Feb 2019
Cllr Rishi Madlani (Chair)	YES	YES	YES	YES
Cllr Lorna Russell (Vice Chair)	YES	NO	NO	YES
Cllr Abdul Quadir	YES	YES	YES	YES
Cllr Awale Olad	YES	YES	NO	YES
Cllr Ranjit Singh	YES	NO	YES	YES
Cllr Heather Johnson	YES	YES	YES	NO
Cllr Stephen Stark	NO	YES	YES	YES
Cllr Shiva Tiwari	YES	YES	NO	YES

Training received by Pension Committee – 2018/19

The training needs of Members are covered at the quarterly Pension Committee meetings and semi-annual designated training sessions arranged by officers, with input from consultants and investment professionals, where the need arises. Members and officers may also be invited to attend conferences and seminars where appropriate by investment managers or other organisations.

Committee Meetings

The Pension Committee reviews a number of standing items at each quarterly meeting, including an update on the performance of the investment portfolio, a review of the engagement and voting activity undertaken since the last meeting, and an update on the progress made by the London Collective Investment Vehicle. Alongside these items, the Pension Committee discussed the following reports during 2018/19.

July 2018

A report from the Executive Director Corporate Services presenting an update to the risk register associated with the Camden Pension Fund, with an action plan stating how they will be managed.

A report from the Executive Director Corporate Services detailing the Pension Fund cash flow and membership statistics for the previous year to March 18 and over the longer term.

A report from the Executive Director Corporate Services updating the Committee on the outcome of recent procurement exercises undertaken to appoint a Fund Actuary and an Investment Consultant. Following the appointments, the Committee will now receive actuarial advice led by Douglas Green of Hymans Robertson and investment consultancy led by Dave Lyons of KPMG.

September 2018

A report from the Executive Director Corporate Services that presenting the 2017/18 Fund's Annual Report to the Pension Committee. The Pension Fund is required to produce an Annual Report under the Local Government Pension Scheme Regulations 2013/2356.

November 2018

A report from the Executive Director Corporate Services that sets out revisions to the Funding Strategy Statement (FSS) which establishes how scheme employers in the Pension Fund are treated. It sets out how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools within the Fund pay for their liabilities.

A report from the Executive Director Corporate Services presenting the 2017/18 Annual Report to the Pension Committee.

A report from the Executive Director Corporate Services that updates the Fund's Carbon Footprint of its equity assets and also presents information on other asset classes.

A report from the Executive Director Corporate Services that sets out a proposal from the Council, as the major employer in the Fund, to prepay its secondary contributions early.

A report from the Executive Director Corporate Services that updates the employer register for all the admitted bodies in the Pension Fund and relevant data for the Committee to review in light of their funding positions and scheme status.

A report from the Executive Director Corporate Services that presents findings of our Performance Measurer, PIRC, after analysing performance in the LGPS (Local Government Pension Scheme) over recent years.

February 2019

A report from the Executive Director Corporate Services reviewing the proxy voting carried out by the Pension Fund during the calendar year to December 2018. Advisory services are provided by Pensions & Investment Research Consultants Ltd (PIRC).

A report from the Executive Director Corporate Services setting out the proposed guidelines and forms the policy on which Camden will submit proxy voting on shares held in the Camden Pension Fund.

A report from the Executive Director Corporate Services that presents the background to the Insight Investment absolute return bond strategy (ARBS) mandate and includes work by our Investment Consultant, KPMG in reviewing the mandate and making recommendations about the future given CIV and other fixed income ideas.

A report from the Executive Director Corporate Services updating Committee on the London Collective Investment Vehicle's (CIV) infrastructure proposal.

Investment Manager Meetings

There is also a rolling programme of routine review meetings with the Pension Fund's appointed investment managers. During 2018/19, Members of the Pension Committee met with Harris, Legal & General Investment Management, Insight, Aberdeen Standard Life, HarbourVest, Barings, Baillie Gifford, Ruffer, CBRE and Partners under the programme in 2018/19.

Officer Arranged Training Sessions

June 2018 Introduction to Pension Trusteeship – was jointly delivered by the Fund actuary, Hymans and investment consultant, KPMG.

Investment Seminars and Conferences attended by Members

LAPFF Quarterly Business meetings
 London Pensions CIV Sectoral Joint Committee
 AMNT Spring Conference and AGM 2018
 AMNT Summer Conference 2018
 LAPFF Annual General Meeting
 LAPFF Annual Conference 2018

Pension Board – 2018/19

The following table lists the membership of the Pension Board during the year and their attendance at meetings.

Attendance at Pension Board Meetings	18 October 2018	13 March 2019	Train ing
Cllr Richard Olszewski (Chair) – Council representative	YES	YES	
Paul Dunphy – Employee representative	NO	YES	
Vinothan Sangarapillai – Employee representative	YES	YES	
Steve Worrell – Employer representative	N/A	YES	

received by Pension Board – 2018/19

Members of the Board are generally invited to attend the same training sessions as those attended by the Members of the Committee where appropriate.

Board Meetings

October 2018

A set of reports from the Executive Director Corporate Resources updating the Board on Committee reports and decisions made in July 2018 and September 2018. The Board also considered the following separate items:

- the Fund's Risk Register, and
- the Fund's cash flow and membership status.

March 2019

A set of reports from the Executive Director Corporate Resources updating the Board on Committee reports and decisions made in December 2018 and February 2019. The Board also considered the following separate items:

- Update of the Funding Strategy Statement
- Update on employer register;
- Prepayment of secondary contributions;
- Fixed Income review
- Update on fund's proposed infrastructure investment

SECTION 5: INVESTMENT POLICY & PERFORMANCE

The following commentary is based on analysis provided by the Fund's performance measurer, PIRC.

Investment Review to 31 March 2019

In the fiscal year 2018/19 the median local authority pension fund participating in PIRC's performance measurement benchmarking universe delivered an investment return of 6.6%, which is below the 30 year average of around 8%, but broadly in line with actuarial assumptions which are currently around 4% per annum. The Camden Pension Fund lagged the average LGPS fund return, achieving an overall return of 4.9% in 2018/19.. The Fund's performance compares adequately against the strategic benchmark return of 3.8% per annum as per the 2016 triennial valuation.

Active global equity managers performed strongly in 2018/19, with the average global equity portfolio outperforming the relevant comparable index by nearly 3%. Emerging markets returns were flat at 0%; Japanese markets achieved negative returns at -1.2% and Asian (excluding Japanese) markets returned 2.9%. On average, local authority pension funds achieved a return on global equities of 7.3%. In comparison, Camden's active global equities mandate with Harris Associates and Baillie Gifford provided returns of -0.8% and 7.7% for the year, respectively, whilst the Fund's passive global equity allocation to Legal & General recorded a return of 6.5% in 2018/19.

In general, UK equities outperformed other major overseas markets other than North America generating returns of 5.7%, which is lagged the Pension Fund's passive UK equities mandate via Legal and General.

Fixed income investments (bonds) produced good positive with an average across all mandate types of 3.7%. Similar to the long term trend, index linked bonds have performed the best at 5.3% average return for LGPS funds in the year.

Private equity remains the largest of the alternative assets class and also continues to be one of the best performing within the local authority pension fund universe, delivering a return of 15.3% for the year. This compares to the Pension Fund's allocation to HarbourVest which similarly returned 15.3% for the year.

Within the local authority pension fund universe, diversified growth funds (DGFs) had been attracting investment in recent years, although the transfer of assets into DGFs slowed this year. DGFs returned 0.3% for LGPS investors, while Camden's three DGF managers, Barings, Ruffer and Standard Life produced returns of 1.6%, -1.0% and 0.3%, respectively. Overall, the fund's average DGFs return of 1.1% outperformed the LGPS universe.

Hedge fund managers generated a similar performance to DGFs in the year, returning 1.7% on average for local authority funds. The fund no longer has a hedge fund manager following the termination of Brevan Howard.

Property produced average returns of 6.2% across the LGPS universe. Most funds now have some exposure to this asset, and typically local authority funds invest in the area

through pooled vehicles which allows for broader exposure. Camden has two allocations property markets: a UK property mandate with CBRE and a global property mandate with Partners Group. CBRE achieved a return of 7.1% in 2018/19. The Pension Fund is invested in three property funds via Partners, at different stages of maturity. The 2009 European fund delivered returns of 2.9% for the year whilst the 2013 and 2017 US funds gained 18.7% and 5.9% for the year. The Fund overall average return from its property investment portfolio was 6.8% for the year outperforming the LGPS universe average.

Long Term

Across the wider local authority pension fund universe, performance has been strong over the medium and longer term. Funds have delivered positive returns in 25 out of the last 30 years at an annualised rate of 8.4% per annum – significantly ahead of actuarial assumptions of around 4%. A lot of the gains have come from equities despite the perceived risks of equity shocks (such as those occurring during after the ‘dot com’ bubble and the 2008/9 global financial crisis).

Overall, investors have enjoyed significant rewards from holding equities and most funds in the universe are overweight equities as a result of the extended period of equities outperforming expectation. Equities have produced average returns of 8.8% per annum over the past 30 years and are expected to deliver better growth than bonds (5.9% per annum over 30 years). This is an investment reward for accepting the higher degree of risk inherent in holding equities. Local Authority pension funds are long-term investors and as such expect to access these higher returns.

The Camden Pension Fund’s long term annual performance has been 9.9% over the past three years, 7.2% over the past five years, 10.2% over the past decade and 8.0% in thirty years. On average local authority funds have witnessed growth of 10.5%, 8.8%, 10.7% and 8.4% in the same time horizons.

The Fund has historically held a higher commitment to equities than the average local authority fund, and at the end of 2018/19 the Fund had an actual allocation to equities of 61%, compared to the average of 55%. The Fund now has a lower than average weighting in bonds (11% vs 19%) as well as private equity (2% vs. 5%) but has a higher allocation to diversified growth funds (14% vs. 3%) and is broadly in line with the average commitment to property and hedge funds.

Asset Allocation Strategy

The Fund's assets are invested in various different investment vehicles with the objective of both generating returns to improve the funding level and diversifying investments to reduce risk. Specialist fund managers have been appointed to invest in the different asset classes within investment parameters set by the Council in conjunction with the Fund's investment advisers. The following table details the fund managers, the mandate they operate, the value of their portfolio at 31 March 2019 and their holdings expressed as a percentage of total Fund investments.

Fund Manager	Mandate	Value at 31 March 2019 (£m)	% of Fund
Baillie Gifford (LCIV)	Equities - Global	279.79	16.89%
Harris	Equities - Global	233.18	14.08%
Legal & General	Equities - Global	274.41	16.57%
Legal & General	Equities - UK	253.39	15.30%
Insight	Absolute Return Bonds	125.05	7.55%
Legal & General	Index Linked Gilts	41.53	2.51%
HarbourVest	Private Equity	37.49	2.26%
Partners	Property - Global	83.01	5.01%
CBRE	Property - UK	92.38	5.58%
Baring	Diversified Growth Fund	125.25	7.56%
Ruffer	Diversified Growth Fund	56.88	3.43%
Standard Life	Diversified Growth Fund	47.41	2.86%
BlueCrest	Fund of Hedge Funds	0.30	0.02%
Others	Cash Holdings, etc.	6.49	0.39%
Total		1,656.56	100.00%

The sum of £6.485 million classed as 'Others' includes cash held at the Custodian of £3.749 million and a separate amount of £3.496m held in the pension fund bank account. Also included in this category is £150,000 of London CIV shares, a net creditor position of £-0.928m.

The various performance figures for the Fund are shown in the Pension Fund Accounts in **Appendix 1** starting on page 43.

The Fund's 10 Largest Holdings as at 31 March 2019

Name	Value at 31 March 2019 (£m)	% of Fund
(London CIV) Baillie Gifford Global Alpha Fund	279.79	16.89%
Legal & General UK Equity Index pooled fund	253.39	15.30%
Legal & General North America pooled fund	154.60	9.33%
Baring Dynamic Asset Allocation Fund	125.25	7.56%
Insight Investment Bonds Plus 400 pooled fund	125.05	7.55%
(London CIV) Ruffer Absolute Return	56.88	3.43%
Standard Life Global Absolute Return Strategy Fund	47.41	2.86%
Legal & General Index-Link Gilts pooled fund	41.53	2.51%
Legal & General Europe (Exc UK) Markets pooled fund	37.90	2.29%
HarbavourVest Global Fund 2016 AIF	37.50	2.26%

Corporate Engagement and Socially Responsible Investment

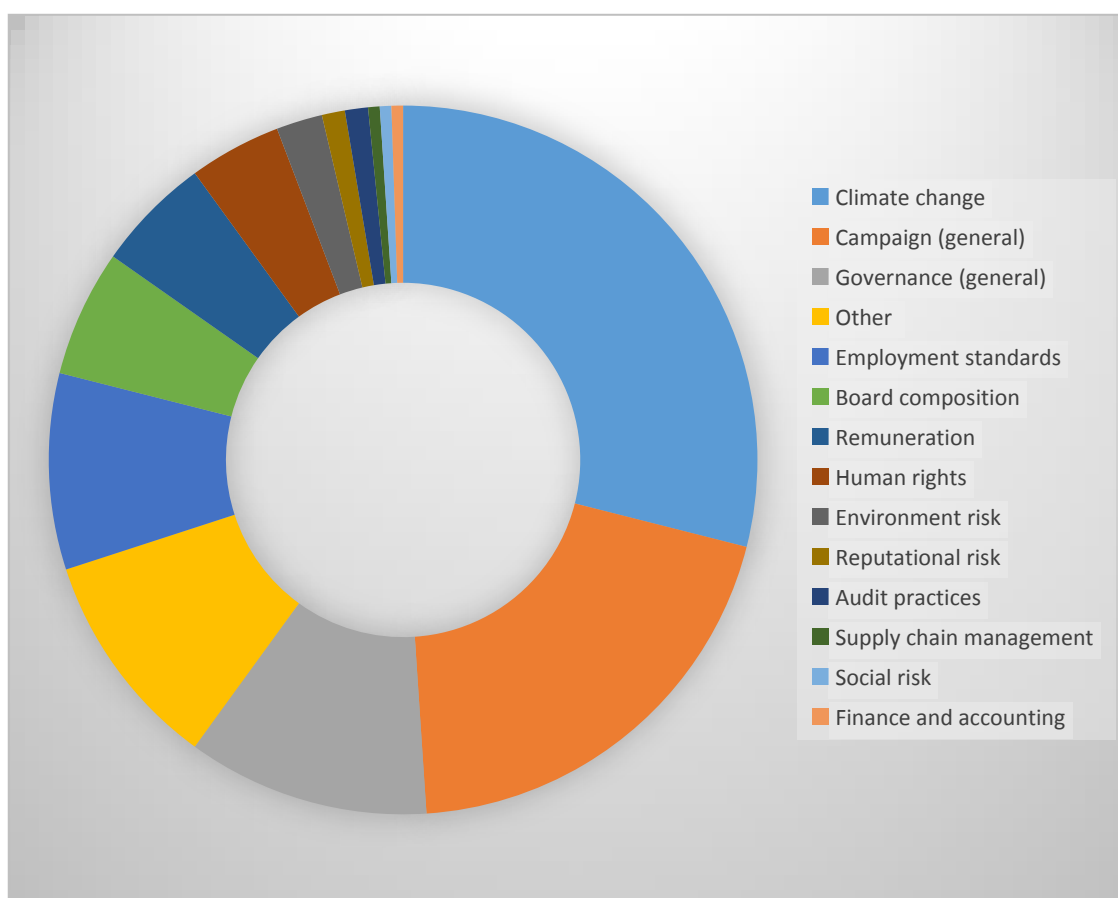
The Pension Fund is bound by law in respect of Socially Responsible Investment (SRI) policy. As stated in the Investment Strategy Statement, the Fund should, in all circumstances, act in the best financial interests of the members of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf.

The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. It also believes that companies conforming to high ethical and social standards might be expected to produce shareholder returns that are at least comparable to those produced by other companies.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF was formed in 1990 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of nearly £200 billion.

LAPFF has campaigned on a number of issues and the split of issues can be seen below. The graph is based on corporate engagement over the year to December 2018 via letters, conference calls or meetings.

LAPFF ENGAGEMENT TOPICS



The 2018 LAPFF Annual Report, summarising activity and highlighting the organisation's achievements can be found via the following link:

LAPFF ANNUAL REPORT 2018

Voting Rights

The Fund believes in the role of proactive engagement as the most effective way of influencing companies in relation to social, environmental and business policies whilst at the same time achieving financial returns compatible with the Fund's longer term financial objectives. The fund therefore places great importance on the exercise of voting rights attached to the Fund's investments.

Camden has appointed PIRC to provide the services of Corporate Governance Advisor and proxy voting agent to the Fund. The aim of the advisors has been to research companies with which the Fund has voting rights, and to ensure that those voting rights are used in the most advantageous way. The Fund has agreed a bespoke voting policy and PIRC ensure that votes are cast in line with the Camden policy for all segregated company shares, as well as the proportion of shares held in pooled UK equity fund held by the Camden.

In the year 2018/19 voting took place as follows:

Resolution Type

Vote	Occurrences	Proportion
For	8,207	71.9%
Against	3,148	27.6%
Withhold	30	0.3%
Abstain	3	0.0%
Non-Voting / Withdrawn	27	0.3%
Total	11,415	100%

The Camden Pension Fund voted shares at 655 separate company meetings during the year.

Further Information

There are more details on how the Fund engages in responsible investment in Section 7 of the Investment Strategy Statement attached as **Appendix 4** of this report.

SECTION 6: ACTUARIAL REPORT FOR THE YEAR ENDED 31 MARCH 2019

Introduction

The Scheme regulations require that a full actuarial valuation is carried out every three years. The purpose of this is to establish that the London Borough of Camden Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to assess the adequacy of employer contribution rates. The last full actuarial valuation into the financial position of the Fund was carried out as at 31 March 2016, in accordance with regulation 62 of the Local Government Pension Scheme Regulations 2013. The contribution rates for the 2018/19 financial year are based on the March 2016 valuation. The results of the 2019 triennial valuation which sets out the contribution rates for the financial years 2020/21 – 2022/23 will be published in Q4 2019.

Actuarial Position

1. Rates of contribution paid by the participating Employers during 2018/19 corresponded to those stipulated in the actuarial valuation carried out as at 31 March 2016. The rates of contribution from the March 2016 valuation cover the three financial years from 2017/18 up to 2019/20.
2. The valuation as at 31 March 2016 indicated a funding ratio of 76.2%, with the value of the Fund's assets (£1,249 million) representing 76.2% of the assessed liabilities (£1,639 million). The increase in the funding ratio is primarily a result of strong investment performance over the inter-valuation period. The liabilities also increased due to a reduction in the future expected investment return compared with 2013, although this has been partially offset by lower than expected pay and benefit growth.
3. The valuation also calculated that the required level of contributions to be paid by the Fund by participating Employers (in aggregate) with effect from 1 April 2017 was as set out below:

- 18.9% of pensionable pay to meet the liabilities arising from service accruing after the valuation date by current employees.

- the following monetary amounts to the fund deficit over a period of 17 ½ years from 1 April 2017.

Financial Year	2018/19	2018/19	2019/20
Monetary Amount	£20,307,000	£21,107,000	£22,209,000

4. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile and the recovery period agreed with the Administering Authority.

The rates of contributions payable by each participating Employer over the period 1 April 2017 to 31 March 2020, with comparison to the rates of 2016/17, are set out in

the rates and adjustments certificate, which is appended to the actuary's final valuation report, which can be found through the following link:

[Camden Pension Fund Actuarial Valuation Report 2016](#)

5. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.
6. The main actuarial assumptions were as follows:

Financial Assumptions	31 March 2013 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	4.6%	3.8%
Price inflation	3.3%	2.1%
Pay increases	4.3%	2.8%
Pension increases:		
pension in excess of GMP	2.5%	2.1%
post-88 GMP	2.5%	2.1%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.5%	2.5%
Expenses	0.6%	0.8%

7. This report has been prepared using information from the Actuarial Valuation as at 31 March 2016 supplied by the Fund's actuaries Hymans Robertson LLP.

SECTION 7: FUNDING STRATEGY STATEMENT

Introduction

All LGPS funds are required to prepare and maintain a Funding Strategy Statement (FSS) in accordance with Regulation 35 of the Local Government Pension Scheme (Administration Regulations 2008).

The Funding Strategy Statement from December 2016 is attached as **Appendix 3** of this report.

Implementation and Review

The FSS is reviewed formally at least every 3 years as part of the triennial actuarial valuation of the Fund. The valuation exercise establishes contributions for all employers contributing to the Fund for the following 3 years within the framework provided by the strategy.

The Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- if there have been significant changes to the Fund membership, or LGPS benefits.
- if there have been changes to the circumstances of any of the employers to such an extent that they impact on or warrant a change in the funding strategy.
- if there have been any significant special contributions into the Fund.
- If there have been any amendments to administration regulations.

The authority carries out detailed monitoring of investment performance on a quarterly basis via its Pension Committee. This includes monitoring of investment performance relative to the growth in the liabilities by means of quarterly funding updates provided by the actuary.

Discussions take place at regular intervals with the Actuary as to whether any significant changes have arisen which require immediate action.

In September 2016 CIPFA published revised Guidance for Local Government Pension Scheme (LGPS) Funds concerning the FSS. These changes meant the Fund's existing FSS, published in November 2015, was no longer fit for purpose and therefore a new FSS was agreed which complies with agreed in December 2016. The major changes in the latest FSS are summarised below:

- descriptions of the new employer risk profile approach to setting contributions,
- descriptions of updated assumptions for 2016,
- allowance for the new regulatory regime, in particular the requirements of Section 13 of the Public Service Pensions Act 2013,

- any changes to the Fund's employer contribution strategy arising during the valuation process,
- other changes arising from CIPFA guidance, such as the need to reflect the new governance arrangements involving the Pensions Board.

SECTION 8: INVESTMENT STRATEGY STATEMENT

The [Local Government Pension Scheme \(Management and Investment of Funds\) Regulations 2016](#) came into force on 1 November 2016 requiring funds to formulate an Investment Strategy Statement (ISS) after taking proper advice.

The ISS must include the following:

- 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 policy 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 Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This is known as the prudential framework and means funds now have control over limits placed on specific types of investment.

The Fund must review and revise this statement regularly and at least once every three years. The Fund also has a duty to consult relevant parties and for this Fund we will be consulting all employers who participate in the Fund.

The Investment Strategy Statement for the London Borough of Camden Pension Fund is attached at **Appendix 4** of this report.

SECTION 9: COMMUNICATIONS POLICY STATEMENT

Since December 2010 pension fund information has been made available on the Camden website.

Some of the features of the website are:-

- ☐ Navigation – the pension pages can now be easily accessed by using the address www.camden.gov.uk/pensions in a web browser or by entering 'pensions' or 'pension fund' into the search facility from the Camden website homepage
- ☐ Finding information – we have adopted the principles of having a separate gateway from the pensions homepage to information and forms under a number of headings – active scheme member, deferred member, pensioner, Councillor, Pension Fund Investments and employers
- ☐ Updating the pages – members of the Pension team have been trained in web publishing and given responsibility to ensure the pages are maintained and regularly updated
- ☐ Raising the profile of the pension pages – whenever a scheme member requests information or form (e.g. a death grant nomination form/change of bank form/details for paying additional contributions) they are encouraged to self-serve using the web pages. Reference to the web pages will be made in all communication from the Pensions Administration Shared Service and all newsletters are available in the first instance online, unless a member does not have internet access in which case they will be provided with a hard copy.
- ☐ General information for scheme members will be available via links to external websites (DWP/HMRC etc.) to help set LGPS benefits in the wider context of state benefits and general taxation

The Camden Pension Fund Communications Policy Statement is attached at **Appendix 5**.

SECTION 10: FURTHER INFORMATION

Sources of help

The Pension Tracing Service

The Pension Tracing Service online holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members (and their dependents) with pension entitlements, who may have lost touch with earlier employers.

www.gov.uk/find-lost-pension

The Pensions Advisory Service (TPAS)

TPAS is available to help members and their beneficiaries with any pensions query, or to resolve any difficulties encountered that have not been resolved with the Council. Enquiries should be addressed to:

The Pensions Advisory Service
120 Holborn,
London, EC1N 2TD

Tel: 0800 011 3797

www.pensionsadvisoryservice.org.uk/

The Pensions Regulator

The Pensions Regulator regulates pension schemes such as the LGPS and is able to intervene in the running of the scheme where managers, employers or professional advisers have failed in their statutory duties. The Regulator can be contacted at:

Napier House,
Trafalgar Place,
Brighton BN1 4DW

Tel: 0345 600 1011

www.pensionsregulator.gov.uk

The Pensions Ombudsman

If a complaint or dispute cannot be resolved, it can be passed to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any dispute of fact, law or maladministration involving occupational pension schemes.

This service is available to members and beneficiaries.

The Pensions Ombudsman can be contacted at the following address:

10 South Colonnade,
Canary Wharf,
London E144PU

Tel: 020 7630 2200

www.pensions-ombudsman.org.uk

Ministry of Housing, Communities and Local Government

The LGPS is a statutory pension scheme with regulations laid down by Parliament by the Secretary of State for Housing, Communities and Local Government.

The Secretary of State can be contacted by writing to:

Secretary of State of Housing, Communities and Local Government
2 Marsham Street
London SW1P 4DF
Tel: 0303 444 0000

<https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government>

SECTION 11: GLOSSARY OF PENSION TERMS

Accrual

The recognition of income and expenditure as it is earned or incurred, rather than as cash is received or paid.

Active Mandate

A portfolio management strategy where the manager actively builds and repositions portfolios to take advantage of apparently favourable market opportunities. It results in portfolios which differ in terms of holdings or weightings from the structure of the manager's benchmark.

Actuary

An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The actuary then produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Added years

Additional service that a member of the Fund can buy by paying extra contributions to the Fund providing that HM Revenue & Customs limits on pension and contributions are not exceeded.

Additional Voluntary Contributions (AVC's)

An option available to individual members to secure additional pension benefits by making regular payments to the Pension Fund's AVC provider.

Asset Allocation

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through tactical asset allocation decisions.

Asset Class

A collective term for investments of a similar type. The main asset classes are equities (shares), bonds, cash and property.

Benchmark

A yardstick against which the investment policy of performance of a fund manager can be compared. Asset allocation benchmarks vary from peer group (e.g. the average fund as measured by one of the performance companies) to customized benchmarks tailored to a particular fund's requirements.

Career Average Revalued Earnings (CARE) Scheme

A pension scheme that provides a pension/lump sum or pension calculated as a proportion of a member's average pay throughout their membership, and dependent on the length of membership in the scheme.

Cash Transfer Values

The capital value of a benefit entitlement paid into or withdrawn from the Fund when an employee joins or leaves the scheme with a pension transfer.

Corporate Bond

Strictly speaking, corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by Governments in their own currencies. Therefore the credit sector, as it is often known, includes issues by companies, supranational organizations and Government agencies.

Custody

Administering of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax claims and provide other services, according to client instructions.

Deferred Pension

The pension benefit payable from Normal Retirement Age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

Defined Benefit Scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promise.

Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce risk.

Emerging Markets

Stock Markets in developing countries (as defined by the World Bank).

Equities

Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder meetings.

Final Pensionable Pay

Pensionable Pay earned in the last 12 months before retirement (or any one of the previous two years if annual earnings in either of these years are higher).

Final Salary Scheme

A pension scheme that provides a pension/lump sum or pension calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed Interest

An income stream which remains constant during the life of the asset, such as income derived from bonds, annuities and preference shares.

Fixed Interest Securities

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. Investments in Government stocks represent loans to Government which are repayable on a stated future date.

Index

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market

Mandate

The agreement between a client and investment manager outlining how the fund is to be managed. May include performance targets by reference to a benchmark.

Passive Management

A portfolio management strategy where a portfolio is designed on a long-term basis to meet specific return parameters (e.g. achieving a target rate of return, matching a set of future liabilities, matching a benchmark return). A passive index fund, where most or all of a specified market index's constituent securities are owned in the same proportion as the index in order to match its return, is a common form of management.

Pensionable Pay

Basic pay excluding non-contractual overtime, bonus and shift payments.

Pooled Funds

Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Return

The value received (Income plus capital) annually from an investment, usually expressed as a percentage.

Unlisted Securities

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

Valuation

A summary of an investment portfolio showing the holdings and their value as at a certain date.

Abbreviations

CIPFA Chartered Institute of Public Finance and Accountancy

DCLG Department for Communities and Local Government

LGPS Local Government Pension Scheme

SORP Statement of Recommended Practice

APPENDIX 1: FUND ACCOUNTS & NET ASSETS STATEMENT

Pension Fund Account

Pension Fund Explanatory Foreword

Introduction

The Council is the administering authority for the Camden Pension Fund. The Fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Accounts have been prepared in accordance with the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom, issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

All employees become members on appointment with London Borough of Camden, or a scheduled or admitted body. The Fund's income is derived from contributions from employees and employers and income from investments.

The Fund operates as a defined benefit scheme and provides retirement pensions and lump sum allowances, widows' and children's pensions and death gratuities.

The LGPS 2014 reforms came into effect from 1st April 2014. These regulations change the scheme from one based on final pay to one based on career average pay.

The following description of the Fund is a summary only. For further detail, reference should be made to the 2017/18 London Borough of Camden Pension Fund Annual Report (available for download from <http://democracy.camden.gov.uk/documents/s71884/Item%2008%20-%20Appendix%20ANNUAL%20REPORT%202017-18%20Final.pdf>) and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972, the Public Sector Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations. The 2018/19 Pension Fund Annual Report will be available in September 2019.

Fund Management

The day-to-day management of the Fund investments is carried out by the professional fund managers. As at 31 March 2019 there were 10 managers (31 March 2018: 11 professional fund managers) investing on behalf of the Fund:

- Baillie Gifford & Co (London LGPS CIV Ltd)
- Baring Asset Management Ltd
- CB Richard Ellis Global Investment Partners Ltd
- HarbourVest Partners LLP
- Harris Associates LP
- Insight Investment Funds Management Ltd
- Legal & General Investment Management Ltd
- Partners Group Management II S.A.R.L.
- Ruffer LLP (London LGPS CIV Ltd)
- Standard Life Investments Ltd

The Pension Committee at the meeting held on 27 February 2019 terminated the investment mandate of Insight Investment Funds Management Ltd and appointed CQS Investment Management Ltd (London CIV Ltd) as the fixed income fund managers. The

Committee also agreed that transitioning of assets between Insight Investment and CQS Investment should be phased quarterly – the first phase occurred on 31 May 2019.

The London LGPS CIV Ltd is a regulated fund manager that represents the pooled investments of 32 Local Authority Pension Funds. The London CIV has an Authorised Contractual Scheme fund structure. The umbrella fund (the CIV) has a range of sub-funds comprising different asset classes which are available for investment by participating local authorities, including both the Baillie Gifford & Co Global Alpha Growth Fund, the Ruffer LLP RF Absolute Return Fund and CQS Investment Management Ltd.

Each manager operates within mandated investment management agreements and targets determined by the Council's Pension Committee.

Overall investment strategy is the responsibility of the Pension Committee, which consists of eight councillors.

In 2018/19 the Pension Committee received advice from the Executive Director Corporate Services, the Borough Solicitor and other officers, as well as the fund managers and the following professional consultants:

- Hymans Robertson LLP (Actuarial & Benefit Services)
- AON Hewitt (Investment Consultancy)
- KPMG (Investment Consultancy) – replaced AON Hewitt as the Fund's statutory consultants
- Karen Shackleton (Independent Investment Advisor)
- PIRC (Corporate Governance Services)

Committee meetings are held quarterly. The details of the meetings, including agendas, minutes and regular reports on the Fund's performance, can be found through the Pension Committee website:

<http://democracy.camden.gov.uk/ieListMeetings.aspx?CommitteeId=652>

The market value of the assets (including cash & income receivable) held by the Fund Managers, the Custodian and the Council as at 31 March 2019 is as follows:

2017/18		Fund Manager/Custodian	2018/19	
£'000	%		£'000	%
257,256	16.3%	Baillie Gifford & Co (London CIV)	279,791	16.9%
123,277	7.8%	Barings	125,254	7.6%
584	0.0%	BlueCrest	302	0.0%
41,476	2.6%	Brevan Howard	0	0.0%
86,354	5.5%	CBRE	92,382	5.6%
29,222	1.8%	HarbourVest	37,485	2.3%
234,965	14.9%	Harris Associates	233,178	14.1%
132,265	8.4%	Insight	125,054	7.5%
536,063	33.9%	Legal & General	569,332	34.4%
72,967	4.6%	Partners Group	83,011	5.0%
14,026	0.9%	Ruffer (London CIV)	56,879	3.4%
47,561	3.0%	Standard Life	47,406	2.9%
150	0.0%	London CIV	150	0.0%
3,369	0.2%	JPM Custodian Cash Account	3,749	0.2%
680	0.0%	Council	2,568	0.2%
1,580,215	100%		1,656,541	100%

Actuarial Valuations

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' contribution rates to the Fund necessary to ensure that present and future commitments can be met. The last completed actuarial valuation of the Fund was carried out as at 31 March 2016. Contribution rates took effect from 1 April 2017. The fund will be revalued as at the 31 March 2019 with the result available in the autumn and new contribution rates for employers taking effect from 1 April 2020. The full valuation report can be read here:

<http://democracy.camden.gov.uk/ieListDocuments.aspx?CId=652&MId=6047&Ver=4>

The market value of the Fund's assets at the 2016 valuation date was £1.249bn. The actuarial value of the Fund's accrued liabilities, allowing for future pay increases, was £1.639bn; therefore there was a shortfall of £390m and the fund was 76.2% funded.

The employers' contribution rates were calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

CPI inflation	2.1% per annum
Pay increases	2.8% per annum
Gilt-based discount rate	2.2% per annum
Funding basis discount rate	3.8% per annum

Assets were valued at the discounted value of future income assuming a 1.6% per annum average growth on income reinvested, known as the asset outperformance adjustment. This assumes that dividend income would be re-invested, and would share in the long-term growth in capital value of those investments.

At the prior actuarial valuation on 31 March 2013 the assets were valued as sufficient to meet 75.6% of the liabilities. The employer's contribution rate from 2014/15 to 2016/17 was calculated as 35.1% of pensionable pay. This is the average employer contribution rate required for the three years starting in 2014/15. The Council agreed a contribution strategy with a cap of 1% on increases (and decreases) to its Employer Contribution, following agreement with the Fund's actuary, meaning that in 2018/19 the contribution rate from the Administering Authority was 31.6% (30.3% in 2017/18).

Fund Portfolio and Diversification

The Regulations require that the Members of the Pension Committee and Fund Managers should pay regard to the need to diversify investments and also to the suitability of particular investments. The Fund's Investment Strategy Statement and Funding Strategy Statement can be found within the Annual Report on the Pension Fund website:

<http://democracy.camden.gov.uk/documents/s71884/Item%2008%20-%20Appendix%20ANNUAL%20REPORT%202017-18%20Final.pdf>

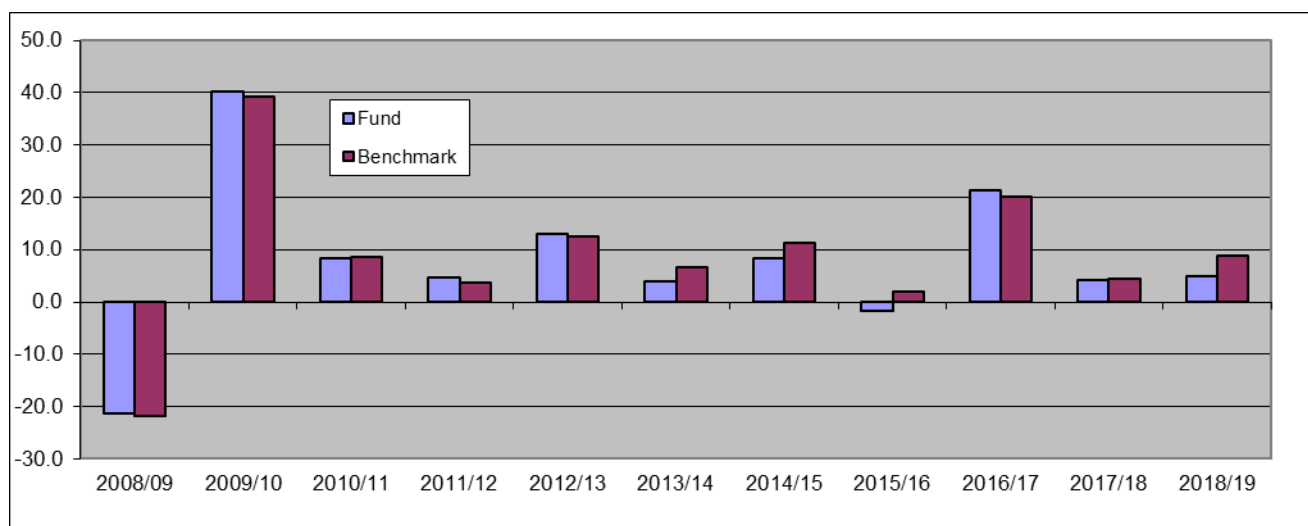
Admitted and Scheduled Bodies

The admitted bodies and scheduled bodies which made contributions to the Fund in 2018/19 were as follows:

Admitted Bodies	
Abbey Road Housing Co-op	National Association for Local Councils
Agar Grove Housing Co-op	NSL Ltd
Age UK Camden	Outward Housing
Camden Citizens Advice Bureau	RM Education Ltd
Caterlink Ltd	Veolia
Chalk Farm Housing Group	Voluntary Action Camden
Coram Family	Westminster Society
Creative Support Ltd	
Greenwich Leisure Ltd	Scheduled Bodies
Home Connections	Abacus Belsize School
Improvement & Development Agency	Children's Hospital School
Land Data CIC	King's Cross Academy
Mears Care Ltd	St Luke's School
MiHomecare Ltd	UCL Academy
MITIE PFI	WAC Arts School

Returns

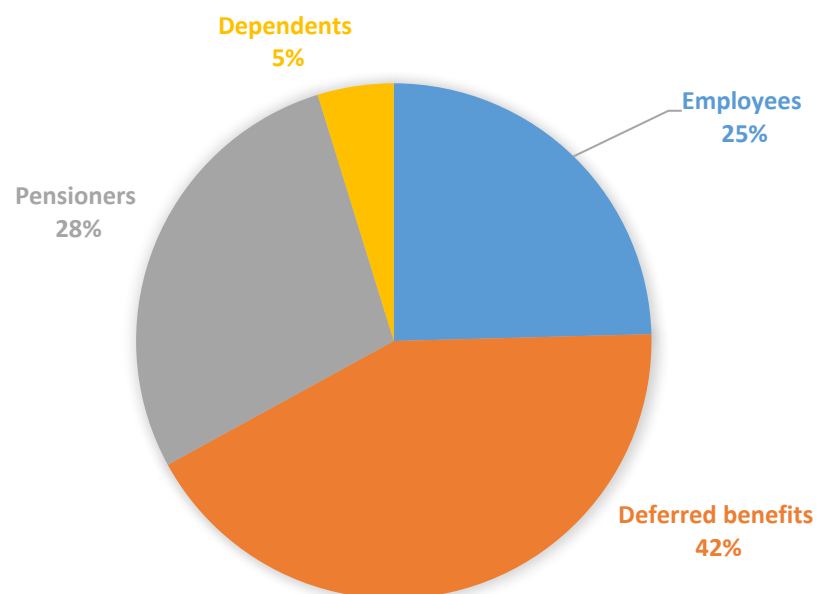
The overall value of the Fund has risen by 160% during the last ten years. The diagram below provides a comparison between the performance of Camden's Fund and that of the average of other funds participating in benchmarking exercises, including company pensions, for each year over this period. It shows the time-weighted return on investments for each calendar year. The comparative information is based on figures prepared by the WM Company up to and including the year 2015/16, and by the Pensions & investment Research Consultants Limited (PIRC) thereafter, who have provided similar benchmarking data.



Membership

Total membership of the Fund at 31 March 2019 was 21,853 (21,456 in 2018). Within the totals shown in the pie chart below are 629 employees, 1,132 deferred, 768 pensioners and 63 dependants attributable to admitted bodies and scheduled bodies.

	31-Mar-18	31-Mar-19
Employees	5,194	5,371
Deferred benefits	9,224	9,276
Pensioners	5,985	6,163
Dependents	1,053	1,043
	21,456	21,853



TOTAL MEMBERSHIP (21,853)

Benefits

Pension Benefits under the LGPS are based on pensionable pay and length of pensionable pay and length of pensionable service up until 31 March 2019, summarised below:

	Pension	Lump Sum
Service Pre 1 April 2008	Each year worked is worth $\frac{1}{80}$ x final salary.	Automatic lump sum of 3 x salary. In addition part of the annual pension can be exchanged for a one-off tax free cash payment (known as a commutation). A lump sum of £12 is paid for each £1 of pension given up.
Service Post 31 March 2008 – 31st March 2014	Each year worked is worth $\frac{1}{60}$ x final salary	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment (known as a commutation). A lump sum of £12 is paid for each £1 of pension given up.
Service Post 31 March 2014	Each year worked is worth $\frac{1}{49}$ x pensionable earnings of that year (career average). Benefits are held in a pension account and revalued each year in-line with inflation.	Members of the LGPS before April 2008 have built up benefits which will include an automatic lump sum. In the new scheme eligible members are still entitled to the aforementioned benefit but can also exchange some pension to get a tax-free cash lump sum (known as a commutation). Every £1 of pension sacrificed is equivalent to £12 of tax-free lump sum (subject to HM Revenue & Customs limits).

There are a range of other benefits provided under the scheme including early retirement, disability pension and death benefits. For more details, please refer to <https://www.lgpsmember.org/>

Pension Fund Account

In compiling the 2018/19 Statement of Accounts the London Borough of Camden use investment data from its custodian, JP Morgan.

2017/18 £'000		Notes	2018/19 £'000
	Contributions receivable:		
47,462	From employers		51,035
10,990	From members		11,288
911	Pension strain	4	325
59,363		3	62,648
	Transfers in from other pension funds:		
8,342	Transfers in (individual)		9,039
	Benefits payable:		
(47,855)	Retirement pensions		(49,869)
(9,475)	Commutation of pensions and lump sum retirement benefits		(10,045)
(919)	Lump sum death benefits		(977)
(58,249)		3	(60,891)
	Payments to and on account of leavers:		
(5,086)	Transfers out (individual)		(7,132)
(192)	Refund of contributions		(138)
(5)	Contribution equivalent premia	5	(74)
(5,283)			(7,344)
	Other payments:		
(701)	Administration costs	7	(1,247)
(156)	Other expenditure	7	(112)
(857)			(1,359)
3,316	Net additions from dealing with members		2,093
	Returns on investments		
20,736	Investment income	8	22,761
(261)	Tax deducted from investment income		(381)
(11,553)	Management fees	9	(7,870)
51,376	Change in market value of investments	10	59,724
60,298	Net returns on investments		74,233
63,614	Net increase/(decrease) in the Fund		76,326
1,516,601	Net assets at 1 April 2018		1,580,215
1,580,215	Net assets at 31 March 2018		1,656,541

Pension Fund Net Assets Statement

Both the 2018 and 2019 investment valuations above are drawn from the custodian reporting system.

31 Mar 18 £'000		Notes	31 Mar 19 £'000
	Investments assets at market value		
	Pooled investment vehicles:		
132,265	Fixed interest securities	12,13	125,054
39,284	Index linked securities	12,13	41,533
249,060	UK equities	12,13	253,385
504,976	Overseas equities	12,13	611,084
29,222	Private equity	12,13	37,485
153,532	Pooled property investments	12,13	172,572
42,060	Fund of hedge funds	12,13	172,660
184,864	Diversified growth funds	12,13	0
1,335,263			1,413,773
	Directly owned investment assets:		
27,976	UK equities	12,13	27,367
199,089	Overseas equities	12,13	201,868
16,346	Cash deposits	12,13	8,603
1,169	Derivative contracts: forward foreign exchange	16	540
1,995	Investment income receivable	12,13	2,256
435	Amounts receivable from sales	12,13	4,796
1,582,273	Total investment assets		1,659,203
	Investments liabilities at market value		
(1,565)	Amounts payable for purchases	12,13	(4,691)
(1,173)	Derivative contracts: forward foreign exchange	16	(540)
(2,738)	Total investment liabilities		(5,231)
	Other net assets		
1,095	Cash held by Camden	12,13	1,442
0	Pension Fund bank account	12, 13	3,497
1,214	Current assets	15	144
(1,629)	Current liabilities	15	(2,514)
1,580,215	Total net assets		1,656,541

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2019, but excludes long-term liabilities to pay pensions and benefits in future years.

Note 1 Accounting Policies

i) The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in Note 2 of these accounts.

ii) Investments are shown in the Net Assets Statement at market value. Market valuations are as provided by the Custodian and are based on bid values as at the Net Assets Statement date. Values of 3rd party assets for which the JPM Pricing team cannot source values are priced using the latest accounting reports provided by the investment manager, and if this valuation point differs to year end the Net Asset Value is adjusted for any further drawdown at cost. Prices in foreign currencies are translated at the closing rates of exchange as at 31st March 2019.

iii) Assets and liabilities in overseas currencies are translated into Sterling at the exchange rates prevailing at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.

iv) The cost of administration is charged directly to the Fund partly by the Administering Authority, London Borough of Camden, and partly by the Pension Shared Service which jointly administers benefits on behalf of Camden, Wandsworth, Richmond, Waltham Forest and Merton.

v) Income due from equities is accounted for on the date stocks are quoted ex-dividend.

vi) Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

vii) Income from other investments is accounted for on an accruals basis.

viii) The change in market value of investments during the year comprises

all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.

ix) When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.

x) Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.

xi) Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate, at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with

the agreement under which they are paid, or in the absence of such agreement, when received.

xii) Under the rules of the scheme, members may receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.

xiii) Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

xiv) 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.

xv) All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

xvi) Cash comprises demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are

subject to minimal risk of changes in value.

xvii) The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a supporting note to the accounts (Note 2).

xviii) The Fund provides two additional voluntary contribution (AVC) schemes for its members. Assets are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Phoenix Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are disclosed as a note only (Note 17).

Note 2 Actuarial Valuation

In addition to the triennial valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities every year, on an IAS 19 basis. For 2018/19 Hymans Robertson carried out this analysis, and their reported findings can be found in the accompanying report.

<http://democracy.camden.gov.uk/ieListDocuments.aspx?CId=652&MId=6047&Ver=4>

Note 3 Analysis of Contributions and Benefits

2017/18 £'000		2018/19 £'000
	Contributions receivable	
52,731	Administering authority	55,574
552	Scheduled bodies	625
6,080	Admitted bodies	6,449
59,363		62,648
	Benefits payable	
(49,615)	Administering authority	(52,609)
(234)	Scheduled bodies	(238)
(8,400)	Admitted bodies	(8,044)
(58,249)	Total	(60,891)

Note 4 Pension Strain

This is a payment to the Pension Fund from employers to make up for the funding shortfall following early retirement or ill health retirement.

Note 5 Contributions Equivalent Premia

This is a payment to HM Revenue and Customs to reinstate employees into the State Second Pension. This applies only to employees who have received a refund of contributions.

Note 6 Related Party Transactions

The Camden Pension Fund is administered by Camden Council, and consequently there is a strong relationship between the Council and the Pension Fund.

In 2018/19 £110k was paid to the Council for accountancy services (£107k in 2017/18), and £424k was paid to the Pension Shared Service located at Wandsworth Council for pensions administration (£395k in 2017/18).

As at 31 March 2019, a cash balance of £1,442k relating to the Pension Fund was owed to Pension Fund by the Council (£1,095k was owed to the Council at 31 March 2018). The Pension Fund bank account, which was opened during the year, had a balance of £3,497k.

There were no other transactions with related parties other than those which are disclosed elsewhere within the accounts.

Note 7 Administrative Costs and Other Expenditure

Regulations permit the Council to charge administration costs to the scheme. A proportion of relevant Council officers' salaries, including on-costs, have been charged to the Fund on the basis of estimated time spent on scheme administration and investment related business.

Administration Costs

2017/18 £'000		2018/19 £'000
395	Pensions administration charge	424
65	Systems Management	214
107	Officers' salaries	110
100	London Collective Investment Vehicle*	71
33	Other	34
0	Pensions Administration Recovered Expenses	395
1	Legal Services	0
701	Total	1,247

*In 2018/19 the Fund paid an annual service charge totalling £25k (2017/18: £25k) to the London CIV. An additional development funding charge totalling £51k was paid in 2018/19 (2017/18: £75k). The development funding charge is in order to cover the cash flow imbalance between annual revenues and costs during the early stages of the London CIV's development.

Other Costs

2017/18 £'000		2018/19 £'000
47	Actuarial advice	22
59	Investment consultancy	50
18	Audit	16
27	Corporate governance	20
5	Performance measurement	5
156	Total	112

The development charge will decline year on year to £10k in 2021/22.

Other Expenditure included the following items:

**Custodian costs for 2018/19 are reported alongside investment management expenses under note 9.

Note 8 Pension Fund Investment Income

A detailed breakdown of funding investment income from all managers is shown below:

2017/18		2018/19
£'000		£'000
452	UK equities	596
4,598	Overseas equities	5,119
13,885	Pooled property investments	14,113
1,867	Pooled investment vehicles	2,946
(66)	Interest on cash deposits	(13)
20,736	Total income before taxes	22,761

Note 9 Investment Management Expenses

The fees levied by the Fund Managers and the Fund Custodian were as follows:

2017/18 £'000		2018/19 £'000
984	London CIV*	1,289
593	Barings*	636
1,044	Brevan Howard*	548
160	CB Richard Ellis	263
2,054	HarbourVest*	506
1,323	Harris	1,240
1,174	Insight	586
30	JP Morgan (Custodian)	38
41	Legal & General	42
3,689	Partners Group*	2,257
461	Standard Life*	465
11,553	Total	7,870

*includes management fees totalling £5.7m deducted from fund assets at source but have been "grossed-up" in the accounts to aid transparency.

Investment management expenses are further analysed over the following expenditure categories:

2017/18 £'000		2018/19 £'000
8,830	Management fees	6,790
1,892	Performance related fees	899
30	Custody fees	42
801	Transaction costs	139
11,553	Total income before taxes	7,870

Note 10 Change in Market Value of Investments

	Realised Gain/(Loss) £'000	Unrealised Gain/(Loss) £'000	Movement 2018/19 £'000
<u>Pooled investment vehicles:</u>			
- Fixed interest securities	0	(7,211)	(7,211)
- Index linked securities	0	0	0
- UK equities	1,786	16,288	18,074
- Overseas equities	447	45,204	45,651
- Private equity	(169)	4,761	4,592
- Pooled property investments	(1,006)	(2,583)	(3,588)
- Fund of hedge funds	6,182	(4,155)	2,026
- Diversified growth funds	0	1,697	1,697
	7,240	54,001	61,241
<u>Directly owned investment assets:</u>			
- UK equities	567	(2,768)	(2,201)
- Overseas equities	10,043	(15,403)	(5,360)
Total	17,850	35,830	53,680
Cash deposits	275	148	422
Currency	14	3	17
Derivative contracts: forward foreign exchange	4	0	4
Amounts payable for purchases	(98)	(1)	(100)
Total	18,043	35,980	54,023
Gross-up of Investment Manager Fees netted off fund value			5,701
2018/19 Movement on Investments			59,724

Note 11 – Purchases and Sales

Pension Fund Purchases and Sales by Asset Type for the year ended 31 March 2019:

2017/18 £'000		2018/19 £'000
Purchases		
	<u>Pooled Investment Vehicles:</u>	
130,946	- Fixed Interest securities	0
4,335	- Global equities	48,902
12,302	- Private equity	0
20,828	- Property	8,743
14,121	- Diversified Growth Fund	125
64	- Fund of Hedge Funds	0
182,595		57,770
	<u>Directly Owned Assets:</u>	
21,151	- UK equities	11,465
77,041	- Overseas equities	79,116
610	- Derivative contracts: forward foreign exchange	490
281,396	Total Purchases	148,840
Sales		
	<u>Pooled Investment Vehicles:</u>	
(130,946)	- Fixed interest securities	0
(2,250)	- UK equities	(11,500)
(2,559)	- Global equities	(2,471)
(6,931)	- Property	13,885
0	- Private equity	3,671
(14,633)	- Fund of Hedge Funds	(44,086)
(157,318)		(40,500)
	<u>Directly Owned Assets:</u>	
(16,214)	- UK equities	(9,873)
(80,957)	- Overseas equities	(70,975)
(610)	Derivative contracts: forward foreign exchange	(507)
(255,099)	Total Sales	(121,856)

Note 12 Analysis of Investments at Market Value

31-Mar-18 £'000		31-Mar-19 £'000
	Equities (UK)	
27,826	Quoted	41,536
150	Unquoted	150
	Overseas	
199,089	Quoted	189,738
0	Unquoted	0
227,065		231,423
	Pooled Investment Vehicles (UK)	
132,265	Fixed income	125,054
39,284	Public sector index linked	41,533
249,060	Equities	253,385
42,060	Fund of Hedge Funds	302
61,587	Diversified Growth Funds	104,285
80,565	Property	92,382
	Overseas	
504,976	Equities	554,215
123,277	Diversified Growth Funds	125,254
72,967	Property	83,011
29,222	Private equity	37,485
1,335,263		1,416,896
	Other Assets	
1,169	Forward currency contracts	540
16,346	Cash deposits	3,282
1,995	Investment income due	2,256
435	Amounts receivable from sales	4,796
19,945		10,874
1,582,273	Total investment assets	1,659,204
	Other Liabilities	
(1,173)	Forward currency contracts	(540)
(1,565)	Amounts payable for purchases	(4,691)
(2,738)	Total liabilities	(5,231)
1,579,535	Net investment assets	1,653,973

Note 13 Valuations by Fund Managers

2017/18 £'000		2018/19 £'000		2017/18 £'000		2018/19 £'000	
Baring Asset Management Ltd				Insight Investment			
123,277	- Pooled investment vehicle - Diversified Growth Fund	125,254		132,265	- Pooled investment vehicle (Fixed interest securities)	125,054	
123,277		125,254		132,265		125,054	
BlueCrest				Legal & General Assurance Ltd			
584	- Pooled investment vehicle - Fund of Hedge Funds	302		39,284	- Pooled investment vehicle (Index linked securities)	41,533	
584		302		249,061	- Pooled investment vehicle (UK equities)	253,385	
Brevan Howard				247,718	- Pooled investment vehicle (Global equities)	274,414	
41,476	- Pooled investment vehicle - Fund of Hedge Funds	0		536,063		569,332	
41,476		0		London CIV Ltd (Baillie Gifford)			
CB Richard Ellis Collective Investors Ltd				257,258	- Pooled investment vehicle (Global equities)	279,791	
60,753	- Property - Managed Funds	67,689		257,258		279,791	
19,812	- Property - Unit Trusts	21,872		London CIV Ltd (Ruffer)			
6,073	- Cash	2,756		14,026	- Pooled investment vehicle - Diversified Growth Fund	56,879	
132	- Income Receivable	65.64		14,026		56,879	
(416)	- Amounts payable for the purchases	0		Partners Group (UK) Ltd			
86,354		92,382		72,967	- Pooled investment vehicle - Global property	83,011	
HarbourVest				72,967		83,011	
29,222	- Pooled investment vehicle - Private equity	37,485		Standard Life			
29,222		37,485		47,561	- Pooled investment vehicle - Diversified Growth Fund	47,406	
Harris Associates L.P.				47,561		47,406	
27,826	- UK equities	27,217		JPM Custodian Cash Account			
199,089	- Overseas equities	201,869		2,379	- Cash	2,723	
1,169	- Derivative contracts: forward foreign exchange assets	540		990	- Income Receivable	1,026	
873	- Income Receivable	1,164		3,369		3,749	
7,894	- Cash	3,124		Council			
435	- Amounts receivable from sales	4,796		150	- UK equities	150	
	- Derivative contracts: forward foreign exchange liabilities	(540)		150		150	
(1,173)				1,579,535 TOTAL MARKET VALUE			
(1,150)	- Amounts payable for purchases	(4,992)		1,653,973			
234,963		233,178					

The UK equities owned directly by the Fund are holdings in the London LGPS Collective Investment Vehicle Ltd which represents 32 Local authority pension Funds in London. They are measured at par value, as seed capital in a private company as of 21 October 20

Note 14a Valuation by Reliability of Information

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund, as held at the Custodian, grouped into Levels 1 to 3 based on the level at which the fair value is observable.

Financial assets classed at Level 3 include the Fund's regulatory capital seed investment in the London Collective Investment vehicle.

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Assets:				
Cash & Currencies	8,051	0	0	8,051
Cash Equivalents	0	550	0	550
Equities	229,087	0	150	229,237
Forward Currency Contracts	0	0	0	0
Pooled Funds	0	1,413,774	0	1,413,774
Receivables	7,592	0	0	7,592
Total Financial Assets	244,730	1,414,324	150	1,659,204
Liabilities:				
Forward Currency Contracts	0	0	0	0
Payables	(5,231)	0	0	(5,231)
Total Financial Liabilities	(5,231)	0	0	(5,231)
Grand Total	239,499	1,414,324	150	1,653,973

Values at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Assets:				
Cash & Currencies	14,771	0	0	14,771
Cash Equivalents	0	1,574	0	1,574
Equities	226,915	0	150	227,065
Pooled Funds	0	1,335,263	0	1,335,263
Receivables	2,887	0	0	2,887
Total Financial Assets	244,573	1,336,837	150	1,581,560
Liabilities:				
Forward Currency Contracts	0	(3)	0	(3)
Payables	(2,022)	0	0	(2,022)
Total Financial Liabilities	(2,022)	(3)	0	(2,025)
Grand Total	242,551	1,336,834	150	1,579,535

Note 14b Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2 during the year.

Note 14c Reconciliation of Fair Value Measurements within Level 3

	2017/18 £'000	2018/19 £'000
Value at 31 March 2018	150	150
Transfers into Level 3		
Transfers out of Level 3		
Purchases		
Sales		
Issues		
Settlements		
Unrealised gains/losses*		
Realised gains/losses		
Value at 31 March 2019	150	150

*Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

Note 15 Analysis on Net Current Assets and Liabilities

2017/18 £'000		2018/19 £'000
Assets		
253	Pension Capital Costs receivable	0
961	Admitted Authorities payments receivable	144
1,214		144
Liabilities		
(1,623)	Creditors	(2,261)
(6)	Unpaid Benefits	(253)
(1,629)		(2,514)

Note 16 Derivative Contracts: Forward Foreign Exchange

Outstanding forward currency contracts are as follows

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
	£'000	£'000	£'000	£'000	£'000	£'000
Up to one month	EUR	347	USD	(390)	299	(299)
Up to one month	USD	314	GBP	(241)	241	(241)
Open forward currency contracts at 31 March 2019					540	(540)
Net forward currency contracts at 31 March 2019						(3)
2017/18 Comparator						
Open forward currency contracts at 31 March 2018					1,169	(1,173)
Net forward currency contracts at 31 March 2018						(4)

Note 17 Additional Voluntary Contributions

Additional voluntary contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1999. The providers of Additional Voluntary Contributions are Phoenix Life Ltd and Prudential Assurance Company Ltd (from 1 April 2009).

Phoenix operates two funds, the deposit fund and the managed fund and employees can contribute to either fund.

Prudential offer twelve funds, with the risk appetite ranging from minimal to higher risk. The employee has the option to choose a combination of these funds. Also the employee has the choice to invest in the default fund (with profits) or a lifestyle option, which commences with higher risk investments and is gradually switched to lower risk investments as the employee moves closer to retirement.

The value and transaction summary of the AVC funds are below. It should be noted that the Phoenix Life accounts are produced on a calendar year basis.

	Prudential £'000		Prudential £'000
Value at 1 April 2018	1,804	Value at 1 April 2017	2,007
Contributions & Transfers Received	319	Contributions & Transfers Received	240
Investment Return	76	Investment Return	107
Paid Out	(312)	Paid Out	(550)
Value at 31 March 2019	1,887	Value at 31 March 2018	1,804

	Phoenix Life Ltd £'000		Phoenix Life Ltd £'000
Value at 31 December 2018	837	Value at 31 December 2017	867
Contributions & Transfers Received	15	Contributions & Transfers Received	13
Investment Return	(38)	Investment Return	50
Paid Out	(11)	Paid Out	(93)
Value at 31 December 2019	803	Value at 31 December 2018	837

Note 18 Reconciliation of Investments by Asset Class

2018/19

	31-Mar-18	Purchases	Sales	Realised Gain	Unrealised Gain	Change in Market Value	31-Mar-19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles:							
- Fixed interest securities	132,265	0	0	0	(7,211)	(7,211)	125,054
- Index Linked securities	39,284	0	0	0	0	0	39,284
- UK equities	249,060	0	(11,500)	1,786	16,288	18,074	255,634
- Global equities	504,976	48,902	(2,471)	447	45,205	45,652	597,059
- Private equity	29,223	(1)	3,671	(170)	4,761	4,592	37,484
- Property	153,531	8,743	13,885	(1,006)	(2,583)	(3,588)	172,570
- Fund of Hedge Funds	42,060	0	(44,086)	6,182	(4,156)	2,026	0
- Diversified Growth Fund	184,864	125	0	0	1,697	1,697	186,686
	1,335,263	57,769	(40,501)	7,239	54,001	61,242	1,413,771
Directly Owned Assets:							
UK Equities	27,976	11,465	(9,873)	567	(2,768)	(2,201)	27,367
Overseas Equities	199,089	79,116	(70,975)	10,043	(15,403)	(5,360)	201,870
	227,065	90,581	(80,848)	10,610	(18,171)	(7,561)	229,237
Total Investments	1,562,328	148,350	121,349	17,849	35,830	53,681	1,643,008
Cash and Net Debtors	17,887	490	(507)	194	150	(100)	13,533
Fund Total	1,580,215	148,840	(121,856)	18,043	35,980	53,581	1,656,541

Note 18 Reconciliation of Investments by Asset Class (cont'd)

2017/18

	31 March 2017 £'000	31 March 2017 (restated) £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	31 March 2018 £'000
Pooled Vehicles:						
- Fixed interest securities	132,095	132,095	130,945	(130,946)	171	132,265
- Index linked securities	38,985	38,985	0	0	299	39,284
- UK equities	247,824	247,824	0	(2,250)	3,486	249,060
- Overseas equities	468,357	468,357	4,335	(2,559)	34,843	504,976
- Private equity	15,418	15,418	12,302	0	1,502	29,222
- Pooled Property Investments	136,641	140,553	20,828	(6,931)	(918)	153,532
- Fund of hedge funds	55,967	55,967	64	(14,633)	662	42,060
- Diversified growth funds	166,070	166,070	14,121	0	4,673	184,864
	1,261,357	1,265,269	182,595	(157,319)	44,718	1,335,263
Directly owned investment assets:						
- UK equities	16,045	23,297	21,151	(16,214)	(258)	27,976
- Overseas equities	215,774	204,610	77,041	(80,957)	(1,605)	199,089
Total Investments	1,493,176	1,493,176	280,787	(254,490)	42,855	1,562,328
Cash and net debtors	23,425	23,425				17,887
Total	1,516,601	1,516,601				1,580,215

Owing to the reclassification of two individual securities held by the Fund at 31 March 2017 during 2017/18, the prior year values for pooled property investments, directly owned UK equities and overseas equities have been restated.

Note 19 Nature & Extent of risks arising from Financial Instruments

Market risk

Market risk is the risk of a loss to the Fund due to fluctuations in the prices of the financial instruments it holds. The level of risk is managed through an acknowledgement of the risks associated with the different asset classes it holds, and by diversification between asset classes to control the level of risk whilst optimising return.

The table below shows the change in the net assets available to pay benefits if the market price increases or decreases by 10%. The analysis excludes cash and working capital, which are not subject to market risk.

	Value £'000	Value on 10% price increase £'000	Value on 10% price decrease £'000
As at 31 March 2018	1,562,324	1,718,556	1,406,092
As at 31 March 2019	1,652,108	1,817,319	1,486,897

Note 19 Nature & Extent of risks arising from Financial Instruments

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 Sterling.

To calculate currency risk the currency exchange rate volatility (% change relative to Sterling) of individual currencies is used, as provided by ratesfx.com. For pooled assets the effects of a 10% increase or decrease in the value of sterling is used as a proxy.

The following table summarises the Fund's currency exposure based on its holdings of overseas domiciled equities and property as at 31 March 2019.

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Euro	50,308	5.3%	52,974	47,641
Japanese Yen	5,662	7.9%	6,110	5,213
South African Rand	6,240	14.4%	7,140	5,339
South Korean Won	4,413	6.9%	4,716	4,110
Swiss Franc	31,692	6.2%	33,644	29,740
US Dollar	113,356	6.8%	121,053	105,659
Global Basket	611,084	10.0%	672,193	549,976
Total Overseas Equity	822,754		897,830	747,677
Overseas private equity (US\$)	48,845	6.8%	52,162	45,529
Overseas Property (€)	28,628	5.3%	30,145	27,110
Overseas Property (US\$)	76,023	6.8%	81,185	70,861
Total Currency	976,250		1,061,322	891,177

Note 19 Nature & Extent of risks arising from Financial Instruments

Credit Risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, however the selection of high quality counterparties and financial institutions, and legal due diligence carried out on all managers, and the custodian, minimises the credit risk that may occur through the failure to settle a transaction.

The Fund's on-call sterling deposits at JP Morgan are swept into the JPMorgan Sterling Money Market Fund. This vehicle has a AAA rating from Fitch and S&P.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments through annual reviews of the maturity of the Fund (projections of cash inflows and outflows), and monthly monitoring of the cash flows generated from dealing with members.

Note 19 Nature & Extent of risks arising from Financial Instruments

Single Investment Risk

The following single investments represent more than 5% of the net assets of the Fund, although each of the investments below is a pooled investment vehicle with a large number of underlying assets. None of the underlying assets represent more than 5% of the Fund.

Investment	Value at 31 March 2019 £'000	% of Total Fund	Value at 31 March 2018 £'000	% of Total Fund
Baillie Gifford Global Alpha Fund	279,791	16.9%	257,257	16.30%
Legal & General UK Equity Index Fund	253,385	15.3%	249,060	15.80%
Legal & General Global Equity Index Fund	274,414	16.6%	247,718	15.70%
Insight Investment Bonds Plus 400	125,054	7.6%	132,265	8.40%
Barings Dynamic Asset Allocation Fund	125,254	7.6%	123,277	7.80%

Note 19 Nature & Extent of risks arising from Financial Instruments

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 following analysis shows the Fund's exposure to interest rate risk by positing the effect in the year on the net assets available to pay benefits of a 1% change in interest rates.

31 March 2019

Assets exposed to interest rate risk	Value as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits	23,120	0	23,120	23,120
Fixed income	125,054	6,128	118,926	131,182
Index linked securities	41,533	10,220	31,314	51,753
Total	189,706	16,347	173,360	206,054

31 March 2018

Assets exposed to interest rate risk	Value as at 31 March 2018 (£'000)	Potential movement on 1% change in interest rates (£'000)	Value on increase (£'000)	Value on decrease
Cash deposits	16,346	0	16,346	16,346
Fixed income	132,265	2,883	129,382	135,148
Index linked securities	39,284	10,245	29,039	49,529
Total	187,896	13,128	174,767	201,023

Note 20 Contingent Liabilities and Contractual Commitments

Property

The Fund has commitments in relation to three unquoted limited partnership funds in global property; one Euro denominated Luxembourg 'SICAR' and two US Dollar denominated Guernsey Limited Partnerships. These commitments are drawn down in tranches over time as and when the manager needs the cash to invest in underlying investments. The Euro fund had £2.182m of commitments outstanding as at 31 March 2019 (£2.228m as at 31 March 2018), the US Dollar funds had a total of £70.037m of commitments outstanding as at 31 March 2019 (£78.939m as at March 2018). These are not required to be included in the Pension Fund accounts.

Private equity

The Fund has a further commitment in relation to its private equity mandate via the HarbourVest 2016 Global AIF Limited Partnership. This commitment is drawn down in tranches over time as and when the manager requests cash to fund underlying investments. The fund is denominated in US Dollars and had £30.466m of commitments outstanding as at 31 March 2019 (£34.492m as at 31 March 2018). This is not required to be included in the Pension Fund accounts.

Note 21 Events after the reporting period

There have not been any material events after the reporting date.

Independent auditor's report to the members of the London Borough of Camden on the pension fund financial statements published with the Pension Fund Annual Report


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APPENDIX 2: GOVERNANCE COMPLIANCE STATEMENT

GOVERNANCE COMPLIANCE STATEMENT

Principle A – Structure

August 2016

	Not Compliant *				Fully Compliant
(a)					The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
(b)					Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
(c)					Where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

	Not Compliant *				Fully Compliant
(d)					Where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel

The Council does not comply with Principle A – Structure (b) in so far as there are no representatives of the participating admitted bodies on the Pension Committee. However, admitted bodies are advised of meeting agendas and reports, and encouraged to attend each committee meeting.



The majority of our admitted bodies have very small scheme membership and their individual circumstances vary very significantly with the result that it is difficult to identify a representative body from amongst them. Neither would the level of employer contributions for these bodies be significantly affected by the investment activity of the Fund as a whole.

There is representation for both active and retired members through the attendance of Trade Unions who have non-voting observer status. However there is no representation for deferred members.

B – Representation

	Not Compliant *				Fully Compliant
(a)	All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:				
(i)					employing authorities (including non-scheme employers, e.g. admitted bodies)

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APPENDIX 2: GOVERNANCE COMPLIANCE STATEMENT

(ii)					scheme members (including pensioner scheme members)
(iii)				where appropriate independent professional observers,	
(iv)				expert advisors (on an ad-hoc basis)	

	Not Compliant *				Fully Compliant
(b)				Where lay members sit on a main or secondary committee. They are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	

The Council does not comply with Principle B – Representation (a)(iii)

The Council partially complies with Principle B – Representation (b) on this aspect in so far as lay-members have equal access to all non-confidential papers and meetings. The observer status granted enables them to contribute to the decision making process. Equally such lay-members have access to training items included within Committee agendas although they are not automatically entitled to attend external training events where payment is required.

C – Selection and role of lay members

	Not Compliant *				Fully Compliant
(a)					Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee
(b)					That at the start of any meeting, committee members are invited to declare any financial or interest related to specific matters on the agenda

Information is given via the Council's Constitution, Committee Terms of Reference, and advice from suitably qualified officers.

D – Voting

	Not Compliant *				Fully Compliant
(a)					Policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

All elected members sitting on LGPS Committees have voting rights as a matter of course. It is a policy of the Pension Committee that voting rights are not to be conferred on others attending the Pension Committee meetings as they are not members of the administering authority which has the responsibility in law to administer the Scheme.

E – Training/Facility time/Expenses

	Not Compliant *			Fully Compliant	
(a)				In relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	
(b)			Where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum		
(c)				The administering authority considers the adoption of annual training plans for committee members and maintains a log of such training.	

The Council partially complies with Principle E – Training/Facility time/Expenses (a)

The relevant rules regarding training, facility time and reimbursement of expenses are those applied generally to Members as part of the Council's Constitution. The policy of the Pension Committee is that when members attend Pension Fund Seminars, meetings and functions etc. the expenses are to be fully paid by the Pension Fund.

The Council partially complies with Principle E (b)

No relevant policy exists and so the principle is not applicable

The Council partially complies with principle E(c) as members are encouraged to utilise training opportunities that are shown in the Business Plan for each meeting and a log is kept of all training undertaken. Training sessions are usually run in May and November.

F – Meetings (frequency/quorum)

	Not Compliant *				Fully Compliant
(a)					An administering authority's main committee or committees meet at least quarterly
(b)					An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits
(c)					That an administering authority who does not include lay members in their formal governance arrangements provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.
The Council complies with Principle F – Meetings (c) - As Admitted Bodies are consulted on matters relating to valuation and contributions via an employer forum mechanism.					

G – Access

	Not Compliant *				Fully Compliant
(a)					Subject to any rules in the councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee

Union Observers (who are not full members of the main committee) now have access to confidential papers considered by the main committee and have signed confidentiality agreements not to disclose sensitive information they are privy to. The Council operates on a clear principle of keeping such confidential items to a minimum. The Council has no secondary committees or panels.

H – Scope

	Not Compliant *				Fully Compliant
(a)				.	Administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

The Committee's Terms of Reference include consideration of matters other than those related to investment and these include for example discussions relating to issues concerned with future changes to the LGPS Scheme.

I – Publicity

	Not Compliant *				Fully Compliant
(a)					Administering authorities have published details of their governance arrangement in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

The Council has published summary details of the governance arrangements via a general governance statement. The Council's website contains further details of the democratic arrangements applying to the Pension Committee and a summary of the Pension Fund's voting policy is also included amongst those webpages.

London Borough of Camden Pension Fund

Funding Strategy Statement

December 2018

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Funding Strategy Statement

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Introduction

What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Camden Pension Fund (“the Fund”), which is administered by the London Borough of Camden, (“the Administering Authority”).

The FSS has been revised following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018. The regulations introduced the provision to repay exit credits in circumstances where an employer terminates scheme participation and the actuarial assessment results in a surplus position.

This revised FSS has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers, Investment Consultant and Independent Advisor. It is effective from 29630 November 2018.

What is the London Borough of Camden Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Camden Pension Fund, in effect the LGPS for the Camden area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see [Section 4](#)).

How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Nigel Mascarenhas, Head of Treasury & Financial Services in the first instance at e-mail address Nigel.Mascarenhas@camden.gov.uk or on telephone number 0207 974 1904.

Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

- 1 The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
- 2 The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
- 3 The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

Calculating contributions for individual Employers

General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

- 1 What is a suitably (but not overly) prudent funding target?
- 2 How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
- 3 What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authority	Academies (including Free Schools)	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)				
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	15 years	Expected future working lifetime of active members (minimum 9 years)	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	The fund has carried out an employer risk profiling exercise and an appropriate level of probability for achieving target has been attributed to each employer according to that profile. The probability levels applied are 66%, 75%, or 80%.				
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt/exit credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j) .		Can be ceased subject to terms of admission agreement. Cessation debt/exit credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation is assumed to expire at the end of the contract. Cessation debt/surplus calculated on ongoing basis, unless admission terminated early in which case gilts cessation basis is used.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required or a surplus payment being made to the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (currently this only applies to the London Borough of Camden as the principal employer) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised Council contributions are as follows:

- Primary contribution rate expressed as a percentage of active Fund members' pensionable payroll, being 17.7%; rising by 0.5% of payroll each year thereafter;

- Secondary contribution rate expressed in monetary terms, being £17.560m in 2017-18, £18.245m in 2018-19, and £18.930m in 2019-20;
- The increases in Secondary contributions being broadly equal to annual increases of 0.5% of 2016 payroll.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;

- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, there have been no Council schools converting to become academies in the Fund. However, if such a converted academy were to join the Fund then the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date.

Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed (“Pass through”)

Under this option the contractor pays a fixed contribution rate and on cessation does not pay any deficit or receive a refund of surplus. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body (unless a risk-sharing arrangement has been put in place – see Note (i) above)..

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit/surplus will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added

allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree, then the surplus will be paid directly to the exiting employer normally within 3 months of cessation (despite any other agreements that may be in place); in maintaining a consistent approach the Fund will seek to recover the deficit from the exiting employer in the first instance although if not possible the deficit will be subsumed by the guarantor; thereafter all remaining assets and liabilities will be subsumed by the outsourcing employer.

Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- With the advice of the Actuary the Administering Authority currently allows Small Admitted Bodies (ie those with no more than 50 active members) to pool their contributions: this Pool allows those smaller employers to share experience and smooth out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. However, where an employer in the Pool appears to be closed to new entrants or approaching cessation, the Administering Authority at its absolute discretion may determine that the employer leave the Pool.
- Schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service,

following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Council	- up to 5 years
Community Admission Bodies and Designating Employers	- up to 3 years
Academies	- up to 3 years
Transferee Admission Bodies	- payable immediately.

III health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

External III health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

Policies on bulk transfers

The Fund may occasionally deal with bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

Funding strategy and links to investment strategy

What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

How does this differ for the Council?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Sub-Committee meetings, with these papers being made public on the Sub-Committee's website.

Statutory reporting and comparison to other LGPS Funds

Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing, Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was presented to the Pension Committee on 29 November 2018, with Admitted Bodies’ attention being drawn to the Meeting papers at that time;
- b) Comments were requested from employers prior to the Committee meeting;
- c) Following Committee the FSS was updated where required and then published, in December 2018.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <http://www.camden.gov.uk/ccm/content/council-and-democracy/publications-and-finances/pensions/pension-fund-investment.en>
- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report of the Fund;
- Copies sent to independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. Normally the FSS is expected to remain unaltered until it is consulted on as part of the formal process for the next valuation. As a result, however, of the Local Government Pension Scheme (Amendment) Regulations 2018 which came into effect on 14 May 2018 it has been necessary to amend, after due consultation, the FSS.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Sub-Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at
<http://www.camden.gov.uk/ccm/content/council-and-democracy/publications-and-finances/pensions/pension-fund-investment.en> .

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.

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Risk	Summary of Control Mechanisms
	<p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
Liquidity issues posed by significant cessations posed by employers in surplus funding position	<p>Careful monitoring of funding levels at triennial valuations, and allowing contribution holidays where appropriate to ensure employers do not generate significant surplus positions</p> <p>Ensuring that the Fund's investment strategy allows for a significant proportion of liquid investments and asset classes</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

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Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

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C5 Governance risks

Risk	Summary of Control Mechanisms
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p>

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Risk	Summary of Control Mechanisms
	<p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund.

This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 1% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is negligible for pensioners, and for non-pensioners a reduction of around 0.5 years of life expectancy on

average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean,

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for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than

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employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate

The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See [Appendix D](#) for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

LONDON BOROUGH OF CAMDEN PENSION FUND

APPENDIX 4: INVESTMENT STRATEGY STATEMENT

1. INTRODUCTION

- 1.1 All Local Government Pension Scheme (LGPS) funds are required to have an Investment Strategy Statement (ISS). Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 governs the requirements of this statement. This Fund has complied fully with these requirements.
- 1.2 The ISS deals with the Investment Strategy and includes how a Fund diversifies its assets, the choice of various investment classes and their suitability for the Fund, the authority's approach to risk and risk management, how the Fund will pool its investments in-line with the Government's pooling agenda, the Fund's approach to social, environmental and corporate governance considerations and how the Fund approaches its voting rights attached to holdings (normally stocks and shares).
- 1.3 The ISS also sets out the maximum percentage of investments that it will invest in particular investments or investment classes. This so called prudential framework replaces the requirements in schedule 1 of the LGPS (management and investment of funds) regulations 2009.
- 1.4 The Fund must have its initial ISS in place by 1 April 2017 and then must ensure it is regularly reviewed at intervals no longer than every three years.

2. BACKGROUND

- 2.1 The London Borough of Camden Pension Fund, (the Fund) is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Public Sector Pensions Act 2013. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in-line with movements in inflation (Consumer price inflation).
- 2.2 The Council has delegated responsibility for the management of the Fund to the Pension Committee. The Pensions Committee has responsibility for establishing investment policy and ongoing implementation.
- 2.3 The Pension Committee receives advice from the Executive Director Corporate Services, the Actuary, the Investment Consultant and Independent Investment Advisor. Day to day management of the Fund is delegated to appointed professional investment managers each of which is regulated by the Financial Conduct Authority and Prudential Regulation Authority, or an equivalent overseas regulator. Each investment manager operates under a specific Investment Management Agreement with investment guidelines, which governs the scope of its

investment activities for the Fund. The Fund also invests in a number of investment vehicles which are governed by own their prospectus and associated agreements.

- 2.4 The Pension Board first met in July 2015 and has been constituted with terms of reference agreed by Council on 20 May 2015. The Board's terms of reference require it to ensure the Fund complies with the regulations and other legislation relating to the governance and administration of the scheme and requirement of the Pensions Regulator. It must also ensure the effective and efficient governance and administration of the scheme.
- 2.5 Professional advice was sought from the Investment Consultant and Independent Investment Adviser in the preparation of this document.
- 2.6 The main responsibilities of key stakeholders and participants involved in the Pension Fund are set out in Appendix I.

3. DIVERSIFICATION

- 3.1 It is important to have a properly diversified portfolio of assets in order to reduce overall portfolio risk and volatility. This should ensure that if a single investment class is not performing well, performance should be balanced by other investment which are doing better at that time. The Fund believes that diversification of assets is in the best long term interests of the scheme beneficiaries.
- 3.2 The key benefit of the Fund's preferred strategy is the reduced volatility it offers relative to the Fund's liabilities. This can be seen most clearly in the improved return/risk ratio.
- 3.3 For each unit of risk taken, the preferred strategy generates a higher level of return. The main reason for this is the diversification benefits derived from taking a broader range of investment risks.
- 3.4 Increased diversification means the likelihood of very poor outcomes is materially reduced.
- 3.5 The Fund last reviewed its investment strategy in [June 2012](#) and then had a further interim review in [September 2015](#). The investment strategy will be reviewed and presented to the Committee in February 2020. These reports are very detailed and comprehensive reviews considering important themes such as diversification, risk versus return for various investment strategies and next steps for the Fund's strategic asset allocation.
- 3.6 Traditionally pension funds had a defensive allocation to bonds and a risk seeking allocation to stocks and shares (equities). Over time Funds have seen the benefits of diversification away from these core traditional asset classes. This Fund is highly diversified and has asset allocations to equities, bonds, property, diversified growth funds and private equity. The last three asset classes belong to the alternative asset class and are important tools used to diversify away from traditional asset classes.

- 3.7 Within its equity asset allocation the fund also further diversifies into active and passive equity. Within the passive equity allocation it further has allocations to both UK and overseas equity.
- 3.8 In [June 2014](#) the Fund also considered a further allocation to infrastructure but at the time ruled this out due to its relative expense. The Fund at that point did agree to pursue its interest in private equity.
- 3.9 The Fund is diversified in other asset classes with separate UK and global allocations to property. Private equity has diversification over geography, vintage and investment stage (primary, secondary and co-investment).

4. SUITABILITY OF INVESTMENTS

- 4.1 Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those regulations at a level which covers only part of the cost of the benefits.
- 4.2 Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.
- 4.3 The Funding Strategy Statement is another important policy which together with the ISS governs how the Fund approaches its responsibilities. The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS sets out how the Administering Authority has balanced the conflicting aims of:
- affordability of employer contributions,
 - transparency of processes,
 - stability of employers' contributions, and
 - prudence in the funding basis
- 4.4 The FSS was last reviewed in [December 2016](#) and sets out the following objectives:
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
 - to ensure that employer contribution rates are reasonably stable where appropriate;
 - to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which

balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

- 4.5 In ensuring that the Fund's assets are suitable to meet the liabilities as they fall due the Fund also periodically reviews Fund maturity. This was last reviewed following the triennial valuation in [December 2016](#). This analysis shows that the Fund is expected to be slightly cash flow negative in the early years (benefit payments will be greater than income from contributions) with cash flow varying between outflows of £1m to £5m up until 2020.
- 4.6 Cash flows in the maturity analysis do not consider investment income which is available to fund the smaller cash out flows. Investment income was £20.7m in 2018/19. Therefore in the shorter term income from investments will cover net cash out flows.
- 4.7 Fund Maturity is important as when a Fund becomes cash flow neutral it then must rely on its assets to fund benefits. In this scenario the investment strategy must factor in reducing assets and mandates must be structured so that assets can be withdrawn to fund benefits as and when required. The Fund has two mandates where illiquidity is an issue.
- 4.8 The first is the global property mandate with Partners which is structured as a commitment for capital calls and must be adhered to. The second is the private equity allocation with HarbourVest. These two mandates amount to 10% of the total assets under management and therefore their illiquidity is not considered an issue in the medium term.

Types of Investment held

- 4.9 Investments of suitable liquidity will be acquired and held to generate income and capital growth. Diversification of the portfolio of assets is achieved through different types of investment which are spread geographically. The major kinds of investment held and their characteristics are set out in the following paragraphs:
- 4.10 **UK Equities** which provide an equitable share in the assets and profits of UK companies. Income is provided through share dividends which have historically, over the longer term, risen above inflation. Equities produce capital gains/losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.
- 4.11 **Global Equities** are similar to UK equities but with exposure to the currency of the market where the share is listed. The investment return

will be enhanced or reduced by the local market currency movement against sterling (unless the currency risk is hedged).

- 4.12 **Bonds** (Fixed Interest) are debt instruments issued by Governments and other borrowers. Bonds provide a fixed rate of interest and are generally redeemed at par by the issuer at a known future date. The price reflects the fixed level of interest, the term to redemption and the overall return (the yield) demanded by investors. Bond prices tend to fluctuate less than the price of equities.
- 4.13 **Index-linked bonds** are debt instruments mainly issued by Governments. The interest and redemption value are directly linked to a reference price inflation measure.
- 4.14 **Property** is investment in land or buildings such as offices, retail or industrial units. The income return comes from the rent payable. Property values primarily reflect rent levels and investor sentiment.
- 4.15 **Hedge Funds** are pooled funds which use a variety of strategies and instruments including derivatives to target absolute returns in all market conditions.
- 4.16 **Diversified Growth Funds** (DGFs) are pooled funds that invest in a variety of investment classes, and use active asset allocation between investment classes as a driver for performance.
- 4.17 **Cash** is mainly deposited with institutions for short periods and attracts interest at market rates.
- 4.18 The table below gives a summary of the main features of the various available asset classes, including an estimate of the long term real (in excess of price inflation) returns considered to be reasonably available.

Investment	Inflation linking	Real returns (% pa)	Liquidity
UK Equities	Reasonable/good	6-8	Good
Global Equities	Reasonable	5-7	Good
Property	Reasonable/good	5-7	Poor
Bonds	Poor	1-3	Good
Index linked bonds	Good	-0.5-2	Good
Hedge Funds	Reasonable	3-5	Reasonable
DGFs	Reasonable	3-5	Good
Cash	Variable	0-1	Good

- 4.19 The estimated real returns shown in the table (based on information provided by the Investment Consultant) are indicative, and the volatility of the asset class returns could result in investment returns being above or below those shown in the table.

Balance Between Different Kinds of Investment

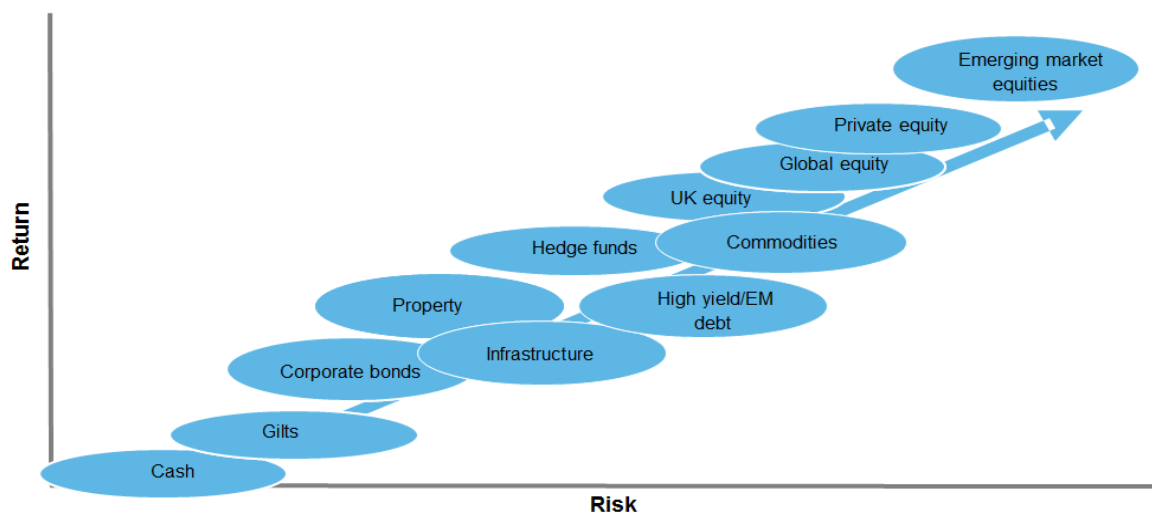
- 4.20 The allocation of assets between the various different available types for the medium to long term is determined by the Strategic Asset Allocation

(Appendix II), which has been set with advice from the Actuary and the Investment Consultant. The Strategic Asset Allocation reflects both the investment risk tolerances and funding level.

- 4.21 It is recognised that the Strategic Asset Allocation is possibly the most important factor affecting the long term investment objective. It will be reviewed periodically to maintain a reasonable expectation of achieving the investment objective, consistent with an appropriate level of diversification.

5. RISK

- 5.1 In order to ensure the long term solvency of the Pension Fund and ensure the Fund meets its objective to be 100% funded the Fund will hold risk seeking assets. However, the Fund also has diversified from pure equity risk and holds several other asset classes in order to ensure returns are uncorrelated.
- 5.2 The Fund is exposed to several investment risks. Some of these risks can be mitigated but the Fund should seek to be rewarded for taking on others.
- 5.3 The Fund currently takes the following risks which the Fund expects to be rewarded for within the overall investment strategy:
- Equity risk – Harris, Baillie Gifford, Barings, Legal & General, Standard Life and Ruffer
 - Credit risk – Insight, Barings, Ruffer and Standard Life, and
 - Illiquidity risk – CBRE, Partners Group and HarbourVest.
- 5.4 In itself, investment risk is not necessarily a bad thing, provided the Fund expects to be rewarded for taking it and can take a long term view in order to look through short and medium term downturns in investment markets. The expected risk return characteristics of different asset classes are highlighted in the following chart.



- 5.5 The chart shows the expected risk return characteristics of different asset classes in ordinal format. We note that in order to achieve higher expected returns we are typically required to take on additional investment risk (usually in terms of price volatility, credit risk or illiquidity).
- 5.6 However, there are benefits in terms of investing in a diversified asset portfolio, as different investment markets do not typically behave in the same way at the same time (except potentially in times of significant economic crises, where high quality government bonds can be the only major asset class to perform well).

- 5.7 The relationship between the price movements of different asset classes relative to each other over time is often referred to as correlation. The Fund needs to ensure that asset classes are not highly correlated as would expose it to undue risk in the event of a significant drop in asset values and would mean all asset classes fall affecting Fund value and the ultimate objective of Fund assets supporting 100% of the Fund's liabilities.
- 5.8 There are also investment market, economic and demographic factors that also affect the value of the Fund's liabilities. How our assets and liabilities move in value relative to each other is also an important consideration.
- 5.9 There is no perfect matching asset for an LGPS fund's liabilities, although it is often stated that a long dated index-linked gilt comes closest (see also our previous comments on the construction of a liability proxy for modelling purposes). This is because an LGPS fund's liabilities are bond like in nature (essentially a series of benefit payment cash outflows) and that are also real in nature (i.e. increase in-line with inflation).
- 5.10 However, index-linked gilts are commonly held to be very expensive at present, and holding them in substantial quantities would inevitably increase the contributions to unaffordable levels and have a detrimental impact on the deficit (i.e. reduce the funding level).
- 5.11 The Funding Strategy Statement sets out the key risks and groups these into Financial, demographic and regulatory and governance risks. These are included in **Appendix IV**.
- 5.12 The main risks taken into consideration to establish the Strategic Asset Allocation and set the investment objectives for the Fund are:
- Solvency and mismatching risks
- 5.13 The expected change in the liabilities and funding level relative to the current investment policy, managed by assessing the progress of the actual change in liabilities relative to the current investment strategy.
- Manager risk
- 5.14 The extent to which risk and returns deviate from those anticipated, managed by monitoring the outturn relative to the objective set. Manager risk has been reduced through the appointment of a number of different managers following different investment strategies.
- Political and Currency Risks
- 5.15 The concentration of assets in a market leading to the risk of an adverse impact on investment values due to political intervention, managed by regular reviews of the levels of diversification of the actual investments relative to the policy position.

Liquidity risk

- 5.16 The level of cash flow needed to meet the regular commitments of the Fund, managed by assessing the level of cash held and monitoring the anticipated liquidity levels of the assets held in order to limit the impact of cash flow requirements on the investment policy.

Custodial risk

- 5.17 The continuing ability of the custodian to settle trades in a timely manner and provide secure custody of the assets, managed by regular review and reporting from the custodian compared with agreed service standards, and the continued monitoring of the custodians credit rating.

Risk Register

- 5.18 The other risks that are taken into account when assessing the total risk of the Fund are shown in a Risk Register, which is reviewed annually by Pension Committee and was last considered in July 2019.

6. POOLING AND SHARED SERVICES

- 6.1 This Fund is part of the London Collective Investment Vehicle (LCIV) which has been set up for London pension funds. This pool has the support of all 33 London Borough pension funds with **£8.5bn** of assets already under management with another £9.8bn under passive management.
- 6.2 The Fund formally agreed to join the London CIV as part of the Government's pooling agenda. The London CIV was constituted in late 2015 and has since opened a range of sub-funds covering liquid asset classes, with the bulk of less liquid asset classes to follow.
- 6.3 The London CIV is fully authorised by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund.
- 6.4 The Board of Directors are responsible for decision making within the CIV. This includes decisions to appoint and remove investment managers. The share structure of London CIV provides for equal voting rights for each authority on a one share one vote basis.
- 6.5 As an AIFM the London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and the reporting regime of the FCA. This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and the London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

- 6.6 The Pensions Sectoral Joint Committee (“PSJC”) has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough’s Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in the London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.
- 6.7 Each Fund in the London CIV has a nomination to the Pensions Sectoral Joint Committee and our Chair, Cllr Madlani, participates in these meetings. The Head of Treasury and Financial Transactions is also part of an officer group known as the Investment Advisory Committee.
- 6.8 Deloitte have been appointed to undertake external audit of both the company (London CIV) and the ACS Fund and will provide an annual governance statement which will be publicly available on the CIV website.
- 6.9 The formal structures that the London CIV has put in place, including FCA registration and the appointment of a Depositary (Northern Trust), help to provide additional scrutiny of the CIV in providing monitoring and regulatory oversight of the company and a range of services including:
- Safe custody of assets
 - Oversight of key systems and processes
 - Due-diligence review of the Operator (London CIV), and the Custodian, Fund Accountant, and Transfer Agent (Northern Trust)
- 6.10 The Shareholders Agreement has been signed by all 33 London Borough Pension Funds and sets out the terms and conditions of the joint venture and regulates the relationship with Funds and certain aspects of the affairs of and dealings with the Company.
- 6.11 The Minister has confirmed that the London CIV meets the investment reform and criteria published in November 2015.
- 6.12 The Fund has already transitioned assets into the London CIV with values of £211m or 15% of the assets (Baillie Gifford sub-fund) and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.
- 6.13 The Fund holds 35% or £504m of its assets in life funds (Legal and General) and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.
- 6.14 The Camden Fund was instrumental in constituting the Pensions Shared Service. This service deals with the administration functions of the Camden and Wandsworth pension funds including dealing with member

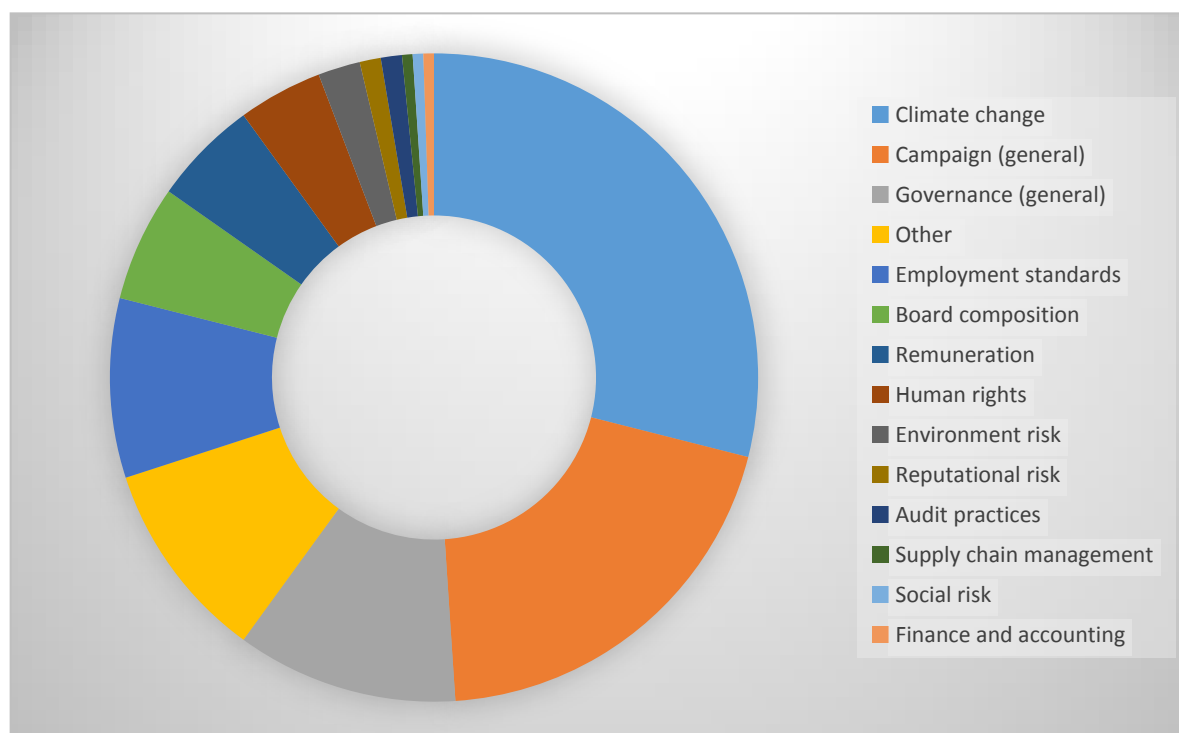
requests, employers and administering benefits and pension payroll functions. The shared service has now expanded to include Merton, Richmond and Waltham Forest pension funds.

- 6.15 Assets to be held outside of pool and how this demonstrates value for money

7. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) POLICY

- 7.1 The Pension Fund is bound by law in respect of Socially Responsible Investment (SRI) policy. The Fund should, in all circumstances, act in the best financial interests of the members of the Fund. Where this primary consideration is not prejudiced, Investment Managers are expected to have active regard to the impact that SRI issues might have on the returns of companies in which they invest on the Fund's behalf.
- 7.2 The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment. It also believes that companies conforming to high ethical and social standards will produce shareholder returns that are at least comparable to those produced by other companies.
- 7.3 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF was formed in 1990 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the long-term investment interests of local authority pension funds by promoting the highest standards of corporate governance, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's 72 members currently have combined assets of over £175 billion.
- 7.4 LAPFF has campaigned on a number of issues and the split of issues can be seen below. The graph is based on corporate engagement over the last year via letters, conference calls or meetings.

LAPFF ENGAGEMENT TOPICS



- 7.5 The 2018 LAPFF Annual Report, summarising activity and highlighting the organisation's achievements can be found via the following link: [LAPFF annual report 2018](#).
- 7.6 Climate change risk was the most frequent engagement area for the year for LAPFF, with engagement on environmental and social risk the next most common, respectively.
- 7.7 LAPFF has long campaigned for reform of the UK's system financial regulation and in particular the Financial Reporting Council (FRC) as the setter of standards and regulator for the accounting industry. Following the collapse of high profile firms, the Government instigate the Kingman review which the LAPFF's. The Forum was able to contribute to the public debate include providing evidence to the Kingman Review. The recommendations coming out of the review aligned with long standing positions promoted by the Forum. The Kingman Review recommended the abolition of the FRC to be replaced by a new regulatory body, Audit Reporting and Governance Authority. The new regulator will be accountable to Parliament with the intention of providing more oversight of the accounting industry.
- 7.8 Governance-related engagements covered a wide range of topics, including board composition, executive pay, tax transparency, and mergers and acquisitions. Work has also started to engage with companies to ensure that they are using share buybacks responsibly.

- 7.9 LAPFF continues to focus the most resources on climate change with 57 engagements around environmental and carbon risk, representing 31% of engagement overall. LAPFF engagement activities has always been with the largest UK and global companies with the largest carbon footprint. Governance accounted for 11% of engagements with a particular focus on the role of the chairman.
- 7.10 Those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.
- 7.11 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include on training and information sessions on matters of social, environmental and corporate governance.
- 7.12 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.
- 7.13 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.
- 7.14 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.
- 7.15 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.
- 7.16 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund

employers, investment managers, Local Pension Board, advisers to the Fund and other appropriate relevant parties.

8. VOTING RIGHTS AND POLICY

- 8.1 This Fund firmly believes that the long-term investment interests of the Fund are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which we invest. Poor governance can negatively impact shareholder value.
- 8.2 Stewardship aims to promote long term success of companies in order to benefit shareholders too. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration.
- 8.3 The Fund regards the exercise of voting rights attaching to investments as of great importance. The Fund has appointed Corporate Governance Advisors PIRC to ensure that voting rights are used in the most advantageous way. PIRC are employed to ensure that the Fund's voting policy is enacted for company shares held by the Fund in the UK and overseas. The voting policy has been drawn up in collaboration with advisors PIRC, and is reviewed and agreed annually by the Pension Committee. The last set of voting policies were agreed by the Committee in February 2018 with policies for the coming year set to be agreed at the next committee on 1 April 2019.
- 8.4 During 2018 the Fund voted 11,417 resolutions at 655 meetings. The Fund voted for 72% of all resolutions and opposed 28%. The Fund opposed 64% of remuneration report resolutions.
- 8.5 The Fund has voting policies on a range of issues and votes on a wide range of issues ranging from board elections, capital structures, corporate actions, dividend policies, meeting related matters, donations, remuneration, shareholder resolutions, shareholder rights, and audit issues.
- 8.6 The Fund reports annually to Pension Committee on the operation of its voting policy throughout the year. This report is comprehensive and ensures transparency.
- 8.7 The Financial Reporting Council has introduced a tier system to evaluate the Stewardship policies of signatories which the Fund has signed up to. Our corporate governance providers, PIRC, have received a top Tier 1 rating for their policies.

PENSION FUND RESPONSIBILITIES

This appendix sets out the key individuals, consultants, investment professionals and investment managers involved in the Fund.

Pension Committee

Members	Cllr Rishi Madlani (Chair) Cllr Lorna Russell (Vice Chair) Cllr Heather Johnson Cllr Awale Olad Cllr Abdul Quadir Cllr Ranjit Singh Cllr Stephen Stark Cllr Shiva Tiwari
Substitute Members	Cllr Sabrina Francis Cllr Oliver Lewis Cllr Jenny Mulholland Cllr Lazzaro Pietragnoli Cllr Nazman Rahman Cllr Roger Robinson Cllr Gio Spinella Cllr Paul Tomlinson
Retired Members' Observer	Vacant
Retired Members' Substitute	Vacant
Union Observers	Kathy Anifowose (Camden UNISON)

The following officers are based across Council offices at 5 Pancras Square, Dennis Geffen Annexe and the Camden Town Hall, London, WC1H 8NG.

Executive Director Corporate Services

Jon Rowney

Head of Treasury & Financial Transactions

Nigel Mascarenhas

Director of Finance

Kathy Freeman

Treasury & Pension Fund Manager

Dapo Shonola

Scheme Administrator

Colette Hollands
Pensions Shared Service
Wandsworth Council
Room 70
The Town Hall
Wandsworth High Street
London. SW18 2PU

Legal Advisor

Andrew Maughan, Borough Solicitor

Investment Managers

Baillie Gifford (CIV Sub-Fund)

70 Great Bridgewater Street,
Manchester,
M1 5ES

Baring Asset Management Ltd

155 Bishopsgate
London, EC2M 3XY

**Insight Investment Management
(Global) Ltd**

160 Queen Victoria Street,
London, EC4V 4LA

Harris Associates LP

111 South Wacker Drive, Suite 4600
Chicago, Illinois 60606

**CBRE Global Investment Partners
Ltd**

Third Floor
One New Change
London, EC4M 9AF

**Legal & General Investment
Management**

One Coleman Street,
London, EC2R 5AA

Standard Life Assurance Ltd

1 George Street |
Edinburgh EH2 2LL

Partners Group (UK) Ltd

14th Floor, Heron Tower
110 Bishopsgate
London, EC2N 4AY

HarbourVest Partners (Europe) Ltd

33 Jermyn Street
London, SW1Y 6DN

Ruffer LLP

80 Victoria Street
London, SW1E 5JL

Custodian

J.P. Morgan Limited

25 Bank Street
Canary Wharf
London, E14 5JP

Performance Measurement

**Pensions & Investment Research
Consultants (PIRC) Ltd**

2 Harbour Exchange Square
London, E1 8AZ

Investment Consultant

Dave Lyons
KPMG LLP
15 Canada Square,
Canary Wharf
London E14 5GL

Independent Investment Advisor

Karen Shackleton
MJ Hudson (Allenbridge) Ltd
8 Old Jewry,
London,
EC2R 8DN

Actuary

Douglas Green
Hymans Robertson LLP
20 Waterloo Street,
Glasgow, G2 6DB

Corporate Governance Adviser

Pensions & Investment Research
Consultants (PIRC) Ltd
2 Harbour Exchange Square
London, E1 8AZ

Auditors

Mazars
15 Canada Square
Canary Wharf
London, E14 5GL

AVC Providers

Phoenix Life Limited
PO Box 2570
St James House
27-43 Eastern Road
Romford, RM1 3YW

Prudential Assurance Company
Limited
5 Laurence Pountney Hill
London, EC4R 0HH

Bodies of which the Pension Fund is a Member or Subscriber

Club Vita
Local Authority Pension Fund Forum (LAPFF)
London Pension Fund Forum (LPFF)
London Collective Investment Vehicle (LCIV)

Pension Committee (PC)

The PC has delegated authority from the Council to make decisions for the Fund, acting with advice from the Actuary, Investment Consultant, Independent Advisor and the Executive Director of Corporate Services.

The investment powers of the Pension Committee are set out in regulations. The Committee has approved and adopted this ISS in relation to the investment of the Fund's assets, and the ISS is consistent with the investment policies established and implemented by the Committee for the Fund.

The Committee meets at least quarterly and comprises eight voting members, six from the Labour Group and two from the Conservative Group. There is a quorum of two members to ensure meetings can function and there are eight substitute members.

There are three observer (non-voting) posts to the Committee representing trade unions and one representing retired members.

The responsibilities of the Committee are to:

General

- To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972 and to administer all matters concerning the Council's pension investments in accordance with any applicable law and policy.
- To make arrangement for the appointment of and appoint suitably qualified investment managers and custodians and to periodically review those arrangements.
- To ensure that appropriate and sufficient training has been undertaken by all members of the Committee in order to discharge their functions.
- To take proper advice from officers, investment consultants, independent investment adviser, pension board and actuary

Investment

- Set and review Investment strategy for the Fund
- To formulate and publish a Statement of Investment Principles
- At least once every three months, to review the investments made by the investment managers and from time to time consider the desirability of continuing or terminating the appointment of the investment managers.
- To determine the strategic asset allocation policy, the mandates to be given to the investment managers, the performance measures to be set for them and review investment management performance against targets.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
- Ensure the Fund's voting rights are exercised in line with the Fund's voting policy to ensure the best outcome for the Fund's investment purposes and ensure engagement supports the investment strategy and Fund's performance, except co-filing requests put forward by the LAPFF; and support for resolutions in respect of companies that the Fund does not have a direct shareholding in, which remains a matter for the Executive Director Corporate Services in consultation with the

Chair of the Pension Committee unless time allows for the matter to be reported to the Committee for decision.

- To receive and approve an Annual Report on the activities of the Fund prior to publication.
- To keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.

Liabilities

- To review the risks inherent in the management of the Pension Fund
- To review the strength of admitted bodies and ability to honour their liabilities.
- To agree and keep under review a Contribution Strategy and agree the Triennial Valuation.
- Admit new and exit ceasing employers as and when these arise.
- To monitor liabilities and ensure progress towards full funded status of all employers.
- To understand the maturity of the Fund and keep cash flow considerations under review

The Committee operates under procedural rules as set out in the Camden Constitution, which can be accessed via the Council's website

<http://democracy.camden.gov.uk/ieListDocuments.aspx?CId=667&MId=9367&Ver=4&Info=1>

Investment Managers

Eight appointed investment managers have responsibility for managing passive index-tracking and active portfolios of equity, bonds, hedge fund, diversified growth funds, property investments and private equity funds.

The responsibilities of the investment managers are to:

- Invest the assets of the Fund in compliance with prevailing legislation, the policies set out in this SIP and their Investment Management Agreements.
- Submit quarterly reports on valuation, activity and investment performance.
- Attend meetings with the Director of Finance and/or Committee.
- Assist the Director of Finance in the preparation of the SIP.

Custodian

The investments of the Fund are held and recorded independently by a custodian bank, JP Morgan, responsible for safe custody of share certificates and other evidence of title.

The responsibilities of the custodian are to:

- Hold assets in compliance with prevailing market legislation.
- Provide periodic valuations and reports on activity and investments held in custody.
- Settle investment transactions in the market.
- Account for and collect dividends and income and make tax reclaims.
- Hold uninvested cash in a liquidity account.
- Process corporate actions and vote shares held to the Fund's order where appropriate.

Actuary

The responsibilities of the Actuary (Hymans Robertson) are to:

- Prepare the triennial valuation of the Fund.
- Provide advice to the Committee on the funding level to assist in formulating investment objectives and policies for the Fund.
- Provide intra valuation advice on the estimated funding level and pension costs.

Investment Consultant and Independent Investment Advisor

The responsibilities of the Investment Consultant (Aon Hewitt) and Independent Investment Advisor (Karen Shackleton) are to advise the Executive Director of Corporate Services and the Committee on:

- Investment strategy and the risks and anticipated returns associated with different investment strategies and asset classes.
- Assist with the selection, ongoing monitoring and review of investment managers and custodian.
- Advise the Director of Finance on the preparation of the SIP.

Executive Director Corporate Services

The Executive Director Corporate Services and officers reporting to him are responsible for:

- The execution of policy decisions and operational running of the Fund
- Administrative arrangements with investment managers, custodian and advisers
- Preparation of reports for the Committee
- Preparing the Fund annual report and accounts
- Regular interim briefing meetings with investment managers
- Ensuring that the ISS and other relevant Fund documentation is reviewed and updated periodically, and ensuring compliance by

investment managers with the ISS and Investment Management
Agreements

Pension Board

The Pension Board is defined by the Public Service Pensions Act 2013, will be responsible for:

Assisting the Administering Authority as Scheme Manager to:

- Secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- Secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
- Carry out such other matters as the LGPS regulations may specify

Securing the effective and efficient governance and administration of the LGPS for the Camden Pension Fund.

The role is one of providing oversight of assurance in and governance of the scheme administration and not decision making.

The Pension Board will ensure that the Pension Fund is managed and administered effectively and efficiently and complies with any code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Pension Board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within the extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.
- Review the implementation of revised policies and procedures following changes to the Scheme.
- Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- Review the outcome of external audit reports.

- Review draft accounts and Fund annual report.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- Monitor investment costs including custodian and transaction costs.
- Review the risk register as it relates to the scheme manager function of the authority.
- Review the outcome of actuarial reporting and valuations.
- Monitor in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

From 1 June 2016

ASSET CLASS	%	%	Basis
GLOBAL EQUITIES			
Baillie Gifford (CIV)	15		Active
Harris	15		Active
Legal & General (CIV)	15		Passive
		45	
UK EQUITIES			
Legal & General (CIV)	5		Passive
		5	
INDEX-LINKED GILTS			
Legal & General (CIV)	3		Passive
		3	
BONDS			
Insight	12		Active
		12	
PROPERTY			
CBRE	5		Active
Partners Group	5		Active
		10	
HEDGE FUNDS			
Brevan Howard	5		Active
		5	
DIVERSIFIED GROWTH FUNDS			
Barings	10		Active
Standard Life	5		Active
		15	
PRIVATE EQUITY			
HarbourVest	5		Active
		5	
TOTAL FUND		100	

Asset Allocations with CIV appended are sub funds of the London CIV.

PENSION FUND ANNUAL REPORT 2018/19
APPENDIX 4: INVESTMENT STRATEGY STATEMENT

ASSET CLASS	INVESTMENT MANAGER	PERFORMANCE BENCHMARK AND TARGET OUTPERFORMANCE
Active Global Equities	Aberdeen Asset Managers/	To outperform the MSCI All Countries World Index by 2-3% p.a. over rolling 3 and 5 year periods, on a Gross Return basis, gross of fees
Active Global Equities	Harris Associates	To outperform the MSCI All Countries World Index by 2-3% p.a. over rolling 3 and 5 year periods, on a Gross Return basis, gross of fees
Passive Global Equities	Legal & General	To track the total return of the FTSE-All World Index within + / - 0.25% p.a. two years out of any three, before the deduction of fees
Passive UK Equities	Legal & General	To track the total return of the FTSE-All Share Index within + / - 0.25% p.a. two years out of any three, before the deduction of fees
Index-Linked Gilts (Passive)	Legal & General	To track the total return of the FTSE-A Government Index-Linked (Over 5 Year) index within + / - 0.25% p.a. two years out of any three, before the deduction of fees.
Active Bonds	Insight Investment Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 4% p.a. over the life of the Fund
UK Property	CBRE Collective Investors	To outperform the IPD UK All Balanced Property Funds Index by 1.0% p.a. over rolling 3 year periods.
Global Property	Partners Group (UK) Limited	This is an absolute return mandate with the manager targeting an absolute return in excess of 15% p.a. over the life of the Fund.
Fund of Hedge Funds	Brevan Howard Asset Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 5 – 10% p.a. over the life of the Fund.

ASSET CLASS	INVESTMENT MANAGER	PERFORMANCE BENCHMARK AND TARGET OUTPERFORMANCE
Diversified Growth Fund	Baring Asset Management	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 4% p.a. over the life of the Fund.
Diversified Growth Fund	Standard Life Assurance Limited	This is an absolute return mandate with the manager committing to target a return of cash (3 months GBP LIBOR) plus 5% p.a. over the life of the Fund.
Private Equity	HarbourVest Partners	This is an absolute return mandate with the manager targeting an absolute return in excess of 8% p.a. over the life of the Fund.

Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p>

PENSION FUND ANNUAL REPORT 2018/19
APPENDIX 4: INVESTMENT STRATEGY STATEMENT

Risk	Summary of Control Mechanisms
	<p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

PENSION FUND ANNUAL REPORT 2018/19
APPENDIX 4: INVESTMENT STRATEGY STATEMENT

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>

PENSION FUND ANNUAL REPORT 2018/19
APPENDIX 4: INVESTMENT STRATEGY STATEMENT

Risk	Summary of Control Mechanisms
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

APPENDIX E: COMPLIANCE STATEMENT

Camden's compliance with the six Principles of Investment Decision Making, as established by the CIPFA Pensions Panel, and required by the LGPS Regulations 2009.

Date Reviewed: August 2015

Principle 1: Effective decision making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation;
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Fully Compliant

Camden Council operates a Pension Committee within a formal framework of financial controls and decision making; Consideration is given to strategic asset allocation and particularly during reviews of fund management arrangements.

Dedicated training sessions are scheduled twice annually for all members of the Committee.

Expert advice is received from external consultants including the investment consultant, independent investment advisor, fund actuary, and corporate governance advisor, as well as the individual investment managers.

A business plan is presented to every meeting of the Pension Committee, which includes training carried out by officers and Committee Members in the last 12 months, and future opportunities for training, which are offered to all the members of the Committee.

Principle 2: Clear objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Fully Compliant

The Fund's investment objectives are set out in the Statement of Investment Principles. The benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.

The same investment strategy is currently followed for all employers. The actuary has not advised the authority to operate different investment strategies for different employers.

The strength of the covenant for non-local authority employers is assessed by the Fund's Actuary (Hymans Robertson), and the results will be available in time for the next triennial valuation.

The Pension Committee considers a register of all non-local authority employers on an annual basis, to monitor their funding positions and scheme status.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Fully Compliant

The asset allocation strategy is reviewed at least every 3 years. The Investment Consultant is periodically commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

The study follows the triennial actuarial valuation and the form and structure of the liabilities are fully taken into account.

The liabilities are reviewed by Hymans Robertson on an annual basis between full valuations.

Additional investigation is made into the Fund's longevity risk by being a member of Club Vita. This has been set up by Hymans Robertson to specifically measure the effect of longevity using the data which is scheme specific.

The cash flow and scheme membership of the Fund is reported to the Pension Committee on an annual basis.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.

Fully Compliant

Performance measurement of the investments and investment managers are provided by the Performance Measurer, Custodian, Independent Investment Advisor and Investment Consultant.

The decisions reached by the Pension Committee are reviewed on both a quarterly and yearly basis.

The Investment Consultant and Independent Investment Advisor advise the Fund on any major developments or changes that may affect the performance of the investment managers.

The effectiveness of the investment decisions is measured by means of the adherence to the asset allocation and the expected improvement in performance of the investments.

The investment managers are asked to attend officer-led quarterly meetings outside the formal Committee meeting schedule and on an ad hoc basis when it is deemed necessary; Committee members are invited to attend. Managers are also seen regularly by the Independent Investment Advisor separately from these meetings.

Principle 5: Responsible ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the statement of investment principles.
- report periodically to scheme members on the discharge of such responsibilities.

Fully Compliant

All of the equity managers have adopted the Institutional Shareholders' Committee Statement of Principles.

The Fund has agreed a bespoke voting policy which is reviewed and updated annually by the Pension Committee. The votes are cast on behalf of the Fund by PIRC in accordance with this policy. A summary of the fund's voting policy can be found via the following webpage:
<http://www.camden.gov.uk/ccm/content/council-and-democracy/publications-and-finances/pensions/pension-fund-investment.en>

PIRC records the votes cast by the Fund, and issues a quarterly statistical report, which is incorporated into the quarterly Engagement Report received by the Committee. PIRC also present a report of activity annually to the Committee.

The Fund's policy on responsible ownership is set out in its Statement of Investment Principles.

The Fund is a participating member of the Local Authority Pension Fund Forum (LAPFF) and receives information on environmental, social and governance issues.

Principle 6: Transparency and reporting

Administering authorities should:

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

Fully Compliant

The Fund has produced a Statement of Investment Principles, a Governance Compliance Statement, a Communications Policy Statement and a Funding Strategy Statement which all form part of the Pension Fund Annual Report.

The Pension Fund Annual Report is posted on Camden's Pension Fund section of the Camden website.

Members can also request information directly from the Council. General queries are answered by telephone, with detailed questions regarding individual cases being received by letter, fax or email.

Consultation is carried out with non-local authority employers on all Fund business including the triennial valuation and Funding Strategy Statement. Furthermore, all agendas of the Committee meetings are circulated to admitted bodies, and employer representatives are encouraged to attend.

The Council has brought its website into line with best practice in other authorities in order to assist members of the Fund to get information they require with ease.

APPENDIX 5: COMMUNICATIONS POLICY STATEMENT

Introduction

This Communications Policy Statement has been drawn up in compliance with the Local Government Pension Scheme Regulations to ensure that the Camden Pension Fund offers clear communication to stakeholders of the LGPS. Who we communicate with:

- Scheme Members (active, deferred, pensioner)
- Prospective Scheme Members
- Representatives of Scheme Members
- Employing Authorities

The Camden Pension Fund is fully committed to providing all groups with as much information as possible concerning the operation of the Local Government Pension Scheme and the way in which any changes to the Scheme will affect members' benefits.

SCHEME MEMBERS

The methods by which the Fund communicates with scheme members are as follows:

Newsletters

All active, deferred, and pensioner members receive an annual newsletter.

Scheme literature

A range of useful information, forms and links are currently available on the Pensions Shared Service website and on the national website:

www.lgpsmember.org/

Annual Report

The Fund's Annual Report can be viewed on the Camden website.

Annual Benefit Statements

Annual Benefit Statements are posted to the home addresses of the Fund's active and deferred members usually in August.

Website

Camden's Pension Investments and Governance section of the Camden website is updated to include new information and currently includes:

- Governance Compliance Statement
- Investment Strategy Statement
- Funding Strategy Statement
- Annual Fund report
- Communications Policy Statement
- Statement of Account

Pay advice slips/P60s

Pay advice slips are sent to pensioner members' home addresses each March, April and May. P60s are also sent out in May. A short communication can be included on the pay advice notice. If a member has a change of more than £1 in their monthly net pension payment, a pay advice slip will be sent to them in that month.

PROSPECTIVE SCHEME MEMBERS

All employees are automatically enrolled into the scheme but can elect to opt out. Information about the Local Government Pension Scheme (LGPS) is sent out with all job offers. Prospective scheme members are directed to additional information available on the national LGPS website www.lgpsmember.org

REPRESENTATIVES OF SCHEME MEMBERS

Scheme members' interests in the Fund are represented by the Pensions Committee which acts in a trustee capacity. The Committee currently comprises eight voting members who are Camden Councillors. The Committee meets at least four times a year with special meetings and workshops arranged as necessary.

Member representatives from the trades unions attend the Committee meetings as non-voting members. Their role is to represent the interests of their respective stakeholder bodies and to communicate with them on pension fund issues. The Camden website has a section on Committees and Governance.

The Pension Board operates independently of the Pension Committee and exists both to assist the Council in securing compliance with LGPS regulations, relevant legislation and requirements imposed by the Pensions Regulator and to secure the effective and efficient governance and administration of the LGPS for the Pension Fund.

EMPLOYING AUTHORITIES

Each employer receives a guide setting out their administrative responsibilities in relation to their employees who are members of the LGPS. Employer information is also available online at http://www.wandsworth.gov.uk/info/200260/finance_department/417/pensions_shared_service/3

Employers Conference

A conference for employers is held once draft triennial valuation results are published. The conference provides a platform for employers to put questions directly to the actuaries in relation to their own results.

Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, we will provide the communication in large print, Braille, or in another language on request.

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%

APPENDIX 6 – RISK REGISTER

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%
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	Risk	Current controls	Likelihood	Impact	Risk factor	Action Plan to Improve and/or additional control measures	Likelihood	Impact	Risk factor	Timescale/ Review Frequency	Responsibility
1.	FINANCIAL RISKS										
	1. Fund assets fail to deliver returns (in-line with the anticipated returns underpinning valuation of liabilities over the long-term)	<ul style="list-style-type: none"> Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing Analyse progress at triennial valuations and review Fund's Investment Strategy and Funding Strategy accordingly Regularly benchmark assets to re-valued liabilities (currently this is done by officers using a proxy made up of 80% real gilts (Index linked gilts) and 20% nominal gilts, which is in line with a typical LGPS fund). This shows that assets are meeting the long term actuarial assumptions (3.8% growth at the last valuation) 	3	5	15		3	5	15	Annually/ Quarterly	Pension Committee (PC)

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%	
			<ul style="list-style-type: none">Provide a quarterly comparison of actual asset performance to projected performance based on valuation assumptionsSupport Pension Committee to focus more on liabilities and investment strategy (training members in June 2017)The Fund has recently reviewed a number of key mandates including Diversified Growth Funds and Fixed Income mandates and changed a number of managers which should improve performance								
	3. Inappropriate long-term investment strategy	<ul style="list-style-type: none">Fund-specific benchmark, informed by Asset-Liability modellingCompliance with LGPS regulationsThe Investment strategy is reviewed at least every three years by Committee. This was last reviewed in September 2017 and included a full asset liability modelling study. The next review is scheduled for November 2020 after the results of the Triennial	3	5	15	<ul style="list-style-type: none">	3	5	15	Quarterly	PC

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%		
			Valuation are known and understood. <ul style="list-style-type: none">Annual liability monitor reporting by the actuary to inform the strategyThe addition of the independent investment advisor gives the Fund better market insight and will shape the strategy with greater frequency via performance reports and market intelligenceReview of Fund Benchmarks and Targets (September 2015)Member training on Liability Driven Investment									
5. Pay and price inflation risk			<ul style="list-style-type: none">The focus of the actuarial valuation process is on real returns on assets, net of price and pay increasesInter-valuation monitoring, as above, gives early warningMaintain investment in index-linked bonds to help mitigate this riskEmployers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any	3	4	12	<ul style="list-style-type: none">Monitor pay rises for all employersChanges to employer rates between valuation could be implementedConsider hedging strategies and put in place a flight pathImpact of past pay rises will be identified for each employer's	3	4	12	Quarterly	PC

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities			1 >2%	2 >10%	3 >25%	4 >50%	5 >75%
			<div>bias in pensionable pay rises towards longer-serving employees</div> <ul style="list-style-type: none">The performance report covers movements in inflation. Recently the inflationary Pension Increase for the LGPS was agreed at 2.4% for 19/20. The Bank of England expects inflation to remain around 2% in the medium to long term . The cash flow report also shows the impact of inflation on pension paymentsThe July 19 committee will consider a report on salary growth and assumptions				<div>deficit as part of the 2016 triennial valuation</div> <ul style="list-style-type: none">Committee have agreed in principle to invest in infrastructure)					
	2. Unacceptable level of investment risk (in asset allocation, use of financial instruments and leverage)	<ul style="list-style-type: none">Agree and establish appropriate level of risk in a diversified strategy with the Investment ConsultantEnsure full understanding of nature of risk in each asset classThe Investment strategy is reviewed at least every three years by CommitteeThe Independent Advisor completes due diligence on all current investment mandatesOfficers and the Independent	3	3	9	<ul style="list-style-type: none">Last Member training in June 2017conducted by the Investment Consultant on nature of investments	3	3	9	Annually	PC	

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%	
			Advisor hold in-depth meetings with all managers to review risks, leverage and instruments used and report any concerns to Committee <ul style="list-style-type: none">The Fund has exited its Hedge Fund investmentsPrivate equity mandate appointed to and new Infrastructure mandate awaiting funding. This has reduced concentration risk								
	4. Liabilities rise due to fall in yields on gilts (flowing from a rise in value placed on liabilities)	<ul style="list-style-type: none">Inter-valuation monitoring, as aboveSome investment in bonds helps to mitigate this riskMonitor movement in funding level since the last valuation in performance report – currently estimated to be 86% funded based on a proxy estimateReview of fixed income investments in February 2019 to ensure continued appropriatenessReview of liability-hedging assets such as infrastructure and property	3	3	9	<ul style="list-style-type: none">Hymans Robertson modelling as part of the triennial valuation will give a better sense of whether the combination of asset returns, gilt yields and contributions will deliver good outcomes for the Fund in the long runDiscount rate decreased from 4.6% to 3.8% as part of the triennial valuation	3	3	9	Triennially	PC
	7. Market failure risk (e.g. in the Eurozone)	<ul style="list-style-type: none">Limit concentration of investment in any one specific	3	3	9	<ul style="list-style-type: none">Funding of private equity mandate	3	3	9	Ongoing	PC / Head of

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5		
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%		
			<ul style="list-style-type: none"> market Monitor markets constantly, and seek advice of managers, consultants and independent advisor (markets are also perceived as over-valued in the US and there is a threat of Emerging markets being dislocated by tapering in the US and growth concerns) Diversification of UK passive holding into Global passive holding Fund manager controls on risk 				<ul style="list-style-type: none"> further reducing concentration on UK passive equity as capital calls dilute exposure over time Further transfers of UK to global equity over medium term 					Treasury
	6. Investment vehicle is not understood		<ul style="list-style-type: none"> Investment Consultant and Independent Advisor feed into decisions on new asset classes Member training (especially for the new asset class of private equity and infrastructure) Appropriate due diligence carried out during searches by Investment Consultant and lawyers The Fund has exited its hedge fund exposures Pension Committee to receive a briefing on progression of the London CIV 	3	3	9	<ul style="list-style-type: none"> Further Member training on private equity. Refresher training on more complex asset classes to be provided 	2	3	6	Ongoing	PC / Head of Treasury

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5		
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%		
	13. Employer contribution rate increases (effect on service delivery including admitted /scheduled bodies)	<ul style="list-style-type: none">Seek feedback from employers on scope to absorb short-term contribution risesMitigate impact through deficit spreading and possible phasing in of contribution risesConsult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of costEmployer register considered annually by Pension CommitteeContinued dialogue between officers, actuary and employers to determine riskAll employers have been visited within the last triennial valuation cycle	3	2	6	<ul style="list-style-type: none">2016 triennial valuation approach allows measure of risks/probabilities associated with different contribution levels per employerSee also item 30	3	2	6	Annually by PSC / Ongoing by officers	PC / Head of Treasury	
	12. Investment manager under-performance (relative to target)	<ul style="list-style-type: none">Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.The Committee has demonstrated that it can	3	2	6	<ul style="list-style-type: none">	3	2	6	Quarterly	PC	

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%
			<p>identify poor performance and tackle this with the phased withdrawal from Fidelity and disinvestment from Aberdeen (PSC Sep 14) and more recently the exit from Brevan Howard and Insight. The July 2019 Committee will also consider the performance of DGF managers within the Fund</p> <ul style="list-style-type: none"> Any changes to investment process, philosophy, portfolio team are reported to Pension Committee Appointment of Independent Advisor to strengthen scrutiny in this area, and due diligence conducted by her on all managers. Appointment of second active global equity manager (Harris) to reduce overreliance on Aberdeen. Option of rebalancing equity assets between managers (PSC February 2013) Report considered on appropriateness of targets 							

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%	
			<div>taken in September 2015<ul style="list-style-type: none">Investment Manager meetings are held regularly, open to Members as well as officers and significant actions are considered at Pension CommitteeMandate review of Aberdeen culminated in termination of mandate (June 2016)</div>								
	9. Actuarial Risk (miscalculation of liabilities or inappropriate assumptions)	<div><ul style="list-style-type: none">The Fund maintains close contact with its actuaryAdvice is delivered via formal meetings involving elected members, and recorded properlyAdvice is subject to professional requirements such as peer reviewNew Technical Actuarial Standards in place since last valuation, which in effect impose further best practice requirements on actuarial adviceThe Fund now has two experienced actuaries with Camden-specific knowledge (Douglas Green and Barry Dodds) advising its Officers</div>	1	5	5		1	5	5	Ongoing	PC / Officers

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%
			and Committee							
			<ul style="list-style-type: none"> Pension Committee will receive reports on the review of two key assumptions in the Triennial Valuation on Salary growth and Asset outperformance. 							
	51. Sub-funds of London CIV fail to perform		<ul style="list-style-type: none"> The London CIV is well resourced and has skilled and experienced staff who can exercise appropriate due diligence Pension Committee reviews investments with the CIV and progress at the CIV quarterly 	2	2	4	<ul style="list-style-type: none"> As the Fund moves more into CIV sub-funds this will become a bigger issue. The Fund should ensure that there is appropriate monitoring rigour at the CIV 	2	2	4
	10. Geographical/ Currency risk in investments		<ul style="list-style-type: none"> Limit concentration of investment in any one specific market through manager agreements Regular review of compliance with manager agreements Monitor markets constantly, and seek advice of managers, consultants and independent advisor The Fund considered the use of a strategic currency hedge to limit risk, agreeing to delegate to individual managers (PC - March 15) Diversification of UK passive 	2	2	4	<ul style="list-style-type: none"> Review of portfolio during Brexit negotiations to ensure any implications of UK exit from EU are understood 	2	2	4
									Ongoing	PC / Head of Treasury

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%	
			holding into Global passive holding (PC - Sept and Nov 15)								
	15. Excessive fees paid to investment managers	<ul style="list-style-type: none">• Manager fees keenly negotiated at time of appointment to achieve best result for the Fund• All Fund fees and expenses are reviewed regularly by officers• Participation in London CIV to achieve economies of scale and ensure optimal fee structures• Regularly benchmark fees (CEM)• The Fund has exited Hedge Fund investments which have higher fees. It has also recently invested in CQS, a fixed income manager, in the CIV with lower fee structures.	2	2	4	<ul style="list-style-type: none">• Ensure Fund Managers sign up to the Scheme Advisory Board's Code of Transparency. Baillie Gifford have already done so.• Move to passive mandates where outperformance on active portfolio does not justify higher fees charged	2	2	4	Ongoing	PC / Officers
	16. Asset manager or bank failure	<ul style="list-style-type: none">• Detailed due diligence is carried out when new manager or custodian is appointed (financially and legally)• In future this due diligence will be the responsibility of the London CIV with a wider resource base, although exposure to the London CIV	1	4	4		1	4	4	Ongoing	Officers

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%	
			<div>will increase risk to the Fund.</div> <ul style="list-style-type: none">Financial stability of managers and custodian monitored by officers and Independent AdvisorInvestment Consultant has coverage of all investment managersAssets under management with all managers are monitored as dramatic falls are likely to place pressure on manager business models (PC Mar 16)								
53. Climate change linked investments suffer losses due to stranded assets and reputational damage.		<ul style="list-style-type: none">Equity managers review ESG issues as part of investment decision, and report issues and company engagement as part of quarterly reportsThe Government’s legislation to reduce carbon to net zero emissions by 2020 has increased the pace of changeThe Fund has reduced its proportion of the Fund invested in fossil fuels over 7 years from 7.2% of the Fund in 2012 to 4.2% today.Membership of LAPFF and appointment of corporate governance advisor providing research on companies	3	2	6	<ul style="list-style-type: none">participation with LAPFF to engage with fossil fuel companies and boards and continue work in this area including ‘aiming for A’, strategic resilience resolutions, and managed decline of fossil fuel extractioncontinued engagement with Fund managers to ensure climate	3	2	6	Ongoing	PC/ Head of Treasury

Likelihood	1 >1% 1 in 100 rare	2 >5% 1 in 20 unlikely	3 >10% 1 in 10 possible	4 >20% 1 in 5 likely	Impact % of assets or liabilities	1 >2%	2 >10%	3 >25%	4 >50%	5 >75%
			<ul style="list-style-type: none"> invested ESG seminar arranged for Members of the Committee (May 19) 			<ul style="list-style-type: none"> change and stranded asset issues are acknowledged and dealt with by boards. Continued use of Voting policy to support strategic resilience resolutions (with LAPFF voting alerts) and appropriate measures with respect to climate change The Fund conducts a carbon footprint to better understand its exposure to fossil fuels and will look to enhance this in future. The Fund will develop an Investor Belief Statement in the autumn The Fund takes 				

[illegible]

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5		
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%		
	8. Forced selling of assets in falling market due to cash flow requirements	<ul style="list-style-type: none">Monitoring of cash flows and Fund maturity, and taking appropriate strategic action (as above)Dividends can be used to fund benefit payments.Additionally redeemable structures with most managers mean assets can be sold or units redeemed to fund benefits.	1	3	3	<ul style="list-style-type: none">Current Investment Strategy review is using an Asset Liability modelling approach which will ensure assets are appropriate for liabilities (and hence cash flow)	1	3	3	Ongoing	PC / Officers	
	17. Investment manager style drift	<ul style="list-style-type: none">Managers are monitored closely by officers and advisors, with quarterly investment reports and regular review meetings held and minutedReasoning behind any proposed changes to investment approach are explained by the investment managerCommittee has Investment Manager summaries which set out mandate key principles and provide triggers for review	3	1	3	<ul style="list-style-type: none">Minutes from recent Investment Manager meetings considered at next Pension Committee meetingThe Fund has now reviewed Aberdeen's mandate and removed them. The Fund has now also terminated Insight's bond mandate.	3	1	3	Ongoing	Officers / Advisers	
	18. Fraud risk	<ul style="list-style-type: none">All investment managers required to submit audits on internal controls and summarised as part of the annual report to members	1	3	3	<ul style="list-style-type: none">Explore cyber-security risks with fund managers to ensure good safekeeping	1	3	3	Ongoing	PC / Head of Treasury	

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			(PC June 15 p9) <ul style="list-style-type: none">Detailed due diligence is carried out when new managers are appointed (financially and legally)Audit of the fund is carried out by competent auditorsInternal audit is carried out by competent auditors to review benefit fraud and operational risksCustodian has strong internal controls including reconciliation of asset values and performanceManagers able to give complete look through into underlying assetsAssets held in segregated accounts where possibleInvestment Consultant has coverage of all investment managers			employer and systems are robust and protected from hacking especially those with a more quantitative nature.					
	19. Custodian Risk - creditworthiness, ability to settle trades, provide secure safekeeping and accurate and timely reporting	<ul style="list-style-type: none">Service Level Agreement in contractReview of custodian Key Performance IndicatorsRegular officer meetings with custodian	1	3	3	<ul style="list-style-type: none">Future report to Pension Committee by custodianFuture consideration of CIV Depositary and role	1	3	3	Ongoing	Officers
	14. Investment counterparty risk	<ul style="list-style-type: none">Practice of stock lending and use of derivatives monitored	1	2	2		1	2	2	Ongoing	PC / Officers

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	(related to stock lending and use of derivatives)		by officers and Independent Advisor <ul style="list-style-type: none">Investment Consultant has coverage of all investment managersRegular review of managers' due diligence processes at officer meetings									
	11. Illiquidity of assets - benefits cannot be paid and strategy changes become difficult		<ul style="list-style-type: none">Periodic review of Fund assets with Investment Consultant, and officer due diligence on marketsMaturity of Fund kept under review by Committee. (PC - June 2015)	1	2	2		1	2	2	Ongoing	PC / Head of Treasury
	20. Environmental, Social & Governance issues not addressed (and leading to loss on investments)		<ul style="list-style-type: none">Equity managers review ESG issues as part of investment decision, and report issues and company engagement as part of quarterly reportsMembership of LAPFF and appointment of corporate governance advisor providing research on companies investedAn Investment Consultant was recently appointed and the importance of Responsible Investment was highlighted and strengths established in order to support Pension Committee	1	2	2		1	2	2	Ongoing	PC / Officers

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				<div>in this work</div> <ul style="list-style-type: none">SRI conference arranged for Members of the Committee (Dec 15) and ESG seminar (May 19)								
2.	DEMOGRAPHIC RISKS											
		21. Deteriorating active membership (due to employer savings programmes)	<ul style="list-style-type: none">Monitoring scheme membership, and the effect on cash flows and Fund maturity, and taking appropriate strategic action. Administration reports received annually by CommitteePast service adjustments paid as cash amounts instead of a percentage on employer rate (which would decline with declining membership)	3	4	12	<ul style="list-style-type: none">Further scenario testing through modelling of staff dataImpact identified by Hymans Robertson modelling as part of triennial 2016 valuation	3	4	12	Quarterly	PC / Officers
		23. Longevity risk (pensioners living longer)	<ul style="list-style-type: none">The Fund actuary sets base mortality based on research carried out by Club Vita. The longevity assumptions are a bespoke set of 'VitaCurves' specifically tailored to fit the membership profile of the Fund and the Fund will know more when the valuation and associated data is received this autumn	2	5	10	<ul style="list-style-type: none">Continue dialogue with employersPension Committee to receive a report on mortality triennially2016 valuation to included commentary on impact of recent high mortality experienced among national pensioner	2	5	10	Triennial	PC

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			<ul style="list-style-type: none">Fund actuary sets mortality assumptions with some allowance for future increases in life expectancyFund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in fundingAdministering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs			population					
	24. Substantial early retirements	<ul style="list-style-type: none">Employers are charged the extra capital cost (strain cost) of non-ill-health retirements following each individual decision. The cash flow report shows that Strain costs have reduced over recent years.	3	1	3	<ul style="list-style-type: none">Strain cost factors to be revisited following 2019 valuation	3	1	3	Annually	PC
	22.Substantial Ill-health retirements	<ul style="list-style-type: none">Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds	1	2	2	<ul style="list-style-type: none">The employer register will monitor this data and variances can be discussed with employers	1	2	2	Annually	PC

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				the ill-health assumptions built-in. • Employers informed of ill health insurance option at Employer Forums				• Individual employers can take out ill-health insurance to cover for strain costs.				
3.	REGULATORY RISKS											
	26. Changes to regulations and Act, (e.g. more favourable benefits package, potential new entrants to scheme, part-time employees)		• see above	2	5	10	• This is unlikely to be high on the Government's agenda.	2	5	10	Ongoing	PC
	25. National pension scheme changes (e.g. benefits, regulation from The Pensions Regulator, and/or HM Revenue & Customs rules)		<ul style="list-style-type: none"> The Fund is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself Any changes to the regulations, scheme design and benefits package should be reported to Pension Committee Scheme changes and benefits are communicated to members Opt outs are monitored as part of the Cash Flow & Administration report 	3	2	6	<ul style="list-style-type: none"> New 2018 regulations permit exiting employers to recover surpluses built up with the fund (previously known as trapped surpluses) 	3	2	6	Ongoing	PC / Pensions Manager

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				<ul style="list-style-type: none">The result of the most recent reforms (2014 scheme) have been built into the valuationPublished new Investment Strategy Statement from 1 April and new regulation issued									
4.	GOVERNANCE RISKS												
	50. Pool implementation –strategy deferral		<ul style="list-style-type: none">Delay in implementing strategy due to inception of pools, on-boarding asset classes and availability of sub-funds. This Fund has demonstrated that this is not an obstacle with the award of the Private Equity mandate and removal of Aberdeen. We are also conducting an Investment Strategy Review currently.Continued advice from Investment Consultant and Independent investment advisorcontinued Membership (through the Sectoral	3	4	12	<ul style="list-style-type: none">		3	4	12	Quarterly	Chair/ Officers

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			Joint Committee) and officer engagement with London CIV to ensure they adhere to implementation schedule <ul style="list-style-type: none">Investment strategy review in 2017								
	27. Forced merger of LGPS funds	<ul style="list-style-type: none">Participation in MHCLG consultationsOn-going debate with advice from Pensions experts on a national basis	2	5	10	<ul style="list-style-type: none">Ensure that Camden participate in any future consultation and raise concerns to the appropriate authorityAll 8 pools have been approved and officers nationwide are working towards inception	2	5	10	TBC	PC / Officers
	34. Maintaining adequate level of experience at officer level	<ul style="list-style-type: none">Continued staff appraisal and development planEffective personnel management and succession planningIndependent investment advisor has run training sessions for staff new to the Pension Fund area	2	4	8	<ul style="list-style-type: none">Ensure officers continue to undergo relevant training	2	4	8	Ongoing	Officers
	52. Risk of high transition costs of assets in pool	<ul style="list-style-type: none">Discussion about Transition management with the London CIV	3	2	6		3	2	6		
	38. Undetected structural changes in an employer's membership	<ul style="list-style-type: none">The Actuary may be instructed to consider revising the Rates and Adjustments	3	2	6	<ul style="list-style-type: none">Considered by Actuary at triennial valuation and also (to	3	2	6	Ongoing	Officers

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	(e.g. large fall in employee members, large number of retirements).		certificate to increase an employer's contributions (under Regulation 78) between triennial valuations <ul style="list-style-type: none">Deficit contributions are expressed as monetary amounts				lesser extent) when completing annual accounting exercise					
	28. Knowledge and Understanding deficiency (Members and officers)		<ul style="list-style-type: none">Ensure training opportunities are shared, attended and reported on (part of the quarterly Business Plan)Develop introductory training for all new members to PC to attend – delivered in June 2018 post municipal electionsSet up semi-annual member training for all Pension CommitteeEnsure officers go on relevant trainingMake sure independent is involved in training requirements	2	3	6	<ul style="list-style-type: none">Complete CIPFA Knowledge & Skills framework for Members and officers, to assess any knowledge gapsUnder MiFID II Investment managers could take away our opted up status if new members are not adequately trained. A structured programme of training has been put in place for new members and the semi-annual training for members will continue.	2	3	6	Ongoing	PC / Head of Treasury
	30. Employer risk (bankruptcy)		<ul style="list-style-type: none">Seeking a funding guarantee from another scheme employer, or external body, where ever possibleWork done as part of the 2013 valuation results in	3	2	6	<ul style="list-style-type: none">Additional forward looking measures put in place in employer register next received in November 2018 and the last one	3	2	6	Annually	PC

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			alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice <ul style="list-style-type: none">• Vetting prospective employers before admission• requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer fails• regular bond reviews• Annual review of the employer register (Nov 15)• Dialogue with (potential) employers during the tender process and subsequently to ensure risks are understood and managed, such as at Employers Forum and meetings with employers to ensure they understand their obligations , liabilities and funding position				before the cut of data for the next triennial valuation <ul style="list-style-type: none">• Seek potential security from employers where restrictions on contribution affordability and/or higher perceived business risk• (see also item 13)				
	32. Actuarial or investment advice is not sought, or is not heeded, or proves to be deficient in some way	<ul style="list-style-type: none">• The Administering Authority maintains close contact with its advisers• Advice is delivered via formal meetings involving elected members, and recorded properly• Advice is subject to professional requirements	1	5	5		1	5	5	Ongoing	PC / Officers

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			such as peer review <ul style="list-style-type: none">Members and officers with suitable skills, knowledge and understanding to discharge their roles								
	29. Forced disinvestment (from active managers and Fund of Fund vehicles)	<ul style="list-style-type: none">MHCLG is not currently considering this possibilityOn-going debate with advice from Pensions experts on a national basis.	2	2	4	<ul style="list-style-type: none">Participate in consultation and raise concerns to the appropriate authority	2	2	4	TBC	PC / Officers
	31. Reputational risk from unaddressed ESG (Environmental, Social & Governance) issues	<ul style="list-style-type: none">Membership of LAPFF providing active corporate engagement and championing of ESG issuesCorporate Governance advisor, PIRC, provides company research and ensures Camden voting policy executed on shareholdings is best in classMembers and officers aware of fiduciary responsibilities, acting in the long-term interest of the Fund and taxpayersbecome a signatory to the Stewardship code – awarded tier one status	2	2	4	<ul style="list-style-type: none">engage with Divest Camden and other interested parties on the transition to the low carbon economy	2	2	4	Ongoing	PC / Officers
	33. Employer cessation not identified (due to	<ul style="list-style-type: none">Employer Register is maintained and reviewed	2	2	4	<ul style="list-style-type: none">Continued dialogue with employers to	2	2	4	Ongoing	PC / Pensions

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5		
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%		
	closing to new entrants)		annually by Committee (each November)				ensure risks are understood and managed					Manager
	35. Legislative risk - failure to comply with legislation, statutory regulation and formal guidance	<ul style="list-style-type: none">Officers seek guidance and advice from independent sources as appropriateAdvisers proactively raise issues and keep Officers aware of relevant issuesOfficers receive regular training and attend appropriate LGPS events	1	4	4			1	4	4	Ongoing	Officers
	36. Conflict of interests (elected members, officers and advisers)	<ul style="list-style-type: none">Officers/ Committee seeks guidance and advice from independent sources as appropriateOfficers and members receive regular training and attend LGPS events, at which conflict issues will be raised as appropriateMembers are required to declare conflicts of interest at the start of meetings and at the point in a meeting when a conflict arisesPension Board have their own conflicts of interest policy	1	3	3	<ul style="list-style-type: none">New actuarial professional standards came into effect in 2013 explicitly address conflict of interest issues in the LGPS, and will require a conflict management plan to be drawn up (which Hymans are drafting)The Pensions Regulator's role in the LGPS include governance and conflict issues, and guidance and training will be forthcoming on these topics	1	3	3	Ongoing	PC / Officers	
	37. Mandate burden -	<ul style="list-style-type: none">Performance and relevant	2	1	2			2	1	2	Ongoing	PC /

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5	
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	number of investment mandates inhibits Committee in its governance of investments		<ul style="list-style-type: none"> information of investment mandates reported to Committee as part of quarterly Performance Report Committee provides clear delegation to Executive Director Corporate Services as and when required Officers and Members meet regularly with investment managers outside of Committee time and feed back minutes of meetings Independent investment advisor conducts separate monitoring meetings with managers as appropriate Investment managers to be brought to Committee or London CIV (where their sub-fund is used) for targeted discussion where appropriate 								Officers
	39. Termination valuation not undertaken – missed opportunity to call in a debt.	<ul style="list-style-type: none"> Admission Bodies are required to notify the Administering authority of termination and it requires employers with Best Value contractors to inform it of forthcoming changes. 	2	1	2	<ul style="list-style-type: none"> New Regulations permit retrospective cessation valuation 	2	1	2	Ongoing	Officers
	40. Lack of delegation arrangements	<ul style="list-style-type: none"> Detailed scheme of delegation adopted for Council officers, and reviewed annually 	1	2	2		1	2	2	Ongoing / As Necessary	Officers / PC

Likelihood	1	2	3	4	Impact % of assets or liabilities	1	2	3	4	5		
	>1% 1 in 100 rare	>5% 1 in 20 unlikely	>10% 1 in 10 possible	>20% 1 in 5 likely		>2%	>10%	>25%	>50%	>75%		
			<ul style="list-style-type: none">Decisions to delegate specific activities from Committee to Executive Director Corporate Services agreed and documented at Committee meetings									
5.	ADMINISTRATION RISKS											
		44. Adequate level of administration officer knowledge and skills (Pension shared service)	<ul style="list-style-type: none">Effective personnel management and succession planningInduction and knowledge sharing on local issues and requirements for new officers	2	3	6	<ul style="list-style-type: none">Ensure audit takes place post current restructure	2	3	6	Ongoing	Pensions Manager
		42. Changes to scheme members (starters, leavers, retirements, McCloud decision, etc.) are not processed properly	<ul style="list-style-type: none">Scheme regulations are followedPensions team are well trainedInduction of new pensions administrators	2	2	4	<ul style="list-style-type: none">Actuary reviews application of scheme rules	2	2	4	Ongoing	Pensions Manager
		46. Data and records are not accurate	<ul style="list-style-type: none">Records have correct supporting documentationInput and output checks are performedData matching exercises identify discrepancies (National Fraud Initiative)Reliance provided by internal audit	2	2	4	<ul style="list-style-type: none">Reconciliations are performed between payroll and pensions systemsData quality is of the highest order at the Pension Shared Service to ensure valuation results are as accurate as possible.	2	2	4	Ongoing	Pensions Manager

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								</		

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			latest releases								
	43. Employers data inaccurate	<ul style="list-style-type: none">Liaison with schools, Supporting People directorate and out-sourced payroll providers to ensure accurate and timely data is received	3	1	3	<ul style="list-style-type: none">Audit exercise planned to review outsourced school payroll dataIntroduction of i-connect employer module in autumn 2018 with Pension administration software at Pension Shared Service will improve data accuracy (if agreed)	3	1	3	Ongoing	Pensions Manager
	48. Incorrect benefits paid	<ul style="list-style-type: none">Pensions team are well trainedPayments have correct supporting documentationManagement check performed on benefit payments before processing	1	2	2		1	2	2	Ongoing	Pensions Manager
	49. Audit fail to undertake proper checks	<ul style="list-style-type: none">Audit plan work to get reasonable expectation of detecting control weaknesses	2	1	2		2	1	2	Annually	Pensions Manager