



## Local Government Pensions Board

**Date:** MONDAY, 5 OCTOBER 2020  
**Time:** 1.45 pm  
**Venue:** VIRTUAL PUBLIC MEETING (ACCESSIBLE REMOTELY)

**Members:** James Tumbridge  
Jon Avern  
Yvette Dunne  
Christina McLellan  
Martin Newnham  
Mark Wheatley

**Enquiries:** Chris Rumbles  
tel. no.: 020 7332 1405  
christopher.rumbles@cityoflondon.gov.uk

### Accessing the virtual public meeting

**Members of the public can observe this virtual public meeting at the below link:**  
<https://youtu.be/4tlHfhiA4Go>

This meeting will be a virtual meeting and therefore will not take place in a physical location following regulations made under Section 78 of the Coronavirus Act 2020. A recording of the public meeting will be available via the above link following the end of the public meeting for up to one municipal year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

**John Barradell**  
**Town Clerk and Chief Executive**

## **AGENDA**

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **ORDER OF THE COURT OF COMMON COUNCIL**

To receive the Order of the Court of Common Council dated 16 July 2020, appointing the Committee and confirming its Terms of Reference.

**For Information**  
(Pages 1 - 2)

4. **ELECTION OF CHAIR**

To elect a Chair in accordance with Standing Order No. 29.

**For Decision**

5. **ELECTION OF DEPUTY CHAIR**

To elect a Deputy Chair in accordance with Standing Order No.30.

**For Decision**

6. **MINUTES OF THE PREVIOUS MEETING**

To agree the public minutes of the meeting on 4<sup>th</sup> February 2020.

**For Decision**  
(Pages 3 - 8)

7. **WORK PROGRAMME**

There are no outstanding items on the work programme at this time.

8. **THE CITY OF LONDON LOCAL GOVERNMENT PENSION SCHEME RISK REGISTER**

Report of the Chamberlain.

**For Decision**  
(Pages 9 - 22)

9. **THE CITY CORPORATION'S PENSIONS SCHEME - UPDATE**

Report of the Chamberlain.

**For Information**  
(Pages 23 - 48)

10. **LGP BOARD - PENSION FUND INVESTMENT ACTIVITIES 1 APRIL 2019 TO 31 MARCH 2020**

Report of the Chamberlain.

**For Information**  
(Pages 49 - 54)

11. **PENSION FUND - INVESTMENT STRATEGY STATEMENT**

Report of the Chamberlain.

**For Information**  
(Pages 55 - 84)

12. **PENSION FUND - DRAFT ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020**

Report of the Chamberlain.

**For Information**  
(Pages 85 - 180)

13. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

15. **EXCLUSION OF THE PUBLIC**

**MOTION** - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

**For Decision**

**Part 2 - Non-Public Agenda**

16. **PENSION ADMINISTRATION SYSTEM PROCUREMENT**

Report of the Chamberlain.

**For Information**  
(Pages 181 - 192)

17. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

18. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

This page is intentionally left blank

RUSSELL, Mayor	<b>RESOLVED:</b> That the Court of Common Council holden in the Guildhall of the City of London on Thursday 16 <sup>th</sup> July 2020, doth hereby appoint the following Committee until the first meeting of the Court in April, 2021.
----------------	--

## LOCAL GOVERNMENT PENSIONS BOARD

### 1. **Constitution**

A Non-Ward Committee consisting of,

- Three Employer Representatives, of which;
  - Two will be Members of the Court of Common Council (who may not be Members of the Investment Committee, Financial Investment Board or Establishment Committee);
  - One will be an Officer of the Corporation, nominated by the Town Clerk and Chief Executive; and
- Three Member Representatives, selected by an appointment method determined by the Town Clerk and Chief Executive.

In addition, the Board has the power to appoint one co-opted member (with no voting rights) as an independent advisor to the Board, should the Board require further technical guidance.

### 2. **Quorum**

The quorum consists of any three Members, including one Employer Representative and one Member Representative.

### 3. **Membership 2020/21**

#### **Three Employer Representatives**

- 5 (5) James Richard Tumbridge, *for six years*
- 2 (2) Mark Raymond Peter Henry Delano Wheatley  
Jon Averbs, Port Health and Public Protection Director

#### **Three Member Representatives**

Yvette Dunne (*appointed for a four-year term expiring April 2021*)  
Martin Newnham (*appointment for a four-year term expiring April 2022*)  
Christina McLellan (*appointed for a four-year term expiring April 2024*)

together with the co-opted Member referred to in paragraph 1 above, if required.

Each Board Member should endeavour to attend all Board meetings during the year. In the event of consistent non-attendance by any Board member, then the tenure of that membership should be reviewed by the other Board members in liaison with the Scheme Manager.

Board Members must be satisfied that they:

- are conversant with the legislation and associated guidance of the Local Government Pension Scheme (LGPS);
- are conversant with documents recording policy about the administration of the LGPS by the City of London Corporation;
- Have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations, including undertaking appropriate training to develop this knowledge;
- conduct themselves in line with the seven principles of public life;
- do not have any conflict of interest with their role on the Pensions Board.

### 4. **Terms of Reference**

In line with the requirements of the Public Services Pensions Act 2013 for the management of the City of London Corporation's Pension Scheme, to be responsible for:

(a) assisting the Scheme Manager (the City of London Corporation) in the following matters:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that it is connected to;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- Other such matters as the scheme regulations may specify.

(b) securing the effective and efficient governance and administration of the LGPS for the City of London Pension Fund

The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

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

The Pension Board shall meet at least three times per year.

**5. Chairmanship**

Any Member of the Board will be eligible to be Chairman. However, to allow reporting to the Court of Common Council, either the Chairman or Deputy Chairman must be a Member of the Court of Common Council.

## **LOCAL GOVERNMENT PENSIONS BOARD**

**Tuesday, 4 February 2020**

**Minutes of the meeting of the Local Government Pensions Board held at the Guildhall EC2 at 1.45 pm**

### **Present**

#### **Members:**

James Tumbridge (Chairman)  
Jon Averbs  
Yvette Dunne

Christina McLellan  
Mark Wheatley

#### **Officers:**

Kate Limna	- Corporate Treasurer
Jeff Henegan	- Assistant Pensions Manager
Matt Mott	- Pensions Manager
Christopher Rumbles, Clerk	- Town Clerk's Department

#### **1. APOLOGIES**

Apologies were received from Martin Newnham.

#### **2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

There were no declarations of interests.

#### **3. MINUTES OF THE PREVIOUS MEETING**

**RESOLVED** – That the public minutes of the meeting on 7<sup>th</sup> October 2019 are approved as an accurate record.

#### **4. OUTSTANDING ACTIONS**

The Board received a report of the Town Clerk that summarised outstanding actions from previous meetings.

**RESOLVED** – That the Board notes the report.

#### **5. TERMS OF REFERENCE**

The Board considered a report of the Town Clerk presenting terms of reference for annual review.

The Chairman acknowledged that the Board had now moved to a staggered approach to membership to allow for retention of knowledge and experience moving forward.

**Resolved**, that the terms of reference are agreed.

6. **THE CITY OF LONDON: LOCAL GOVERNMENT PENSION SCHEME - REVISION TO THE RISK REGISTER**

The Board received a report of the Chamberlain providing an updated risk register and offering an opportunity to review existing risks and actions and seeking their views on whether they considered appropriate control measures were in place.

The Pensions Manager responded to a question and confirmed that the City Corporation's pension risk register was in line with other LGPS Pension Fund risk registers.

**Investment Strategy**

The Chairman noted risk CHB LGPS 001a relating to the Investment Strategy of the Pension Fund being reviewed every three years by the Financial Investment Board with proper advice from an Investment Consultant.

The Chairman acknowledged the division of responsibilities between Committees and accepted that Local Government Pensions Board were not responsible for the Investment Strategy but noted there had been no communication between Local Government Pensions Board and Financial Investment Board since the immediate past Chairman had stepped down.

The Chairman proposed a resolution be passed to the Financial Investment Board asking for an annual summation of investment activity in relation to the Pension Fund being provided to the Local Government Pensions Board. This would allow the Board to receive the level of assurance needed.

The Board agreed that it would be helpful to receive a note back from the Financial Investment Board.

**Print Runs**

The Chairman asked for an assurance that lessons had been learned from errors with past print runs and that the position was now under control. The Pensions Manager assured the Board that the Pension Office now had direct contact details for the print company staff and were in ongoing dialogue with them regarding future requirements. Details of the 2020 schedule had already been provided to them. The Pensions Office continued to challenge to the print company and ask questions of them about delivery and expected standards. These actions provided the level of assurance needed.

**Data Protection Training**

The Chairman questioned whether the Pensions Team would benefit from any specialist Data Protection training given the unusual position of how long pension data had to be retained for and given GDPR requirements that data must not be retained for longer than it was needed.

The Pensions Manager referred the Data Retention Policy agreed by the Board last year that allowed for data to be retained for up to 15 years after pension payments had ceased or up to age 75 for former scheme members where there was not a liability to pay a pension.



The Pensions Manager referred to national guidance proposing data be retained for 100 years and suggested this would be something for consideration as part of the annual review of the Data Retention Policy in June.

### **Robust recruitment process**

A Member questioned whether there was any mechanism for ensuring recruitment to vacancies within the Pensions Office and that the City Corporation's salaries were competitive. The Pensions Manager explained that all roles at the City Corporation were subject to a job evaluation to achieve the appropriate grade for the work being undertaken.

### **Employer becoming insolvent or abolished**

The Chairman noted an amber six rating for the City Corporation being abolished or becoming insolvent and suggested this risk rating could be reviewed. The Corporate Treasurer clarified that this risk related to admitted bodies being abolished and not the City Corporation. The risk related to those organisations admitted into the City Corporation Pension Fund.

The Chairman suggested this risk was unlikely and proposed dropping the rating to green 4.

### **Outsourcing of services as a result of the Fundamental Review**

The Board noted that the City Corporation is undertaking a Fundamental Review of its services.

Members expressed their concern that parts of the organisation may not consider pension implications when making decisions regarding their service and questioned whether it would be appropriate to send another letter reminding Chief Officers and Service Committee Chairman of the need to consider pensions as part of any proposals.

The Corporate Treasurer referred to a letter that was issued to Committee Chairman two years ago asking them to ensure that consideration was given to avoiding any risk of liabilities falling on the Pension Fund as part of their considerations relating to new contractual arrangements. Members discussed the appropriate point to re-issue this letter and it was agreed to wait for the outcome of the Fundamental Review to understand the proposals. It was agreed that the item would be noted as an outstanding action for consideration at a future meeting.

**Resolved**, that the risk register be approved subject to Risk No 6: Employer becomes insolvent or is abolished with insufficient funding to meet liabilities being reduced to from Amber 6 to Green 4.

## **7. THE CITY CORPORATION'S PENSIONS SCHEME - UPDATE**

The Board received a report of the Chamberlain providing an update on a range of topics relating to the City Corporation's Local Government Pension Scheme (the Scheme)

The Chairman thanked officers for the revised format of the risk update and pension scheme update and confirmed he found these helpful.

### **Pension Estimates**

A Member referred to estimates and questioned how often these can be requested. The Pensions Manager explained they can be requested at any time, however, a criteria has been implemented with one estimate request per scheme member in a 12 month period and only if the intended retirement date is within the next 5 years.

The Board noted that LGPS Members were issued with a statement each year providing them with their figures. It was acknowledged that the biggest risk in producing pension figures for estimates and statements was human error and that the long-term aim was to move to a more automated pension admin system with scheme members accessing the information online.

The Board agreed that moving to an automated pension admin system would be a great improvement. The Pensions Manager welcomed the endorsement of the Board and confirmed that he would look to engage City Procurement. There was also a pension admin system framework being developed by Norfolk County Council that was due to go live this summer. It was agreed that an update would be provided at the next Board meeting in June.

### **Fundamental Review**

The Board noted that the Fundamental Review was already impacting on the Pensions Office with regards to the voluntary flexible retirement scheme currently offered by the Corporation. It was noted that the Pensions Office did not have the resources to answer individual questions and that people were being referred to their pension statements in the first instance for an indication of their potential pension values should they consider taking advantage of the offer.

The Pensions Manager clarified that where it was known the City Corporation had agreed flexible retirement, scheme members would be provided with actual pension benefits values and the necessary election forms.

The Pensions Office have asked HR to confirm that where Flexible Retirement is agreed the date is to be set in advance. This would ensure the team have the appropriate resources in place to deal with the expected increased number of retirements and allow them to plan ahead and avoid a backlog.

**Resolved**, that the updated be noted.

8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**  
There were no questions.
9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

**Barnet Waddingham Training**

The Corporate Treasurer referred to the next Barnet Waddingham pension training session taking place on 25<sup>th</sup> March, but the Chairman not being able to make it on this occasion. It was agreed information regarding the training would be circulated to the Board.

The Chairman referred to previous Pensions Board Trustee training sessions where the Board had got into the habit of sending one Board Member and asking them to take away two or three issues from the session to highlight to the Board.

**The meeting closed at 2.50pm**

-----  
Chairman

**Contact Officer: Chris Rumbles**  
**tel. no.: 020 7332 1405**  
**[christopher.rumbles@cityoflondon.gov.uk](mailto:christopher.rumbles@cityoflondon.gov.uk)**

This page is intentionally left blank

# Agenda Item 8

<b>Committee:</b>	<b>Date:</b>
Local Government Pensions Board	5 October 2020
<b>Subject:</b> The City of London Local Government Pension Scheme – Risk Register	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Matt Mott – Chamberlain’s Department	

## **Summary**

The Pension Board, at their meeting on 7 October 2019, requested that the Risk Register should be included separately as a standing agenda item to be updated/reviewed at each meeting.

When reviewing the risks, the Board should be aware that generic risks are also included in the City of London Police Pension Scheme Pension Board risk register. These risks are CHB LGPS 03 Legislative Compliances, 04 Pension Scheme Administration, 05 Fraud and 07 Cyber security.

Appendix A (i) provides the Risk Register and Appendix A (ii) the Risk Matrix.

## **Recommendation**

Members are asked to:

- review the existing risks and actions present on the Local Government Pension Board’s Risk Register, and confirm that appropriate control measures are in place; and
- confirm that there are no further risks relating to the pension administration overseen by the Local Government Pension Scheme Board

## **Main Report**

### **Background**

1. The Local Government Pension Board instituted a Risk Register on 20 October 2016 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City’s Pension Fund. The current Risk Register, as agreed by the Board on 4 February 2020, is included as Appendix A (i).
2. The Local Government Pension Board should review the register three times per year. Officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. This is in line with standard risk review procedures across the rest of the City of London Corporation.

### **Review of Risks**

3. The method of assessing risk reflects the City of London’s standard approach to risk assessment as set out in its Risk Management Strategy approved by the Audit and Risk Management Committee in May 2014. The City of London Corporation risk matrix, which explains how risks are assessed and scored, is attached at Appendix A (ii) of this report. Risk scores range from one, being lowest risk, to the highest risk score of thirty-two. These scores are summarised into 3 broad groups, each with increasing risk, and categorised “green”, “amber” or “red”.

## **Update on Risks**

4. The revised Risk Register is attached at Appendix A(i) and the Risk Matrix at Appendix A (ii).
5. At its meeting on the 4 February 2020,
  - (i) in relation to risk CHB LGPS 001a, the Board proposed a resolution be passed to the Financial Investment Board seeking an annual summation of investment activity in relation to the Pension Fund be provided. This is a separate item on today's agenda.
  - (ii) in relation to risk CHB LGPS 006 (Employer insolvency), the Chairman noted an amber six rating for the City Corporation being abolished or becoming insolvent and suggested this risk was unlikely and proposed dropping the rating to green 4. This has been reflected in the current risk register.
6. With the exception of risk CHB LGPS 006, the scores for the other risks have been maintained at their previous levels, although these risks have each been reviewed and updated where necessary in the Register itself. Updates to the Risk Register are underlined throughout with deletions being struck through.
7. Officers have also considered whether any new risks have emerged since the last review. Although the Board's operating environment continually changes officers have determined that the existing Register captures the material risks facing the Board and enables the Board to concentrate on the most prescient risks.
8. Each risk presented in the Risk Register is accompanied by one or more "action(s)" which reflect how the risk is managed and mitigated. A "due date" for required completion is set against each action. Due to the nature of the risks overseen by the Board, in many cases it is impossible to entirely eliminate a risk, and therefore corresponding actions will always remain live. These ongoing actions are necessary in order to maintain the current risk score. Where this is the case the Risk Register includes an annual due date, which will be renewed each year.

## **Conclusion**

9. The risks overseen by the Local Government Pension Board are primarily of low likelihoods but represent substantial impact, particularly with regards to financial loss and reputational damage. The Board is requested to confirm that appropriate control measures are in place for these risks and that there are no other risks that should be added to the Risk Register.

## **Appendices:**

Appendix A (i)– Risk Register  
Appendix A (ii) - Risk Matrix

## **Contact:**

Matt Mott

Telephone: 020 7332 1133

Email: [matt.mott@cityoflondon.gov.uk](mailto:matt.mott@cityoflondon.gov.uk)

## CBH LGPS - Detailed risk register

Report Author: Matt Mott

Generated on 21 September 2020



Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<b>P</b> <b>CBH LGPS</b> <b>Insufficient assets</b> <b>11</b>  17-Dec-2019 Chamberlain	<b>Cause:</b> The asset allocation of the Pension Fund is unable to fund long term liabilities. <b>Event:</b> There are insufficient assets to meet liabilities. <b>Effect:</b> Reduced income or lower than anticipated growth. Participating employers are required to provide further funding through increased contributions to finance liabilities.	 Likelihood Impact	8	This is a Financial Investment Board (FIB) Risk. The Pension Fund's Investment Strategy review carried out in October 2017 required no changes to the Fund's existing asset allocation. FIBs agreed to amend the Pension Fund's absolute return target to 5.7% from 1st April 2018. As at 30 September 2019, the Fund is outperforming its absolute return target over one, three and five years. <b>11 November 2019</b> The Financial Investment Board reviewed the investment strategy at its meetings in June and July 2020. The Board maintained the existing asset allocation strategy and reduced the absolute return target from 5.7% p.a. to 5.2% p.a. (which is consistent with the strategy for funding the Pension Fund's liabilities). The review was	 Likelihood Impact	8	31-Mar-2021	 Constant

			<p>heavily supported by the Fund's <u>Investment Consultant. The investment strategy remains appropriate in the context of the Fund's funding objectives.</u></p> <p><u>The Pension Fund was impacted in the first quarter of 2020 by the downturn in financial markets related to COVID-19. Asset values have recovered since the end of March, and although there is notable uncertainty about the long-term impact of the virus on the global economy, some stability has returned to asset prices. The investment strategy review took place after the emergence of the pandemic and as such officers are confident that the current approach remains appropriate in terms of the Fund's funding objectives. As such the current risk score of 8, has been maintained.</u></p> <p><b>21 September 2020</b></p>				
--	--	--	--	--	--	--	--

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 001a	The Investment strategy of the Pension Fund is reviewed at least every three years by the Financial Investment Board with proper advice from the Investment Consultant.	<p><del>The Pension Fund's triennial liability valuation is carried out by the Fund's actuary as required by statute every three years and this serves as foundation for the Pension Fund's Investment Strategy. The Pension Fund's Investment Strategy review was completed in October 2017.</del></p> <p><u>Following shortly after the completion of the 2019 triennial valuation of the Fund's liabilities, the Financial Investment Board reviewed the Pension Fund investment strategy at its meetings in June and July 2020. This ensured that the investment strategy remained appropriate in the context of the Fund's updated liabilities valuation and the current investment environment.</u></p>	Caroline Al-Beyerty; Kate Limna	<u>21-Sep-20</u>	31-Mar-2023



CHB LGPS 001b	The investment performance of the Pension Fund is measured against absolute return targets required to meet long term objectives. This is reported to the Financial Investment Board throughout the year and is supplemented by market insight from the Corporation's Investment Consultant who will assist any strategic decisions required in between the three-year formal strategy reviews.	Individual Fund investment performance is brought to each Financial Investment Board for consideration.	Kate Limna, James Graham;	<u>21-Sep-20</u>	31-March-2021
---------------	---	---	------------------------------	------------------	---------------

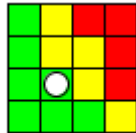
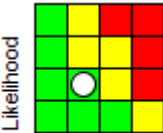
[illegible]

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 006a	Bond indemnity/guarantee required for admitted bodies and incorporated into admission agreements where appropriate.	Recent admissions to the scheme have provided a bond.	Matt Mott	22-Jan-2020	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB LGPS 004 Pension Scheme Administration  Page 14	<b>Cause:</b> (i) Ineffective succession planning. (ii) Inadequately trained staff.(iii) Absences/increased staff turnover.(v) Data Accuracy.(vi) Lack of resources. <b>Event:</b> The failure of administrators to accurately calculate and pay the correct level of benefits. <b>Effect:</b> (i) Inaccurate benefits paid or delayed. (ii) Increased costs. (iii) Financial penalties/ sanctions.		4	<p>The Regulations of the Local Government Pension Scheme (LGPS) set out how LGPS pensions should be calculated; the procedures to be followed in certain circumstances (i.e. normal retirement and ill health retirement); the timeframes/deadlines to be adhered to; and the notifications to be provided to Scheme members.</p> <p>In addition, other bodies such as the Pensions Regulator, HM Revenue &amp; Customs, the Office of National Statistics and the Financial Conduct Authority impose rules that work alongside the Scheme Regulations or may even supersede them.</p> <p>If the members of the Pensions Office that are responsible for administration of the LGPS Scheme lack the necessary knowledge and skills payment of benefits may be delayed and may be inaccurate.</p> <p>This may lead to financial penalties and sanctions being imposed by the governing industry bodies such as the Pensions Regulator.</p>		4	31-Mar-2021	

17-Dec-2019 Chamberlain				4-Feb-2020				Constant
----------------------------	--	--	--	------------	--	--	--	----------

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 004a	Job descriptions used at recruitment to attract candidates with skills and experience related to LGPS administration. The appraisals process to monitor progress and assess training needs.	Ensuring that candidates with the necessary skills and abilities are employed by the City. Once in post, staff continue to receive relevant training and attend courses, seminars and conferences when appropriate. Have trained multiple team members for extra duties due to parental leave cover	Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021
CHB LGPS 004b	Scheme administrators are trained to use the pensions administration software.	Ensuring that administrators are fully trained to use the pension administration software to enable them to provide accurate and efficient calculations. In addition, administrators should know the correct process to report to the software provider any errors encountered with the system in order that they can be investigated and resolved.	Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021
CHB LGPS 004c	Accurate and appropriate checking procedures in place at all areas of administration.	<del>Rigorous and thorough checking procedures are created and implemented to ensure all calculations and letters are checked for accuracy and legislative compliance</del> <u>All checking procedures reviewed and where necessary amended due to take account of COVID 19 and officers having worked from home since 23 March 2020</u>	Matt Mott	<u>22 Sept 2020</u>	31-Mar-2021
CHB LGPS 004d	Practical disaster recovery/succession plans in place to ensure continuity in the event that key staff leave or are unable to work for a prolonged period of time.	Ensuring that skill sets are not restricted to one staff member alone. Priority cases and work types are identified to ensure continuation in the event that staff or other resources become unavailable <u>Disaster Recovery reviewed in light of COVID 19 and officers having worked from home since 23 March 2020</u>	Matt Mott	<u>22 Sept 2020</u>	31-Mar-2021

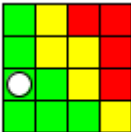
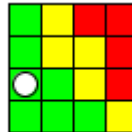

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<b>CHB LGPS 007 Cyber security</b>  <div style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 16</div>	<b>Cause:</b> (i) Ineffective procedures. (ii) Inadequately trained staff. (iii) IT system failure (iv) Data Accuracy. (v) Lack of resources. <b>Event:</b> Breach of Corporate IT systems and Cyber security. <b>Effect:</b> (i) Inaccurate benefits paid or delayed. (ii) Increased costs of inefficiencies. (iii) Financial penalties/sanctions. (iv) Breach of Data Protection regulations. (v) Loss/corruption of data	 Likelihood Impact	4	A malicious breach of Corporate IT systems may lead to a failure of the pensions administration system and/or a breach of Data Protection regulations.  A failure of the pensions administration system or a breach of the DP regulations may mean a failure or inability to calculate benefits accurately and on time which may lead to financial penalties and sanctions being imposed by the governing industry bodies such as the Pensions Regulator or Information Commissioner's Office.  <b>4-Feb-2020</b>	 Likelihood Impact	4		Constant

Action no	Action description	Latest Note		Action owner	Latest Note Date	Due Date
CHB LGPS 007a	Pensions administration staff to be aware of the corporate policy regarding cyber security and to follow the guidelines given.	Corporate online training regarding cyber-security to be carried out by all staff and reviewed as required.		<u>Matt Mott</u>	<u>31 Dec 2019</u>	31-Mar-2021
CHB LGPS 007b	Corporate and departmental specific software to be updated as required to ensure the latest and most secure version is being used.	To ensure the most up-to-date software is being used, staff should update their computers as and when prompted.		Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021
CHB LGPS 007c	Ensuring that the pensions administration software is included in the departmental business continuity plans	Updating the business impact analysis details used in the departmental continuity plan as required.		Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021
CHB LGPS 007d	Pensions administration staff to be aware of Data Protection legislation	<del>Corporate online training regarding Data Protection to be carried out by all staff and reviewed as required.</del>		Matt Mott	<u>22 Sept 2020</u>	31-Mar-2021

		Data Protection reviewed and all staff reminded of the legislation and its importance. Processes amended for home working since 23 March 2020, ensuring the protection of scheme member data						
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB LGPS 003 Legislative Compliances  								

Chamberlain							
-------------	--	--	--	--	--	--	--

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 003a	Robust recruitment and training processes.	Ensuring that suitable staff are recruited at the correct salary levels and that appropriate training is provided will help to prevent non-compliance with legislative requirements	Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021
CHB LGPS 003b	The governing legislation may change or evolve over time and it is therefore important that staff maintain accurate and up-to-date knowledge of the Regulations.	Regular attendance at seminars, forums, webinars and user groups will ensure that knowledge of the relevant legislation is kept up-to-date and accurate.	Matt Mott	<u>21 Jan 2020</u>	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<b>CHB LGPS Fraud</b>  17-Dec-2019 Chamberlain	<b>Cause:</b> (i) Not notified of death. (ii) Staff acting inappropriately <b>Event:</b> Fraudulent claim of pension benefits. <b>Effect:</b> (i) Continued payment of pensions following death. (ii) Overpaid pensions. (ii) Financial loss	 Likelihood	2	If the death of a LGPS beneficiary is not reported, their pension may continue to be paid when there is no longer an entitlement.  This may be a deliberate failure to report the death or may be where there is no fraudulent intention, but in either case it will lead to benefit overpayment and a potential financial loss.  <b>4-Feb-2020</b>	 Likelihood	2	<u>31-Mar-2021</u>	  Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 005a	Robust fraud protection/detection processes.	Use of Mortality Screening Service and Tell Us Once Service [Government initiative that allows us to be notified of a death when registered]. Participation in the National Fraud Initiative. Annually sending Life Certificates to Overseas Pensioners.	Matt Mott	<u>21-Jan-2020</u>	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
<b>CHB LGPS 002 Actuarial valuation</b>  Dec-2019 Camberlain	<b>Cause:</b> (i) Inappropriate assumptions used by the Actuary (ii) Inaccurate data supplied to the Actuary. <b>Event:</b> Unsuitable triennial actuarial valuation. <b>Effects:</b> Employer rates unsuitable to maintain long term cost efficiency & solvency.	 Likelihood Impact	1	The latest full actuarial valuation of the Pension Fund, using member data and investment asset information as at 31 March 2019, <u>has been completed, is being finalised.</u> Using updated financial and demographic assumptions, the actuary has been able to generate an accurate picture of the Pension Fund's funding position (assets compared to liabilities) which <u>will be has been</u> used to establish appropriate employer contribution rates for use from 1 April 2020. <u>The next valuation is due to take place in 2022/23</u>  <u>22 September 2020</u>	 Likelihood Impact	1	<u>31-Mar-2023</u>	 Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB LGPS 002a	Regular meetings with the Actuary to ensure that assumptions are appropriate involving nominated Members of the Finance Cttee, with final report to Finance Cttee.	Nominated Members of the Finance Cttee together with relevant officers met with the Actuary in October and November 2019 to discuss the preliminary triennial valuation results and the robustness of the financial and demographic assumptions used in the valuation process. The final triennial valuation results <u>were will be</u> reported to the Finance Cttee at its meeting on 18 February 2020.	Matt Mott	<u>22Sept 2020</u>	31-Mar-2021
CHB LGPS 002c	Robust Year End procedures and updates.	The Pension Fund Accounts and Annual Report for 2016/17, 2017/18 and 2018/19 (covering the most recent triennial valuation period) were finalised on time and audited without qualification. <u>The draft Pension Fund Accounts and Annual Report for 2019/20 were completed on time and are currently being reviewed by the external auditor.</u>	Matt Mott	<u>22Sept 2020</u>	31-Mar-2021

CHB LGPS 002d	Checking for errors or inconsistencies in valuation extract report before submission to the Actuary	Officers review data quality prior to submission to the actuary. Additionally, member data is submitted separately from employer level cash flow data, which are held on two distinct management information systems. As a result, errors are more easily identified during the valuation process itself. For example, if the member data demonstrates that a given number of members belonging to a single employer retired during the valuation period then this should also be evident from the benefit payments reported in the cash flow data.	Matt Mott		31-Mar-2021
------------------	---	---	-----------	--	-------------



## City of London Corporation Risk Matrix (Black and white version)

Note: A risk score is calculated by assessing the risk in terms of likelihood and impact. By using the likelihood and impact criteria below (top left (A) and bottom right (B) respectively) it is possible to calculate a risk score. For example a risk assessed as Unlikely (2) and with an impact of Serious (2) can be plotted on the risk scoring grid, top right (C) to give an overall risk score of a green (4). Using the risk score definitions bottom right (D) below, a green risk is one that just requires actions to maintain that rating.

### (A) Likelihood criteria

	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)
Criteria	Less than 10%	10 – 40%	40 – 75%	More than 75%
Probability	Has happened rarely/rever before	Unlikely to occur	Fairly likely to occur	More likely to occur than not
Time period	Unlikely to occur in a 10 year period	Likely to occur within a 10 year period	Likely to occur once within a one year period	Likely to occur once within three months
Numerical	Less than one chance in a hundred thousand (<10-5)	Less than one chance in ten thousand (<10-4)	Less than one chance in a thousand (<10-3)	Less than one chance in a hundred (<10-2)

### (B) Impact criteria

Impact title	Definitions
Minor (1)	Service delivery/performance: Minor impact on service, typically up to one day. Financial: financial loss up to 5% of budget. Reputation: Isolated service user/stakeholder complaints contained within business unit/division. Legal/statutory: Litigation claim or find less than £5000. Safety/health: Minor incident including injury to one or more individuals. Objectives: Failure to achieve team plan objectives.
Serious (2)	Service delivery/performance: Service disruption 2 to 5 days. Financial: Financial loss up to 10% of budget. Reputation: Adverse local media coverage/multiple service user/stakeholder complaints. Legal/statutory: Litigation claimable fine between £5000 and £50,000. Safety/health: Significant injury or illness causing short-term disability to one or more persons. Objectives: Failure to achieve one or more service plan objectives.
Major (4)	Service delivery/performance: Service disruption > 1 - 4 weeks. Financial: Financial loss up to 20% of budget. Reputation: Adverse national media coverage 1 to 3 days. Legal/statutory: Litigation claimable fine between £50,000 and £500,000. Safety/health: Major injury or illness/disease causing long-term disability to one or more people. Objectives: Failure to achieve a strategic plan objective.
Extreme (8)	Service delivery/performance: Service disruption > 4 weeks. Financial: Financial loss up to 35% of budget. Reputation: National publicity more than three days. Possible resignation of leading member or chief officer. Legal/statutory: Multiple civil or criminal suits. Litigation claim or find in excess of £500,000. Safety/health: Fatality or life-threatening illness/disease (e.g. mesothelioma) to one or more persons. Objectives: Failure to achieve a major corporate objective.

### (C) Risk scoring grid

Likelihood	Impact			
	Minor (1)	Serious (2)	Major (4)	Extreme (8)
X				
Likely (4)	4 Green	8 Amber	16 Red	32 Red
Possible (3)	3 Green	6 Amber	12 Amber	24 Red
Unlikely (2)	2 Green	4 Green	8 Amber	16 Red
Rare (1)	1 Green	2 Green	4 Green	8 Amber

### (D) Risk score definitions

<b>RED</b>	Urgent action required to reduce rating
<b>AMBER</b>	Action required to maintain or reduce rating
<b>GREEN</b>	Action required to maintain rating

This is an extract from the City of London Corporation Risk Management Strategy, published in May 2014.

Contact the Corporate Risk Advisor for further information. Ext 1297

October 2015

This page is intentionally left blank

# Agenda Item 9

<b>Committee:</b>	<b>Date:</b>
Local Government Pensions Board	5 October 2020
<b>Subject:</b> The City Corporation's Pensions Scheme - Update	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> Matt Mott – Chamberlain's Department	

## Summary

At the Board's meeting on 20 October 2016, it was agreed that information regarding a range of topics in relation to the Corporation's Local Government Pensions Scheme (the Scheme) would be provided at each meeting. Members have indicated that information regarding communications be provided on an annual basis and all of the other items of information will be provided at each meeting except for when there is no updated information since the previous meeting

<b>Item</b>	<b>Update</b>
Annual schedule of events for the Pensions Scheme	Update provided ( <b>Appendix A</b> )
Data Protection Act 2018 (DP18) – Data Retention Policy	<p>The Data Retention Policy has been reviewed. There has been no amendment to the policy this year.</p> <p>The Policy has been shared with our scheme employers and they have been asked to provide a copy of their retention policy.</p>
Documentation of communications which are circulated to Members	<p>Deferred Annual Benefit Statement &amp; notes (DABS) (<b>Appendix B (i)</b>) new or amended text highlighted</p> <p>Active Annual Benefit Statement &amp; notes (ABS) (<b>Appendix B (ii)</b>) new or amended text highlighted</p> <p>Covid 19 Email auto reply &amp; voice mails (<b>Appendix B (iii)</b>)</p> <p>Website Covid 19 Message (<b>Appendix B (iv)</b>)</p>
Information of Scheme Record Keeping	No amendments since the last Board meeting.
A record of any complaints or disputes under the Scheme's complaints procedure	None to report
Public Service Pensions Reporting Breaches of Pension Law	None to report

Any audit reports relating to the Pensions Fund	<p>An internal audit covering Pension Fund investments was undertaken in March 2020. The outcome of this audit was reported to Audit and Risk Management Committee (A&amp;RMC) on 14 July in the Internal Audit Update Report.</p> <p>In this report the substantial assurance rating for the Pension Fund investments Fund was green.</p> <p>This means there is a sound control environment with risks to system objectives being reasonably managed.</p>
Annual Benefit Statements (ABS)	<p>There is a statutory requirement to provide an ABS to scheme members by 31 August each year.</p> <p>ABS for active members (ie employees) were produced following completion of the Year End process, the process by which member records are updated with pay and membership details to 31 March.</p> <p>These ABS were produced and distributed on 25 August to the scheme members home address.</p> <p>ABS for deferred members were sent to APS to print and distributed on 22 June 2020.</p>
Guaranteed Minimum Pensions (GMP) Reconciliation	<p>Pension data is continuing to be analysed and JLT are liaising with HMRC.</p> <p>The last data cut has been completed and the report by HMRC received by JLT. The Pensions Office are in discussion with JLT regarding next steps and outcomes.</p> <p>The process has been delayed due to COVID 19, however, it is still the intention to bring a report to the Board once the reconciliation has been completed.</p>
Covid 19	<p>Due to Covid 19 the Pensions Office continue to work from home and have done since 18 March 2020</p> <p>The Pensions Regulator (TPR), Local Government Association (LGA) and the Scheme Advisory Board (SAB) have not amended their guidance and still expect 3 key services to be retained at all times and they are:</p>

	<ul style="list-style-type: none"> <li>• Continued payment of pension benefits to existing pension members.</li> <li>• Commencement of pension benefits to new retirees.</li> <li>• Ceasing of pension payments due to notification of death.</li> </ul> <p>The Pensions Office has continued to maintain all services to scheme members. Some officers have been into Guildhall to assess post and undertake some tasks.</p> <p>The post is being sorted, urgent post removed and dealt with as necessary and the remainder will be scanned/imaged to member records once there is a formal and regular return to working from the office.</p> <p>The intention is that staff will continue in their voluntary visits to the office, only one or two staff at a time and only on one or two days a week.</p> <p>Where we have not managed to communicate with scheme members, or have not heard from them, we will consider sending letters etc by post. However, this will only be deemed necessary where other forms of communication have not succeeded.</p> <p>Communication by email and telephone has been so successful for the vast majority of scheme members that this should be considered as a permanent step towards using digital communication, such as scheme member access to their pension data online.</p>
Procurement of Pension Administration System	<p>The current contract for the Pension Administration System has been extended for two years ending in October 2021 and the procurement process has commenced.</p> <p>As part of the process consideration is being given as to what is required from a modern pension administration and how services to scheme members should be provided, now and in the future.</p> <p>Initial thoughts were the services must be less reliant on paper, be more flexible with online access to pension information for scheme members and pensions staff in their</p>

	<p>working environment. There should be better work flows and also improved reporting. This has been brought into focus due to the current working arrangements due to Covid 19.</p> <p>The Procurement Team have been contacted, permission to proceed granted by the Chamberlain. Other departments have also been notified as their support in this process is necessary, such as IT, HR and Comptrollers.</p> <p>The discussions to date have centred on the best way to procure this IT service, for example a full Open OJEU (Official Journal of the European Union) procurement exercise. However, on 27 April 2020 a pensions systems framework went live. This Public Service framework managed by Norfolk County Council was created for the exact purpose of LGPS systems procurement.</p> <p>Public service pensions schemes IT provision is a niche market with few providers. However, 3 providers that may meet the needs of the Corporation's pension administration are included in this framework. This has provided the Corporation with an excellent opportunity to procure the best system possible without the need to go through a lengthy and often more expensive route of the full OJEU process.</p> <p>We have joined the framework and have received the tender pack which includes system details and technical data.</p> <p>To be able to go out to tender in October and award the contract by 31 January 2021 requires the approval from both the Digital Services Sub Committee &amp; the Procurement Sub Committee.</p> <p>Copy of the papers submitted to the Digital Services Sub (DSS) Committee are included in the non-public paper.</p> <p>Further details of the process will be brought to the next Board meeting in January 2021</p>
Automatic data transfer	<p>The Corporation is currently considering introducing software to enable automated transfer of data from the payroll system to the</p>

	<p>pension scheme administrators they have to provide data to. These are the Teachers Pensions Scheme, London Councils and the Pensions Office.</p> <p>Currently Payroll provide data to the Pensions Office by spreadsheets, reports, interfaces and paper forms. This requires a great deal of manual intervention by the Pensions Office and the Payroll Team particularly as part of the Year End process.</p> <p>For the Pensions Office to benefit from this automation, it would require further software that reads the data files, validates the accuracy and automatically updates the Pension system Altair, even creating workflows automatically. This would save time, reduce the risk of data error or data breach and improve data quality.</p> <p>As the automation of data transfer would be monthly, the Year End process would also be greatly reduced.</p> <p>For the Local Government Pension Fund, automation and data accuracy will assist in all aspects of the administration and compliment the development of the administration system in line with the procurement exercise.</p> <p>Should the Corporation introduce this automated data migration software and the Pensions Office believe it to be beneficial to their processes to introduce software too, further information will be brought to the Board at the next meeting.</p>
Pension Fund Website	<p>The Pension Fund website has been maintained by the London Pension Partnership (LPP) formerly known as the London Pension Fund Authority (LPFA) for many years.</p> <p>The LPP has given notice that they will cease this contract, and all their other third party websites, with effect from the 1 October 2020.</p> <p>The Pension Office sought quotes from four website providers as well as the Corporation's in house team with regard to providing and maintaining the Fund's website similar to that provided by the LPP.</p>

	<p>The Corporation's in house team was unable to provide this service and recommended the continued provision of this site by a third party.</p> <p>Hyman Robertson will now be the Fund's website provider; they have many years' experience in providing websites to other LGPS administering authorities.</p> <p>Hymans Robertson will manage 80% of the content and maintain all necessary statutory and regulatory scheme information. The Pensions Office will maintain 20% of the content such as Fund level information, adding and amending forms and writing news updates.</p> <p>The new website address is <a href="http://www.Cityoflondonpensions.org">www.Cityoflondonpensions.org</a></p>
Year End Data Collection Process	<p>Scheme employers including the Corporation have submitted the necessary scheme member data to the Pensions Office, such as pensionable pay, pension contributions, working hours etc.</p> <p>The Pensions Office has applied this data to scheme member records in the pensions software system, Altair and completed necessary data checks in doing so.</p> <p>The data is necessary to provide scheme members with accurate pension benefit values in their annual benefit statements.</p>
City Print contract	<p>APS have now successfully completed 5 mailings, including the annual benefit statements (ABS). The statements for deferred scheme members were sent to the APS for print and distribution on 22 June 2020 and the active ABS's were distributed on 25 August well within the statutory deadline of 31 August.</p> <p>APS have to date printed and distributed approximately 15,000 items in 2020.</p> <p>The service provided by APS will continue to be monitored both by the Pensions Office and the Corporation.</p>
Public Sector Pensions Legal Challenge Update	<p><u>Lord Chancellor and Secretary of State for Justice v McCloud and others</u></p>



	<p>We are aware that Government departments together MHCLG and LGA are working together with scheme advisers such as actuaries, legal professionals and unions to resolve the issue of age discrimination.</p> <p>No further information has been provided to date. We are aware that discussions are underway at a national level and we are expecting further details later in the year or early 2021.</p>
Exit Payment Cap	<p>The Exit Payment Cap is legislation initially introduced in the Enterprise Act 2015 but as yet does not have a commencement date. However, it now appears the intention is that the cap will be in force by the end of the 2020 calendar year.</p> <p>The purpose of the legislation is to stop or reduce large amounts of money leaving Public Service by way of payment to employees as they exit employment. This can includes pension strain cost paid by the employer to the Pension Fund.</p> <p>The legislation will restrict the amount an employee may receive as an exit payment to a maximum of £95,000, the legislation is sometimes referred to as the 95K cap.</p> <p>For the legislation to be applied correctly and fairly the LGPS regulations must be amended, so that in the event that total statutory costs exceed £95,000, pension administrators and the scheme employers are able to comply with the legislation.</p> <p>The expectation is that the LGPS regulations will be amended. However, the details of these amendments have not been confirmed but are expected by the time the cap comes into force.</p>
Flexible Retirement Opportunity	<p>The City Corporation has offered their employees aged 60 and over by a certain date, an opportunity to elect for Flexible Retirement and is considering extending this offer to their employees aged 55-59 (by a certain date).</p> <p>Flexible Retirement allows a scheme member to reduce their contractual working hours (or reduce their grade of employment)</p>

	<p>and receive payment of their pension benefits with their employer's consent.</p> <p>Usually if the scheme member is aged 55 or over but is under normal pension age, and wishes to retire, the value of their pension benefits would be actuarially reduced for early payment of their pension benefits.</p> <p>The opportunity offered by the City Corporation allows their employees to receive the value of their pension benefits on the date of flexible retirement without the actuarial reduction being applied. The pension is, therefore, paid unreduced.</p> <p>In such circumstances the employer must reimburse the Pension Fund for the unforeseen extra costs of paying the benefits early and unreduced. This is known as the strain on the fund. The cost to the Fund is, therefore, neutral.</p> <p>The first of the Flexible Retirements for those aged 60 or over will commence from October 2020 and further flexible retirements will be agreed and processed over the next 6 months. A decision on whether to extend this offer to those aged 55-59 will be made in October.</p> <p>The opportunity has been co-ordinated by the Town Clerks Department (HR).</p> <p>Due to the volume of work involved to provide data, indicative values, liaise with HR and process payments, the Town Clerk has agreed to meet any additional Pension Office overheads. Again the cost to the fund is neutral.</p> <p>The Officers have considered the effect of increased numbers of retirements in the short term including the payment of lump sums and a potential reduction in active members and scheme contributions.</p> <p>This is not a cause for concern due to the payment of the strain costs to the Fund, but the situation will continue to be monitored. An update will be provided at the next Board meeting</p>
Pension Board Training	Board members have continued to progress the completion of the TPR online training

	<p>tool. All Members of the Board are asked to check their training and complete outstanding modules if they have any.</p> <p>Training at Board meetings has not continued as anticipated in 2020, largely due to COVID 19. Training at Board meetings is not essential, however, is recommended. It is proposed McCloud and the £95k cap are topics for training, depending on available information, at future Board meetings.</p>
--	--

### **Recommendation**

The Board is recommended to consider the information provided in the following reports and provide any comments in relation to this information.

#### **Appendices:**

Appendix A– Annual Schedule of Events

Appendix B (i) - Deferred Annual Benefit Statement & notes (DABS)

Appendix B(ii) – Active Annual Benefit Statement & notes (ABS)

Appendix B (iii) – Email automatic reply & voice message for COVID 19

Appendix B (iv) – Website COVID 19 Message

#### **Contact:**

**Matt Mott**

Pensions Manager | Chamberlain's Department

T: 020 7332 1133

E: [matt.mott@cityoflondon.gov.uk](mailto:matt.mott@cityoflondon.gov.uk)

This page is intentionally left blank

**Local Government Pensions - Schedule of Events 20/21**

<b>Date Due</b>	<b>Event</b>	<b>Completed</b>
March 2020 Within 2 weeks of quarter date	Tax return for Quarter 4 (to 31/3/2019)	14 April 2020
1 April 2020	Employee Contribution band review/ implementation.	1 April 2020
1 April 2020	Revaluation of CARE benefits.	1 April 2020
1 Monday in April following Tax Year End	Pensions Increase (PI) – Annual Inflation increase.	6 April 2020
31 May 2020	Pensioner P60s distributed	11 May 2020
June 2020 Within 2 weeks of quarter date	Tax return for Quarter 1 (to 30/06/2020)	6 July 2020
30 June 2020	Target date for the issue of deferred Annual Benefit Statement (ABS) to Deferred members.	3 July 2020
31 <sup>st</sup> August 2020	Issue of Annual Benefit Statements deadline.	25 August 2020
September 2020 Within 2 weeks of quarter date	Tax return for Quarter 2 (to 30/09/2018)	1 October 2020
30 September 2020	Employee Contribution Band review	Ongoing
1 October 2020	Office of National Statistics (ONS) Survey	30 September 2020
5 October 2020	Issue of Annual Allowance (AA) Saving Statements deadline	5 October 2020
3 <sup>rd</sup> & 10 <sup>th</sup> November 2020	Draft accounts to Audit & Risk Management Cttee and Finance Cttee	
6 November 2020	Scheme Return to the Pensions Regulator	
30 November 2020	Publish signed City Fund Accounts (including the Pension Fund Accounts)	
30 November 2020	Publication of Pension Fund Accounts and Annual Report	
December 2020 Within 2 weeks of quarter date	Tax Return for Quarter 3 (to 31/12/2020)	
31 December 2020	End of GMP Reconciliation Project	Further delays due to COVID 19
31 <sup>st</sup> January 2021	HMRC Event 22 Report – List of Annual Allowance cases exceeding the Previous years' threshold.	

This page is intentionally left blank



## Local Government Pension Scheme (LGPS) Deferred Pensioner Annual Benefit Statement Notes 2020

The attached statement shows the current value of the pension benefits held with the City of London Pension Fund at 6 April 2020

### Explanatory Notes

**Date Benefits payable from** – this is the age at which you can take the pension benefits you have built up in full.

The date you can take your benefits is usually after your 60<sup>th</sup> birthday. However, you can choose to take your pension benefits from age 55 but they will normally be reduced as they are being paid earlier.

**Due to COVID 19** Pensions Office staff are working from home and do not have access to post. If you intend to retire within the next 12 months please email the Pensions Office, [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk) and include a document of verification such as your birth certificate, passport, driving licence and other suitable document. Once your credentials have been checked and verified we will be able to provide you with the necessary information for you to make an election to receive payment of your deferred pension benefits.

Your pension benefits can be paid to you before the age of 55 in certain circumstances, as detailed below:

- i) **Ill health grounds** – where your health deteriorates to the state where you would be incapable of efficiently carrying out the duties you were performing during your employment with your former employer, and if you left the LGPS after 1 April 2008, your condition would also need to prevent you from obtaining other gainful employment, whether in local government or elsewhere, within three years of the date of your application or normal pension age whichever is the sooner;
- ii) **Compassionate grounds** – at any time from age 55 (or age 50 if you left the LGPS prior to **1 April 2008 and you were an active member on 5 April 2006**) where your former employer determines that payment is justified on compassionate grounds
- iii) **Employer consent** – You can apply to your former employer for the early payment of your pension benefits from age 55 (or age 50 if you left the LGPS prior to **1 April 2008 and you were an active member on 5 April 2006**)

Your pension benefits may also be reduced for early payment unless you qualify under the 85 year rule.

**Please note** that if benefits are drawn before age 55, unless due to ill-health retirement, the payment would be classified as an unauthorised payment by HMRC and subject to a significant tax charge.

The City of London Corporation has resolved in respect of the discretion at ii) "... that payment of benefits on compassionate grounds will be allowed only where there are substantive reasons and the former employee's ability to continue gainful employment is severely restricted". In respect of the discretion at iii) above, "... to make use of this discretion only where there are clear financial advantages to the Corporation".

**The 85 year rule** – if you were a member of the LGPS before 1 October 2006, some or all of your benefits paid early could be protected from a reduction under this rule. The rule is satisfied if your age at the date you draw your benefits is **age 60** or older and your scheme membership (in whole years), including the period from the date of leaving to the date of application, add up to 85 or more.

**6<sup>th</sup> April 2020** – This is the effective date of the last increase in the value of the deferred benefits. Benefits are uprated in line with the increase in the Consumer Price Index (CPI) each April. The provisions of the Pensions (Increase) Act, 1971 apply to your benefits.

**Current annual pension** shows the current value of the yearly pension that will become payable at the date shown on your statement '**Date Benefits payable from**'

**Lump Sum Retiring Grant** – this is a one off lump sum payment that is payable in addition to the annual pension. This is also payable at the date shown on your statement '**Date Benefits payable from**'. The lump sum retirement grant only builds up in respect of your membership prior to 1 April 2008; therefore if your membership of the LGPS dates from 1 April 2008 onwards there is no automatic lump sum payable.

At retirement you will have an option to convert some of your pension into a (extra) lump sum retirement grant. The amount you are allowed to convert is set by HM Revenue & Customs and every £1.00 of annual pension converted will provide a lump sum of £12.00

**Contingent spouse's pension** – this is the pension that would be paid to a spouse, civil partner or eligible cohabiting partner<sup>1</sup> in the event of your death. This pension would be paid immediately after your death and would be payable for life.

**Your Nomination Details** – If you die before receiving payment of your deferred pension benefits, a death grant equal to the amount notified on the statement would be payable. If you have completed a form informing us of who you would like the death grant to be paid to this information will be detailed on the statement.

If you have not made a nomination or wish to amend your nomination for payment of the death grant, you can print a "death grant expression of wish form" from our forms and guides section of our website, [www.yourpension.org.uk/CityofLondon/Home](http://www.yourpension.org.uk/CityofLondon/Home), complete and email to our office.

**Please note:** The City of London Pension Fund has absolute discretion regarding payment of the death grant.

**Your Membership Details** – The periods that count for benefit purposes are shown on this statement.

**Personal details** – You are advised to notify us of any changes of your address during the period of deferment. You can download a change of address form from our website <http://www.yourpension.org.uk/CityofLondon/Left-the-Scheme/Deferred-Members/Forms-Guides.aspx>



If your partnership status has changed please inform us by emailing copies (*please do not post to us originals*) of appropriate documents e.g. marriage certificates, civil registration documents or decree absolute, or a cohabiting partner notification form<sup>1</sup>.

<sup>1</sup>A cohabiting partner will only be eligible to receive a pension in the event of your death if you were paying into the LGPS on or after 1 April 2008 and meet certain criteria (please see website).

## **Freedom & Choice – Pension Flexibility**

The Government announced in the 2014 Budget that reforms to workplace pensions would be made, effective from 6 April 2015. These reforms offer greater flexibility ('Freedom and Choice') in the way individuals aged 55 and over can access any Defined Contribution (DC) pension savings they may have.

It is important that as a member of the Local Government Pension Scheme (LGPS) you understand that you are a "Deferred" member of a public sector Defined Benefit (DB) scheme and therefore the flexibilities introduced under 'Freedom and Choice' **do not impact on how you can take your Defined Benefits from the LGPS.**

If you wish to consider a transfer to your current pension scheme you should in the first instance contact your current scheme administrators in order to provide them with the authority to write to us for details.

Please note that you will be required by law to take independent financial advice if the value of your pension benefits in the LGPS (excluding AVCs) is more than £30,000. For further information about pension transfers can found on the national website for the LGPS – [www.lgpsmember.org](http://www.lgpsmember.org)

## **Pension Scams**

An increasing number of companies are targeting savers with pension scams claiming that they can help them take their pension cash early. Individuals may be targeted through websites, mass texting or through cold calls.

LGPS members should be wary about giving any information in response to these approaches and of being talked into transferring their pension benefits to other pension arrangements before reaching retirement age.

The Pensions Regulator provides further information about the dangers of pension scams – visit the below:

<http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx>

If you think you may have been contacted by someone who is not legitimate or if you think you have been a victim of fraud you can contact Action Fraud on 0300 123 2040 or at [www.actionfraud.police.uk](http://www.actionfraud.police.uk)

## Age Discrimination

When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is still considering exactly what changes need to be made to remove the discrimination from the LGPS. This means it has not been possible to reflect the impact of the judgment in your annual benefit statement this year. If you qualify for protection it will apply automatically - you do not need to make a claim.

For more information, see frequently asked question on the national website [www.lgpsmember.org](http://www.lgpsmember.org)

### **CITY OF LONDON PENSION FUND**

Email: [lgpsabs@cityoflondon.gov.uk](mailto:lgpsabs@cityoflondon.gov.uk)

Change of address forms and Expression of Wish forms can be found on our website (see below). Both forms need your signature, so please print and sign, then send to the email address above as an attachment.

 [www.yourpension.org.uk/cityoflondon](http://www.yourpension.org.uk/cityoflondon)

✉: Pensions Manager, City of London, Guildhall, PO Box 270, London EC2P 2EJ

***Due to COVID 19 we currently have limited access to telephony and we do not have access to postal services at the Guildhall. If you have a query regarding this statement please email [lgpsabs@cityoflondon.gov.uk](mailto:lgpsabs@cityoflondon.gov.uk)***

**NOTHING IN THIS STATEMENT CAN OVERRIDE THE PROVISIONS OF THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS.**  
**YOU SHOULD NOT MAKE ANY FINANCIAL COMMITMENT BASED ON THIS STATEMENT.**



## **Local Government Pension Scheme (LGPS)**

### **Annual Benefit Statement 2020**

Enclosed is your annual pension benefit statement for 2020. It is important that you read this statement and these explanatory notes.

If you believe any of the details on the statement are not correct (as at 31st March 2020) please email – [lgpsabs@cityoflondon.gov.uk](mailto:lgpsabs@cityoflondon.gov.uk)

#### **Annual Benefit Statement Contents**

##### Sections

- 1 Your personal details including pensionable pay
- 2 The total value of your pension at 31 March & your nomination details**
- 3 CARE pension value in 12 months to 31 March & total CARE value built up to 31 March
- 4 Final Salary pension values at 31 March
- 5 Total projected pension at your normal pension age & Annual Allowance estimate**
- 6 Scheme membership details.

Since 1st April 2014 the LGPS has been a Career Average Revalued Earnings (CARE) Scheme, benefits build up at the rate of a 1/49th of your pensionable pay (if you are a member of the main section of the Scheme), or at the rate of 1/98th of your pensionable pay (if you are a member of the 50/50 section of the Scheme) and then revalued in line with increases in the Consumer Price Index (CPI) on 1 April each year.

The CARE benefits shown on this statement have had the 2019 inflationary increase of 2.4% applied to them.

All benefits built up to 31st March 2014 will continue to be based on final pensionable pay. This statement shows that benefits have been calculated on the 1/80th pension and automatic 3/80ths lump sum basis in respect of membership up to 31st March 2008, plus 1/60th pension with no automatic lump sum from membership built up between 1st April 2008 and 31 March 2014.

If there is no survivor's pension shown and you are married, in a civil partnership or have a co-habiting partner, then we have not seen verification that you are in a qualifying relationship. Therefore, please send to the Pensions Office either the appropriate certificate or a completed Notification of Co-habiting Partner form available on the pensions office website - [www.yourpension.org.uk/CityofLondon/Home.aspx](http://www.yourpension.org.uk/CityofLondon/Home.aspx)

Also, if the "Nomination Details" section is blank you should complete an "Expression of Wish" form (also available on the Pensions Office website) in order to indicate to whom you would like the Death Grant to be paid.

#### **When can I retire?**

Since 1 April 2014 you can choose to leave your employment and receive payment of your pension anytime from age 55 but the longer you work the more your pension will be. Your pension will be reduced if you choose to retire before your normal pension age and increased if you retire later.



Normal pension age is no longer fixed at 65; it will be the same as your current state pension age - with 65 as the earliest age but see the protection section below. If you are unsure of your state pension age have a look at - [www.gov.uk/calculate-state-pension](http://www.gov.uk/calculate-state-pension)

If you were age 55 or over as at 31st March 2020 your figures do not show any early retirement reduction which would apply had you retired on this date.

Also included in your statement is a projection to your normal pension age. **If you were over your Normal Pension Age as at 31st March 2020 section 5 has been left blank intentionally.**

### **Protections**

If you were a member of the Scheme on 31 March 2014, you automatically joined the career average pension scheme and will continue to build up benefits in the LGPS. The entire pension you have built up in the LGPS before this date is fully protected.

**All benefits built up before 1 April 2014 will continue to be based on your final year's pay when you leave or retire**, as these benefits were built up in the final salary scheme. That means that all the membership you built up to 31 March 2014 will be used to calculate your final salary benefits when you leave.

**Your Normal Pension Age** is also protected. This means that the benefits you built up before 1 April 2014 retain their Normal Pension Age under final salary scheme rules, which for almost all scheme members is age 65.

### **Rule of 85**

If you have rule of 85 protection this continues to apply from 1 April 2014. The only occasion where this protection does not automatically apply is if you choose to voluntarily receive payment of your pension on or after age 55 and before age 60, further information can be found here - <https://www.lgpsmember.org/more/eightyfive.php>

### **Underpin**

Protections are in place if you are nearing retirement to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the 'underpin'.

The underpin generally applies to you if you were: Paying into the Scheme on 31 March 2012 and, you were within 10 years of your Normal Pension Age on 1 April 2012, further information can be found here - <https://www.lgpsmember.org/more/pre2014.php>

This underpin protection has now been extended to apply if you were an active member of a different public service pension scheme (e.g. Civil Service Pension Scheme) on 31 March 2012 and you were within 10 years of age 65 on 1 April 2012; if you transfer the pension benefits from the other public service pension schemes into the LGPS and part or all of that transfer buys final salary benefits in the LGPS the underpin will apply to you.

This change is being backdated to take effect from 1 April 2014.



### Age Discrimination

When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is still considering exactly what changes need to be made to remove the discrimination from the LGPS. This means it has not been possible to reflect the impact of the judgment in your annual benefit statement this year. If you qualify for protection it will apply automatically - you do not need to make a claim.

For more information, see frequently asked question on the national website [www.lgpsmember.org](http://www.lgpsmember.org)

### Transfers into the LGPS

If you have been a member of the LGPS with City of London Pension Fund for less than 12 months you can elect to transfer your previous pension rights into the scheme. However, you do need to make an election before the 12 months expires.

### Additional Contributions (if applicable)

If you are paying or have paid to Purchase Additional Years the value at 31 March 2020 is ***included*** in the illustration amounts

If you are paying or have paid Additional Regular Contributions (ARCS) the value at 31 March 2020 is ***included*** in the illustration amounts

If you are paying or have paid Additional Pension Contributions (APC) the value at 31 March 2020 is ***included*** in the illustration amounts

If you are paying or have paid Additional Voluntary Contributions (AVC) values are ***not included*** in the illustration amounts. AVC annual statements will be provided separately by your AVC provider.

### Changes to Pre - April 2014 AVC contracts

If you pay or have paid Additional Voluntary Contributions (AVCs) and the contract to pay those AVCs started before 1 April 2014, you will see some changes to your AVC plans and how you can receive payment of them.

When you take the main scheme benefits you will no longer be able to leave the AVC invested and take it at a later date.

All scheme members can now buy additional pension from the LGPS with the AVC plan when they take their benefits from the scheme. Previously, this option was only available to scheme members who took immediate payment of their main scheme benefits (i.e. pension and lump sum) and their AVC plan when they left the scheme.



If you die before taking the AVC and a lump sum is to be paid from your AVC plan, the pension fund now has absolute discretion over who to pay that sum to (rather than it having to be paid to the estate). If the lump sum is paid at the discretion of the pension fund it does not form part of the estate and will not be subject to inheritance tax.

For scheme members currently paying AVCs:

- You can now pay up to 100% (rather than 50%) of your pensionable pay into the AVC plan.
- AVCs will now also be deducted from any voluntary overtime you work (if you pay AVCs as percentage of your salary).

### **Divorce Pension Debits**

If you have been divorced and your former spouse awarded part of your LGPS benefits as part of the divorce settlement your pension values will be reduced. The current and projected pension values shown are before the pension debit has been deducted.

### **Annual Allowance (AA)**

This is the amount by which your pension can grow before you may have to pay additional tax. The limit is currently **£40,000** but if your taxable earnings are over **£110,000** for the tax year 2019/20 the limit may be reduced to a minimum of **£10,000**.

We will write to all scheme members who we think may be affected by 6 October 2020.

Most scheme members will not be affected by the annual allowance tax charge, however, we have included the value of your pension input amount in this year's statement based on the information we hold with regard to your LGPS benefits up to 31 March 2020. You should add this value to any other pension benefits you have accrued during the year.

If you exceed the annual allowance you may be allowed to bring forward any unused allowance for the last three years to off-set the excess. This means that even if the value of your pension

savings increase by more than £40,000 in a year you may not be liable to pay the annual allowance tax charge.

There are, however, some things that the Fund will not know about but could affect your AA. For example, income from other employments, income from property rental and any other pension provision you may have .

If you think you are at risk of exceeding the annual allowance you should seek advice. Further information can be found at - <https://www.gov.uk/tax-on-your-private-pension/annual-allowance>

**If your LGPS benefits exceed the threshold for AA in 2019/20 we will contact you separately in October.**

### **Membership Details**

The membership used for calculating your final salary benefits are recorded under section 6 of the statement. The final salary scheme ended on 31 March 2014 and if you were a member on this date your membership of the final salary scheme ended on this date.



With effect from 1 April 2014 the LGPS introduced the CARE scheme and the pension values you have built up in the CARE scheme, including any pensions transfers purchasing CARE benefits, are recorded under Section 3 of the statement.

**CITY OF LONDON PENSION FUND**

Email: [lgpsabs@cityoflondon.gov.uk](mailto:lgpsabs@cityoflondon.gov.uk)

[Change of address forms and Expression of Wish forms can be found on our website \(see below\). Both forms need your signature, so please print and sign, then send to the email address above as an attachment.](#)

[www.yourpension.org.uk/cityoflondon](http://www.yourpension.org.uk/cityoflondon)

✉: Pensions Manager, City of London, Guildhall, PO Box 270, London EC2P 2EJ

***Due to Covid 19 we currently have limited access to telephony and do not have access to postal services at the Guildhall.***

***If you have a query regarding this statement please email the Pensions Office***

***[lgpsabs@cityoflondon.gov.uk](mailto:lgpsabs@cityoflondon.gov.uk)***

**NOTHING IN THIS STATEMENT CAN OVERRIDE THE PROVISIONS OF THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS.**

**YOU SHOULD NOT MAKE ANY FINANCIAL COMMITMENT BASED ON THIS STATEMENT**

**Important**

It is important to note that your annual benefit statement is for guidance only and you should not base an irreversible decision to retire solely on the figures in this statement.

The benefit values shown in this statement are illustrative values ONLY, based on the LGPS regulations in force at the time of production and do not constitute an offer to pay the benefit values shown.



This page is intentionally left blank



**Urgent Message from the Pensions Office**

With effect from 23 March 2020 all Pensions Office staff are working from home.

We are open during business hours as normal, Monday – Friday 9am - 5pm

Please note, that we have restricted access to telephony and no access to post. In these circumstances we will ask scheme members and their representatives to provide alternative contact details to maintain communication, such as personal email and mobile phone details. Before we use these methods for communication for pension information we will also require digital verifications by way of birth certificate, driving licence, passport and other suitable document. Without such verification we will not send you any pension information.

We still aim to provide, wherever possible, our normal level of service. However, at times we may have to focus our resource on our critical processes such as maintaining the monthly payment of pensions. In such an event non-critical processes may be delayed or postponed.

Thank you for your patience during these uncertain and worrying times and I sincerely hope you all remain fit and healthy.

Matt Mott

Pensions Manager

This page is intentionally left blank



### **Urgent Message from the Pensions Office**

With effect from 23 March 2020 all Pensions Office staff are working from home.

We are open during business hours as normal, Monday – Friday 9am - 5pm

Please note, that we have restricted access to telephony and no access to post. In these circumstances we will ask all scheme members and their representatives to contact the Pensions Office in the first instance by email, [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk) .

We will also require alternative contact details to maintain communication, such as personal email and mobile phone details. Before we use these methods for communication of pension information we will also require digital verifications by way of birth certificate, driving licence, passport and other suitable document. Without such verification we will not send any pension information.

We still aim to provide, wherever possible, our normal level of service. However, at times we may have to focus our resource on our critical processes such as maintaining the monthly payment of pensions. In such an event non-critical processes may be delayed or postponed.

Thank you for your patience during these uncertain and worrying times and I sincerely hope you all remain fit and healthy.

Matt Mott

Pensions Manager

This page is intentionally left blank

<b>Committee:</b> Financial Investment Board (For Decision) Local Government Pensions Board (For Information)	<b>Date:</b> 23 September 2020 5 October 2020
<b>Subject:</b> LGP Board –Pension Fund Investment Activities 1 April 2019 to 31 March 2020	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Kate Limna – Chamberlain's Department	

## Summary

At their meeting on 4 February 2020, the Local Government Pensions Board (the LGP Board) passed a resolution asking the Financial Investment Board to provide an annual summary of investment activity in relation to the Pension Fund. Whilst the June meeting of the LGP Board was cancelled due to COVID 19, the meeting scheduled for 5 October will take place.

Attached is a summary on the investment activity of the Pension Fund from 1 April 2019 to 31 March 2020

## Recommendations

Members are asked to

- (i) Note the report; and
- (ii) Provide any additional comments for the Local Government Pensions Board.

## Appendices

Appendix – Summary of Pension Fund Investment Activity 1 April 2019 to 31 March 2020

### Kate Limna

Corporate Treasurer, Chamberlain's Department

T: 020 7332 3952

E: [kate.limna@cityoflondon.gov.uk](mailto:kate.limna@cityoflondon.gov.uk)

## **Appendix: Summary of Pension Fund Investment Activity 1 April 2019 to 31 March 2020**

### **Introduction**

1. This Summary Note sets out the investment activity of the Pension Fund over the financial year 2019/20. As at 31 March 2020 the total value of the Pension Fund (excluding cash held by the Fund for administering the Pension Scheme) was £1,024M. the table below sets out the valuation as at 31 March 2019 and 31 March 2020.

	<b>Position @ 31/03/2019 £M</b>	<b>Position @ 31/03/2020 £M</b>	<b>%</b>	<b>Strategic Target @ 2018/19 £M</b>	<b>%</b>
<b>Equities</b>	<b>677</b>	<b>577</b>	<b>56%</b>	<b>512</b>	<b>50%</b>
Artemis	95	80	8%	85	8%
LCIV Alpha Growth Fund (Baillie Gifford)	119	118	12%	85	8%
C WorldWide (Carnegie)	135	116	11%	85	8%
Lindsell Train	48	46	4%	43	4%
Harris	101	70	7%	85	8%
Majedie	42	33	3%	43	4%
Veritas	137	114	11%	85	8%
<b>Multi-Asset</b>	<b>281</b>	<b>272</b>	<b>27%</b>	<b>307</b>	<b>30%</b>
LCIV MAC Fund (CQS)	68	59	6%	102	10%
Pyrford	128	125	12%	102	10%
Ruffer	85	88	9%	102	10%
<b>Property</b>	<b>0</b>	<b>78</b>	<b>8%</b>	<b>102</b>	<b>10%</b>
Aviva Lime Fund	0	29	3%	34	
M&G SPIF	0	30	3%	34	
M&G UK Residential <sup>1</sup>	0	19	2%	34	
<b>Infrastructure</b>	<b>60</b>	<b>62</b>	<b>6%</b>	<b>51</b>	<b>5%</b>
IFM	38	41	4%		
DIF <sup>2</sup>	22	21	2%		
<b>Private Equity<sup>2</sup></b>	<b>35</b>	<b>35</b>	<b>3%</b>	<b>51</b>	<b>5%</b>
<b>TOTAL</b>	<b>1,053</b>	<b>1,024</b>	<b>100%</b>	<b>1,024</b>	<b>100%</b>

### **Performance**

2. The investment performance of the Pension Fund is subject to regular monitoring by the City of London's custodian BNY Mellon, City Officers, the Investment Consultant

<sup>1</sup> £11,936,000 transferred to the fund on 31 March 2020 for investment value date 1 April 2020. Assets held as cash with the fund manager as at the reporting date.

<sup>2</sup> Valuations for DIF and the private equity portfolio are calculated using the latest available market values (31/12/2019) and adjusted for cash flow movements occurring during the period.

and the Financial Investment Board (FIB). The table below sets out the performance of the Pension Fund as at 31 March 2020.

	<b>2019/20 %</b>	<b>Last 3 Years % p.a.</b>	<b>Last 5 Years % p.a.</b>
<b>Pension Fund Returns</b>			
Fund Return	-4.1	+1.8	+4.5
Return Benchmark (5.7% pa)	+5.7	+6.1	+6.5
Relative Return	-9.8	-4.3	-2.0

\*The above table only reflects the returns on financial assets monitored by the Pension Fund's custodian and therefore does not include holdings in Private Equity, DIF Infrastructure IV or the Pension Fund's shareholding in the London CIV Ltd, which combined represents approximately 5% of the Pension Fund's overall value.

3. The year to 31 March 2020 began with steadily increasing gains in financial markets. However, by the start of 2020 awareness of Covid-19 began to emerge and within a matter of weeks it became apparent that this new virus marked not just a local or regional threat, but rather a global pandemic on a scale without precedent in living memory. Financial markets experienced sudden and significant losses as fears over the economic impact of Covid-19, and the extraordinary levels of societal intervention warranted by it, came to the fore.
4. Under these conditions, the Pension Fund's investments generated an annual return of -4.1% in the year to 31 March 2020. Although this is lower than the Fund's actuarially assessed absolute return target of +5.7%, it should be noted that the Pension Fund maintained its value far more successfully than leading financial market indices (by comparison the FTSE All Share recorded losses of -18.5% in 2019/20).
5. Events such as the market downturn in early 2020 are a reminder of the risks inherent in investing, and as an informed investor, the administering authority is aware that such risks do materialise from time to time. This is one of the reasons why FIB sets a diversified asset allocation strategy, to alleviate the volatile episodes in financial markets. In doing so, the investment approach significantly protected the Fund's funding level over the course of 2019/20.

### **Movement in Funds during 2019/20**

6. At their meeting in May 2017, FIB agreed that the Pension Fund commitment to property of £90M should be split evenly between three property funds - Aviva's Lime Fund, M&G's Secured Property Income Fund and their UK Residential Fund. Starting with a capital call from Aviva in September 2019, these commitments have been gradually drawn down over recent months and as at the end of March 2020 a total of £79.7m had been drawn down. The remaining £11.3M related to the M&G UK Residential Fund and since year end a further £7.8m has been drawn down with the residual commitment of £2.6m expected to be called in Q3.

7. Throughout the year calls are made to the existing commitments on the alternative assets portfolio (infrastructure and private equity) and during the year £4.1m amount was called down and £8.3m amount received in distributions

#### **Movement in Funds after 31 March 2020**

8. At their meeting in July, the FIB agreed to rebalance the equities and multi asset allocations to bring them more into line with the Board's strategic asset allocation targets. The FIB agreed to move a total of £40m from the Fund's equity managers (excluding the LCIV Alpha Growth Fund) to the LCIV Mac Fund, in two tranches in August and September.

#### **Investment Strategy/Asset Allocation**

9. The 2019 Actuarial Valuation has been completed. The overall funding level of the Pension Fund has increased from 84% as at 31 March 2016 to 90% as at 31 March 2019 and the deficit has decreased from £149m to £113m. Six years ago, a 20 year deficit recovery plan was established and the City Corporation is on track to recover the deficit over the remaining period (14 years). The employers' contribution for the City of London remains at 21%.
10. Following the Actuarial Valuation, the asset allocation has been reviewed to ensure the investment strategy remains appropriate for the Pension Fund. The strategic asset allocation target is unchanged but FIB agreed a rebalancing of the equities and multi asset allocations to bring the actual asset allocation more into line with the target (see para 8 above).
11. The Pension Fund is measured against an absolute return target and following the Actuarial Valuation, this has been set at 5.2% (previously 5.7%), which took effect from 1 April 2020. This revised target represents the average annualised, long-term return level expected by the Investment Consultant from the Fund's investment strategy and brings the formal target closer to the actuary's current discount rate (i.e. assumed investment return) of 5.1% per annum.

#### **The London LGPS CIV**

12. Since 2014 the City Corporation has been a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (the London CIV). The London CIV is an FCA Regulated fund manager that represents the pooled investments of the 32 London Local Authority Pension Funds (including the City of London). It was originally set up as a collaborative venture between the London Local authorities under London Councils to enable the Capital's Pension Funds to work closely together to deliver benefits of scale and efficiency savings to the participating Authorities via a voluntary pooling arrangement. Pooling for the Local Government Pension Schemes (LGPS) is now mandatory.
13. The London CIV currently has 14 sub funds (7 global equity, 2 Fixed Income, 4 multi asset and 1 infrastructure).
14. Towards the end of 2017, the London CIV undertook a governance review. This review resulted in changes to the governance arrangements including a revised shareholder meeting structure of two general meeting per year and a smaller Shareholder Committee that meets quarterly. The Chairman of the Financial Investment Board is the City's representative at the Annual General Meetings and the smaller Shareholder Committee (on which the City has one of the 8 places for



Pension Committee or equivalent Chairmen). The Deputy Chairman of the Financial Investment Board is the substitute representative.

15. As at 31 March 2020, the City had transferred assets valued at £177M to the London CIV (£118M in the LCIV Alpha Growth Fund and £59M in the LCIV MAC Fund).

**Pension Fund Investment Strategy Statement (ISS)**

16. As the administering authority for the City of London Pension Fund, the City of London is required, under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, to publish an Investment Strategy Statement and to review it periodically at least every three years. The purpose of this Investment Strategy Statement (the 'ISS') is to document the principles, policies and beliefs by which the Corporation manages the Fund's investment assets. The ISS has recently been reviewed by the FIB and will be a separate item on your agenda.

**Financial Investment Board**

**23 September 2020**

This page is intentionally left blank

<b>Committee(s):</b>	<b>Date:</b>
Local Government Pensions Board	5 October 2020
<b>Subject:</b> Pension Fund - Investment Strategy Statement	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> James Graham – Chamberlain’s Department	

## Summary

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of their investment strategy taking into account guidance issued from time to time by the Secretary of State.

As the administering authority of the City of London Pension Fund (the ‘Fund’), the City of London Corporation has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of the Investment Strategy Statement (the ‘ISS’) is to document the principles, policies and beliefs by which the Corporation manages the Fund’s investment assets.

The Investment Strategy Statement was first published on 1 April 2017 and is subject to periodic review at least every three years. The revised ISS has been amended to reflect the recent asset allocation exercise undertaken by the Investment Consultant (Mercer) following the triennial actuarial valuation.

It should be noted that the ISS is a “living” document and is subject to periodic review at least every three years.

The Investment Strategy Statement was agreed by the Financial Investment Board at their meeting on 23 September and is presented to this Board as part of the consultation process.

## Recommendations

Members are asked to note the revised Investment Strategy Statement as presented at Annex1.

## **Main Report**

### **Background**

1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (2016 Regulations) require administering authorities to formulate and publish a statement of their investment strategy taking into account guidance issued from time to time by the Secretary of State.
2. Under the 2016 Regulations, each Administering Authority was required to publish an ISS by 1 April 2017 and in February 2016, the Board reviewed a draft ISS and agreed to delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to approve the ISS.
3. The ISS is a “living” document and is subject to periodic review at least every three years.

### **Current Position**

4. As the administering authority of the City of London Pension Fund (the ‘Fund’), the City of London Corporation has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of this Investment Strategy Statement (the ‘ISS’) is to document the principles, policies and beliefs by which the Corporation manages the Fund’s investment assets. The ISS also has links with two other key strategic documents, namely:
  - The Funding Strategy Statement (the ‘FSS’), which sets out the main aims of the Fund and explains how employers’ contribution rates are set to achieve those aims.
  - The Governance Compliance Statement which sets out the structure of delegations of responsibilities for the Fund.

Both statements are incorporated into the Pension Fund Annual Report

5. The 2016 Regulations are quite specific about what is to be included within the ISS. The ISS must include the following:
  - (a) a requirement to invest fund 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 (ESG) 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 the rights (including voting rights) attaching to investments.
6. The ISS 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 investments.

7. The Administering Authority should also consult such persons as it considers appropriate as to the content of the ISS. The Investment Consultant (Mercer) has been consulted and it is proposed that the ISS goes to the next Local Government Pensions Board meeting on 5 October.
8. The Department for Communities and Local Government (now MHCLG) have issued guidance on preparing and maintaining an Investment Strategy Statement and this is attached at Annex 2 for information.
9. Officers have reviewed and updated the ISS. The key changes are as follows:
  - a. As noted in paragraph 6 above, the Regulations require the Board to 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. Consequently, control ranges have been added for each asset class within the strategic asset allocation that was agreed by the Board at its meeting in June 2020 (see paragraph 6 of the ISS). Where actual allocation strays outside of the proposed control ranges, the Board will ordinarily discuss options for rebalancing the portfolio back towards its strategic target. It is not proposed that a deviation outside of the control range will *automatically* trigger a rebalancing exercise as this could force the Fund to transition assets at an inopportune time. The suggested control ranges have been reviewed by the Investment Consultant and are deemed appropriate.
  - b. A section outlining the Fund's treasury management policy is now included in the ISS under section 6.
  - c. The presentation and format of the ISS has been updated to make it easier for users to identify how the Board seeks to comply with each specific regulatory requirement as detailed in paragraph 5 above.
10. The wording concerning the Board's approach to ESG matters (section 10 of the ISS) has been retained and is consistent with the current Responsible Investment Policy. It is anticipated that the Board's approach may evolve over time, and in particular, the ongoing work around the Climate Action Strategy could impact on the Board's approach to ESG considerations for the Fund in the future. Any significant changes to the Board's approach can be captured and agreed by the Board in a revised ISS as they arise.

## Conclusion

11. As the administering authority for the City of London Pension Fund, the City of London is required, under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, to publish an Investment Strategy Statement and to review it periodically at least every three years.

## Appendices

- Annex 1 – Revised Investment Strategy Statement
- Annex 2 – Guidance on Preparing and Maintaining an Investment Strategy Statement.

**James Graham**      Group Accountant  
T: 020 7332 1137      E: [james.graham@cityoflondon.gov.uk](mailto:james.graham@cityoflondon.gov.uk)

This page is intentionally left blank

## CITY OF LONDON CORPORATION PENSION FUND INVESTMENT STRATEGY STATEMENT

### 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of their investment strategy, taking into account guidance issued from time to time by the Secretary of State.

The City of London Corporation is the administering authority of the City of London Pension Fund (the 'Fund') and it has a duty to invest any fund monies that are not needed immediately to pay benefits from the Fund. The purpose of this Investment Strategy Statement (the 'ISS') is to document the principles, policies and beliefs by which the Corporation manages the Fund's investment assets.

The ISS as has links with two other key strategic documents, namely:

- The Funding Strategy Statement (the 'FSS'), which sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims.
- The Governance Compliance Statement which sets out the structure of delegations of responsibilities for the Fund.

Both statements are incorporated into the Pension Fund Annual Report.

In formulating this statement the Corporation has consulted with, and received advice from, the Fund's investment consultant, Mercer (the 'Investment Consultant'). The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

This statement was approved by the Financial Investment Board on **XXXX 2020**

### 2. Scope

Regulation 7(2) states that the following matters must be addressed within the ISS:

- (a) a requirement to invest fund 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 assessed 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 and 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 the rights (including voting rights) attaching to investments.

These requirements are dealt with in turn below, following an overview of the Fund's governance arrangements and the links between the ISS and the Funding Strategy Statement.

### **3. Governance**

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board (hereafter, the "Board"). The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure; and
- on-going monitoring and evaluation of the investment arrangements.

The Board is made up of between 12-14 Members of the Investment Committee, comprising elected Members.

The Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Board recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund's members and employers together with local taxpayers.

The Fund, in preparing and reviewing its Investment Strategy Statement, will consult with interested stakeholders including, but not limited to employers, investment managers, the Local Pensions Board, advisers to the Fund and other parties that it deems appropriate to consult with.

### **4. Link to the Funding Strategy Statement**

The FSS aims to establish a clear and transparent strategy that will identify how participating employers' pension liabilities are best met going forward. To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.



Thus the main link between the FSS and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the in this document.

## **5. Investment Objectives**

The Fund's primary long term investment objective is to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities; and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers.

## **6. Regulation 7(2)(a) - Investment of fund money in a wide variety of investments**

The administering authority is exposed to significant risks in discharging its duties. In particular, the Board is conscious of the risk of failing to provide sufficient investment returns to achieve the targeted funding level and the risk of failing to maintain stable employer contributions by producing excessive volatility in investment returns.

The Board recognises that diversification is essential to managing portfolio risks and makes use of a full range of investment opportunities. Assets are invested across different asset classes and distinct investment management styles are combined with the aim of securing sufficient and stable returns and reducing volatility. The Board will also make use of illiquid investments (such as property, private equity and infrastructure), recognising that investors are rewarded over the long term (i.e. there is a liquidity premium).

The Board regards its choice of strategic asset allocation as the decision that has most influence on the likelihood of achieving the investment objective. The Board reviews its strategic asset allocation via periodic investment strategy reviews. In order to ensure that its asset allocation policy remains appropriate, reviews will normally take place every three years. However, if there is a significant change in capital markets, in the circumstances of the Fund or in governing legislation, then an earlier review may be conducted.

The Fund's appointed Investment Consultant supports the Board in deciding on its asset allocation policy through the provision of professional advice. The Board further considers the legality of all investments for compliance with the LGPS.

The Board reviewed the Fund's investment strategy in 2020 following its 2019 actuarial valuation and agreed the target asset allocation strategy set out in the table below.

<b>Asset Class</b>	<b>Position as at 31/03/2020</b>	<b>Strategic target %</b>	<b>Control range** %</b>
	<b>%</b>		
<b>Equities</b>	56	50	35 – 65 (+/- 15)
UK Equities	15	17	
Global Equities	41	33	
<b>Multi Asset</b>	27	30	20 – 40 (+/- 10)
<b>Property</b>	7*	10	5 – 15 (+/- 5)
<b>Infrastructure</b>	6*	5	0 – 10 (+/- 5)
<b>Private Equity</b>	4*	5	0 – 10 (+/- 5)
<b>Total</b>	<b>100</b>	<b>100</b>	

\*This does not include outstanding commitments that represent approximately 2% of the total Fund value as at 31 March 2020.

\*\*The Regulations also require the Board to set out in this document the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. The control range indicates the maximum level to be held in each asset class. The actual asset allocation will be monitored on a regular basis and any movement outside of these ranges will trigger a discussion on whether rebalancing should be carried out.

### Treasury Management Policy

In accordance with Regulation 6, the administering authority holds a separate bank account for the exclusive use of the Pension Fund. The Pension Fund does not have a strategic asset allocation to cash, and the bank account is used to hold sufficient fund monies to manage the operational requirements of the Pension Fund. In accordance with Regulation 6(2), the account is kept by Lloyds Bank, an authorised deposit taker under the Financial Services and Markets Act 2000.

The Board monitors liquidity to ensure that sufficient cash is available at all times to meet the obligation to pay pension benefits as they fall due and to manage other operational requirements.

The Board monitors the financial standing and creditworthiness of Lloyds Bank to ensure it continues to qualify as an authorised deposit taker.

Under Regulation 5(1) the administering authority must not borrow money excepted as provided in the Regulations. Regulation 5(2) provides for very specific and limited circumstances where the Fund is permitted borrow monies.

## 7. Regulation 7(2)(b) - Assessment of suitability of particular investments and types of investments

The Board considers the suitability of particular investments in the context of its investment objectives and in relation to the funding strategy for the Fund's liabilities as calculated by the Fund Actuary.

When assessing suitability, the Board will assess the likely return prospects for particular investments alongside their risk characteristics and liquidity properties. Furthermore, the Board considers the contribution of particular investments towards overall portfolio performance.

In forming its views on the suitability of particular investments the Board is supported by advice from the Fund's appointed Investment Consultant. The most recent investment strategy review utilised the following expectations for annualised returns and volatility which are based on the Investment Consultant's long-term capital market assumptions at the time of the most recent actuarial valuation (31 March 2019):

<b>Asset class</b>	<b>Arithmetic mean (% p.a.)</b>	<b>Multi-year standard deviation (% p.a.)</b>
Fixed interest gilts (>15 years)	1.5	6.7
Index-linked gilts (>5 years)	1.6	9.7
Sterling non-gilts (all stocks)	2.8	4.2
Absolute return fixed income	4.0	7.4
Developed global equity	6.7	20.2
Conventional property	5.2	15.8
High lease value property	3.9	9.5
Multi asset funds (diversified growth funds)	5.7	11.2
Multi asset funds (multi asset credit)	5.7	10.0
Infrastructure unlisted equity	6.4	16.5
Private equity	9.1	26.5

The current strategic asset allocation target is expected to deliver an annualised return of 5.2% over the long term on a best estimates basis. The Board judges that the current asset allocation strategy is compatible with the Fund's solvency target.

The Board also considers liquidity, and the suitability of particular investments in the context of the Fund's requirement to meet pension obligations as they fall due. The Fund remains open to new members and new accruals. Contributions are received from both active members and employing authorities. Active members contribute on a tiered system. Employing authorities' contributions are determined by advice from the Fund Actuary; based on the triennial valuation. The maturity profile is such that pension payments from the Fund now exceed contribution income paid into the Fund and investment income is required to meet the annual net cash shortfall from the Fund. At some stage there may be a requirement to realise assets in order to meet pension payments and the Fund Actuary keeps this position under review. The Fund's current strategic asset allocation provides sufficient liquidity to meet pension obligations as they fall due.

The asset allocation strategy is implemented via external fund managers with clear performance targets aligned to the Fund's requirements. The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met. The Board has appointed multiple investment managers in order to access appropriate specialisms and achieve diversification by both asset class and style. The Board's current investment managers are set out in Appendix A.

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives, past performance and risk limits, as well as information on permissible investments.

The Board meets five to six times per year to review and monitor the ongoing suitability of the Fund's investments in the context of performance and developments in its investment environment. Each investment mandate has a performance benchmark against which performance is measured. The Board also maintains both an asset allocation and an absolute return performance benchmark at Fund level to monitor the aggregate impact of investment performance and progress against the investment objectives. The Board also receives annual funding updates from the Fund Actuary.

#### **8. Regulation 7(2)(c) - Approach to risk, including the ways in which risks are to be assessed and managed**

The Board recognises that risk is an inherent feature of investment activity and it has identified several risks that may impact on the investment strategy and the Fund's overall funding level. Key risks are listed below alongside the measures taken to counter and mitigate those risks.

<b>Risk</b>	<b>Mitigation</b>
Asset-liability mismatch risk	A critically important risk is that assets fail to grow in line with the Fund's evolving liabilities. This risk is managed by periodic valuations of the Fund's liabilities and investment strategy reviews which include assessments of the outlook for its funding level and investment strategy. These exercises are mutually constitutive and are supported by appropriate professional advice from the Fund Actuary and the Investment Consultant.
Cash flow risk	The risk that the Fund fails to meet its pension obligations as they fall due is mitigated through the maintenance of adequate liquidity in the portfolio and the monitoring of cash flow requirements.
Active management risk	The risk that investment manager performance is inadequate is managed through establishing clear performance expectations (including allowances for tolerable deviations) against which actual performance is continually measured and monitored. Where performance deviates from expectations, the Board acts quickly to seek to understand the causes and is decisive where it lacks conviction in a manager's ability to recover adequate performance. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds.

Investment and concentration risk	The Fund is exposed to risk of being excessively concentrated within particular asset classes, sectors, regions, currency and investment styles. The Board manages this risk through a diversified asset allocation strategy. Actual allocation against the strategic target is monitored on a continual basis and rebalancing within the portfolio is undertaken where excessive concentration becomes evident.
ESG risks	The Board acknowledges that environmental, social and governance (ESG) factors pose material financial and non-financial risks to the Fund. The Board's approach to ESG factors is set out in Section 10 below.
Currency risk	The Board considers currency risk (the risk of fluctuations in foreign currency rates) as a risk which is difficult to predict. In light of this, and given that investment via pooled funds makes implementing a currency hedging programme operationally complex, the Board does not hedge its currency exposure. As a long-term investor, the Board can tolerate short term fluctuations in currency prices. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable.
Counterparty risk	The risk of a counterparty being unable to meeting contractual obligations is managed through appropriate due diligence at the selection stage and the ongoing monitoring of counterparty standing.
Custody risk	The Board carries out appropriate due diligence when selecting a global custodian and monitors the incumbent's creditworthiness. As the Fund's assets are increasingly invested through pooled vehicles this function largely resides with individual investment managers.
Inflation risk	The Fund's liabilities are impacted by changes in inflation. A significant proportion of the strategic asset allocation is therefore targeted towards asset classes which provide indirect protection against inflation (such as equities, property and infrastructure).
Transition risks	When transitioning assets, the Fund is subject to various risks including out-of-market exposure, as well as operational and trade execution risks. The Board will assess transition risks whenever it undertakes material portfolio changes and will enlist professional transition management expertise whenever necessary.

The Board is aware that these, investment-related, risks are not the only risks that may impact on the funding level and stability of employer contributions. There are significant demographic and regulatory risks that could impact on the size and profile of the Fund's liabilities, which are set out in more detail in the Funding Strategy Statement.

The Board maintains a key risk register to maintain oversight of the most significant risk it faces and to identify emerging key risks. The risk register is reviewed at least twice per year and more frequently if there is a material change in the risk environment between reviews.

The identification and management of risks is supported by the provision of professional advice from the Investment Consultant.

## **9. Regulation 7(2)(d) - Approach to Pooling Investments, including the use of collective investment vehicles and shared service**

Under the Government's pooling agenda, administering authorities must pool their assets in order to deliver benefits of scale and collaboration including reduced investment costs and other superior investment outcomes.

The City of London Corporation, along with 31 other London local authorities, is part of the London Collective Investment Vehicle (CIV). The London CIV is operational and has created a platform of sub-funds which span several asset classes. The London CIV is still in the process of developing its sub-fund offering to meet the needs of member Funds.

The London CIV is an FCA Regulated fund manager that represents the pooled investments of 32 London Local Authority Pension Funds (including the City of London Corporation Pension Fund) who are the sole shareholders. Executive operations are carried out by the LCIV Company Board which has a duty to act in the best interests of the shareholders. The Chairman of the City of London Corporation's Financial Investment Board is a member of the Shareholder Committee which is responsible for scrutinising the actions of the Board amongst other matters. The London CIV also holds a twice-yearly AGM (open to all 32 members) where shareholders can exercise their shareholder powers, review the annual budget and hold the LCIV Company Board to account.

As at 31 March 2020, circa 17% of the Fund's assets were invested via the London CIV. The Board will look to transition more assets as and when appropriate to do so and once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs.

The Fund has investments in infrastructure, private equity and property valued as at 31/03/2020 at £62m, £38m and £80m, respectively (excluding outstanding commitments). The cost of exiting these strategies early is prohibitive and would have a negative financial impact on the Fund. These investments will be held as legacy assets until such time as they mature and proceeds are re-invested through pooling, (assuming that the London CIV has appropriate strategies available at that time), or until the Board changes its asset allocation and makes a decision to disinvest. The Board will continue to review the appropriateness of holding these assets outside of the pool at regular investment strategy reviews.

## **10. Regulation 7(2)(e) - Policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

The Board has an overriding fiduciary duty to maximise investment returns for the benefit of the Fund's beneficiaries. The Board seeks to deliver long-term sustainable returns and recognises that it is consistent with its fiduciary duty to manage environmental, social and corporate governance ('ESG') issues that may be financial material.

Consequently the Board has developed a Responsible Investment Policy, which can be found at Appendix B.

The Board 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.

The Board 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.

The Fund expects its investment managers (and specifically the London CIV 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, including ESG factors.

Effective monitoring and identification of these issues can enable engagement with 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.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Board recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. The Corporation is a signatory to the Principles for Responsible Investment and is a member of the Local Authority Pension Fund Forum. In this way it joins with other investors in the LGPS and beyond to magnify its voice and maximise the influence of investors as asset owners. The Board through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Board seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.

In making investment decisions, the Board seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

## **11. Regulation 7(2)(f) - Policy on the exercise of the rights (including voting rights) attaching to investments**

The Board recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promote corporate responsibility in the underlying companies in which its investments reside. The Board recognises that ultimately this approach protects the financial interests of the Fund and its beneficiaries. The Board has a commitment to actively exercise the ownership rights attached to its investments. This reflects the Board's conviction that responsible asset owners should maintain oversight of the companies in which they ultimately invest, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Board seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

The Board aims to exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable.

The Board expects its investment managers (including the London CIV) to comply with the UK Stewardship Code (2020) and it monitors this compliance on an annual basis. Non-UK managers will be expected to sign up to an equivalent code in their country of origin.

The Board delegates voting and engagement to its investment managers and monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice.

Any investments made by the Fund through the London CIV are covered by the voting policy of the London CIV. Voting is delegated to the external managers and monitored on a quarterly basis. The London CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.



## Appendix A

**Investment Managers**

As at 31 March 2020, the Fund assets were invested in portfolios managed by the external investment managers shown in the table below. They are benchmarked against the indicated indices.

<b>Investment Manager</b>	<b>Asset Class</b>	<b>Comparator Index</b>
Artemis Investment Management Ltd	UK equities	FTSE All Share
Lindsell Train Ltd	UK equities	FTSE All Share
Majedie Asset Management Ltd	UK equities	FTSE All Share
C Worldwide Asset Managers	Global equities	MSCI AC World
Natixis International Funds (Harris Associates)	Global equities	MSCI World
Veritas Asset Management	Global equities	MSCI World
London CIV (Baillie Gifford)*	Global equities	MSCI AC World
Pyrford International	Multi-asset	CPI +4%
Ruffer LLP	Multi-asset	CPI +4%
London CIV (CQS)*	Multi-asset credit	3 Month LIBOR+4%
IFM Global Infrastructure (UK) LP	Infrastructure	CPI +4%
DIF Infrastructure IV Cooperatief UA	Infrastructure	CPI + 4%
Aviva Investors Global Services Limited (Lime Property Fund)	Property	Gilts + 1.5%
M&G Investment Management Limited (Secured Property Income Fund)	Property	RPI + 3%
M&G Investment Management Limited (UK Residential Fund)	Property	+6%
Ares Special Situations Fund IV	Private equity	Broad public equities index
Coller International Partners VII	Private equity	Broad public equities index
Crestview Partners III LP	Private equity	Broad public equities index
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index
Frontier Fund IV	Private equity	Broad public equities index
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index
New Mountain Capital LLC	Private equity	Broad public equities index
NCM Management (UK) Ltd	Private equity	Broad public equities index
SL Investments Private Equity Ltd	Private equity	Broad public equities index
YFM Equity Partners	Private equity	Broad public equities index
Warburg Pincus PE XII	Private equity	Broad public equities index

\*The Pension Fund is invested in two funds available on the London CIV pooling platform: the LCIV Global Alpha Growth Fund, currently invested with Baillie Gifford, and the LCIV MAC Fund, currently invested with CQS.

The table below shows the actual asset allocation versus the strategic target as at 31 March 2020.

Asset class	Current position		Strategic target
	%	%	
<b><i>UK equities</i></b>		15	17
Artemis	8		
Lindsell Train	4		
Majedie	3		
<b><i>Global equities</i></b>		41	33
C WorldWide	12		
Harris	7		
London CIV (Baillie Gifford)	11		
Veritas	11		
<b><i>Multi asset</i></b>		27	30
London CIV (CQS)	6		
Pyrford	12		
Ruffer	9		
<b><i>Property*</i></b>		7	10
Aviva	3		
M&G SPIF	3		
M&G UK Residential	1		
<b><i>Infrastructure</i></b>		6	5
IFM	4		
DIF	2*		
<b><i>Private equity</i></b>	4*	4	5
<b>Total</b>		<b>100</b>	<b>100</b>

\*This does not include outstanding commitments that represent approximately 2% of the total Fund value as at 31 March 2020.

## CITY OF LONDON CORPORATION RESPONSIBLE INVESTMENT POLICY

**The City of London Corporation (the Corporation) is committed to being a Responsible Investor and the long term steward of the assets in which it invests. It expects this approach to protect and enhance the value of the assets over the long term.**

The Corporation recognises it is consistent with its fiduciary duty to manage Environmental, Social and Corporate Governance ('ESG') issues that may be financially material. This policy sets out the Corporation's approach to Responsible Investment (RI) and details the actions the Corporation, and its external providers, take on its and other stakeholders behalf, to protect the Corporation and its assets from ESG and reputational risks.

As a long-term investor, the Corporation recognises that it should manage ESG risks that can be both long-term and short-term in nature. In addition, the Corporation seeks to identify investment opportunities aligned with its long-term objectives. The Corporation is supportive of the Principles for Responsible Investment (PRI) and is taking steps to become a signatory. The foundations of the Corporation's approach are its **RI Beliefs**, which are set out below:

### **The City of London Corporation's Responsible Investment Beliefs**

- The Corporation is a long-term investor and seeks to deliver **long-term sustainable returns**. Taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- The identification and management of ESG risks that may be financially material is **consistent with our fiduciary duty**.
- The Corporation seeks to **integrate ESG issues at all stages of its investment decision-making process**, from setting investment strategy to monitoring its investment managers.
- **Active ownership** helps the realisation of long-term shareholder value. The Corporation has a **duty to exercise its stewardship and active ownership responsibilities** (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Corporation recognises that taking a **collaborative approach** with other investors can help to achieve wider and more effective outcomes.
- The Corporation seeks to identify **sustainable investment opportunities** where aligned with its broader investment objectives.
- It is important that the Corporation be **transparent and accountable** to members and stakeholders with respect to its RI activities.

### **Implementation**

The Corporation seeks to **integrate RI across its investment decision-making process**. The Corporation adopts a flexible approach to managing the investment strategies and asset allocation of its Funds in order to ensure they are robust from a risk and return perspective.

In setting and implementing its investment strategy, the Corporation takes advice from professional investment advisors. The Corporation **encourages its investment advisors to proactively consider and integrate ESG issues** when providing investment advice.

The Corporation's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities

on behalf of the Corporation. The Corporation **considers ESG integration and active ownership when selecting and monitoring investment managers.**

The Corporation expects its external investment advisors and investment managers, including the London Collective Investment Vehicle (CIV), to be signatories, and demonstrate commitment, to the PRI.

### **Active Ownership (Voting and Engagement)**

The Corporation recognises that it has **responsibilities as a shareholder**, as well as rights, and is an **active owner**. The Corporation seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its active ownership, or stewardship, duties to its beneficiaries.

- The Corporation **aims to exercise its voting rights in all markets** and its investment managers are required to vote at all company meetings where practicable.
- The Corporation supports **the UK Stewardship Code** (Code) and expects its investment managers to comply with the Code. Non-UK managers will be expected to sign up to an equivalent Code in their country of origin. The Corporation has outlined its approach to stewardship, including voting and engagement, in its [UK Stewardship Code - Statement of Commitment](#).
- The Corporation delegates voting and engagement to its investment managers and **monitors how its investment managers undertake voting and engagement activities** in comparison to relevant codes of practice.

### **Collaboration**

The Corporation recognises that **collaboration with other investors is a powerful tool to influence** the behaviour of companies, policy makers and other industry stakeholders. The Corporation seeks to work with and support the initiatives of other bodies with similar goals, including via its investment managers and investment advisor. For example, the City of London Corporation Pension Fund is an active member of the Local Authority Pension Fund Forum (LAPFF) and the Pension and Lifetime Savings Association (PLSA).

### **Reporting and Stakeholder Engagement**

The Corporation recognises that **transparency and disclosure** is an important aspect of being a responsible investor. The Corporation encourages transparency and disclosure from its investment managers, including reporting on engagement progress and success.

### **Our Commitment**

We acknowledge that the Corporation's approach to RI will need to continually evolve, both due to the changing landscape with respect to ESG issues as well as broader industry developments. We are committed to making ongoing improvements to the Corporation's approach and the processes that underpin the delivery of this policy to ensure it remains relevant.

*Approved by the Financial Investment Board on 22 March 2018.*

## **Glossary**

**ESG** - Environmental, social and corporate governance issues

**RI** - Responsible Investment – This refers to the incorporation of environmental, social and corporate governance considerations into investment processes, as these are absent in much traditional financial analysis. RI was very focused on company level analysis, but climate change and sustainability challenges increasingly require a more strategic, forward looking, portfolio view. There are 4 levers that an investor can use in its responsible investment approach: integration, stewardship, thematic investment and exclusions.

**PRI** - Principles for Responsible Investment – The PRI was formed by the UK in 2006 and has two main goals; to understand the investment implications of environmental, social and corporate governance (ESG) issues; and to support signatories in integrating these issues into investment and ownership decisions. The PRI believes that an economically efficient, sustainable global financial system is a necessity for long-term value creation. The PRI will work to achieve this sustainable global financial system by: encouraging adoption of the Principles, collaborating on their implementation, fostering good governance, integrity and accountability and addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

**Stewardship and Active Ownership** – The principle that shareholders should not be passive in their role as providers of capital and should take an active approach to using the voting rights attached to their shares and engaging with the companies they invest in (where appropriate) to encourage best practise and maximise shareholder value. For pooled fund clients, good stewardship and active ownership can be demonstrated through the review and ongoing monitoring of the pooled fund managers' activities in the areas of voting and engagement and the managers demonstrating the potential value of their actions.

**UK Stewardship Code** – Introduced for institutional investors in 2010, the UK Stewardship Code aims to incentivise investors to seek increased accountability from company boards and encourage them to seek on-going dialogue with their investors. The Stewardship Code has seven Principles and it is a mandatory requirement of the Financial Conduct Authority (FCA) that UK authorised asset managers disclose their compliance with the Code or explain otherwise through a public 'Statement of Commitment'.

This page is intentionally left blank



Department for  
Communities and  
Local Government

# Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment  
Strategy Statement



© Crown copyright, 2017

*Copyright in the typographical arrangement rests with the Crown.*

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

This document/publication is also available on our website at [www.gov.uk/dclg](http://www.gov.uk/dclg)

If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

Department for Communities and Local Government  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF  
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/CommunitiesUK>

July 2017

ISBN: 978-1-4098-4897-4



# Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1<sup>st</sup> April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

## Part 1

### Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

### Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- 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, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1<sup>st</sup> April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

### **Directions by the Secretary of State**

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

## **General**

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

## **Part 2**

### **Regulation 7(2) (a) - Investment of money in a wide variety of investments**

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

### **Summary of requirements**

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**
- **Must set out clearly the balance between different types of investments**

- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

### **Regulation 7(2)(b) - The suitability of particular investments and types of investments**

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

### **Summary of requirements**

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

### **Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed**

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation 58 of the 2013 Regulations to have regard to the "Guidance on Preparing and Maintaining

a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

### **Summary of requirements**

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

### **Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services**

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

### **Summary of requirements**

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479925/criteria\\_and\\_guidance\\_for\\_investment\\_reform.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf), or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

**Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, 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.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

### **Summary of requirements**

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should explain their approach to social investments**

### **Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments**

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase

accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

### **Summary of requirements**

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**



<b>Committee:</b>	<b>Date:</b>
Local Government Pensions Board	5 October 2020
<b>Subject:</b> Pension Fund – Draft Annual Report for the year ended 31 March 2020	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<b>Report author:</b> James Graham – Chamberlain's Dept.	

## Summary

At its meeting on 24 April 2017 the Pensions Board proposed that the draft Pension Fund Statement of Account be presented to the Board at its next meeting; it has since been agreed to present this report as a standing annual item to the Pensions Board.

The accounts were submitted to BDO LLP for external audit in June and will be submitted to Audit and Risk Management Committee on 3 November and the Finance Committee on 10 November 2020 as part of the City Fund Statement of Accounts. The draft Pension Fund Annual Report which includes these accounts is attached at Appendix A is audited by BDO LLP as a separate document.

## Recommendation

The Board is asked to note the report.

## Appendices

- Appendix A – Draft Pension Fund Annual Report for the year ended 31 March 2020

## Contacts:

**Kate Limna / James Graham**

Corporate Treasurer / Group Accountant – Pensions & Treasury Management  
Chamberlains Department

T: 020 7332 3952 / 1137

E: [kate.limna@cityoflondon.gov.uk](mailto:kate.limna@cityoflondon.gov.uk) / [james.graham@cityoflondon.gov.uk](mailto:james.graham@cityoflondon.gov.uk)

This page is intentionally left blank



**Annual Report  
for the City of London Corporation  
Pension Fund**

*Year ended 31 March 2020*

Scheme Registration No. PSTR00330366RQ

**City of London Corporation Annual Report  
for the Pension Fund**

*Year ended 31 March 2020*

	<b>Page</b>
Management and Financial Performance Report	3
Scheme Administration Report	9
Statement of Responsibilities for the Statement of Accounts	14
Adoption of the Pension Fund Accounts	15
Independent Auditor's Report to the City of London	16
Actuarial Valuation Report on Fund	17
Policy and Governance Compliance Statement	20
Fund Account and Net Assets Statement	27
Investment Performance Report	55
Pooling Report	59
Funding Strategy Statement	61
Investment Strategy Statement	78
Communications Policy Statement	88
Glossary of Terms	90

For further copies or for more information please contact:

The Chamberlain  
City of London Corporation  
Guildhall, PO Box 270  
London EC2P 2EJ

**MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**  
**For the year ended 31 March 2020**

**Scheme Registration Number:** PSTR00330366RQ

**Administering Authority:** City of London Corporation  
 Guildhall, P.O. Box 270  
 London EC2P 2EJ

**Scheme Administrator:** Pensions Administration Service

**Responsible Officers:** Dr Peter Kane MA, MSc, CPFA  
 Chamberlain of London

Caroline Al-Beyerty  
 Deputy Chamberlain of London

Kate Limna  
 Corporate Treasurer

Matt Mott  
 Pensions Manager - Administration

James Graham  
 Group Accountant – Pensions & Treasury Management

**Actuary:** Barnett Waddingham LLP  
 163 West George Street  
 Glasgow G2 2JJ

**Financial Investment Board Members: (Responsible for investment matters)**

<b>Member</b>	<b>Attendance (5 meetings)</b>
Nicholas Michael Bensted-Smith (Chairman)	5
Henry Nicholas Almroth Colthurst (Deputy Chairman)	4
Simon D'Olier Duckworth	1
Robert Picton Seymour Howard (Alderman)	2
Robert Charles Hughes-Penney (Alderman)	3
Jamie Ingham Clark, Deputy	4
Clare James, Deputy	3
Tim Levene	4
Andrien Gereith Dominic Meyers	3
James Henry George Pollard, Deputy	2
James de Sausmarez	4
Ian Christopher Norman Seaton	1
Philip Woodhouse, Deputy	2

**Secretary to the Committee:** Joseph Anstee

## Establishment Committee (Responsible for personnel and establishment matters)

Member	Attendance (7 meetings)
Edward Lord, Deputy (Chair)	7
Kevin Malcolm Everett, Deputy (Deputy Chairman)	7
Randall Keith Anderson	7
Keith David Forbes Bottomley, Deputy	7
Sir Charles Edward Beck Bowman (Alderman)	5
Tracey Graham	3
The Revd Stephen Decatur Haines	2
Sheriff Christopher Michael Hayward	5
Jamie Ingham Clark, Deputy	6
Jeremy Mayhew	6
Sylvia Doreen Moys	4
Joyce Carruthers Nash, Deputy	5
Barbara Patricia Newman	6
Deputy Richard David Regan	3
Elizabeth Rogula, Deputy	6
Ruby Sayed	5
Philip Woodhouse, Deputy	5

**Secretary to the Committee:** John Cater

## Local Government Pensions Board (Advisory Board)

Member	Attendance (3 meetings)
James Richard Tumbridge, (Chairman)	2
Martin Newnham (Deputy Chairman)	2
John Avern	3
Yvette Dunne	3
Christina McLellan	2
Mark Raymond Peter Henry Delano Wheatley	2

**Secretary to the Committee:** Chris Rumbles

## Investment Managers:

Artemis Investment Management LLP  
Cassini House, 57 St James's Street, London  
SW1A 1LD

Lindsell Train Ltd  
66 Buckingham Gate, London, SW1E 6AU

Aviva Investors Global Services Limited  
St Helens, 1 Undershaft, London, EC3P 3DQ

London LGPS CIV Ltd  
70 Great Bridgewater Street, Manchester, M1  
5ES

C WorldWide Fund Management SA  
Dampfaergevej 26 · DK-2100 Copenhagen

Majedie Asset Management Ltd  
5th Floor, 10 Old Bailey, London, EC4M 7NG

IFM Global Infrastructure (UK) LP  
3<sup>rd</sup> Floor, 60 Gresham Street, London EC2V  
1BB

M&G Investment Management Limited  
10 Fenchurch Avenue, London EC3M 5AG

Natixis International Funds (Harris Associates)  
One Carter Lane, London, EC4V 5ER

Veritas Asset Management LLP  
90 Long Acre, London WC2E 9RA

Pyrford International Plc  
79 Grosvenor Street, London W1K 3JU

Ruffer LLP  
80 Victoria Street, London SW1E 5JL

Ares Management LLC (Private Equity)  
2000 Avenue of the Stars 12th Floor Los Angeles California 90067

Coller International Partner VII LP  
33 Cavendish Square, London W1G 0TT

Crestview Partners LLC (Private Equity)  
667 Madison Avenue, New York, NY 10065

DIF Infrastructure IV Cooperatief U.A  
WTC Schipol Airport, Tower D, 10<sup>th</sup> Floor  
Schipol Boulevard 269, 1118 BH Schipol, Netherlands

**Custodian & Performance Measurement:**

Bank of New York Mellon  
The Bank of New York Mellon Centre  
One Canada Square  
London EC14 5AL

**Investment Consultant:**

Mercer Ltd  
Quatermile One, 15 Lauriston Place,  
Edinburgh EH3 9EP

**Bankers:**

Lloyds Bank  
City Office, P.O. Box 72, Bailey Drive,  
Gillingham Business Park, Kent ME8 0LS

**Legal Advisor:**

Comptroller and City Solicitor  
City of London Corporation, Guildhall, P.O.  
Box 270, London EC2P 2EJ

Environmental Technologies Fund Manager  
LLP (Private Equity)  
20 Berkeley Square, London W1J 6EQ

Exponent Private Equity LLP,  
12 Henrietta Street, London WC2E 8LH

Frontier Capital (Private Equity)  
1111 Metropolitan Avenue - Suite 1050 -  
Charlotte, NC 28204

NCM Management (UK) Ltd (Barings English Growth Fund)  
Schomberg House, 80-82 Pall Mall, London SW1Y 5HF

New Mountain Capital, LLC  
Seventh Avenue, 49th Floor, New York NY 10019

SL Capital Partners LLP 1 George Street,  
Edinburgh EH2 2LL

Warburg Pincus LLC  
450 Lexington Avenue, New York NY 10017-3911

YFM Equity Partners Ltd  
4 Cavendish Square, London, W1G 0PG

**AVC Providers:**

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

Standard Life Assurance Ltd.  
Standard Life House, 30 Lothian Road,  
Edinburgh, EH1 2DH

Utmost Life and Pensions  
Walton Street, Aylesbury, Buckinghamshire,  
HP21 7QW

**Independent Auditor:**

BDO LLP  
55 Baker Street  
London W1U 7EU

## Financial Performance

### Introduction

The Fund account includes details of the contributions receivable by the Scheme and benefits payable. During 2019/20 there was a net inflow from dealings with members of £3.5m (2018/19: £0.5m). Net returns on investments amounted to a loss of £30.1m (2018/19: gain of £82.3m) before investment management fees of £6.9m (£7.1m in 2018/19). Investment performance is discussed in the Investment Performance Report on page 55.

The net assets of the Fund as at 31 March 2020 amounted to £1,028.7m (31 March 2019: £1,063.1m). Within this figure, total investment assets were £1,023.5m (31 March 2019: £1,051.9m). Current assets were £6.1m (31 March 2019: £13.3m) whilst current liabilities amounted to £0.9m (31 March 2019: £2.1m). Further details are shown in the Pension Fund Accounts on page 26.

The Fund received contributions totalling £44.8m from employers and members during 2019/20 (2018/19: £42.5m). All contributions were received on time. The Pension Fund Accounts contain further details of the contributions received from employers and members (page 33).

The Pension Fund's financial performance against expectations (excluding profits and losses on the disposal of investments and changes in the value of investments) is shown below.

	2019/20 Estimate	2019/20 Actual	2019/20 Variance
<b>Income</b>			
Employer Contributions	(32.4)	(32.9)	(0.5)
Employee Contributions	(11.3)	(11.9)	(0.5)
Transfers In	(6.7)	(6.7)	0.0
	<b>(50.5)</b>	<b>(51.5)</b>	<b>(1.0)</b>
<b>Expenditure</b>			
Pensions payable	38.1	39.2	1.1
Retirement and death benefits	7.2	5.7	(1.5)
Transfers Out	1.9	2.9	1.0
Management expenses	8.0	7.8	(0.2)
	<b>55.2</b>	<b>55.6</b>	<b>0.5</b>
Investment income	(1.4)	(1.2)	0.2
<b>Net (Income)/Expenditure</b>	<b>3.3</b>	<b>2.9</b>	<b>(0.4)</b>

The most recent full triennial valuation into the financial position of the Fund was carried out as at 31 March 2019, in accordance with regulation 77(1) of the Local Government Pension Scheme Regulations 1997. The funding level of the Fund increased from 85% at March 2016 (the previous full triennial valuation) to 90% at March 2019. A summary of the funding position is provided on page 48.



The City of London Corporation invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Fund's Investment Consultant is Mercer Ltd.

The Fund has undrawn investment commitments in property, infrastructure and private equity totalling £19.4m, or approximately 2% of the total Fund value at 31 March 2020. As at 31 March 2020, twenty-three external Managers managed the Fund's investments as follows:

- Artemis Investment Management Ltd (UK Equity)
- Lindsell Train Ltd (UK Equity)
- Majedie Asset Management Ltd (UK Equity)
- C WorldWide Fund Management SA (Global Equity)
- London LGPS CIV Ltd (Global Equity and Multi Asset Credit)\*
- Natixis International Funds (Harris Associates – Global Equity)
- Veritas Asset Management LLP (Global Equity)
- Pyrford International Plc (Multi Asset)
- Ruffer LLP (Multi-Asset)
- Aviva Investors Global Services Limited (Property)
- M&G Investment Management Limited (Property)
- IFM Global Infrastructure (UK) LP (Infrastructure)
- DIF Infrastructure IV Cooperatief U.A (Infrastructure)
- Ares Management LLC (Private Equity)
- Collier International Partners (Private Equity)
- Crestview Partners LLC (Private Equity)
- Environmental Technologies Fund Manager LLP (Private Equity)
- Exponent Private Equity LLP (Private Equity)
- Frontier Capital (Private Equity)
- New Mountain Capital LLC (Private Equity)
- SL Investments Private Equity Ltd (Private Equity)
- Warburg Pincus PE (Private Equity)
- YFM Partners (Private Equity)

Any surplus cash holding within the Pension Fund is managed internally.

\*A proportion of the Pension Fund's investment assets are pooled with other London LGPS funds and managed by the London CIV, the regional pool operator for London. As at 31 March 2020 the Pension Fund had investments in two funds operated by the London CIV: the 'LCIV Global Alpha Growth Fund' (global equities) and the 'LCIV MAC Fund' (multi-asset credit). The Pension Fund is also a shareholder in London LGPS CIV Ltd.

## **Tax Status**

The Scheme is a 'registered pension scheme' for tax purposes.

## **Membership of Outside Bodies**

The City is a member of the Pensions & Lifetime Savings Association (formerly the National Association of Pension Funds), the Local Authority Pension Fund Forum, and the Pension Fund Investment Forum, meetings and conferences of which are usually attended by Members and/or Officers. The City has been a signatory to the Principles for Responsible Investment since December 2018.

## **Risk Management**

Risks in relation to the Pension Fund are included within the overall consideration of risk within the Chamberlain's Department in accordance with the City of London Corporation's risk management framework. The risks relating to the Pension Fund's investments and administration are monitored and mitigated for separately, investment related risks are documented in the Financial Investment Board's Risk Register along with the City of London Corporation's other financial instruments, whilst risks pertaining to the administration of the fund are documented in the Local Government's Pensions Board's Risk Register.

The Pension Fund makes use of third-party investment managers. Assurance over third party operations is also sought through the monitoring of annual internal control reports provided by investment managers. Officers maintain reconciliations to ensure information provided by investment managers is accurate and the Pension Fund's Investment Consultant continually reviews the activity of appointed investment managers.

Internal assurance is obtained through regular oversight from the Corporation's internal audit function. The most recent internal audit of the Pension Fund's investment arrangements was undertaken in 2019/20 which provided a rating of "substantial assurance" indicating that there is a sound control environment with risks to system objectives being reasonably managed.

## SCHEME ADMINISTRATION REPORT

The City of London Pension Fund is part of the national Local Government Pension Scheme. The Fund is administered in-house by the City of London Corporation on behalf of the participating employers.

As at the end of March 2020 the City of London Pension Fund had:

- 11 active employers
- 4,209 pensioner members
- 4,785 active members
- 4,932 deferred members

The eleven active employers include the administering authority, the City of London Corporation; two scheduled bodies (the Museum of London and the City of London Multi Academy Trust); and eight admitted bodies (the Irish Society, the City Academy Southwark, the London CIV, the Westminster Drug Project, Agilisys, Cook & Butler, Skanska and Veolia).

There were 173 new pensioner members in 2019/20 including 164 normal retirements, 6 early retirements and 3 ill health retirements.

Teachers, Judges and Police Officers have their own pension schemes and are not included in the Fund.

### **The Pensions Team**

All aspects of the pensions administration service is contained within one team comprised of 9 full time equivalent staff, entirely focused on pensions matters. The team structure delivers benefits as experience and skills are widely shared within the team, extending resilience and breadth of knowledge.

Investment in the team has continued via internal and external courses and qualifications, formal training, mentoring and support.

The cost of administration in 2019/20, including IT costs and actuarial fees, was £630k.

A standard appraisal process is operated across the team, linked into the Chamberlain's Department Business Plan. The team produces its own regular newsletter.

Pensions Administration Manager: Matt Mott Tel: 020 7332 1133

Pensions email: [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk)

Pensions Payroll email: [pensionspayroll@cityoflondon.gov.uk](mailto:pensionspayroll@cityoflondon.gov.uk)

Website: <http://www.yourpension.org.uk/CityofLondon>

## Administration Key Performance Indicators - 2019/20

Task	Target	CoL Result 2019/20	CoL Result 2018/19
Payment of actual retirement benefit	5 days	98.88%	97.34%
Process refund and make payment	5 days	100.00%	100.00%
Statement notifying estimate of retirement benefit	20 days*	97.03%	97.04%
Letter detailing transfer-in credit	20 days	100.00%	100.00%
Transfer-out payment	20 days	100.00%	100.00%
Answer general correspondence	10 days	96.42%	97.07%
Payment of Death Grant	5 days	96.51%	87.50%
Letter notifying amount of dependant's benefits	5 days	93.75%	88.08%

\*the target was increased from 10 to 20 days commencing January 2020.

The performance indicators are derived from the in-house pension's system software, which has a workflow measurement facility included.

### The Local Government Pension Scheme

The Local Government Pension Scheme (or the LGPS) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. The LGPS in brief:

- provides salary related defined benefits not dependent upon investment performance – ultimately the local authority, and local tax payers, are the final guarantors;
- is regulated by Parliament;
- is administered through 89 regional pension funds in England & Wales; and
- has 5.9 million members nationally.

### Scheme Benefits

The main provisions of the LGPS scheme are as follows:

- The scheme provides a guaranteed pension. From the 1<sup>st</sup> April 2014 the Scheme became a Career Average Revalued Earnings (CARE) scheme with benefits building at a rate of 1/49<sup>th</sup> of pay plus an annual revaluation in line with increase in CPI. The Final Salary link was retained for all benefits prior to 31 March 2014 (1/60<sup>th</sup> of final pay for each year of membership in the scheme after 31 March 2008 and membership to 31 March 2008 calculated as 1/80<sup>th</sup> final pay pension plus 3/80<sup>ths</sup> lump sum).
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate, i.e. for every £1 of pension given up the member gets £12 lump sum on retirement.
- Benefits prior to 31 March 2014 continue to be calculated on final pay, being the best one of the last three years' pay.
- Retirement age for future benefits is now State Pension Age, with protections for older members, but with the right to take pension from age 55 with a reduction for early payment.
- Flexible retirement with employer consent is permitted from age 55.
- Immediate payment of pension benefits following redundancy / efficiency retirement on or after age 55.
- A three-tier ill health benefits system.
- A death grant of three times pay for death in service; five times pension if a deferred beneficiary dies; and 10 times pension less pension already paid if a pensioner dies within ten years of retirement and before age 75.

- Spouses' and Civil Partners pensions are generally based on a 1/160th accrual rate. Co-habiting partners pension will also be based on a 1/160th accrual rate but on post 5 April 1988 membership only.
- Members can buy extra scheme pension up to a maximum of £7,026 or they can pay into an Additional Voluntary Contribution (AVC) plan.
- Employers can grant extra pension of up to £7,026.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

## Membership

Employees must normally have a contract of employment for three months or more in order to be eligible for membership. Membership of the Scheme is then compulsory but eligible employees are free to choose whether to remain in the Scheme or make their own personal pension arrangements outside the Scheme.

## Contributions

Employees and employers contribute to the scheme.

### Employees:

Members of the LGPS pay a contribution rate dependant on the salary band they fall in to. The contribution rate employees pay depends on their salary. The bands and contribution rates for 2019/20 are set out in the table below.

### Band Range Contribution Rates:

Band	Range	Contribution Rate
1	£0 - £14,600	5.5%
2	£14,601 to £22,800	5.8%
3	£22,801 to £37,100	6.5%
4	£37,101 to £46,900	6.8%
5	£46,901 to £65,600	8.5%
6	£65,601 to £93,000	9.9%
7	£93,001 to £109,500	10.5%
8	£109,501 to £164,200	11.4%
9	£164,201 or more	12.5%

There is also a 50/50 section of the scheme where members can elect to pay half the above contributions for a return of half the normal benefit accrual.

### Employers:

The contribution rates paid by employers are variable and are determined by the Pension Fund's Actuary.

## Communications during the Year

- Annual Benefits Statements were issued to all active and deferred members.
- Newsletters
- Pre-retirement seminars were presented to scheme members approaching retirement.

- Introduction to Pensions Insight lunch-time sessions were run with the aim of providing new entrants with information about the LGPS.
- Insight lunches were also run covering “top-up” options available.
- Information, forms and useful links to websites providing further information on the LGPS were maintained on the City of London’s pension’s website.

## **Appeals**

A problem or question about LGPS membership or benefits should initially be addressed to the Pensions Administration Manager at the address stated on page 3. The Pensions Administration team then seeks to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If an employee or ex-employee is still dissatisfied with any decision made in relation to the Scheme, they have the right to have their complaint independently reviewed under the Internal Disputes Resolution Procedure.

### **Internal Dispute Resolution Procedure (IDRP)**

The dispute procedure is in two stages. Each stage must be completed before moving on to the next:

#### **First Stage**

This involves referring the case to the specified person within six months of a decision. This is a person appointed by the employer - but he/she will have had no previous involvement in the case. If he/she feels the complaint is justified, he/she will issue a new decision, which will be binding on the scheme administrators. However, he/she can only overturn the original decision if in his/her opinion it was legally incorrect.

#### **Second Stage**

If the individual is not satisfied with the specified person’s decision, the second stage is to make a written appeal, within six months, to the administering authority. Like the specified person, the administering authority can only correct legal errors. The decision would normally be made within two months and once again it would be binding on the scheme.

In 2019/20 there were no IDRP appeal cases.

If an appellant remains dissatisfied, they can refer their case to the Pensions Ombudsman, whose address is 10 South Colonnade Canary Wharf E14 4PU. The Ombudsman is less restricted in his powers and can consider wider issues than the strictly legal ones, such as whether a case has been handled fairly or reasonably. However, all stages of the IDRP must be dealt with before the Ombudsman would consider a case.

No appeals were made to the Ombudsman.

## **Further Assistance**

**The Pensions Advisory Service (TPAS)** is a free and independent advisory service specifically designed to help people with their pension problems. TPAS may be contacted directly at 11 Belgrave Road, London SW1V 1RB, telephone 0300 123 1047.

**The Pensions Regulator** is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW, telephone 0345 600 5666.

**The Pensions Ombudsman:** In cases where a complaint or dispute cannot be resolved after the intervention of TPAS or TPR, an application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at 10 S Colonnade, Canary Wharf, London E14 4PU, telephone 0207 630 2200.

**The Pension Tracing Service** holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. The Pension Service has a website for members to trace their pension benefits: <https://www.gov.uk/find-pension-contact-details>. The tracing service can be contacted at: The Pension Tracing Service, Boothen Old Rd, Unit 6 - 7 Glebe House, Stoke-on-Trent ST4 4EZ, telephone 0800 122 3170.

## **STATEMENT OF RESPONSIBILITIES for the STATEMENT OF ACCOUNTS**

### **The City of London's Responsibilities**

The City of London is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

### **The Chamberlain of London's Responsibilities**

The Chamberlain is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority code.

The Chamberlain has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Chamberlain's Certificate**

I certify that the Statement of Accounts present fairly the financial position of the Pension Fund of the City of London at 31 March 2020 and its income and expenditure for the year then ended.

**TBA**

Dr Peter Kane  
Chamberlain



## **Adoption of the Pension Fund Accounts**

The Pension Fund Accounts were approved by the Finance Committee on **XX XXXX 20**20 and signed on its behalf by:

**TBA**

Jeremy Mayhew  
Chairman of the Finance Committee

Jamie Ingham Clark FCA, Deputy  
Deputy Chairman of the Finance Committee

DRAFT

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON  
CORPORATION PENSION FUND**

**TBA**

DRAFT

CITY OF LONDON CORPORATION PENSION FUND

ACTUARY'S STATEMENT AS AT 31 MARCH 2020

DRAFT

14 May 2020  
Barnett Waddingham LLP

## **Introduction**

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

## **2019 valuation results**

The 2019 valuation certified an average primary contribution rate of 15.0% of pensionable pay to be paid by each employing body participating in the City of London Corporation Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer’s contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## **Contribution rates**

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

- The annual accrual of benefits allowing for future increases to accrued pensions and pensions in payment when these fall due;
- Plus an amount to reflect each participating employer’s notional share of the Fund’s assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

## **Asset value and funding level**

The smoothed market value of the Fund’s assets as at 31 March 2020 for valuation purposes was £1,062.9m which represented 90% of the Fund’s accrued liabilities at that date, allowing for future increases in pay and pensions in payment. The market value of the Fund’s assets as at 31 March 2019 was £1,063.1m.

## Assumptions

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

Assumption	31 March 2019
Discount rate	5.1% p.a.
Pension increases (CPI)	2.6% p.a.
Salary increases	3.6% p.a.
Mortality	S3PA tables with a multiplier of 110% for males and 105% for females with projected improvements in line with the 2018 CMI model allowing for a long term rate of improvement of 1.25% p.a., a smoothing parameter of 7.5, and an initial addition to improvements of 0.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

### Updated position since the 2019 valuation

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

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

On balance, we estimate that the funding position is likely to not be materially different when compared on a consistent basis to 31 March 2019.

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

We will monitor the funding position until the next valuation due as at 31 March 2022 and review the appropriateness of the assumptions used in our funding model in light of actual experience.

**Graeme D Muir FFA**  
**Partner, Barnett Waddingham LLP**

DRAFT

## **POLICY AND GOVERNANCE COMPLIANCE STATEMENT**

### **The Scheme**

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Housing, Communities and Local Government is also a requirement of this regulation.

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded scheme, with employee contribution rates ranging from 5.5% to 12.5% and employer rates being variable depending on the funding level assessed every three years by the fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Consumer Price Index (CPI) for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority.

### **The Financial Investment Board**

The Court of Common Council and the Investment Committee have delegated the investment management of the scheme to the Financial Investment Board which decides on the investment policy most suitable to meet the liabilities of the scheme and has ultimate responsibility for the investment strategy. The Court of Common Council is responsible for appointing Members to serve on the Investment Committee, which at the start of each financial year makes appointments to its Financial Investment Board. The Financial Investment Board comprises twelve to fourteen Members of the Investment Committee.

The Financial Investment Board operates under a framework of corporate governance and undertakes its responsibilities with reference to the Standing Orders and Financial Regulations adopted by the Court of Common Council which prescribe all activities relating to the conduct of its business.

The Board's responsibilities with regard to the Pension Fund are:

- to approve the appointment of and to monitor the performance of Investment Managers;
- to review the investment strategy for the securities investments;
- to authorise investments and approve the overall parameters within which the Investment Fund Managers will be authorised to operate;
- to invest all new monies;
- to invest such other sums as are from time to time allocated for this purpose; and

All meetings of the Board are open to the public, although they are excluded when confidential matters on the agenda are discussed. Currently, the Board meets five to seven times a year. Additional special meetings of the Board can be held if the need arises. The minutes of the Financial Investment Board are presented to the following meeting of the Investment Committee and are posted on the City of London Corporation's website.

The principal officers of the City of London Corporation have certain statutory and formal responsibilities. The Financial Investment Board obtains and considers advice from the Chamberlain and other Corporation Officers, and as necessary from the Fund Actuary, the independent investment adviser and its Investment Managers. The Board has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The composition of the Financial Investment Board does not include representatives of Scheduled Bodies, Admitted Body employers, Unions or Employees, or Pensioners. The Board contains an appropriate level of experience and expertise and its Members undertake relevant training.

An assessment of the City of London Corporation's Compliance with best practice principles as set out by the Ministry of Housing, Communities and Local Government follows this statement at page 22.

### **The Pensions Board**

With effect from 1 April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pensions Board to assist them. The City of London Corporation Pensions Board was established by the Court of Common Council on 5 March 2015.

The role of the Pensions Board is to assist the administering authority with scrutinising the adequacy of arrangements in place to meet the requirements of scheme regulations and the extent to which local policy and guidance is fit for purpose. The Board does not have a decision-making role in relation to management of the Fund, but is able to make recommendations to the Financial Investment Board. In line with the requirements of the Public Services Pensions Act 2013 for the management of the City of London Corporation's Pension Scheme, the Board will be responsible for assisting the Scheme Manager (the City of London Corporation) in the following matters:

- a) Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that it is connected to;
- b) Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator; and
- c) Other such matters as the scheme regulations may specify.

The membership of the Board is as follows:

- Three employer representatives comprising two officers and one Common Councilman
- Three scheme member representatives for the Pension Fund.

All Members of the Board will be eligible to stand as Chairman and Deputy Chairman and to vote on the election to these positions. To allow reports on the work of the Committee to be made to the Court of Common Council, either the Chairman or Deputy Chairman must be a Member of the Court of Common Council. The quorum of the Board will consist of three Members, including one employer representative and one scheme member representative. The Board will meet a minimum of twice a year except for the year of inauguration which will incorporate three meetings.



## **Compliance with Statutory Guidance**

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Housing, Communities and Local Government. This statement will be kept under review and updated as required.

DRAFT

**CITY OF LONDON CORPORATION PENSION FUND**  
**ASSESSMENT OF COMPLIANCE WITH MHCLG BEST PRACTICE PRINCIPLES**

	Principle	Narrative from Guidance Note	Compliance?
A	Structure	<i>(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.</i>	Full compliance. There is a split committee responsibility: management and administration of benefits rests with Establishment Committee; investment management is the responsibility of the Financial Investment Board.
		<i>(b) that 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.</i>	Partial compliance. Representatives of scheduled bodies, admitted body employers, unions, employees or pensioners are not included on either Establishment or Financial Investment Board. However, the Pensions Board has three employer representatives and three scheme member representatives.
		<i>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	Not applicable. Reports and decisions are communicated between Committees as appropriate (either by minutes or resolution).
		<i>(d) that 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.</i>	Not applicable. As no secondary committee or panel exists.

	Principle	Narrative from Guidance Note	Compliance?
B	Representation	(a) <i>that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</i>	
		(i) <i>employing authorities (including non-scheme employers, e.g. admitted bodies)</i>	Partial compliance. Representatives of scheduled or admitted bodies, scheme members or pensioners are not included in committee structure but do have equal access to all non-confidential papers and meetings.
		(ii) <i>scheme members (including deferred and pensioner scheme members)</i>	
		(iii) <i>where appropriate, independent professional observers</i>	The Pension Fund does not currently have independent professional observers
		(iv) <i>expert advisers</i>	Full compliance. The investment consultant, Mercer Ltd, attends all meetings of the Financial Investment Board.
C	Selection and Role of Lay Members	<p>(a) <i>that 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. (It is the role of the administering authority to make places available for lay members (i.e. non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)</i></p> <p>(b) <i>that at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</i></p>	<p>Not applicable. Lay members are not currently included in the composition of either the Establishment Committee or the Financial Investment Board.</p> <p>Full compliance. This is standard practice at all Committee meetings.</p>

	Principle	Narrative from Guidance Note	Compliance?
D	Voting	<i>(a) the 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.</i>	Full compliance. Each member holds one vote on the respective committee. No other bodies or groups are represented.
E	Training / Facility Time / Expenses	<i>(a) that 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.</i> <i>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i> <i>(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.</i>	Partial compliance. Members are generally well versed in investment matters and there is no formal training policy, although individual sessions are conducted on request.
F	Meetings - Frequency	<i>(a) that an administering authority's main committee or committees meet at least quarterly.</i>	Full compliance. The Financial Investment Board meets at least five times per year.
		<i>(b) that 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.</i>	Not applicable. No secondary committee or panel exists.
		<i>(c) that an administering authority who do 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.</i>	Not applicable. No outside forum exists.

	Principle	Narrative from Guidance Note	Compliance?
G	Access	<i>(a) that subject to any rules in the council's 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.</i>	Full compliance. Agenda papers, etc., provided to the Establishment Committee and Financial Investment Board are available to all Members.
H	Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	Partial compliance. Whilst the Fund does not currently use independent professional observers, officers monitor and advise on governance issues and report to the appropriate committee
I	Publicity	<i>(a) that administering authorities have published details of their governance arrangements 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.</i>	Partial compliance. Governance Statements and Annual Accounts are posted on the City of London website and policy documents and information is circulated to scheme members on a regular basis.

**FUND ACCOUNT AND NET ASSET STATEMENT**  
for the year ended 31 March 2020

**Pension Fund Accounts and Explanatory Notes****Fund Account for the year ended 31 March 2020**

2018/19 £m		Notes	2019/20 £m
	<b>Dealings with members, employers and others directly involved in the fund</b>		
(42.5)	Contributions	7	(44.8)
(5.8)	Transfers in from other pension funds		(6.7)
<b>(48.3)</b>			<b>(51.5)</b>
46.1	Benefits	8	44.9
1.7	Payments to and on account of leavers	9	3.1
<b>47.8</b>			<b>48.0</b>
<b>(0.5)</b>	<b>Net additions from dealing with members</b>		<b>(3.5)</b>
8.0	Management expenses	10	7.8
<b>7.5</b>	<b>Net withdrawals including fund management expenses</b>		<b>4.3</b>
	<b>Returns on investments</b>		
(1.4)	Investment income	11	(1.2)
(80.9)	Profit and losses on disposal of investments and changes in the value of investments	12	31.3
<b>(82.3)</b>	<b>Net return on investments</b>		<b>30.1</b>
<b>(74.8)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>34.4</b>
(988.3)	Opening net assets of the scheme		(1,063.1)
<b>(1,063.1)</b>	<b>Closing net assets of the scheme</b>		<b>(1,028.7)</b>

**Net Assets Statement as at 31 March 2020**

31 March 2019 £m		Notes	31 March 2020 £m
0.2	Long term investments	12	0.2
1,051.7	Investment assets	12	1,023.3
<b>1,051.9</b>	<b>Total net investments</b>		<b>1,023.5</b>
13.7	Current assets	19	6.1
(2.5)	Current liabilities	20	(0.9)
<b>1,063.1</b>	<b>Net assets</b>		<b>1,028.7</b>

### 1. Description of the City of London Pension Fund

#### a) General

The City of London Pension Fund is part of the LGPS and is administered by the City of London. The City of London is the reporting entity for this pension fund.

The City of London Pension Fund is a funded defined benefits scheme established in accordance with statute. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the Local Government Pension Scheme (LGPS).

Benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined and appointed by the City of London.

#### b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the City of London Pension Fund include:

- Scheduled bodies, which are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

## CITY OF LONDON PENSION FUND

	31 March 2020				31 March 2019
	Current Contributors	Beneficiaries in Receipt of Pension	Deferred Members	Total	Total
	No.	No.	No.	No.	No.
ADMINISTERING AUTHORITY City of London Corporation	4,368	3,893	4,143	12,404	12,221
SCHEDULED BODIES:					
Museum of London	282	253	606	1,141	1,117
Magistrates Court	0	18	14	32	34
Multi Academy Trust	4	0	0	4	3
	<b>286</b>	<b>271</b>	<b>620</b>	<b>1,177</b>	<b>1,154</b>
ADMITTED BODIES:					
Irish Society	4	11	2	17	17
City Arts Trust	0	1	0	1	1
Parking Committee for London	0	5	7	12	12
Guildhall Club	0	5	4	9	9
City Academy - Southwark	88	10	123	221	200
Sir John Cass (Brookwood)	0	1	0	1	2
AMEY (Enterprise)	0	6	3	9	14
Eville and Jones	0	0	1	1	1
London CIV	19	1	9	29	24
Westminster Drug Project	1	0	2	3	3
Agilisys	9	4	12	25	25
Agilisys (police)	0	1	2	3	3
Bouygues (EDTE)	0	0	1	1	1
Cook & Butler	1	0	1	2	2
1SC Guarding Limited	0	0	1	1	1
Skanksa	4	0	1	5	0
Veolia	5	0	0	5	0
	<b>131</b>	<b>45</b>	<b>169</b>	<b>345</b>	<b>315</b>
<b>TOTAL</b>	<b>4,785</b>	<b>4,209</b>	<b>4,932</b>	<b>13,926</b>	<b>13,690</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last



such valuation was at 31 March 2019. For 2019/20, employer contribution rates range from 16.1% to 21.0% of pensionable pay.

### **d) Benefits**

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

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the [LGPS website](#).

## **2. Basis of preparation**

The statement of accounts summarises the fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 18.

The accounts have been prepared on a going concern basis. The administering authority is confident that the Fund will have sufficient resources to meet obligations as they fall due over the foreseeable future.

## **3. Accounting Policies**

- i. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- ii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iii. Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

- iv. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).
- v. Acquisition costs are included in the purchase costs of investments.
- vi. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the net asset statement date. Transactions during the year are translated at rates applying at the transaction dates. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- vii. The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

Administration expenses	All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.
Oversight and governance	All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.
Investment management expenses	Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

- viii. Income from investments is accounted for on an accruals basis. Investment income arising from the underlying investments of the Pooled Investment Vehicles is typically reinvested within the Pooled Investment Vehicles and reflected in the unit price.
- ix. 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.
- x. 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.
- xi. 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.

- xii. 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 2013. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- xiii. Where an investment manager's fee note has not been received by the net asset statement date, an estimate based upon the most recent available equivalent trailing reporting period is used for inclusion in the fund account.

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

The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 18.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

#### **5. Assumptions made about the future and other major sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made considering historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 18)	Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. This uncertainty relates solely to the disclosures made in Note 18 and does not impact on the Net Asset Statement or Pension Fund Account.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> <li>a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £34m</li> <li>a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m</li> <li>a one-year increase in assumed life expectancy would increase the liability by approximately £68m.</li> </ul>
Private equity investments (Note 13)	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018) and use valuation techniques that rely on unobservable inputs.	Private equity investments are valued at £35m in the financial statements. There is a risk that this investment may be under or overstated significantly if the underlying valuation assumptions change.
Infrastructure and pooled property investments (Note 13)	Infrastructure and pooled property investments are valued at fair value using techniques that rely on unobservable inputs.	Infrastructure and pooled property investments are valued at £62m and £66m, respectively in the financial statements. There is a risk that this investment may be under or overstated significantly if the underlying valuation assumptions change.

## 6. Events after the reporting date

The Pension Fund's investment assets have appreciated significantly in value since the balance sheet date as global financial markets rallied following a severe drawdown in the first quarter of 2020. As at 30 September 2020, the Fund's investment assets are estimated to be valued at £XXXXm. These circumstances meet the conditions of a non-adjusting post-balance sheet reporting event.

## 7. Contributions receivable

2018/19 £m	By Category	2019/20 £m
<b>(11.0)</b>	<b>Employees' contributions</b>	<b>(11.9)</b>
	Employers' contributions	
(19.1)	Normal contributions	(20.3)
(11.7)	Deficit recovery contributions	(12.5)
(0.7)	Pensions strain contributions	(0.1)
<b>(31.5)</b>	<b>Total employers' contributions</b>	<b>(32.9)</b>
<b>(42.5)</b>	<b>Total contributions receivable</b>	<b>(44.8)</b>

2018/19 £m	By type of employer	2019/20 £m
(39.4)	Administering authority	(41.4)
(2.1)	Scheduled bodies	(2.3)
(1.0)	Admitted bodies	(1.1)
<b>(42.5)</b>	<b>Total employers' contributions</b>	<b>(44.8)</b>

The preceding analysis has changed from 2018/19 in order to include pension strain contributions (which were previously disclosed separately on of the main Fund Account statement) within contributions receivable. A reconciliation to the original disclosure in the 2018/19 pension fund accounts is shown below:

	2018/19 Original £m	2018/19 Pension Strain Contributions £m	2018/19 Restated £m
Administering authority	(38.8)	(0.6)	(39.4)
Scheduled bodies	(2.0)	(0.1)	(2.1)
Admitted bodies	(1.0)	-	(1.0)
<b>Total employers' contributions</b>	<b>(41.8)</b>	<b>(0.7)</b>	<b>(42.5)</b>

## 8. Benefits payable

2018/19 £m	By category	2019/20 £m
37.0	Pensions	39.2
7.7	Lump sum retirement benefits	5.2
1.4	Lump sum death benefits	0.5
<b>46.1</b>		<b>44.9</b>

2018/19 £m	By type of employer	2019/20 £m
42.4	Administering authority	41.5
0.8	Scheduled bodies	2.9
2.9	Admitted bodies	0.5
<b>46.1</b>		<b>44.9</b>

## 9. Payments to and on account of leavers

2018/19 £m		2019/20 £m
1.7	Individual transfers out	2.9
-	Refunds to members leaving service	0.2
<b>1.7</b>		<b>3.1</b>

## 10. Management expenses

2018/19 £m		2019/20 £m
0.7	Administration expenses	0.7
7.1	Investment management expenses	6.9
0.2	Oversight and governance*	0.2
<b>8.0</b>		<b>7.8</b>

\*Includes audit fees of £22,000 that have been charged to the Pension Fund (2018/19: £22,000).

**a. Investment management expenses**

<b>2018/19</b>		<b>2019/20</b>
<b>£m</b>		<b>£m</b>
6.4	Management fees	6.0
0.7	Performance related fees	0.9
<b>7.1</b>		<b>6.9</b>

**11. Income from investments**

<b>2018/19</b>		<b>2019/20</b>
<b>£m</b>		<b>£m</b>
(0.1)	Interest	(0.2)
-	Pooled property investments	(0.1)
(0.2)	Private equity	(0.1)
(1.1)	Infrastructure	(0.8)
<b>(1.4)</b>		<b>(1.2)</b>

The Pension Fund's investment policies are focussed on capital accumulation in pooled vehicles and private equity investments. Dividends and interest are typically retained at pool level. Where any shortfall of the net deductions on contributions and benefits paid was previously covered by investment income, it is intended that the Fund will sell holdings in the pooled vehicles, as necessary, to cover any shortfalls. There are no limitations imposed by the fund managers on the selling of these pooled vehicle funds.

## 12. Investment assets

## a. Reconciliation of movements in investments

The table below shows the movement in market values by asset type between 1 April 2019 and 31 March 2020.

	Market value at 01/04/2019 £m	Purchases £m	Sales £m	Change in value during year £m	Market value at 31/03/2020 £m
<u>Long term investments</u>					
Equities (unquoted)	0.2	-	-	-	0.2
<u>Investment assets</u>					
Pooled units (quoted)					
UK	185.2	-	(1.1)	(25.6)	158.5
Global	772.8	-	(69.5)	(13.4)	689.9
Pooled property investments (unquoted)	-	67.7	(0.3)	(1.3)	66.1
Private equity (unquoted)	34.6	3.8	(6.8)	3.1	34.7
Infrastructure (unquoted)	59.1	0.2	(3.0)	6.0	62.3
	<b>1,051.9</b>	<b>71.7</b>	<b>(80.7)</b>	<b>(31.3)</b>	<b>1,011.6</b>
Cash	-				11.9
Investment income due	-				0.1
<b>Net investment assets</b>	<b>1,051.9</b>				<b>1,023.6</b>

A comparison is provided in the table below for the market values between 1 April 2018 and 31 March 2019.

	Market value at 01/04/2018 £m	Purchases £m	Sales £m	Change in value during year £m	Market value at 31/03/2019 £m
<u>Long term investments</u>					
Equities (unquoted)	0.2	-	-	-	0.2
<u>Investment assets</u>					
Pooled units (quoted)					
UK	174.8	-	(1.3)	11.7	185.2
Global	720.4	179.3	(183.1)	56.2	772.8
Private equity (unquoted)	29.2	6.0	(6.9)	6.3	34.6
Infrastructure (unquoted)	57.9	0.6	(6.1)	6.7	59.1
<b>Total investment assets</b>	<b>982.5</b>	<b>185.9</b>	<b>(197.4)</b>	<b>80.9</b>	<b>1,051.9</b>
Investment income due	0.1				-
<b>Net investment assets</b>	<b>982.6</b>				<b>1,051.9</b>



## b. Investments analysed by fund manager

Market value 01/04/2020 £m		Market value 31/03/2020 £m
	<b>Investments managed by the London CIV:</b>	
119.2	LCIV Alpha Growth Fund*	117.7
68.3	LCIV MAC Fund*	58.9
0.2	London CIV	0.2
<b>187.7</b>		<b>176.8</b>
	<b>Investments managed outside the London CIV:</b>	
55.8	Alternative assets	56.0
95.0	Artemis Institutional Equity Income Fund*	80.0
-	Aviva Lime Property Fund	28.8
135.0	C Worldwide Global Equities*	115.5
100.5	Harris Associates Global Equity Fund*	70.4
38.0	IFM Global Infrastructure (UK)	40.9
48.3	Lindsell Train UK Equity Fund	45.5
-	M&G UK Residential Property Fund	7.5
-	M&G Secured Property Income Fund	29.8
41.9	Majedie UK Equity Fund	33.0
128.2	Pyrford Global Total Return Fund*	125.5
84.9	Ruffer Absolute Return Fund*	87.9
136.6	Veritas Global Focus Fund*	114.0
<b>864.2</b>		<b>834.8</b>
<b>1,051.9</b>	<b>Total</b>	<b>1,011.6</b>
	Cash	11.9
	Investment income due	0.1
<b>1,051.9</b>	<b>Net investment assets</b>	<b>1,023.6</b>

\* These investments each singularly represent over 5% of the net assets of the fund.

Alternative assets comprise of private equity and infrastructure investments managed through eleven separate investment managers. £11.9m was held as cash by M&G at the reporting date for onward investment in the M&G Secured Property Income Fund on 1 April 2020.

## 13. Fair Value – Basis for Valuation

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

## CITY OF LONDON PENSION FUND

Item	Valuation Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - equity funds (UK and global),	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - multi-asset funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled property investments	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events between the date of the financial statements fund's own reporting date, and by differences between audited and unaudited accounts. Valuations of underlying property assets.
Private Equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity Valuation Guidelines.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in the fair value of financial assets or to adjust earnings multiples.

## CITY OF LONDON PENSION FUND

Item	Valuation Hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Infrastructure Funds	Level 3	Discounted Cashflows applied to equity and debt instruments. The Funds determine fair value for these securities by engaging external valuation services.	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability.	Valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in the fair value of financial assets or to adjust earnings multiples.

### Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Market value 31/03/2020 £m	Value on increase £m	Value on decrease £m
Private equity	10%	34.7	38.2	31.2
Pooled property investments	10%	66.1	72.7	59.5
Infrastructure	10%	62.3	68.5	56.1
		<b>163.1</b>	<b>179.4</b>	<b>146.8</b>

#### a. Fair Value Hierarchy

Assets have 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 must be traded in active markets, this includes quoted equities, quoted fixed securities, quoted index linked securities and exchange traded unit trusts.

##### 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. Products classified as level 2 comprise open ended pooled investment vehicles which are not exchange traded, unquoted bonds and repurchase agreements.

### 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 pooled property investments, private equity investments and infrastructure funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of pooled property investments are based on valuations provided by the fund managers which in turn represent estimates by independent professional valuers of the open market value of those investment as at the reporting date.

The values of the investment in private equity and infrastructure funds are based on valuations provided by the general partners to the private equity funds in which City of London Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Guidance released by the Pensions Research Accountants Group (PRAG) in 2016 provides further clarification on the classification of Pooled Investment Vehicles as level 1, 2 and 3. Pooled funds that are not quoted on an exchange are classed as level 2, as these do not meet the definition of level 1 investment: *The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.*

## CITY OF LONDON PENSION FUND

The tables that follow provide an analysis of the assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2020

	Quoted Market Price Level 1 £m	Using Observable Inputs Level 2 £m	With Significant Unobservable Inputs Level 3 £m	Total £m
<u>Financial Assets</u>				
Fair value through profit and loss	-	848.3	163.3	1,011.6
<b>Net investment assets</b>	-	<b>848.3</b>	<b>163.3</b>	<b>1,011.6</b>

Values as at 31 March 2019

	Quoted Market Price Level 1 £m	Using Observable Inputs Level 2 £m	With Significant Unobservable Inputs Level 3 £m	Total £m
<u>Financial Assets</u>				
Fair value through profit and loss	-	958.0	93.9	1,051.9
<b>Net investment assets</b>	-	<b>958.0</b>	<b>93.9</b>	<b>1,051.9</b>

**b. Reconciliation of Fair Value Measurements within level 3**

The table below shows the movements in Level 3 disclosures for 2019/20.

Disclosures for Level 3	Market Value at 01/04/2019	Transfers into Level 3	Transfers out of Level 3	Purchases at Cost	Sales	Unrealised Gains/(Losses)	Realised Gains/(Losses)	Market Value at 31/03/2020
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity	34.6	-	-	3.8	(6.8)	2.4	0.7	34.7
Pooled property investments	-	-	-	66.0	(1.8)	1.9	-	66.1
Infrastructure	59.1	-	-	0.2	(3.0)	6.0	-	62.3
Long term investment	0.2	-	-	-	-	-	-	0.2
<b>Total Level 3</b>	<b>93.9</b>	<b>-</b>	<b>-</b>	<b>70.0</b>	<b>(11.6)</b>	<b>10.3</b>	<b>0.7</b>	<b>163.3</b>

**14. Financial Instruments****a. Classification of Financial Instruments**

31 March 2019 £m				31 March 2020 £m		
Fair value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost
-	0.2	-	Financial assets	-	0.2	-
958.0	-	-	Equities	848.3	-	-
-	-	-	Pooled investments	66.1	-	-
59.1	-	-	Pooled property investments	62.3	-	-
34.6	-	-	Infrastructure	34.7	-	-
-	13.7	-	Private Equity	-	17.9	-
			Cash	-	0.1	-
			Investment income due	-		-
<b>1,051.7</b>	<b>13.9</b>	<b>-</b>		<b>1,011.4</b>	<b>18.2</b>	<b>-</b>
			Financial Liabilities			
-	-	(2.5)	Creditors	-	-	(0.9)
-	-	(2.5)		-	-	(0.9)

## CITY OF LONDON PENSION FUND

---

1,051.7	13.9	(2.5)	Total	1,011.4	18.2	(0.9)
---------	------	-------	-------	---------	------	-------

DRAFT

**b. Net (Gains) and Losses on Financial Instruments**

2018/19 £m		2019/20 £m
	<u>Financial Assets</u>	
(80.9)	Fair value through profit and loss	31.3
(80.9)		<b>31.3</b>

**15. Risk and Risk Management**

The Pension Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

The fund's investments are actively managed by twelve main external fund managers who are charged with the responsibility to increase asset values, whilst maintaining market risk to acceptable levels. They achieve this mainly through diversification of stock portfolios across several geographical locations, various industrial sectors and asset classes. The managers' investing practices are controlled by pre-defined levels of tolerance.

Concentration risk is also controlled and monitored with a maximum proportion cap over the levels held in individual stocks as a set percentage of each manager's overall portfolio of stocks.

As part of each of the external fund managers' investing there is also a strict adherence to the principles of liquidity risk management in order to ensure cash flow requirements are met as and when they fall due.

All of the investing policies and practices are reviewed regularly after thorough consideration of economic and market conditions, and overall care is taken to identify, manage and control exposure to the price movements of several categories of investments.

**16. Market risks**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, Mercer Ltd, the movements in market price risk set out in the table below are reasonably possible for the 2019/20 reporting period. The potential price changes disclosed below is consistent with a multi-year one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.



Potential Market Movements (% Change)

Asset Type	31 March 2019	31 March 2020
Developed market global equities	17.10%	17.4%
Emerging market global equities	28.60%	29.1%
Hedge funds (proxy for Multi-asset funds)	7.60%	7.3%
UK Property (proxy for residential property)	14.1%	14.2%
Long Lease UK Property	7.7%	8.1%
Private Equity	24.50%	25.8%
Unlisted infrastructure	14.80%	15.0%

Had the market price of the fund investments increased/decreased in line with the above, the impact on relevant assets would have been as follows:

Price Risk (as at 31 March 2020)

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Developed market global equities	553.3	17.4%	649.5	456.9
Emerging market global equities	22.9	29.1%	29.6	16.2
Hedge funds (proxy for Multi-asset funds)	272.4	7.3%	292.3	252.5
UK Property (proxy for residential property)	7.5	14.2%	8.6	6.4
Long Lease UK Property	58.6	8.1%	63.3	53.9
Private Equity	34.7	25.8%	43.7	25.7
Unlisted infrastructure	62.3	15.0%	71.6	53.0
<b>Total Assets</b>	<b>1,011.6</b>		<b>1,158.6</b>	<b>864.6</b>

Price Risk (as at 31 March 2019)

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Developed market global equities	650.6	17.1%	761.9	539.3
Emerging market global equities	26.1	28.6%	33.6	18.6
Hedge funds (proxy for Multi-asset funds)	281.5	7.6%	302.9	260.1
Private Equity	34.6	24.5%	43.1	26.1
Unlisted infrastructure	59.1	14.8%	67.8	50.4
<b>Total Assets</b>	<b>1,051.9</b>		<b>1,209.3</b>	<b>894.5</b>

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors, asset classes and individual securities. To mitigate market risk, the pension fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. The pooled multi-asset investments are indirectly subject to interest rate risks, as underlying holdings include fixed income instruments, and this represent the risk that the fair value of these financial instruments will fluctuate because of changes in market interest rates. Fund managers have the discretion to manage interest risk exposure through the use of derivatives.

The fund's indirect exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Bonds and cash balances are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

**31st March 2020**

<b>Assets exposed to interest rate risk</b>	<b>Value £m</b>	<b>Change %</b>	<b>Value on increase £m</b>	<b>Value on decrease £m</b>
Cash & cash equivalents	17.9		17.9	17.9
Bonds	162.1	1.00%	157.8	166.4
<b>Total</b>	<b>180.0</b>		<b>175.7</b>	<b>184.3</b>

**31st March 2019**

<b>Assets exposed to interest rate risk</b>	<b>Value £m</b>	<b>Change %</b>	<b>Value on increase £m</b>	<b>Value on decrease £m</b>
Cash & cash equivalents	13.7		13.7	13.7
Bonds	188.3	1.00%	183.8	192.7
<b>Total</b>	<b>202.0</b>		<b>197.5</b>	<b>206.4</b>

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 owned directly or through a pooled structure, that are denominated in any currency other than the functional currency of the fund (UK sterling). The following table summarises the position as at 31 March 2020. Following analysis of historical data, the fund custodian BNY Mellon have provided the currency exposure and volatility data included in the table below.

## CITY OF LONDON PENSION FUND

The table analyses shows a comparison of the sensitivities as at 31 March 2020.

As at 31 March 2019				Currency	As at 31 March 2020			
Value	Change	Value on increase	Value on decrease		Value	Change	Value on increase	Value on decrease
£m	%	£m	£m		£m	%	£m	£m
6.8	3.46%	7.0	6.6	Australian Dollar	16.7	2.38%	17.1	16.3
2.5	5.48%	2.6	2.4	Brazilian Real	1.4	4.11%	1.5	1.3
3.5	2.75%	3.6	3.4	Canadian Dollar	3.1	2.29%	3.2	3
5.2	2.38%	5.3	5.1	Danish Krona	4.5	1.77%	4.6	4.4
104.9	2.38%	107.4	102.4	Euros	92.8	1.76%	94.4	91.1
22.8	2.69%	23.4	22.2	Hong Kong Dollar	18.6	2.34%	19.0	18.2
12.0	3.16%	12.4	11.6	Indian Rupee	9.5	2.72%	9.8	9.2
-	-	-	-	Indonesian Rupiah	1.7	2.76%	1.7	1.7
0.4	2.57%	0.4	0.4	Israeli Shekel	-	-	-	-
29.7	4.22%	31.0	28.4	Japanese Yen	40.5	2.87%	41.7	39.3
1.5	2.97%	1.5	1.5	Malaysian Ringgit	2.1	1.68%	2.1	2.1
5.1	4.15%	5.3	4.9	Mexican Peso	4.7	3.58%	4.9	4.5
2.4	2.96%	2.5	2.3	Norwegian Krona	3.0	2.66%	3.1	2.9
0.3	2.97%	0.3	0.3	Peruvian Sol	0.2	1.96%	0.2	0.2
0.6	2.99%	0.6	0.6	Polish Zloty	0.6	2.08%	0.6	0.6
3.1	2.68%	3.2	3.0	Singapore Dollar	4.0	1.68%	4.1	3.9
10.0	5.84%	10.6	9.4	South African Rand	5.8	4.66%	6.1	5.5
-	-	-	-	South Korean Won	0.8	2.87%	0.8	0.8
6.7	2.86%	6.9	6.5	Swedish Krona	12.2	2.54%	12.5	11.9
20.4	3.01%	21.0	19.8	Swiss Franc	16.6	2.41%	17.0	16.2
2.8	2.67%	2.9	2.7	Taiwanese Dollar	6.1	1.92%	6.2	6.0
356.8	2.67%	366.3	347.3	United States Dollar	303.1	2.34%	310.2	296.0
<b>597.5</b>		<b>614.2</b>	<b>580.8</b>	<b>Overseas sub-total</b>	<b>548.1</b>		<b>560.8</b>	<b>535.4</b>
3.4				Other overseas	2.9			
<b>600.9</b>				<b>Overseas total</b>	<b>551.0</b>			
451.0				UK investments	472.5			
<b>1,051.9</b>				<b>Total investment assets</b>	<b>1,023.5</b>			
				Investment income due	0.1			
<b>1,051.9</b>				<b>Overall</b>	<b>1,023.6</b>			

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Officers monitor cash flows and takes steps to ensure that there are adequate cash resources to meet the fund's commitments. The fund has immediate access to its cash holdings.

Liquid assets are those that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2020, liquid investment assets were £860.4m representing 83% of total fund assets (£958.0m at 31 March 2019 representing 90% of the Fund at that date). These investments can in fact be liquidated within a matter of days.

### Credit Risk

Credit risk represents the risk that the counterparty to a financial transaction 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 and liabilities. The selection of high-quality counterparts, brokers and financial institutions minimises credit risk that may occur through the failure of third parties to settle transactions in a timely manner.

### **17. Funding Arrangements**

In accordance with statutory regulations a triennial valuation of the Pension Fund was completed by the City's independent consulting actuaries, Barnett Waddingham LLP, as at 31 March 2016 using the projected unit method and the resulting employers' contribution were implemented for the three financial years commencing 1 April 2017. A more recent valuation was undertaken as at 31 March 2019, and employer contribution rates resulting from this exercise will apply from 1 April 2020.

The main funding assumptions which follow were incorporated into the funding model used in the 31 March 2016 and the 31 March 2019 valuations (Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms):

	March 2016		March 2019	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Financial Assumptions				
Discount Rate	5.7	3.3	5.1	2.5
Retail Price Inflation	3.3	0.9	3.6	1.0
Consumer Price Inflation	2.4	-	2.6	-
Pension Increases	2.4	-	2.6	-
Pay Increases (Short Term)	*		N/A	
Pay Increases (Long Term)	3.9	1.5	3.6	1.0

\* CPI for the period 31/03/2016 to 31/03/2020.

The discount rate reflects the asset allocation embedded in fund's long-term strategy, the below table outlines how these assumptions translate into an overall discount rate assumption as at 31 March 2016 and 31 March 2019.

Future assumed returns at 31 March 2016	Percentage of Fund	Return Assumption	Real (relative to CPI)
	%	%	%
Gilts	-	2.4	-
Cash	-	1.8	(0.6)
Bonds	-	3.3	0.9
Equities	55	7.4	5.0
Property	10	5.9	3.5
Absolute return fund – inflation plus 3.7%	15	6.1	3.7
Absolute return fund – LIBOR plus 4.5%	20	6.3	3.9
Expenses (deduction)		(0.2)	-
<b>Neutral estimate of discount rate based on long-term investment strategy</b>		<b>6.7</b>	<b>4.3</b>
Prudence Allowance		(1.0)	(1.0)
<b>Discount Rate</b>		<b>5.7</b>	<b>3.3</b>

Future assumed returns at 31 March 2019	Percentage of Fund	Return Assumption	Real (relative to CPI)
	%	%	%
Equities	55	6.7	4.1
Property and infrastructure	15	6.1	3.5
Absolute return fund – inflation plus 3.7%	30	6.3	3.7
Expenses (deduction)		(0.2)	
<b>Neutral estimate of discount rate based on long-term investment strategy</b>		<b>6.3</b>	<b>3.7</b>
Prudence Allowance		(1.2)	(1.2)
<b>Discount Rate</b>		<b>5.1</b>	<b>2.5</b>

### Demographic assumptions

The assumed life expectancy from age 65 is shown below for both the 31 March 2016 and 31 March 2019 valuations.

Life expectancy from age 65 (years)		31 March 2016	31 March 2019
Retiring today	Males	24.3	21.7
	Females	25.8	24.3
Retiring in 20 years	Males	26.5	23.1
	Females	28.1	25.8

## Commutation assumption

As part of both the 31 March 2016 and 31 March 2019 valuations the actuary assumed that members on average exchanged pension to get approximately 50% of the maximum available cash on retirement.

## 50:50 membership

The actuary has assumed that existing members will continue to participate in their current section.

## Funding Position at Valuation date

The valuations at 31 March 2016 and 31 March 2019 revealed that the relationship between the values placed on the assets held by the fund and the liabilities accrued in respect of pensionable service at that date were as follows:

<b>Past Service Liabilities</b>	<b>March 2016 £m</b>	<b>March 2019 £m</b>
Active Members	308.9	383.7
Deferred pensioners	185.1	236.7
Pensioners	451.6	555.3
<b>Total</b>	<b>945.6</b>	<b>1,175.7</b>
Assets	(796.3)	(1,062.9)
<b>Deficit</b>	<b>149.3</b>	<b>112.8</b>
<b>Funding Level</b>	<b>84%</b>	<b>90%</b>

Based on the above data the derivation of the basic rate of employers' contribution is set out below:

	<b>March 2016 Contribution rate %</b>	<b>March 2019 Contribution rate %</b>
Primary rate	12.8	15.0
Secondary rate	8.2	5.5
<b>Total contribution rate</b>	<b>21.0</b>	<b>20.5</b>

The secondary rate contributions agreed with individual employers were set at the 31 March 2016 valuation to restore the Fund to a funding position of 100% over a recovery period of no longer than 17 years. This deficit recovery plan was maintained at the 31 March 2019 valuation (i.e. the secondary rates established in 2019 aim to restore 100% funding over 14 years).

Whilst the Fund level contribution rate is now 20.5% per annum, within this individual employer contribution rates vary. Having considered the basic rate of employer's contributions above, the City of London Corporation set contribution rates applicable to its employees of 21.0% for each of the financial years 2017/18 to 2019/20. Exceptions are City Academy who pay 17.1% p.a. and Museum of London which has certified stepped contributions of 15.1% in 2017/18, 15.7% in 2018/19 and 16.1% in 2019/20.

## CITY OF LONDON PENSION FUND

Following the 31 March 2019 valuation, most employers will continue to pay contribution rates of 21.0% for the three years commencing 1 April 2020 apart from the City Academy and the Multi Academy Trust (17.1%); the Museum of London (16.1%) and the London CIV (initially 38.0% and 15.0% from 1 June 2020).

### 18. Funded Obligation of the Overall Pension Fund

31 March 2018 £m		31 March 2020 £m
(1,733.5)	Present Value of the defined benefit obligation	(1,703.4)
1,063.1	Fair Value of Fund Assets (bid value)	1,028.7
(670.4)	Net Liability	(674.7)

\*The present value of the funded obligation consists of £1,673.6m in respect of vested obligations and £29.9m in respect of non-vested obligations (2018/19: £1,669.4m and £64.1m respectively).

The above figures show the total net liability of the Fund as at 31 March 2020 and have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019 have been rolled forward, using financial assumptions that comply with IAS19.

at 31 March 2019		Assumptions	at 31 March 2020	
% p.a.	Real % p.a.*		% pa	Real % p.a.*
3.40	1.00	RPI increase	2.70	0.80
2.40	-	CPI increase	1.90	-
3.90	1.50	Salary increase	2.90	1.00
2.40	-	Pension increase	1.90	-
2.40	-	Discount Rate	2.35	-

\* Consumer Price Inflation has been used as basis to reflect the actuarial assumption in real terms.

Life expectancy from age 65		31 March 2019	31 March 2020
Retiring today	Males	23.2	21.8
	Females	24.6	24.4
Retiring in 20 years	Males	24.5	23.2
	Females	26.1	25.8

### McCloud and Sargeant judgments

The present value of the defined benefit obligation includes an allowance of £12.9m for the impact of any amendments that may be required to the Local Government Pension Scheme as a result of the Court of Appeal judgement on the McCloud and Sargeant cases on the basis that there is a constructive obligation as at 31 March 2020.

### Guaranteed Minimum Pension (GMP) Equalisation

On 22 January 2018, the Government published the outcome of its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. The present value of the defined benefit obligation assumes that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the calculation assumes that the Fund will be required to pay the entire inflationary increase.

### **19. Current assets**

Current assets include cash balances of £6.0m at 31 March 2020 (£13.7m at 31 March 2019) and investment income due of £0.1m (zero at 31 March 2019).

### **20. Current liabilities**

Current liabilities represent accruals for investment management expenses, custodian fees and benefits payable.

### **21. Additional Voluntary Contributions**

Market Value 31 March 2019 £m		Market Value 31 March 2020 £m
1.7	Prudential	1.9
0.5	Standard Life Investments	0.4
0.2	Utmost Life and Pensions	0.2
<b>2.4</b>		<b>2.5</b>

Additional voluntary contributions (AVCs) are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and transferred directly to the relevant fund managers – Prudential, Standard Life Investments and Utmost Life and Pensions (formerly Equitable Life). AVCs of £0.46m were paid in 2019/20 (2018/19: £0.46m).

In accordance with Regulation 4(1) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid, and the assets of these investments are not included in the Fund's accounts.

### **22. Related party transactions**

The City of London Pension Fund is administered by the City of London Corporation. Consequently, there is a strong relationship between the local authority and the pension fund.



During the reporting period, administration expenses which were charged to the fund amounted to £0.7m (2018/19: £0.7m). This includes £0.5m (2018/19: £0.5m) of City of London Corporation staff salaries.

The Corporation is also the single largest employer of members of the pension fund and the employer contributions paid by it was £30.5m in 2019/20 (2018/19: £28.7m).

### 23. Key management personnel

The key management personnel of the fund are the Chamberlain, Deputy Chamberlain, Corporate Treasurer, Pensions Manager (Administration) and Group Accountant for Pensions and Treasury Management. Total remuneration payable to key management personnel in respect of services to the Fund is set out below.

31 March 2019 £m		31 March 2020 £m
0.2	Short-term benefits	0.2
0.2		0.2

### 24. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £9.0m (31 March 2019: £10.4m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment. The Fund also has outstanding capital commitments totalling £10.4m to unquoted property unit trusts (31 March 2019: £90.0m).

## INVESTMENT PERFORMANCE REPORT

### Performance Overview

The Fund's primary long-term investment objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities and within this, to endeavour to maintain low and stable employers' contribution rates.

To achieve its objective, the Pension Fund is invested across a diverse array of asset classes, on a global basis, which includes exposure to publicly listed equities, fixed income, multi-asset funds, infrastructure, property and private equity. The Fund accesses these asset classes through pooled fund vehicles, managed by specialist appointed fund managers in each case.

The year to 31 March 2020 began with steadily increasing gains in financial markets. Softer economic growth and trade tensions remained a focal point throughout much of 2019 but progress in negotiations between China and the US together with increasing monetary support from central banks led to sustained increases in stock markets over the course of the calendar year.

By the start of 2020 awareness of Covid-19 began to emerge and within a matter of weeks it became apparent that this new virus marked not just a local or regional threat, but rather a global pandemic on a scale without precedent in living memory. Financial markets experienced sudden and significant losses as fears over the economic impact of Covid-19, and the extraordinary levels of societal intervention warranted by it, came to the fore.

Under these conditions, the Pension Fund's investments generated an annual return of -4.1% in the year to 31 March 2020. Although this is lower than the Fund's actuarially assessed absolute return target of +5.7%, it should be noted that the Pension Fund maintained its value far more successfully than leading financial market indices (by comparison the FTSE All Share recorded losses of -18.5% in 2019/20).

Events such as the market downturn in early 2020 are a reminder of the risks inherent in investing, and as an informed investor, the administering authority is aware that such risks do materialise from time to time. This is one of the reasons why the authority's Financial Investment Board sets a diversified asset allocation strategy, to alleviate the volatile episodes in financial markets. In doing so, the investment approach significantly protected the Fund's funding level over the course of 2019/20.

## Asset Allocation

The planned asset allocation for 2019/20 as per the Investment Strategy Statement (page 76) against the actual asset allocation as at 31 March 2020 was as follows:

<b>Asset Class</b>	<b>Position as at 31/03/2020 %</b>	<b>Strategic target as at 2019/20 %</b>
<i>UK Equities</i>	15	17
<i>Global Equities</i>	41	33
<i>Multi Asset</i>	27	30
<i>Property</i>	7	10
<i>Infrastructure</i>	6	5
<i>Private Equity</i>	4	5
<b>Total</b>	<b>100</b>	<b>100</b>

The values for property, infrastructure and private equity as at 31 March 2020 do not include outstanding commitments that represent approximately 2% of the total Fund value.

## Pension Fund Investment Performance

The investment performance of the Pension Fund is subject to regular monitoring by the City of London's custodian BNY Mellon, City Officers, the Investment Consultant and the Financial Investment Board. Following the 2016 actuarial review the Fund undertook an investment strategy review and the Financial Investment Board set a return target of 5.7% p.a. for the financial year 2019/20.

Similarly, individual Fund Manager Performance is monitored in the same way with financial returns being analysed against an agreed nearest comparable benchmark.

	<b>2019/20 %</b>	<b>Last 3 Years % p.a.</b>	<b>Last 5 Years % p.a.</b>
<b>Pension Fund Returns</b>			
Fund Return	-4.1	+1.8	+4.5
Return Benchmark (5.7% pa)	+5.7	+6.1	+6.5
Relative Return	-9.8	-4.3	-2.0

\*The above table only reflects the returns on financial assets monitored by the Pension Fund's custodian and therefore does not include holdings in Private Equity, DIF Infrastructure IV or the Pension Fund's shareholding in the London CIV Ltd, which combined represents approximately 5% of the Pension Fund's overall value.

## Individual Fund Manager Performance

The table below shows the performance of the individual fund managers that managed Pension Fund assets for the entirety of 2019/20.

	Manager	2019/20 %	Last 3 Years % p.a.	Last 5 Years % p.a.
UK Equities	<b>Artemis</b>			
	Absolute	(15.9)	(3.1)	0.8
	Benchmark (FTSE All Share)	(18.5)	(4.2)	0.6
	Relative	2.5	1.2	0.2
	<b>Lindsell Train</b>			
	Absolute	(5.8)	4.9	
	Benchmark (FTSE All Share)	(18.5)	(4.2)	
	Relative	12.7	9.1	
	<b>Majedie</b>			
Overseas Equities	Absolute	(21.2)	(7.2)	
	Benchmark (FTSE All Share)	(18.5)	(4.2)	
	Relative	(2.7)	(3.0)	
	<b>Baillie Gifford (LCIV)</b>			
	Absolute	(1.3)		
	Benchmark (MSCI AC World)	(6.7)		
	Relative	5.5		
	<b>C-Worldwide</b>			
	Absolute	3.9	7.1	8.4
	Benchmark (MSCI AC World)	(6.7)	1.8	6.6
	Relative	10.6	5.3	1.8
	<b>Harris</b>			
	Absolute	(20.7)	(6.6)	
	Benchmark (MSCI World)	(5.8)	2.2	
	Relative	(14.8)	(8.8)	
	<b>Veritas</b>			
	Absolute	0.9	5.3	9.6
	Benchmark (MSCI World)	(5.8)	2.2	7.0
	Relative	6.7	3.1	2.6
Multi-asset	<b>CQS (LCIV)</b>			
	Absolute	(13.9)		
	Benchmark (LIBOR + 4%)	4.8		
	Relative	(18.6)		
	<b>Pyrford</b>			
	Absolute	(2.2)	(0.3)	2.0
	Benchmark (CPI + 4%)	5.5	6.3	6.3
	Relative	(7.7)	(6.6)	(4.3)
	<b>Ruffer</b>			
	Absolute	3.5	0.8	2.1
	Benchmark (CPI + 4%)	5.5	6.3	6.3
	Relative	(2.0)	(5.5)	(4.2)

## CITY OF LONDON PENSION FUND

	Manager (continued)	2019/20 %	Last 3 Years % p.a.	Last 5 Years % p.a.
Infra	<b>IFM</b>			
	Absolute	8.8	22.2	
	Benchmark (CPI + 4%)	5.5	6.3	
	Relative	3.3	16.0	

The Pension Fund also held investments in the Aviva Lime Property Fund, the M&G Secured Property Income Fund, and the M&G UK Residential Fund at 31 March 2020. As all these investments have been made within the last 12 months, the full annual performance information is not yet available.

DRAFT

## POOLING REPORT

In 2015, the UK Government initiated a major reform of the Local Government Pension Scheme (LGPS) when it invited administering authorities in England and Wales to develop regional asset pools for investment. The City of London Corporation joined other London local authorities in creating the London Collective Investment Vehicle (CIV), a regional pool operator for the capital. The London CIV is now established and has £7.6bn of LGPS assets under management as at 31 March 2020. It is currently developing its fund range to meet the investment needs of London's LGPS pension funds.

The Fund's policy in relation to pooling is to look to transition assets as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. More information on the Fund's approach to pooling can be found in the Investment Strategy Statement, which starts at page 76.

### Pooled Investment Assets

The Pension Fund has transitioned two investment mandates to the London CIV (global equities and multi-asset credit) which are invested in the LCIV Global Alpha Growth Fund and the LCIV MAC Fund. As at the 31 March 2020, these investments were valued at £118m and £59m, respectively (which represented 17% of the Pension Fund's total investment assets).

### Pool set-up and ongoing management costs

The below table summarise pooling costs incurred by the City of London Corporation during 2019/20 and to date.

	<b>2019/20 £'000</b>	<b>Cumulative £'000</b>
<b>Set up costs</b>		
- Shareholding at cost	-	200
- Development funding costs	65	255
<b>Ongoing management costs</b>		
- Annual service charge	25	125
- Investment management costs	839	1,135
<b>Total</b>	<b>929</b>	<b>1,715</b>

The City of London Corporation has contributed a total of £255k towards the development of the London CIV as at 31 March 2020, including £65k in 2019/20. The Pension Fund also has a shareholding in the London CIV valued at £200k at cost.

In addition to these set up costs, the Corporation has also incurred ongoing management costs from the London CIV, which can broadly be categorised as follows:

- An annual service charge of £25k which has been payable since 2015/16; and
- Investment management costs which commenced in 2018/19 when the Pension Fund initiated investments in the LCIV MAC Fund and the LCIV Global Alpha Growth Fund. This expenditure amounted to £0.8m in 2019/20 (2018/19: £0.3m). It should be noted that as the

assets in question were transferred to the pool part-way through 2018/19, the costs in that year do not reflect the full annual investment management cost of pooled assets.

Investment management costs totalled £6.9m in 2019/20 (£7.1m in 2018/19) as disclosed in the Pension Fund Accounts above. A breakdown of pooled and non-pooled investment management costs for the year by asset class and by fee type is provided below.

<b>2019/20</b>	<b>Pooled assets</b>	<b>Non-pooled assets</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Asset Class</b>			
- Global equities	476	1,272	1,748
- UK equities	-	1,057	1,057
- Multi-asset	363	997	1,360
- Property	-	131	131
- Private equity	-	1,304	1,304
- Infrastructure	-	1,294	1,294
<b>TOTAL</b>	<b>839</b>	<b>6,055</b>	<b>6,894</b>
<b>Fee type</b>			
- Management fees	839	5,123	5,962
- Performance related fees	-	932	932
<b>TOTAL</b>	<b>839</b>	<b>6,055</b>	<b>6,894</b>

### Responsible Investment

The London CIV has adopted a responsible investment policy which is available from the organisation's website at the following address: <https://londonciv.org.uk/about/responsible-investment>

### London CIV Annual Review

The London CIV's Annual Review for 2019/20 can be obtained from the following address: <https://londonciv.org.uk/annual-review/>

### Contact Details

The contact details for the London LGPS CIV Ltd are as follows:

Email: [pensionsCIV@londonciv.org.uk](mailto:pensionsCIV@londonciv.org.uk)

Tel: 0208 036 9000

Website: <https://londonciv.org.uk>

## FUNDING STRATEGY STATEMENT

### **Introduction**

This is the Funding Strategy Statement for the City of London Corporation Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the City of London Corporation's strategy, in its capacity as administering authority, for the funding of the City of London Corporation Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### **Purpose of the Funding Strategy Statement**

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

### **Aims and purpose of the Fund**

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and



- Receive and invest contributions, transfer values and investment income.

### **Funding objectives**

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

### **Key parties**

The key parties involved in the funding process and their responsibilities are set out below.

#### The administering authority

The administering authority for the Fund is City of London Corporation. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;

- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

### Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

### Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc.;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

- Advise on other actuarial matters affecting the financial position of the Fund.

### **Funding strategy**

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

<b>2019 valuation results</b>	
Surplus (Deficit)	(£113m)
Funding level	90%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 15.0% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

### **Funding method**

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the

Deficit recovery/surplus amortisation **periods** section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year’s benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer’s specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

### **Valuation assumptions and funding model**

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund’s future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

#### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund.

#### Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

### Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted may depend on the funding target adopted for each Scheme employer.

The standard discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

<b>Financial assumptions as at 31 March 2019</b>	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	5.1% p.a.

### Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

### Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

### McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, they do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019, the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory **risks** section below.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

### Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found [here](#).

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found [here](#).

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

### **Deficit recovery/surplus amortisation periods**

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 14 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a significant surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a number of years.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

### **Pooling of individual employers**

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
City of London	Past and future service pooling	All employers in the pool pay the same total contribution rate
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate. New academies are expected to join the pool and pay the common contribution rate.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

### **Forming/disbanding a funding pool**

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

### **Risk-sharing**

Employers may participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, employers may participate in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

### **New employers joining the Fund**

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

#### **Admission bodies**

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

#### **Funding at start of contract**

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

#### **Contribution rate**



The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

### Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

### Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

### **New academies**

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

### Funding at start

On conversion to academy status, the new academy will become part of the academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

### Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

### **Cessation valuations**

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

### **Exit credit policy**

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of pass-through arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable may be subject to a maximum of the actual employer contributions paid into the Fund.

- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example, if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

### **Bulk transfers**

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

### **Links with the Investment Strategy Statement (ISS)**

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

### **Risks and counter measures**

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

### Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Financial Investment Board regularly monitors the investment returns achieved by the fund managers and receives advice from investment consultant and officers on investment strategy.

The Board may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory **risks** section below.

### **Regulatory risks**

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

### McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost

cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

### Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

### **Timing of future actuarial valuations**

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every

four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

At the time of drafting the FSS we understand the next Fund valuation will be at 31 March 2022.

### Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
  - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
  - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. MHCLG issued a partial response to this part of the consultation on 27 February 2020 and an amendment to the Regulations comes into force on 20 March 2020, although have effect from 14 May 2018. The amendment requires Funds to consider the exiting employer's exposure to risk in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations) and to have a policy to exit credits in their FSS which has been included earlier in this version.

### Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the lack of significance of these types of employers in the Fund, this is not likely to impact on the level of maturity of the Fund and the cashflow profile.

### **Employer risks**

Several employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In the case of admitted bodies, the Fund has a policy of requiring some form of security

from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

### **Governance risks**

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

### **Monitoring and review**

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.



# **CITY OF LONDON PENSION FUND INVESTMENT STRATEGY STATEMENT**

## **1. Introduction**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State. The purpose of the Investment Strategy Statement (the ISS) is to document the principles, policies and beliefs by which the City of London Corporation's Investment Committee (working through the Financial Investment Board ('the Board')) manages the City of London Pension Fund's ('the Fund') assets. The document takes account of:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- The requirements of the Pensions Act 2013.
- The requirements of the Occupational Pension Schemes (Investment) Regulations 2005.
- 

The Local Government Pension Scheme ('LGPS'), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

The City of London Corporation is the Adminstrating Authority for the Fund.

The Financial Investment Board consulted with and received advice from the Fund's investment consultant, Mercer, on this statement. The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy.

There are close links between this statement and two other statements. The Funding Strategy Statement ('FSS') sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund. These are incorporated in the Pension Fund Annual Report.

## **2. Governance**

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure; and
- on-going monitoring and evaluation of the investment arrangements.

The Financial Investment Board is made up of between 12-14 Members of the Investment Committee, comprising elected Members.

The Financial Investment Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Financial Investment Board recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), together with local Council Tax payers.

## **2.1 Liabilities**

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary or average salary of members. The Fund is a contributory defined benefit arrangement, with active members and contributing employing authorities.

The value of the Fund's on-going liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund's investment policy are:

- the expected rate of return on assets / discount rate
- price inflation
- salary escalation for active members' pre 2014 benefits

## **2.2 Maturity and Cashflow**

The Fund remains open to new members and new accruals. Contributions are received from both active members and employing authorities. Active members contribute on a tiered system. Employing authorities' contributions are determined by advice from the Fund's actuary; based on the triennial valuation. The maturity profile is such that pension payments from the Fund now exceed contribution income paid into the Fund and investment income is required to meet the annual net cash shortfall from the Fund. At some stage there may be a requirement to realise assets in order to meet pension payments and the Fund actuary keeps this position under review.

## **3. Objectives**

The Fund's primary long term investment objective is to achieve and maintain a funding level at or close to 100% of the Fund's estimated liabilities; and in conjunction with the funding strategy, to minimise the cost and variability of cost to employers.

## **4. Strategic Asset Allocation**

The Board regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Board retains direct responsibility for this decision which is made on the advice of their investment adviser.

The investment strategy will normally be reviewed every three years. In addition, if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Board formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments; and
- the suitability of particular investment and types of investment.

The Board will consider a full range of investment opportunities including:

- public and private equity;
- government and non-government bonds;
- property;
- hedge funds and other alternative investments; and
- infrastructure.

The Board further considers the legality of all investments for compliance with the LGPS. The Board determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund's actuary. This asset-liability study/investment strategy review examines different combinations of assets to determine which combination will best meet the Fund's objectives.

The Board reviewed the Fund's investment strategy in 2017 following its 2016 actuarial valuation and agreed the target asset allocation strategy set out in the table below which is outlined in more detail in Appendix A.

<b>Asset Class</b>	<b>Position as at 31/03/2020 %</b>	<b>Strategic target as at 2019/20 %</b>
<i>UK Equities</i>	15	17
<i>Global Equities</i>	41	33
<i>Multi Asset</i>	27	30
<i>Property</i>	7*	10
<i>Infrastructure</i>	6*	5
<i>Private Equity</i>	4*	5
<b>Total</b>	<b>100</b>	<b>100</b>

\*This does not include outstanding commitments that represent approximately 2% of the total Fund value as at 31 March 2020

## **5. Assessment of Suitability of particular investments and types of investments**

### **5.1 Expected return on investments**

The asset-liability study takes into account the particular liabilities of the Fund. In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. Expected annualised returns are formulated for each asset class based on long term capital market assumptions, and volatilities. The returns and volatilities used for each asset class in the 2017 strategy review are shown in the table below and are based on Mercer's Capital Market Assumptions as at 31 March 2017.

<b>Asset Class</b>	<b>10 Year Expected Annual Return %</b>	<b>10 Year Annual Volatility %</b>
Developed Global Equity (FX hedged)	5.6	17.0
Emerging Market Equity	7.4	29.0
UK Property	4.1	14.5
UK Gilts (>15 year)	1.1	8.8
UK Investment Grade Corporate Bonds	2.0	3.3
UK Index-Linked Gilts (>5 year)	0.8	8.8
Global Fund of Hedge Funds	3.4	7.6
Global Private Equity	7.9	24.3

### **5.2 Current Strategy**

The asset allocation strategy is implemented by appointing expert fund managers with clear performance targets aligned to the Fund's requirements. In order to achieve this objective and to ensure diversification by asset class and style, the City of London Corporation has a number of investment managers. The aim is to invest assets to ensure that the benefits promised are provided as far as can reasonably be expected. The asset allocation selected is designed to achieve a higher return than the minimum required while managing risk against the need to meet the Fund's liabilities. The Board receives annual funding updates from the Actuary.

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 Pensions Board, advisers to the Fund and other parties that it deems appropriate to consult with.

### **5.3 Currency hedging policy**

The Board considers currency risk as a risk which is difficult to predict. In view of this and the fact that the Fund's assets are invested in pooled funds which makes implementing a currency hedging programme operationally complex, the Board decided not to hedge its currency exposures as part of the 2017 strategy review. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable.

## **5.4 Implementation.**

The Board has appointed investment managers to manage the Fund's investments as set out in Appendix A.

The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met.

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives, past performance and risk limits, as well as information on permissible investments.

## **5.5 Selection and realisation of investment**

Each investment manager has full discretion in terms of stock selection within the constraints agreed with each manager. The majority of investments held within the Fund are pooled investments with daily liquidity. The City's Private Equity and Infrastructure investments are relatively illiquid and may take longer to realise, if required.

The current list of investment managers and pooled funds (as at 31 March 2019) used with a view to implementing the above strategy is set out in the Appendix A to this document.

## **5.6 Security lending**

The Fund does not have a security lending policy in place.

## **5.7 Custody**

The Board regards the safekeeping of the Fund's assets as of paramount importance but as the Fund's assets are invested through pooled vehicles this function is the responsibility of the individual investment managers. In addition, the Board has appointed BNY Mellon asset servicing company as global custodian and record-keeper of the Fund's assets.

## **6. Risk Management**

The Financial Investment Board regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Financial Investment Board has considered the following key risks:

- asset-liability mismatch (asset allocation risk);
- to pay benefits when due (cash-flow risk);
- inadequate investment manager performance (active manager risk);
- investment failure (investment and concentration risk);
- sustainability of returns (ESG risk)
- fluctuating foreign exchange rates (currency risk)
- counterparty unable to meet contractual obligations (counterparty risk); and
- loss of securities held in custody (custody risk).

Following each actuarial valuation, the Board will conduct an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Board considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Board to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions, etc.), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and/or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the on-going risk management for the Fund.

## **7. Approach to Pooling Investments, including the use of collective investment vehicles and shared service**

The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

The Fund will look to transition assets as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. The Fund has investments in infrastructure valued at £62m as at 31/03/2020 with outstanding commitments of £3m. It also has private equity investments valued at £38m as at 31/03/2020 with outstanding commitments of some £6m and these will remain outside of the London CIV pool. In May 2017 the Financial Investment Board approved investments in 3 Property funds with a combined commitment of £90m (£30m in each), of which £10m remains undrawn as at 31/03/2020.

The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds are re-invested through the pool, assuming it has appropriate strategies available, or until the Fund changes asset allocation and makes a decision to disinvest.

During 2018/19, the fund transitioned two investment mandates to the London CIV (global equities and multi-asset credit) investing in the LCIV Global Alpha Growth Fund and the LCIV MAC Fund. As at the 31 March 2020, these investments were valued at £118m and £59m, respectively (which represents 17% of total investment assets).

## **8. Environmental, Social and Corporate Governance Policy**

The Fund has an overriding fiduciary duty to maximise investment returns for the benefit of the pension fund members. With this in mind the Corporation has developed a Responsible

Investment Policy and a Statement of Commitment to the Stewardship Code. Both documents are available from the Corporation's website at the following address:

<https://www.cityoflondon.gov.uk/business/responsible-city/Pages/responsible-business.aspx>

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.

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.

The Fund expects its investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund, such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making and has invited them to outline how they approach this and whether they are signatories to the UN Principles of Responsible Investment.

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.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk. This will include social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

## **9. Voting Policy**

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercise the ownership rights attached to its investments. This reflects the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests, recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society. The Fund is invested in pooled assets and as such is dependent on the investment manager to exercise any voting rights.

Any investments made by the Fund through the London CIV are covered by the voting policy of the London CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The London CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund has developed a Statement of Commitment to the UK Stewardship Code and fully endorses the principles embedded in the 7 Principles of the Stewardship Code.

The Fund expects its external investment managers to be signatories of the Stewardship Code and to reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

In 2018/19 the Fund became a signatory to the Principles for Responsible Investment.

In addition, the Fund:

- (a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
- (b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners



## Investment Managers

As at 31 March 2018 the Fund assets were invested in portfolios managed by the external investment managers shown in the table below. They are benchmarked against the indicated indices and the table shows whether portfolios are managed on a segregated or pooled basis.

Active Portfolios			
Investment Manager	Asset Class	Comparator Index	Type
Artemis Investment Management Ltd	UK equity	FTSE All Share	Pooled
Lindsell Train Ltd	UK equity	FTSE All Share	Pooled
Majedie Asset Management Ltd	UK equity	FTSE All Share	Pooled
C Worldwide Asset Managers (formerly Carnegie Asset Management)	Global equities	MSCI AC World	Pooled
Natixis International Funds (Harris Associates)	Global Equities	MSCI World	Pooled
Veritas Asset Management	Global equities	MSCI World	Pooled
London CIV (Baillie Gifford)*	Global equities	MSCI AC World	Pooled
Pyrford International	Multi-asset	CPI +4%	Pooled
Ruffer LLP	Multi-asset	CPI +4%	Pooled
London CIV (CQS)*	Multi-asset Credit	3 Month LIBOR+4%	Pooled
IFM Global Infrastructure (UK) LP	Infrastructure	CPI +4%	Pooled
DIF Infrastructure IV Cooperatief UA	Infrastructure	CPI + 4%	Pooled
Aviva Investors Global Services Limited (Lime Property Fund)	Property	Gilts + 1.5%	Pooled
M&G Investment Management Limited (Secured Property Income Fund)	Property	RPI + 3%	Pooled
M&G Investment Management Limited (UK Residential Fund)	Property	+6%	Pooled
Ares Special Situations Fund IV	Private equity	Broad public equities index	Pooled
Coller International Partners VII	Private equity	Broad public equities index	Pooled
Crestview Partners III LP	Private equity	Broad public equities index	Pooled
Exponent Private Equity Partners III, LP	Private equity	Broad public equities index	Pooled
Frontier Fund IV	Private equity	Broad public equities index	Pooled
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index	Pooled
New Mountain Capital LLC	Private equity	Broad public equities index	Pooled
NCM Management (UK) Ltd	Private equity	Broad public equities index	Pooled
SL Investments Private Equity Ltd	Private equity	Broad public equities index	Pooled
YFM Equity Partners	Private equity	Broad public equities index	Pooled
Warburg Pincus PE XII	Private equity	Broad public equities index	Pooled

\*The Pension Fund is invested in two funds available on the London CIV pooling platform: the LCIV Global Alpha Growth Fund, currently invested with Baillie Gifford, and the LCIV MAC Fund, currently invested with CQS.

The table below shows the asset allocation as at 31 March 2020.

Asset Class	Current Position		Strategic target as at 2019/20
	%	%	
<b><i>UK Equities</i></b>		15	17
• Artemis	8		
• Lindsell Train	4		
• Majedie	3		
<b><i>Global Equities</i></b>		41	33
• C WorldWide	12		
• Harris	7		
• London CIV	11		
• Veritas	11		
<b><i>Multi Asset</i></b>		27	30
• London CIV	6		
• Pyrford	12		
• Ruffer	9		
<b><i>Property*</i></b>		7	10
• Aviva	3		
• M&G SPIF	3		
• M&G UK Residential	1		
<b><i>Infrastructure</i></b>		6	5
• IFM	4		
• DIF	2*		
<b><i>Private Equity</i></b>	4*	4	5
<b>Total</b>		<b>100</b>	<b>100</b>

\*This does not include outstanding commitments that represent approximately 2% of the total Fund value as at 31 March 2020.

## COMMUNICATIONS POLICY STATEMENT

Effective communication between the City of London as the Administering Authority and its stakeholders is essential to the delivery of the pensions service. This document sets out the aims and the target audiences of the policy and the method of delivery (application) of the policy. The Local Government Pensions Board reviews all communications with scheme members on an on-going basis.

### AIMS

Accuracy & Timeliness	Information needs to be compliant with legislation and supplied at an appropriate time.
Effective Information	Messages need to be clear and understood by target audience.
Accessible	Communication should be available to all and should meet the needs of a wide range of recipients.

### AUDIENCES

- Scheme Members and Potential Members.
- Pensioners and Deferred Members.
- City of London Departmental Personnel and Administration.
- Other Employers Within the Fund
- Establishment Committee
- Pensions Board
- Staff

### APPLICATION

#### Scheme Members and Potential Members

Scheme Guides –	Available to all eligible employees via website, direct mail or email.
Forms and leaflets –	Available on our website and appropriate forms supplied to all new employees and leavers via personnel/administration officers.
Newsletters –	Produced as appropriate and in particular as scheme changes occur.
Annual Benefit Statements –	Pension Statements supplied to those scheme members who are active at year end (31 <sup>st</sup> March) as soon as possible after year end.
Presentations –	One-off seminars, regular pension “top-up” sessions, insight lunches and pre-retirement courses.
Induction –	Supply support to the Employers Induction courses as appropriate.
Intranet & Internet –	Provide news on scheme changes, develop and maintain internet with links to relevant sites. Publicise website updates and newsletters via the Intranet.

### Pensioners and Deferred Pensioners

Pensioners should be supplied with monthly payslips as appropriate, Newsletters and annual pensions increase letters. Deferred Pensioners will be provided with an annual benefit statement. Both will be supplied with information on scheme changes as they affect the appropriate category of ex-scheme member.

### City of London Personnel and Payroll

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations – Personnel Group meeting updates and individual departmental sessions as appropriate.

### Other Employers within the fund

Guides on technical, legislative and general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures, including links to centrally produced guides.

Presentations for appropriate personnel staff, committees & groups of employees.

### Committee and Pensions Board

Reports - Update Committee and Pensions Board on scheme changes and developments and provide reports in a clear and accurate manner in order that appropriate responses and actions follow.

Presentations - Provide Committee and Pensions Board with updates where appropriate.

### Staff

Provide updates and information on scheme and legislative changes.

Team Meetings – Maintain staff's awareness and knowledge via monthly meetings and one-off sessions as appropriate.

### General Communication

Letters, emails and phone calls answered clearly, accurately and timely.

If you wish to contact the City of London Pensions Office:  
Write: Pensions Manager, City of London, Guildhall, London EC2P 2EJ  
Telephone: 020 7332 1133  
Email: [Pensions@cityoflondon.gov.uk](mailto:Pensions@cityoflondon.gov.uk)  
Website: [www.yourpension.org.uk/cityoflondon](http://www.yourpension.org.uk/cityoflondon)

This Policy Statement Will Be Kept Under Review.

## GLOSSARY OF TERMS

**Actuarial Valuation** - a review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

**Actuarial gains and losses** - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. the actuarial assumptions have changed.

**Actuary** - an independent qualified consultant who carries out the Actuarial Valuation and who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

**Administering Authority** - a local authority required to maintain a pension fund under LGPS regulations.

**Asset allocation** - the apportionment of a fund's assets between asset classes and/or markets.

**Benchmark** - a 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

**Bond** - a certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

**Career Average Revalued Earnings (CARE) Scheme** – A defined benefit pension scheme with benefits based on earnings and membership. Pension is based on a proportion of actual earnings in any year (1 April to 31 March) and annually adjusted for inflation.

**Current asset** - an asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

**Current liability** - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**Current service cost (pensions)** - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Curtailment (pensions)** - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity; and
- b. termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Custodian** - safekeeping of securities by a financial institution. The custodian will keep a register of holdings and will collect income and distribute monies according to client instructions.

**Defined benefit scheme** - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits, most commonly by pay and period of membership. This is independent of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme** - a pension or other retirement benefit scheme into which an employer (and usually the employee) pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Equities** - ownership positions (shares) in companies that can be traded on public markets, often producing income that is paid in the form of dividends.

**Expected rate of return on pensions assets** - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Final Salary Scheme** – A defined benefit pension scheme with benefits based on earnings and membership. Pension is based on a proportion of final salary.

**Fund Managers** - appointed by the Investment Sub Finance Committee to carry out day-to-day investment decisions for the Fund within the terms of their Investment Management Agreement.

**Index** - a benchmark for the performance of a group of shares or bonds.

**Interest cost (pensions)** - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investment adviser** - a professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

**Investment properties** - interest in land or buildings that are held for investment potential.

**Local Government Pension Scheme (LGPS)** is a public service statutory Defined Benefit (DB) pension scheme

**Local Government Pensions Board** is a board of equal numbers of employer and employee members representatives created as part of the Public Service Pensions Act 2013 to assist the scheme manager in the administration of the LGPS

**Mandate** - a set of instructions given to the Fund Manager by the client as to how a fund is to be managed (e.g. targets for performance or the Manager may be prohibited from investing in certain stocks or sectors).

**Outperformance / underperformance** - the difference in returns gained by a particular fund against the 'average' fund or an index or benchmark over a specified time period.

**Past service cost (pensions)** - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Performance** - a measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the benchmark.

**Portfolio** - term used to describe all investments held.

**Private equity** - investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

**Projected unit method** - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a. the benefits for pensions and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b. the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**Risk** - generally taken to mean the variability of returns.

**Scheme liabilities** - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Securities** - investment in company shares, fixed interest or index-linked stocks.

**Vested rights** - in relation to a defined benefit pension scheme, these are:

- a. for active members, benefits to which they would unconditionally be entitled to on leaving the scheme;
- b. for deferred pensioners, their preserved benefits; and
- c. for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouse

This page is intentionally left blank



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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank