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

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)

Member	**Attendance (5 meetings)**
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 Averns	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

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

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

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

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

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

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

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, 10th Floor Schipol Boulevard 269, 1118 BH Schipol, Netherlands

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 NY10017-3911

YFM Equity Partners Ltd
4 Cavendish Square, London, W1G OPG

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
Quartermile 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

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 WIU 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
Income			
Employer Contributions	(32.4)	(32.9)	(0.5)
Employee Contributions	(11.3)	(11.9)	(0.5)
Transfers In	(6.7)	(6.7)	0.0
	(50.5)	**(51.5)**	**(1.0)**
Expenditure			
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)
	55.2	**55.6**	**0.5**
Investment income	(1.4)	(1.2)	0.2
Net (Income)/Expenditure	**3.3**	**2.9**	**(0.4)**

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)
- Coller 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.

Covid-19

The Pension Fund Accounts have been prepared on a going concern basis and officers do not anticipate that the Covid-19 pandemic will interfere with this status for the foreseeable future. Contributions continue to be collected in full when due, and as the City of London Corporation is the largest employer in the Fund (contributing 92% of total employer contributions in 2019/20) there is reasonable confidence over the security of future contribution income. The Fund's investment strategy has not been changed as a consequence of Covid-19. The Fund's investment assets have increased steadily in value since the 31 March 2020 and are estimated to be valued at £1,173m as at 30 September 2020, an increase of 15%. Whilst further volatility is likely to persist until there is a decisive resolution to the pandemic and its associated economic and social implications, the Fund remains invested appropriately via an actively managed portfolio and amongst an array of asset classes that allows it to access diversified sources of return.

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, Skanksa 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
Pensions Payroll email: pensionspayroll@cityoflondon.gov.uk
Website: https://www.cityoflondonpensions.org/

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 1st April 2014 the Scheme became a Career Average Revalued Earnings (CARE) scheme with benefits building at a rate of 1/49th 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 (1/60th of final pay for each year of membership in the scheme after 31 March 2008 and membership to 31 March 2008 calculated as 1/80th final pay pension plus 3/80ths 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/she 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.

P. Kane

Dr Peter Kane
Chamberlain

Adoption of the Pension Fund Accounts

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

Jeremy Mayhew
Chairman of the Finance Committee

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

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

Opinion on the consistency of the pension fund financial statements with the Statement of Accounts

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the fund account, the net assets statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the Statement of Accounts of City of London Corporation for the year ended 31 March 2020.

Respective responsibilities of the Chamberlain and the auditor

As explained more fully in the Statement of the Chamberlain Responsibilities in the Statement of Accounts, the Chamberlain is responsible for the preparation of the Statement of Accounts, which comprise the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. The City of London Corporation is required to publish a pension fund annual report that includes the pension fund financial statements.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the Statement of Accounts of the City of London Corporation.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the management and financial performance report, scheme administration report, actuarial valuation report on the fund, policy and governance compliance statement, investment performance report, pooling report, funding strategy statement, investment strategy statement, and the communications policy statement.

We conducted our work in accordance with Auditor Guidance Note 07 Auditor Reporting issued by the National Audit Office. Our report on the City of London Corporation's Statement of Accounts describes the basis of our opinions on those financial statements.

Use of our report

This report is made solely to the members of City of London Corporation, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the City of London Corporation and the Corporation's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd-Thomas
For and on behalf of BDO LLP, Appointed Auditor
London, UK

10 December 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CITY OF LONDON CORPORATION PENSION FUND

ACTUARY’S STATEMENT AS AT 31 MARCH 2020

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 equites 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

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-proofed 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.

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

	Principle	Narrative from Guidance Note	Compliance?
A	Structure	*(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.*	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.
		(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.	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.
		(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable. Reports and decisions are communicated between Committees as appropriate (either by minutes or resolution).
		(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.	Not applicable. As no secondary committee or panel exists.

	Principle	Narrative from Guidance Note	Compliance?
B	Representation	*(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:*	
		(i) employing authorities (including non-scheme employers, e.g. admitted bodies)	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) scheme members (including deferred and pensioner scheme members)	
		(iii) where appropriate, independent professional observers	The Pension Fund does not currently have independent professional observers
		(iv) expert advisers	Full compliance. The investment consultant, Mercer Ltd, attends all meetings of the Financial Investment Board.
C	Selection and Role of Lay Members	*(a) 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.)*	Not applicable. Lay members are not currently included in the composition of either the Establishment Committee or the Financial Investment Board.
		(b) 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.	Full compliance. This is standard practice at all Committee meetings.

	Principle	Narrative from Guidance Note	Compliance?
D	Voting	*(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.*	Full compliance. Each member holds one vote on the respective committee. No other bodies or groups are represented.
E	Training / Facility Time / Expenses	*(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.* *(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.* *(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.*	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	*(a) that an administering authority's main committee or committees meet at least quarterly.*	Full compliance. The Financial Investment Board meets at least five times per year.
		(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.	Not applicable. No secondary committee or panel exists.
		(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.	Not applicable. No outside forum exists.

	Principle	Narrative from Guidance Note	Compliance?
G	Access	(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.*	Full compliance. Agenda papers, etc., provided to the Establishment Committee and Financial Investment Board are available to all Members.
H	Scope	(a) *that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.*	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	(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.*	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
	Dealings with members, employers and others directly involved in the fund		
(42.5)	Contributions	7	(44.8)
(5.8)	Transfers in from other pension funds		(6.7)
(48.3)			**(51.5)**
46.1	Benefits	8	44.9
1.7	Payments to and on account of leavers	9	3.1
47.8			**48.0**
(0.5)	**Net additions from dealing with members**		**(3.5)**
8.0	Management expenses	10	7.8
7.5	**Net withdrawals including fund management expenses**		**4.3**
	Returns on investments		
(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
(82.3)	**Net return on investments**		**30.1**
(74.8)	**Net (increase)/decrease in the net assets available for benefits during the year**		**34.4**
(988.3)	Opening net assets of the scheme		(1,063.1)
(1,063.1)	**Closing net assets of the scheme**		**(1,028.7)**

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
1,051.9	**Total net investments**		**1,023.5**
13.7	Current assets	19	6.1
(2.5)	Current liabilities	20	(0.9)
1,063.1	**Net assets**		**1,028.7**

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:

	31 March 2020				31 March 2019
	Current Contributors No.	**Beneficiaries in Receipt of Pension No.**	**Deferred Members No.**	**Total No.**	**Total 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
	286	**271**	**620**	**1,177**	1,154
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
	131	**45**	**169**	**345**	315
TOTAL	**4,785**	**4,209**	**4,932**	**13,926**	**13,690**

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: • a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £34m • a 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m • a one-year increase in assumed life expectancy would increase the liability by approximately £68m.
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. Property valuations were generally subject to material uncertainty valuation clauses as at 31 March 2020. Dealing on the Aviva Lime Property Fund was temporary suspended as at the reporting date in order that the manager could avoid trading whilst there was uncertainty over property valuations.	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 £1,173m. 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
(11.0)	**Employees' contributions**	**(11.9)**
	Employers' contributions	
(19.1)	Normal contributions	(20.3)
(11.7)	Deficit recovery contributions	(12.5)
(0.7)	Pensions strain contributions	(0.1)
(31.5)	**Total employers' contributions**	**(32.9)**
(42.5)	**Total contributions receivable**	**(44.8)**

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)
(42.5)	**Total employers' contributions**	**(44.8)**

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)
Total employers' contributions	**(41.8)**	**(0.7)**	**(42.5)**

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
46.1		**44.9**

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

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
1.7		**3.1**

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
8.0		**7.8**

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

a. Investment management expenses

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

11. Income from investments

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

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
Long term investments					
Equities (unquoted)	0.2	-	-	-	0.2
Investment assets					
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
	1,051.9	**71.7**	**(80.7)**	**(31.3)**	**1,011.6**
Cash	-				11.9
Investment income due	-				0.1
Net investment assets	**1,051.9**				**1,023.6**

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
Long term investments					
Equities (unquoted)	0.2	-	-	-	0.2
Investment assets					
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
Total investment assets	**982.5**	**185.9**	**(197.4)**	**80.9**	**1,051.9**
Investment income due	0.1				-
Net investment assets	**982.6**				**1,051.9**

b. Investments analysed by fund manager

Market value 01/04/2020 £m		Market value 31/03/2020 £m
	Investments managed by the London CIV:	
119.2	LCIV Alpha Growth Fund*	117.7
68.3	LCIV MAC Fund*	58.9
0.2	London CIV	0.2
187.7		**176.8**
	Investments managed outside the London CIV:	
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
864.2		**834.8**
1,051.9	**Total**	**1,011.6**
	Cash	11.9
	Investment income due	0.1
1,051.9	**Net investment assets**	**1,023.6**

* 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.

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 significant changes in rental growth, vacancy levels, and the discount rate applied to future cash flows as well as more general changes in market conditions.
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.
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
		163.1	**179.4**	**146.8**

a. Fair Value Hierarchy

Assets have been classified into three levels, according to the quality and reliability of information used to determine fair values.

<u>Level 1</u>

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.

<u>Level 2</u>

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.

<u>Level 3</u>

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.*

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**
Financial Assets				
Fair value through profit and loss	-	848.3	163.3	1,011.6
Net investment assets	**-**	**848.3**	**163.3**	**1,011.6**

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
Financial Assets				
Fair value through profit and loss	-	958.0	93.9	1,051.9
Net investment assets	**-**	**958.0**	**93.9**	**1,051.9**

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
Total Level 3	**93.9**	**-**	**-**	**70.0**	**(11.6)**	**10.3**	**0.7**	**163.3**

14. Financial Instruments

a. Classification of Financial Instruments

	31 March 2020 £m			
	Fair value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost	Total
Financial assets				
Equities	-	0.2	-	**0.2**
Pooled investments	848.3	-	-	**848.3**
Pooled property investments	66.1	-	-	**66.1**
Infrastructure	62.3	-	-	**62.3**
Private Equity	34.7	-	-	**34.7**
Cash	-	17.9	-	**17.9**
Investment income due	-	0.1	-	**0.1**
	1,011.4	**18.2**	**-**	**1,029.6**
Financial Liabilities				
Creditors	-	-	(0.9)	**(0.9)**
Total	**1,011.4**	**18.2**	**(0.9)**	**1,028.7**

	31 March 2019 £m			
	Fair value through profit and loss	Assets held at amortised cost	Financial liabilities at amortised cost	Total
Financial assets				
Equities	-	0.2	-	**0.2**
Pooled investments	958.0	-	-	**958.0**
Pooled property investments	-	-	-	**-**
Infrastructure	59.1	-	-	**59.1**
Private Equity	34.6	-	-	**34.6**
Cash	-	13.7	-	**13.7**
Investment income due	**-**	**-**	**-**	**-**
	1,051.7	**13.9**	**0.0**	**1,065.6**
Financial Liabilities				
Creditors	-	-	(2.5)	**(2.5)**
Total	**1,051.7**	**13.9**	**(2.5)**	**1,063.1**

b. Net (Gains) and Losses on Financial Instruments

2018/19 £m		2019/20 £m
	Financial Assets	
80.9	Fair value through profit and loss	(31.3)
80.9		**(31.3)**

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 City of London Corporation has determined that 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%	7.7%
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	7.7%	63.1	54.1
Private Equity	34.7	25.8%	43.7	25.7
Unlisted infrastructure	62.3	15.0%	71.6	53.0
Total Assets	**1,011.6**		**1,158.4**	**864.8**

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
Total Assets	**1,051.9**		**1,209.3**	**894.5**

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

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

31st March 2019

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

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.

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
597.5		**614.2**	**580.8**	**Overseas sub-total**	**548.1**		**560.8**	**535.4**
3.4				Other overseas	2.9			
600.9				**Overseas total**	**551.0**			
451.0				UK investments	472.5			
1,051.9				**Total investment assets**	**1,023.5**			
				Investment income due	0.1			
1,051.9				**Overall**	**1,023.6**			

<u>Liquidity Risk</u>

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)	-
Neutral estimate of discount rate based on long-term investment strategy		**6.7**	**4.3**
Prudence Allowance		(1.0)	(1.0)
Discount Rate		**5.7**	**3.3**

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)	
Neutral estimate of discount rate based on long-term investment strategy		**6.3**	**3.7**
Prudence Allowance		(1.2)	(1.2)
Discount Rate		**5.1**	**2.5**

Demographic assumptions

The assumed life expectancy from age 65 is show 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:

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

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

	March 2016 Contribution rate %	March 2019 Contribution rate %
Primary rate	12.8	15.0
Secondary rate	8.2	5.5
Total contribution rate	**21.0**	**20.5**

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 that 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.

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

<u>McCloud and Sargeant judgments</u>

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
2.4		**2.5**

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:

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

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.

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

	Manager (continued)	2019/20 %	Last 3 Years % p.a.	Last 5 Years % p.a.
Infra	**IFM**			
	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.

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.

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

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.

2019/20	**Pooled assets £'000**	**Non-pooled assets £'000**	**Total £'000**
Asset Class			
- 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
TOTAL	**839**	**6,055**	**6,894**
Fee type			
- Management fees	839	5,123	5,962
- Performance related fees	-	932	932
TOTAL	**839**	**6,055**	**6,894**

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
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.

<u>The administering authority</u>

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:

2019 valuation results	
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.

<u>Future price inflation</u>

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.

<u>Future pension increases</u>

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:

Financial assumptions as at 31 March 2019	
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 meets 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.

<u>McCloud/Sargeant judgements and cost cap</u>

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.

<u>Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk</u>

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 Administrating 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.

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

*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.

Asset Class	10 Year Expected Annual Return %	10 Year Annual Volatility %
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

Appendix A

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
	%	%	%
UK Equities		15	17
• Artemis	8		
• Lindsell Train	4		
• Majedie	3		
Global Equities		41	33
• C WorldWide	12		
• Harris	7		
• London CIV	11		
• Veritas	11		
Multi Asset		27	30
• London CIV	6		
• Pyrford	12		
• Ruffer	9		
Property*		7	10
• Aviva	3		
• M&G SPIF	3		
• M&G UK Residential	1		
Infrastructure		6	5
• IFM	4		
• DIF	2*		
Private Equity	4*	4	5
Total		**100**	**100**

*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 (31st 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 Pensions 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
Website: https://www.cityoflondonpensions.org/

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