

# Pension Board Meeting

**Tuesday 27 March 2018 @ 2.00pm**

## **Distribution:**

Ian Mckinnon (CHAS)  
Kim Brown (LBM)  
Tina Pickard (Pensioner Rep),  
Gwyn Isaac (GMB Union Rep)  
Roger Kershaw (LBM), Nemashe Sivayogan (LBM)

## **Agenda Item**

1. Introduction
  - a. Apologies for Absence
  - b. Members Declaration of Interest
2. Merton Pension Fund 2017-18 Audit Plan
3. Merton Pension Fund – Training Policy
4. Quarterly Performance Review (1st October – 31st December 2017)
5. London CIV update and Consultation
6. Investment Strategy Implementation update
7. Future meeting



**Merton  
Pension Fund  
Audit planning report**  
Year ended 31 March 2018

14 February 2018

14 February 2018



Merton Pension Fund,  
Civic Centre,  
London Road,  
Morden,  
SM4 5DQ

Dear Committee Members

Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Standards and General Purposes Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2017-18 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for Merton Pension Fund. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Standards and General Purposes Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 15 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Standards and General Purposes Committee and management of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of Merton Pension Fund those matters we are required to state to them in this 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 Committee and management of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Overview of our 2017-18 audit strategy



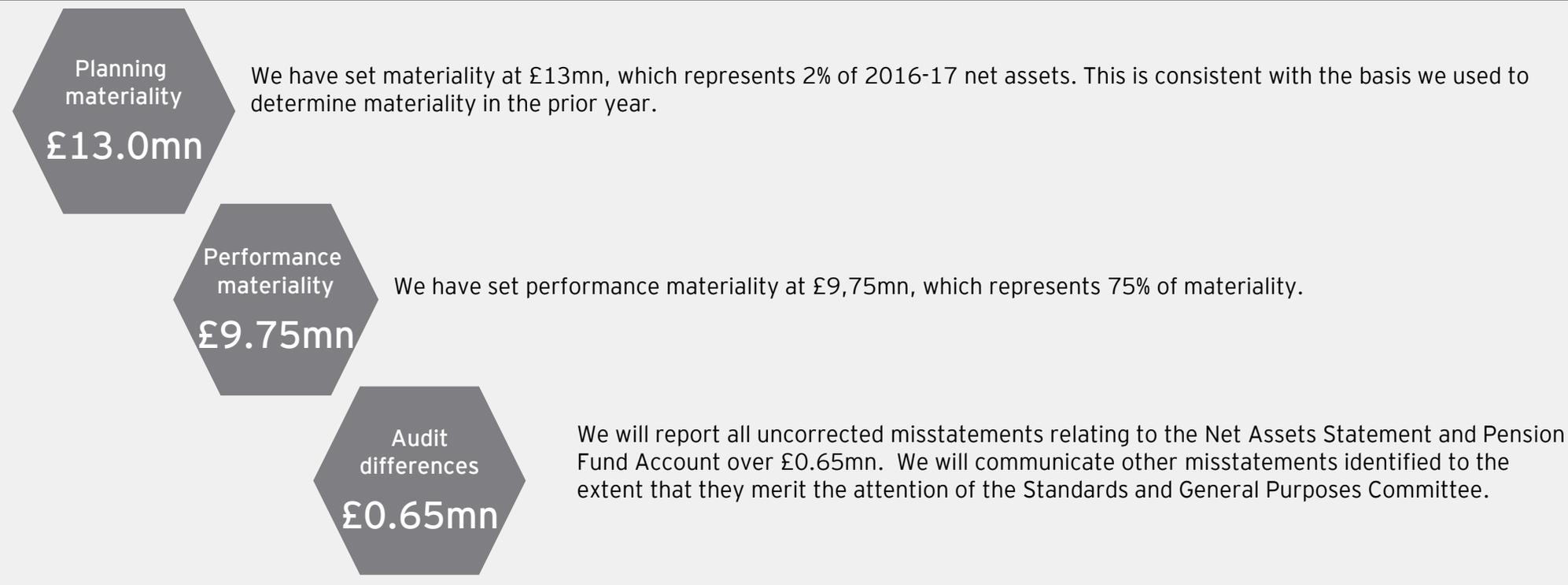
## Overview of our 2017-18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of management override	Fraud risk	No change	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

### Materiality





# 02 Audit risks



## Audit risks

# Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<b>Management Override</b>	<b>What is the risk?</b> As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.  We identify and respond to this fraud risk on every audit engagement.	<b>What will we do?</b> We will: <ul style="list-style-type: none"><li>▶ Test journals at year-end to ensure there are no unexpected or unusual postings;</li><li>▶ Test the existence and valuation of investments provided in fund manager reports to the custodian reports and independent bid prices; and</li><li>▶ Test the occurrence and measurement of investment income notified in fund manager reports to confirmations from custodians.</li></ul>
<b>Financial statement impact</b> We have assessed that the risk of management override is most likely to affect investment income and assets in the year, specifically through journal postings.		



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## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017-18 has been set at £13mn. This represents 2% of the net assets for 2016-17. This is consistent with the basis we used to determine materiality in the prior year. We will reassess it throughout the audit process. For Merton Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Standards and General Purposes Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.75mn which represents 75% of planning materiality. We apply 75% when it is not an initial audit and we have a sound understanding of the entity and past experience with the engagement indicates that a higher risk of misstatement is unlikely.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

We will communicate other uncorrected misstatements, such as reclassifications and misstatements in the statements or disclosures and corrected misstatements to the extent that they merit the attention of the Standards and General Purposes Committee, or are important from a qualitative perspective.



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## Scope of our audit



# Scope of our audit

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund financial statements.

### Financial statement audit

Our objective is:

- ▶ To form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ To form an opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of the London Borough of Merton.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error; Significant disclosures included in the financial statements; Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and Auditor independence.

## Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and substantive tests of detail of transactions and amounts.

For 2017-18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

**Analytics** - We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Standards and General Purposes Committee.

**Internal audit** - We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



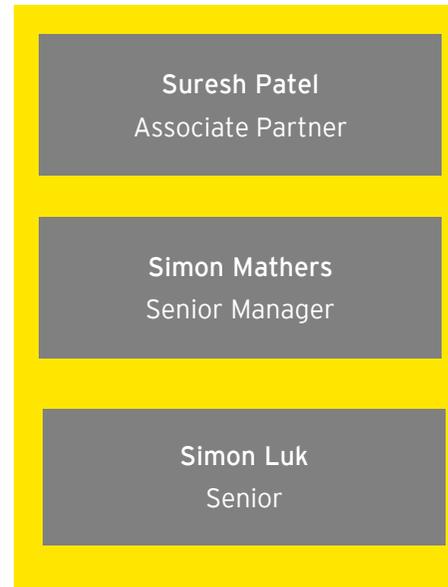
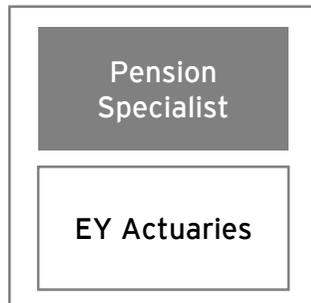
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## Audit team



## Audit team

### Audit team structure:



### Working together with the Pension Fund

We are working together with officers to identify continuing improvements in communication and processes for the 2017-18 audit.

We will continue to keep our audit approach under review to streamline it where possible.

### Audit team changes

Key changes to our team.



#### **Suresh Patel, Associate Partner**

- Suresh takes over from Melissa Hargreaves as the Engagement Lead.
- Suresh has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds
- He is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pension Valuation	Management Specialist - Barnett Waddingham EY Specialist - EY actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



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Audit timeline





## Audit timeline

### Timetable of communication and deliverables

#### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017-18. From time to time matters may arise that require immediate communication with the Standards and General Purposes Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Standards and General Purposes Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	December		
Risk assessment and setting of scopes	January		
Interim audit testing	February		
Interim audit testing	March	Standards and General Purposes Meeting	Audit Planning Report Interim audit update
	April		
	May		
Year end audit Audit Completion procedures	June		
	July	Standards and General Purposes Committee Meeting	Audit Results Report Audit opinions and completion certificates



## Audit timeline

# Faster Close - Key Messages

### What is the issue

#### Earlier accounts deadline

For 2017/18 the Council needs to prepare PF draft accounts by 31 May and the publish audited accounts by 31 July a challenge and risk for both preparers and auditors.

There are risks to the Council including the late preparation of working papers and the impact of staffing changes.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft accounts and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify the Director of Corporate Services of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Director of Corporate Services of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

### What will we do?

To support the Pension Fund we will:

- ▶ Work with the Pension Fund to engage early to facilitate early substantive testing where appropriate, specially our IAS19 protocol testing
- ▶ Provide an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Work with the Pension Fund to implement EY Client Portal, this will:
- ▶ Streamline our audit requests through a reduction of emails and improved means of communication;
- ▶ Provide on -demand visibility into the status of audit requests and the overall audit status;
- ▶ Reduce risk of duplicate requests; and
- ▶ Provide better security of sensitive data.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.



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Independence



# Independence

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm is independent;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with Merton Pension Fund. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



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## Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017-18	Final Fee 2016-17
	£	£
Total Fee	21,000	21,000
Total audit	21,000	21,000

*All fees exclude VAT*

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B

# Required communications with the Standards and General Purposes Committee

We include the communications that we must provide to the Standards and General Purposes Committee.

### Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report

## Appendix B

# Required communications with the Standards and General Purposes Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report

## Appendix B

# Required communications with the Standards and General Purposes Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<ul style="list-style-type: none"> <li>▶ Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</li> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul>	Audit planning report Audit Results Report	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Standards and General Purposes Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	Audit Results Report	
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report	
Representations	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Assurance Letter	
Material inconsistencies and misstatements	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report	
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report	

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Standards and General Purposes Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Appendix C

# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

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ED None

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**London Borough of Merton**  
**Pension Fund Advisory Committee**

**Date: 07 March 2018**

Wards: All

**Subject: 2017/18 Merton Pension– The Annual Audit Plan and Preparatory Activity**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Phillip Jones

Contact officer: Roger Kershaw

This is a Public Document

**RECOMMENDATION**

Members are asked to note notes the Planning Report from Ernest and Young that relates to the Merton Pension Fund's financial accounts, as set out in Appendix 1.

That PFAP notes the preparatory activity undertaken and underway by Officers, as set out in the main report.

**The Purpose of the Report**

This report presents the Merton Pension Fund's 2017-18 audit plan prepared by the Council's external auditors Ernst and Young LLP. This report sets out details of their proposed audit scope for the Merton Pension Scheme for the year ending 31 March 2018

## **1. Context**

- 1.1 The purpose of the audit planning report is to set out to the PFAP the key considerations of planning for this year's audit with a view to ensuring that the year-end activities can be managed smoothly.
- 1.2 The responsibilities of the auditors are set out in Appendix 1 – Briefing on Audit Matters. The auditors are asked to treat the Local Government Pension Scheme as a Stand-alone body, with a separate audit plan and report to the PFAP.

## **2. Main Risks to Note**

- 2.1 The precise details of approach to be adopted by the auditors are laid out in the Appendix to this report.

## **3. Preparatory Activity for 2017/18 Statement of Accounts**

- 3.1 In general, officers have commenced and progressed preparations for financial year-end from a much earlier point in the year. The officers had the initial meeting with the auditors in February.
- 3.2 There has been extensive engagement between with Pension Shared Services and Pension Team at Merton to ensure that planning for year-end is embedded, and therefore laying the groundwork for a trouble-free exercise.

## **4. Finance**

- 4.1 2017-18 Pension Fund audit fee is £21k (2016-17 £21k) and this will be paid from the Pension Fund.

## **5. Legal and statutory implications**

- 5.1 The Accounts and Audit (England) Regulations 2011 require the Council to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practice.
- 5.2 Regulation 4 requires the Council to conduct a review, at least once a year, of the effectiveness of internal control which includes risk management arrangements. The Council is also under a duty to conduct, at least once a year, a review of its system of internal audit. The findings of both reviews must be considered together by the PFAP.

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

6.1 None

**7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

7.1 N/A

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

8.1 N/A

**9. BACKGROUND PAPERS**

9.1 2017-18 Audit plan

**10. Timetable for implementation**

10.1 The 2017/18 reporting cycle opens formally with this report, and will be continued with presentation of the final Pension Fund Statement of Accounts and Annual report in July 2018.



# **LONDON BOROUGH OF MERTON PENSION FUND**

## **TRAINING POLICY**

## **Introduction**

This is the Training Policy of the London Borough of Merton in its role as the Administering Authority of the Merton LGPS Pension Fund. The policy details the training strategy for members of the Pension Committee (PC), Pension Board (PB) and senior officers responsible for the management of the Fund.

The Training Policy is established to aid the PC, PB members and officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Merton Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

## **Implementation**

This Policy was approved on 07 March 2018 by the Merton Pension Committee and it is effective from this date.

This policy will be reviewed annually to ensure it remains up to date and meets the necessary regulatory requirements and the Fund's specific needs. It will be available on our website at: [add link].

## Objectives

The Merton Pension Fund's (Fund) objectives relating to knowledge and skills are:

- The pension funds are managed and their services delivered by people who have the appropriate knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

All PC, PB members, officers and advisers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and in ensuring these objectives are met.

To assist in achieving these objectives, the Fund will aim for compliance with:

- The CIPFA's Knowledge and Skills Frameworks.
- The knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (tPR) Code of Practice.

## Application

The Training Policy applies to all members of the PC, PB including scheme member and employer representatives. It also applies to all officers in the Merton Pension Fund are also expected to demonstrate they can meet the objectives of this Policy.

## CIPFA Knowledge and Skills Framework

The CIPFA Training Policy applies to all members of the PC, including scheme member and employer representatives. It also applies to all officers in the Fund. Advisers to the Merton Pension Fund are also expected to demonstrate they can meet the objectives of this Policy.

## The Merton Pension Fund training plan

The Merton Pension Fund recognises that attaining and then maintaining relevant knowledge and skills is a continual process for PC.PB members and officers, and training is a key element of this. The Merton pension Fund will develop a rolling Training Plan based on the following key elements:

- **Areas of knowledge and understanding required**  
The core technical requirements for those working in public sector finance are:
- **Pensions Legislation**  
Have a working knowledge of the Local Government Pension Scheme and discretionary policies.
- **Public Sector Pensions Governance**  
Understand how the pension board interacts with other elements of the governance structure.
- **Pensions Administration**  
Understand the requirements of this complex area and assist the Scheme Manager to ensure compliance.
- **Pensions Accounting and Auditing Standards**  
Understanding the accounting and audit requirements
- **Pensions Services Procurement and Relationship Management**  
Gain an understanding of the procurement rules for the public sector
- **Investment Performance and Risk Management**  
Gain an understanding of investment risk and performance
- **Financial Markets and Product Knowledge**  
Understand how the pension fund manages its investment portfolio to ensure that this is done effectively.
- **Actuarial methods, Standards and Practices**  
Understand the work of the actuary and the way in which actuarial information is produced.

All training costs will be met directly by the Pension Fund.

## **General Awareness**

PC,PB members and officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters,

Each of these areas will be focused on the role of the individual including Pension Committee members requiring more detailed knowledge of investment matters.

### **The Training Plan will be delivered through a variety of methods including:**

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Committee) provided by officers and/or external advisers
- External training events – London CIV,
- Circulation of reading material
- Attendance at seminars and conferences offered by industry wide bodies
- Attendance at meetings and events with the Merton Pension Fund's investment managers and advisors
- Links to on-line training

In addition to the above Merton Pension Fund's officers and advisers are available to answer any queries on an ongoing basis

## **Measurement and assessment**

In order to identify whether we are meeting the objectives of this policy we will:

- 1) Compare and report on attendance at training based on the following:
  - Individual Training Needs – ensuring training on the key elements takes place for each individual at least once every three years.
  - Risk Based Training – Compulsory attendance required PC members and officers at planned risk based training sessions. □ General Awareness – each PC member or officer to attend at least one day each year of general awareness training or events.
  - Induction training – identified areas of for individual training need to be completed within six months.
- 2) Carry out an independent review of our governance arrangements,

## **Reporting**

A report will be presented to the PC and PB on an annual basis setting out:

- the training provided / attended in the previous year at an individual level
  - Future training needs and the training plan for the next financial year.

### 2018/19 Training plan

<b>Topic</b>	<b>Date</b>	<b>Duration</b>
Introduction to LGPS pensions, Merton Pension Fund and London CIV	June 2018	2 hours
Asset classes (Equity, Bond, Private Equity)	July 2018	2 hours
Pensions Accounting and Auditing Standards	Sept 2018	1 hour
Asset classes (Private Debt, Multi Asset credit and infrastructure)	Nov 2018	2 hours
Actuarial methods, Standards and Practices	By January 2019.	2 hours
Merton Pension Fund's Governance arrangement and looking ahead.	January 2019	2 hours

**London Borough of Merton  
Pension Fund Advisory Committee**

**Date: 07 March 2018**

Wards: All

**Subject: Merton Pension Fund – Training Policy**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Phillip Jones

Contact officer: Roger Kershaw

This is a Public Document

**RECOMMENDATION**

Members are asked to note the content of this report in particular the training plan for 2018-19 and approve the attached Merton Pension Fund's training policy (Appendix 1)

**The Purpose of the Report**

This report presents the Merton Pension Fund's Training Policy. The 2004 Pensions Act and the MIFIDii requires that trustee of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

Pension Fund Advisory Panel (PFAP) the Pension board and the officers in performing Pension responsibilities will be expected to undertake regular training to ensure they have sufficient knowledge of the LGPS, pension benefits and investment issues to make informed Pension decisions for the benefit of all stakeholders

## 1. **Context**

- 1.1 This is the Training Policy of the London Borough of Merton in its role as the Administering Authority of the Merton LGPS Pension Fund. The policy details the training strategy for members of the PFAP, Pension Board (PB) and senior officers responsible for the management of the Fund.
- 1.2 The Training Policy is established to aid the PFAP, PB members and officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Merton Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills

## 2.0 **Objective**

- 2.1 The pension funds are managed and their services delivered by people who have the appropriate knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.
- 2.2 Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
- 2.3 The implementation of MiFID II (Markets in Financial Instruments Directive) reclassifies local and public authorities as retail investors from 3rd January 2018. The authorities elected for a return to professional status in order to ensure they can access the full range of vehicles and managers to meet the needs of their investment strategy.
- 2.3 To maintain the professional status with the investment managers and to take advantage of new investment options the Fund have a responsibility ensure that the PFAP members and the officers have the relevant knowledge and they receive regular training to make effective investment decisions

## 3 **CIPFA Knowledge and Skills Framework**

- 3.1 The Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework which is intended as a tool for pension funds to determine whether they have the right skill mix to meet their scheme financial management needs and an assessment tool for individuals to measure their progress and plan their development.

3.2 The Fund will have to demonstrate that it has adopted the knowledge and skills framework as a basis for the training and development of Members and officers, or outline what alternative basis it has selected to determine develop and measure their skills

**4. OTHER ISSUES AFFECTING THE FUND**

None

**5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

5.1 None.

**6. LEGAL AND STATUTORY IMPLICATIONS**

6.1 None.

**7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

7.1 N/A

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

8.1 None



# Quarterly Performance Service

## LONDON BOROUGH OF MERTON - TOTAL COMBINED QUARTERLY PERFORMANCE REVIEW

PERIODS TO END DECEMBER 2017

Produced 02 February 2018

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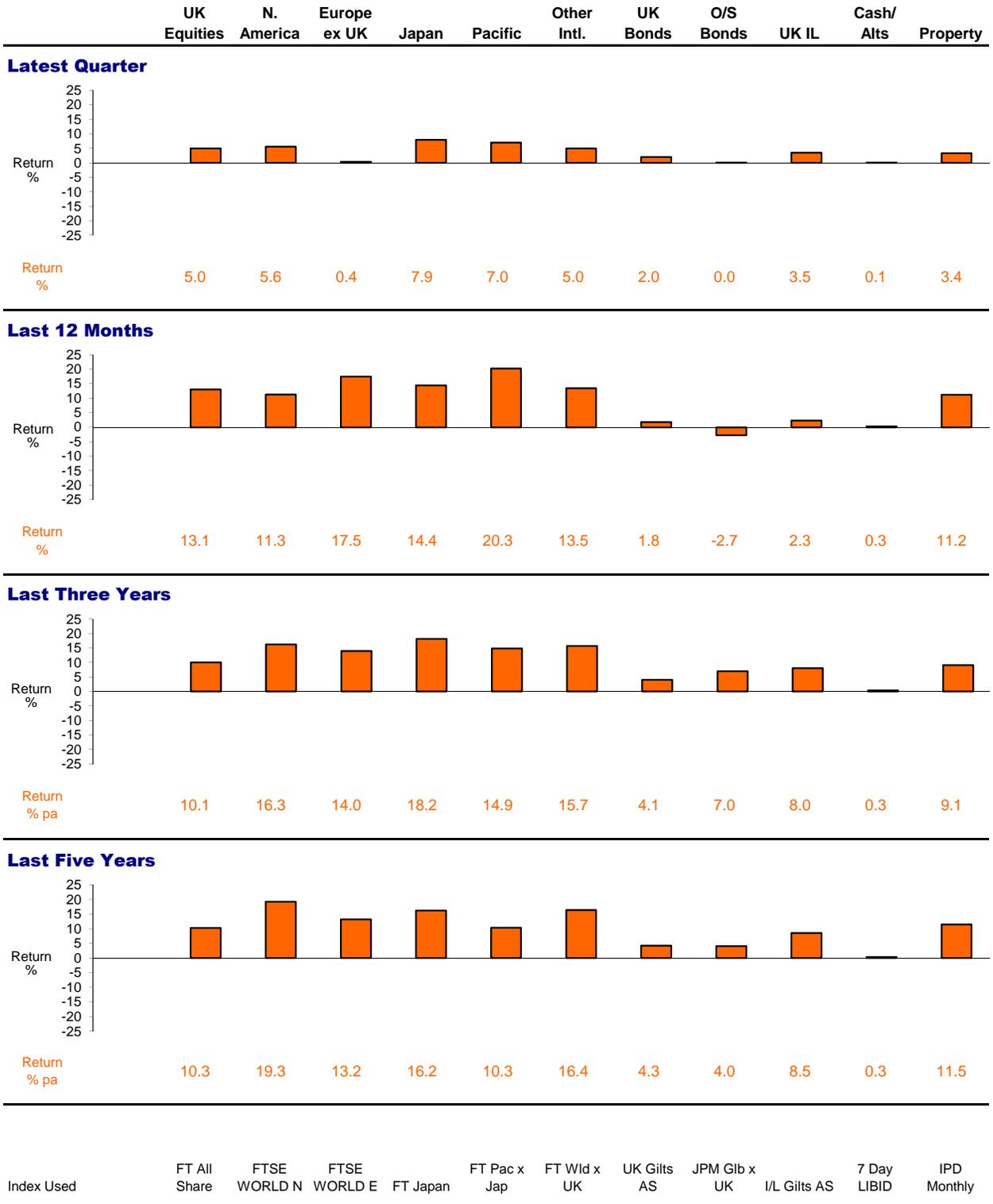
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# Market Background

Periods to end December 2017  
 Pound Sterling

This page details the performance of the major markets.



## Fund Structure and Benchmarks

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

### Structure

The Fund is managed by Aberdeen Fund Management Ltd, UBS and BlackRock.

Aberdeen Fund Management manage a global equity portfolio and a global bond portfolio. BlackRock manage a property Portfolio. UBS manage two global equity portfolios (one on an active and one on a passive basis) as well as a property portfolio.

During Q4 2007 there was a move out of equities managed by Aberdeen into the Aberdeen global bond portfolio. During May 2014, UBS global optimal thirds fund was closed and the value was transferred to the UBS passive fund. From 1/4/14 returns include management fees.

### Benchmark

The Total Fund was analysed relative to the WM Local Authority Universe until 31/12/04. Since then a customised benchmark has been implemented. The current benchmark is detailed below.

From 26.10.07	Aberdeen Global Equity	Aberdeen Global Bonds	BlackRock Property	UBS Global Equity Active	UBS Global Equity Passive	UBS Property	Total Fund
UK Equities	55.0			87.3	55.0		41.7
Overseas Equities	45.0				45.0		28.2
North America	6.0				21.0		9.6
Europe ex UK	14.5				12.0		7.7
Pacific Basin ex Japan	7.25				6.0		3.8
Japan	7.25				6.0		3.8
Pacific inc Japan							0.0
Emerging Markets	10.00			12.7			3.3
UK Bonds		25.0					6.3
Overseas Bonds		25.0					6.3
UK Index-Linked		50.0					12.5
Property			100.0			100.0	5.0
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### Indices Used

UK Equities	FTSE All Share
North America	FTSE World Dev North America
Europe ex UK	FTSE World Dev Europe ex UK
Pacific Basin ex Japan	55% MSCI AC Asia Pac ex Japan/45% FTSE Developed Asia Pacific ex Japan
Japan	55% TOPIX (1st Section)/45% FTSE AW Japan
Emerging Markets	55% MSCI Emerging Markets/45% FTSE AW Emerging Markets Free
UK Bonds	FTSE A Brit Gov > 15 yrs
UK Corporate Bonds	BAML GBP Non Gilt > 10 yrs
Overseas Bonds	BARCAP Global Aggregate
UK Index-Linked	FTSE - A UK Government Index Linked over 5 years
Property	IPD UK PPF All Balanced Funds

SSGS - Performance Services Contact: Ann Gillies

Direct Telephone: (0131) 315 5465 E-mail: ann.gillies@statestreet.com

# Performance Summary

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

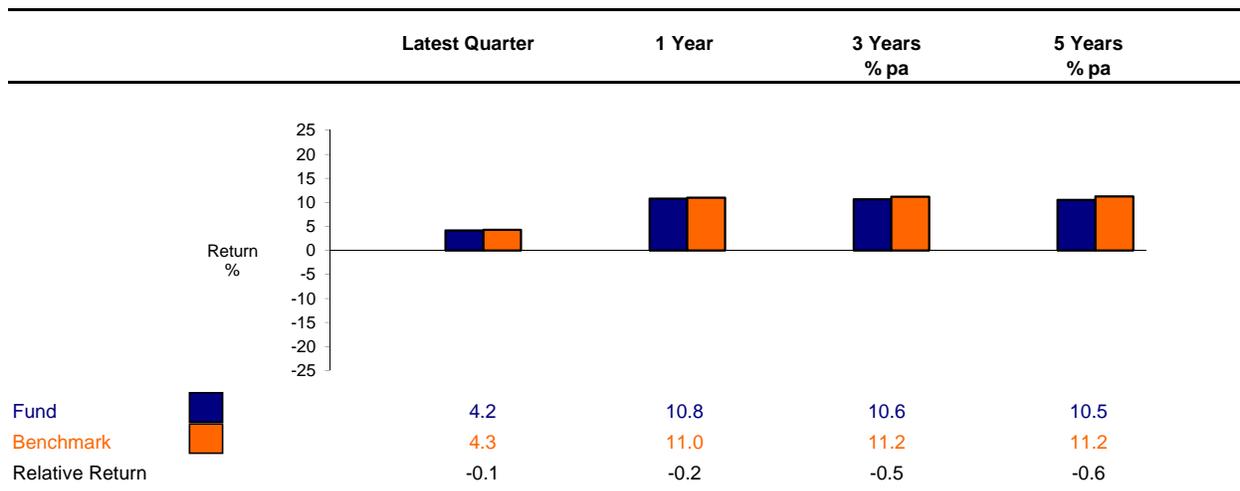
## Fund Value

Values (GBP)'000	Mandate	Value at 29/09/2017	Transactions	Capital Gain / loss	Income	Value at 29/12/2017	% Fund
UBS	Eq Gbl	296,517	753	13,501	704	310,771	45
ABERDEEN	Bd Gbl	149,066	-287	4,380	-115	153,159	22
ABERDEEN	Eq Gbl	125,937	155	5,010	137	131,102	19
UBS	Eq Gbl	66,950	296	3,200	222	70,446	10
UBS	Prop UK	15,919	-99	305	115	16,125	2
BLACKROCK	Prop UK	7,230	45	173	41	7,448	1
Total Fund		661,619	862	26,569	1,103	689,050	100

The table shows the value of each Portfolio at the start and end of the period.

The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

## Fund Returns



The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

# = Data not available for the full period

# Detailed Analysis of the Latest Quarter Performance

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

Category - TOTAL ASSETS

This page analyses in detail the Fund performance over the latest period.

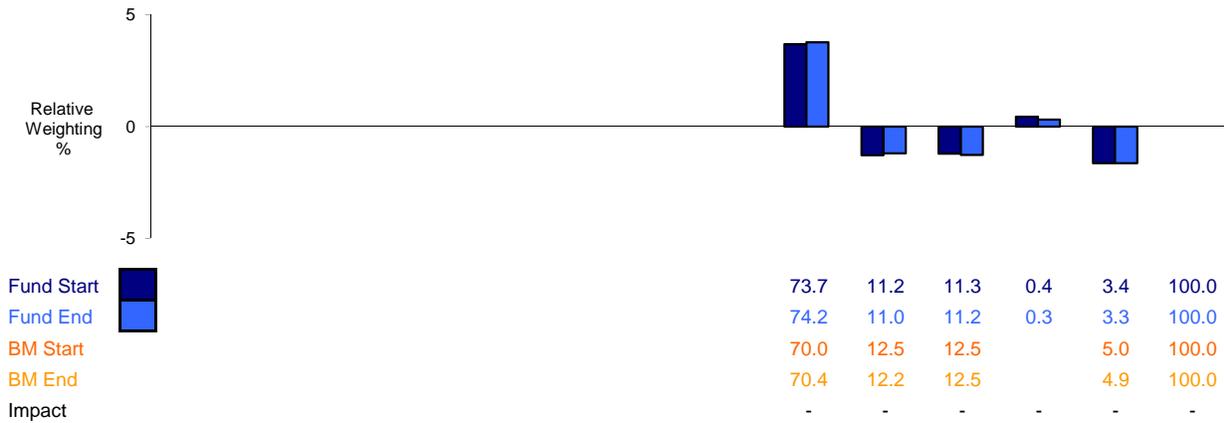
## Summary

Fund Return	4.2
Benchmark Return	4.3
Relative Performance	-0.1
<b>attributable to:</b>	
Asset Allocation	-
Stock Selection	-0.1

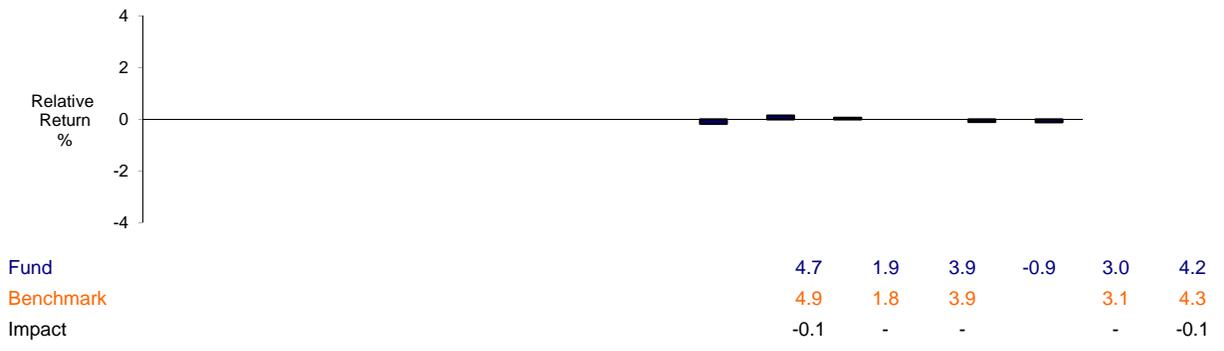
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

	Total Equity	Total Bonds	UK IL	Cash/ Alts	Property	Total Fund
--	--------------	-------------	-------	------------	----------	------------

## Asset Allocation



## Stock Selection



An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Long Term Performance Analysis

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

Category - TOTAL ASSETS

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs	5yrs
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% pa	% pa	% pa
<b>Fund Returns</b>															
Relative Return %															
Fund	5.7	-3.4	-4.0	3.5	2.3	7.2	7.5	2.1	4.3	0.8	1.1	4.2	10.8	10.6	10.5
Benchmark	5.6	-3.2	-3.3	3.7	2.4	6.9	7.9	2.4	4.2	0.7	1.4	4.3	11.0	11.2	11.2
Relative	0.1	-0.1	-0.7	-0.2	-0.1	0.2	-0.4	-0.2	0.1	0.1	-0.3	-0.1	-0.2	-0.5	-0.6

The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

<b>Asset Allocation</b>															
Impact %															
Impact	0.1	-0.1	-0.3	-	-0.1	-	0.1	-	0.1	-	-	-	0.2	-	-0.1
<b>Stock Selection</b>															
Impact %															
Impact	0.1	-	-0.4	-0.1	-	0.3	-0.4	-0.2	0.1	0.2	-0.3	-0.1	-0.1	-0.3	-0.4

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Long Term Asset Allocation

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

	2015				2016				2017				1yr	3yrs	5yrs
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% pa	% pa	% pa
<b>TOTAL EQUITIES</b>															
Relative Weight %															
Fund	72.7	73.1	71.0	72.4	71.0	70.3	70.4	72.2	72.7	73.4	73.7	74.2			
Benchmark	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0			
Impact	-	-	-	-	-0.1	-	-	-	-	-	-	-	0.1	-	-
<b>TOTAL BONDS</b>															
Relative Weight %															
Fund	12.0	11.6	12.7	12.3	12.4	12.7	12.4	11.9	11.8	11.6	11.2	11.0			
Benchmark	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5			
Impact	-	-	-0.1	-	-	-	-	-	-	-	-	-	0.1	-	-
<b>U.K. INDEX - LINKED</b>															
Relative Weight %															
Fund	12.1	12.0	12.6	11.9	12.3	12.8	13.2	12.2	11.9	11.4	11.3	11.2			
Benchmark	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-
<b>CASH/ALTERNATIVES</b>															
Relative Weight %															
Fund	0.4	0.2	0.3	0.2	0.2	0.3	0.5	0.2	0.4	0.3	0.4	0.3			
Benchmark															
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL PROPERTY</b>															
Relative Weight %															
Fund	2.9	3.1	3.3	3.3	4.0	3.8	3.4	3.4	3.3	3.3	3.4	3.3			
Benchmark	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0			
Impact	0.1	-0.1	-0.1	-	-	0.1	0.1	-	-	-	-	-	-	-	-

For each area of investment the initial weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

# Long Term Stock Selection

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

	2015				2016				2017				1yr	3yrs	5yrs
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% pa	% pa	% pa
<b>TOTAL EQUITIES</b>															
Relative Return %															
Fund	6.5	-3.0	-6.6	5.4	0.8	6.4	8.0	4.2	5.2	1.7	1.8	4.7	14.0	11.9	11.8
Benchmark	6.5	-3.1	-6.2	5.6	0.8	6.0	8.5	4.5	5.2	1.5	2.2	4.9	14.4	12.4	12.4
Impact	-	-	-0.4	-0.2	0.1	0.2	-0.3	-0.2	-	0.1	-0.3	-0.1	-0.2	-0.3	-0.4
<b>TOTAL BONDS</b>															
Relative Return %															
Fund	4.2	-7.1	4.2	0.4	7.5	10.3	4.8	-3.9	1.9	-1.2	-1.1	1.9	1.5	7.1	6.2
Benchmark	3.7	-6.5	4.3	0.1	7.8	10.4	4.8	-4.0	1.5	-1.3	-0.9	1.8	1.0	7.0	6.2
Impact	0.1	-0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>U.K. INDEX - LINKED</b>															
Relative Return %															
Fund	3.3	-3.2	2.4	-3.3	6.6	11.1	10.7	-2.6	2.3	-2.4	-0.6	3.9	3.1	9.3	9.5
Benchmark	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	2.0	-2.4	-0.8	3.9	2.5	8.9	9.5
Impact	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-
<b>CASH/ALTERNATIVES</b>															
Relative Return %															
Fund	0.8	-0.6	-4.2	-1.1	8.0	-0.3	-0.2	-3.8	-0.7	-0.8	-0.6	-0.9	-3.0	-1.7	-1.1
Benchmark															
Impact															
<b>TOTAL PROPERTY</b>															
Relative Return %															
Fund	3.0	3.0	3.3	2.9	0.9	1.2	-1.7	2.1	1.7	2.6	2.3	3.0	10.0	8.4	9.9
Benchmark	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.0	2.3	2.4	3.1	10.2	8.4	10.3
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

# not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

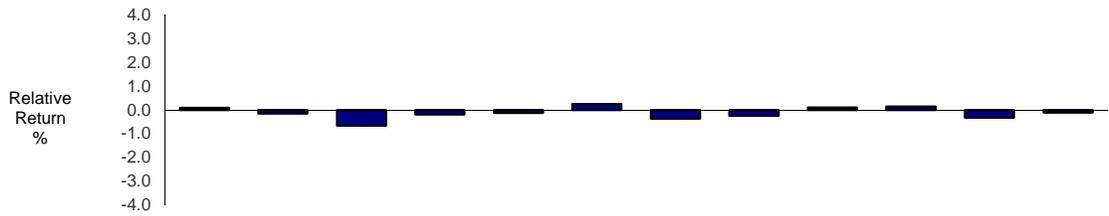
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

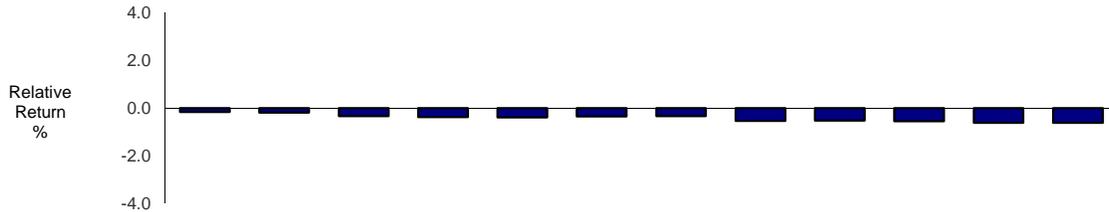
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	500.2	528.7	510.7	490.3	507.5	528.8	566.9	609.2	622.4	648.8	653.9	661.6
Net Investment	4.5	2.7	2.0	1.8	11.2	3.0	2.2	1.1	3.3	2.6	3.4	0.9
Capital Gain/Loss	24.0	-20.6	-22.4	15.4	10.1	35.1	40.1	12.1	23.2	2.5	4.3	26.6
Final	528.7	510.7	490.3	507.5	528.8	566.9	609.2	622.4	648.8	653.9	661.6	689.1
Income	4.4	2.9	2.1	1.9	1.8	2.9	2.4	1.0	3.4	2.9	3.1	1.1
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100

## Quarterly Returns



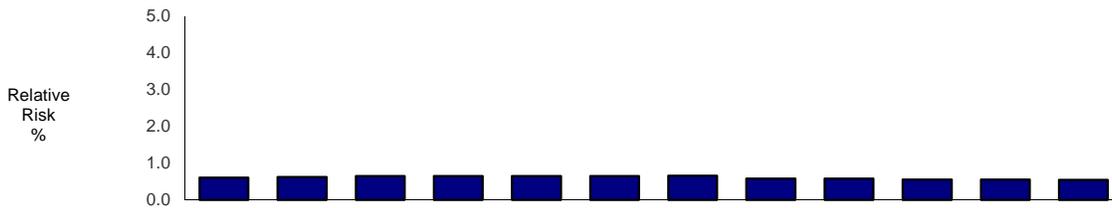
Fund	5.7	-3.4	-4.0	3.5	2.3	7.2	7.5	2.1	4.3	0.8	1.1	4.2
Benchmark	5.6	-3.2	-3.3	3.7	2.4	6.9	7.9	2.4	4.2	0.7	1.4	4.3
Relative Return	0.1	-0.1	-0.7	-0.2	-0.1	0.2	-0.4	-0.2	0.1	0.1	-0.3	-0.1

## Annualised Rolling 5 Year Returns



Fund	8.8	9.7	6.8	6.4	6.7	7.8	11.3	10.2	10.1	10.6	10.3	10.5
Benchmark	9.0	9.9	7.2	6.8	7.1	8.2	11.7	10.8	10.7	11.3	11.0	11.2
Relative Return	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.3	-0.5	-0.5	-0.5	-0.6	-0.6

## Rolling 5 Year Risk



Relative Risk	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6	0.5	0.6	0.5
Information Ratio	-0.3	-0.3	-0.5	-0.6	-0.6	-0.5	-0.5	-0.9	-0.9	-1.0	-1.1	-1.2

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

## Manager Performance

# Summary of Manager Performance

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

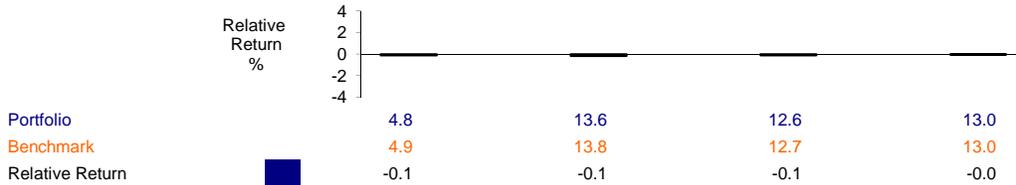
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
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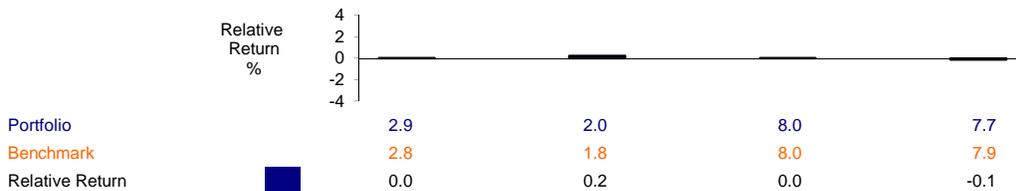
## UBS GLOBAL ASSET MANAGEMENT - TOTAL ASSETS

LB OF MERTON UBS GLOBAL EQUITY BM.



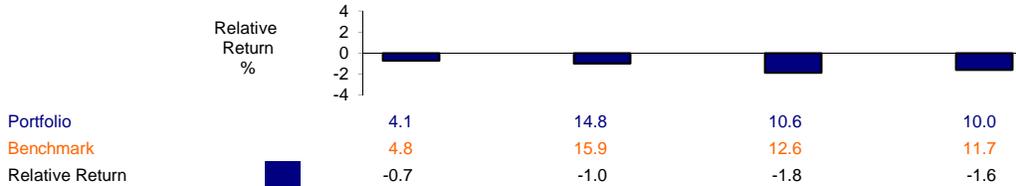
## ABERDEEN FUND MANAGEMENT LIMITED - TOTAL ASSETS

LB OF MERTON ABERDEEN BONDS B/M



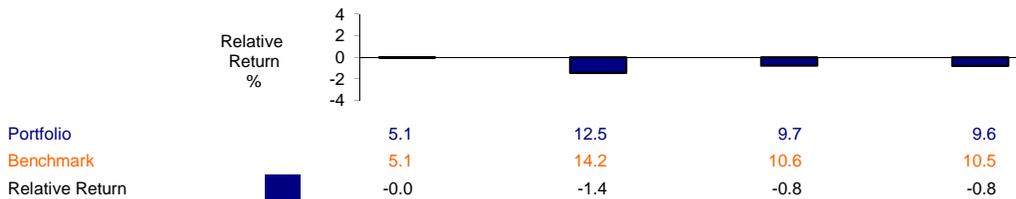
## ABERDEEN FUND MANAGEMENT LIMITED - TOTAL ASSETS

MERTON - ABERDEEN ACTIVE EQUITY



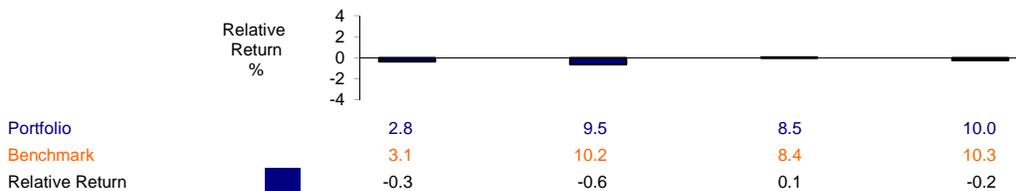
## UBS GLOBAL ASSET MANAGEMENT - TOTAL ASSETS

LB OF MERTON UBS GLOBAL EQUITY B/M



## UBS ASSET MANAGEMENT - TOTAL ASSETS

AREF/IPD ALL BALANCED



The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

# not invested in this area for the entire period

# Summary of Manager Performance

LONDON BOROUGH OF MERTON - TOTAL COMBINED

Periods to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
<b>BLACKROCK - TOTAL ASSETS</b>				
<b>AREF/IPD ALL BALANCED</b>				
Portfolio	3.0	8.9	6.3	
Benchmark	3.1	10.2	8.4	
Relative Return	-0.1	-1.1	-1.9	

Relative Return

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

# not invested in this area for the entire period

## Performance Summary - Manager Attribution

LONDON BOROUGH OF MERTON

Quarter to end December 2017

Benchmark - MERTON - TOTAL COMBINED

Pound Sterling

This page analyses in detail the contributions to the Fund performance over the latest period.

### Summary

Fund Return		4.2
Benchmark Return		4.3
Relative Performance		-0.1
	<b>attributable to:</b>	
	Strategic Allocation	0.1
	Manager Contribution	-0.2
	Residual	-

The relative performance can be attributed to the effects of manager contribution and strategic allocation.

### Detail

Strategic Allocation			Investment Manager	Manager Contribution		
Distribution		Policy Contribution		Weighted Contribution	% Return	
Portfolio	Benchmark				Portfolio	Benchmark
74.0	70.0	-	<b>TOTAL EQUITIES</b>	<b>-0.2</b>		
44.8		-	UBS GLOBAL ASSET MANAGEMENT	-	4.8	4.9
10.1		-	UBS GLOBAL ASSET MANAGEMENT	-	5.1	5.1
19.0		-	ABERDEEN FUND MANAGEMENT LIMITED	-0.1	4.1	4.8
22.5	25.0	0.1	<b>TOTAL BONDS</b>	-		
22.5		-	ABERDEEN FUND MANAGEMENT LIMITED	-	2.9	2.8
3.5	5.0	-	<b>TOTAL PROPERTY</b>	-		
2.4		-	UBS ASSET MANAGEMENT	-	2.8	3.1
1.1		-	BLACKROCK	-	3.0	3.1
		0.1		-0.2		

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.

The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.

# = not invested in this area for the entire period

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED

Periods to end December 2017

Benchmark - MERTON - ABERDEEN ACTIVE EQUITY

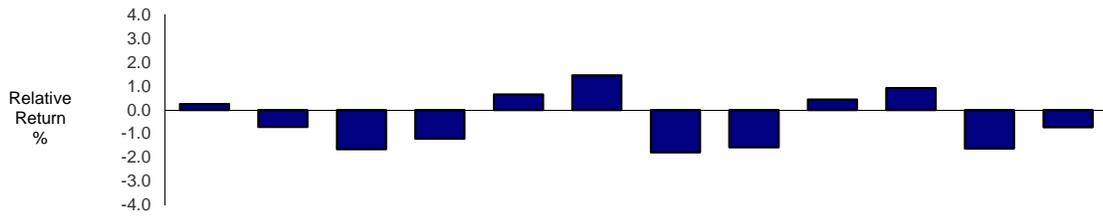
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

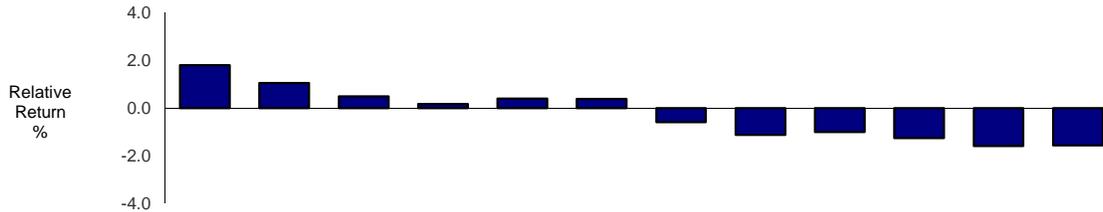
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	97.3	104.4	100.3	91.8	95.6	97.2	104.4	111.8	114.3	121.4	124.8	125.9
Net Investment	0.7	0.9	0.5	0.3	0.8	0.9	0.4	0.2	0.6	0.8	0.5	0.2
Capital Gain/Loss	6.4	-5.0	-9.0	3.5	0.8	6.3	7.0	2.3	6.4	2.7	0.6	5.0
Final	104.4	100.3	91.8	95.6	97.2	104.4	111.8	114.3	121.4	124.8	125.9	131.1
Income	0.7	1.0	0.5	0.3	0.8	0.9	0.4	0.2	0.6	0.9	0.5	0.1
Proportion Of Total Fund (%)	20	20	19	19	18	18	18	18	19	19	19	19

## Quarterly Returns



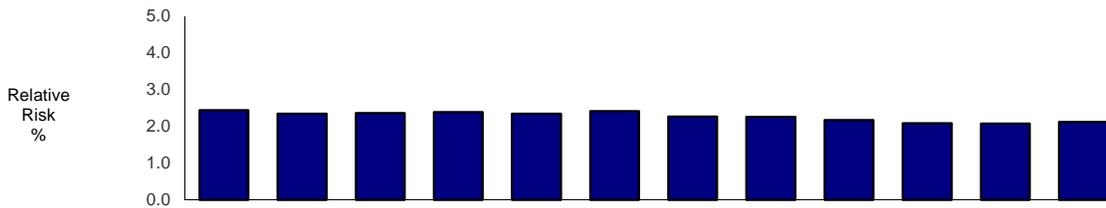
Fund	7.4	-3.8	-8.5	4.2	1.6	7.5	7.1	2.2	6.2	2.9	0.9	4.1
Benchmark	7.1	-3.1	-7.0	5.5	1.0	5.9	9.0	3.8	5.7	2.0	2.5	4.8
Relative Return	0.2	-0.7	-1.6	-1.2	0.7	1.4	-1.8	-1.6	0.4	0.9	-1.6	-0.7

## Annualised Rolling 5 Year Returns



Fund	9.8	10.8	6.2	5.4	5.7	6.6	11.0	9.8	9.6	10.6	9.8	10.0
Benchmark	7.8	9.7	5.7	5.3	5.2	6.2	11.6	11.1	10.7	12.0	11.6	11.7
Relative Return	1.8	1.0	0.5	0.2	0.4	0.4	-0.6	-1.1	-1.0	-1.3	-1.6	-1.6

## Rolling 5 Year Risk



Relative Risk	2.4	2.3	2.4	2.4	2.3	2.4	2.3	2.3	2.2	2.1	2.1	2.1
Information Ratio	0.7	0.4	0.2	0.1	0.2	0.2	-0.3	-0.5	-0.5	-0.6	-0.8	-0.7

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT

Periods to end December 2017

Benchmark - LB OF MERTON UBS GLOBAL EQUITY B/M

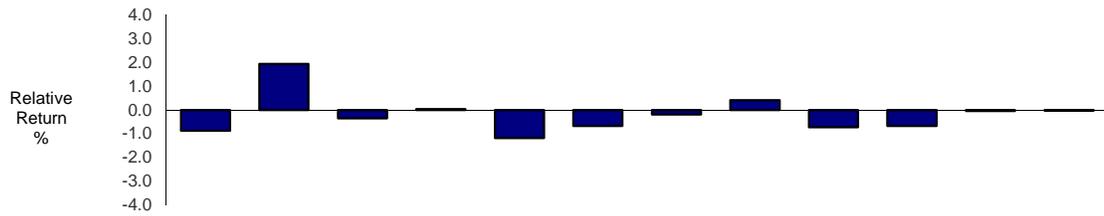
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

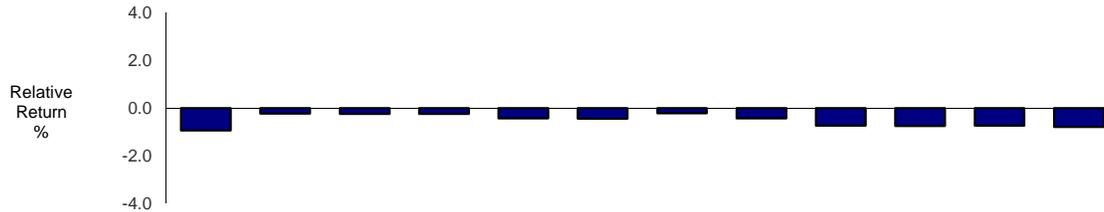
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	52.6	54.8	54.8	50.9	52.9	52.7	55.2	59.7	62.3	64.9	65.3	67.0
Net Investment	0.3	0.6	0.6	0.2	0.3	0.7	0.5	0.3	0.3	0.8	0.7	0.3
Capital Gain/Loss	1.9	-0.6	-4.5	1.8	-0.5	1.8	4.0	2.3	2.2	-0.3	1.0	3.2
Final	54.8	54.8	50.9	52.9	52.7	55.2	59.7	62.3	64.9	65.3	67.0	70.4
Income	0.3	0.6	0.5	0.2	0.2	0.6	0.4	0.2	0.2	0.7	0.6	0.2
Proportion Of Total Fund (%)	10	11	10	10	10	10	10	10	10	10	10	10

## Quarterly Returns



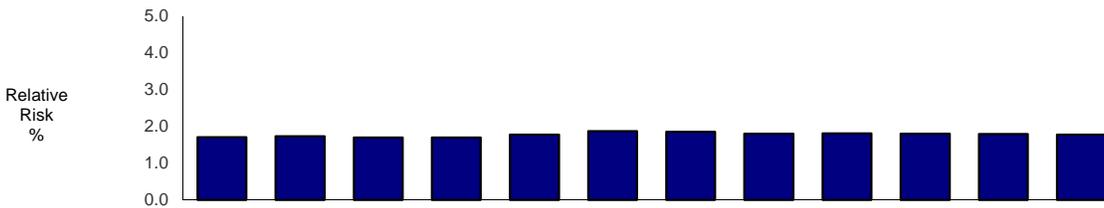
Fund	4.1	0.0	-7.4	3.9	-0.5	4.6	8.0	4.1	3.9	0.6	2.4	5.1
Benchmark	5.0	-1.9	-7.0	3.8	0.7	5.3	8.3	3.6	4.7	1.2	2.5	5.1
Relative Return	-0.9	1.9	-0.3	0.0	-1.2	-0.7	-0.2	0.4	-0.7	-0.7	-0.0	-0.0

## Annualised Rolling 5 Year Returns



Fund	6.6	9.5	5.5	4.7	4.4	5.2	10.6	9.7	8.7	9.8	9.4	9.6
Benchmark	7.6	9.8	5.8	5.0	4.8	5.7	10.8	10.2	9.5	10.6	10.2	10.5
Relative Return	-0.9	-0.2	-0.2	-0.2	-0.4	-0.4	-0.2	-0.4	-0.7	-0.8	-0.7	-0.8

## Rolling 5 Year Risk



Relative Risk	1.7	1.7	1.7	1.7	1.8	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Information Ratio	-0.6	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.2	-0.4	-0.4	-0.4	-0.4

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED

Periods to end December 2017

Benchmark - LB OF MERTON ABERDEEN BONDS B/M

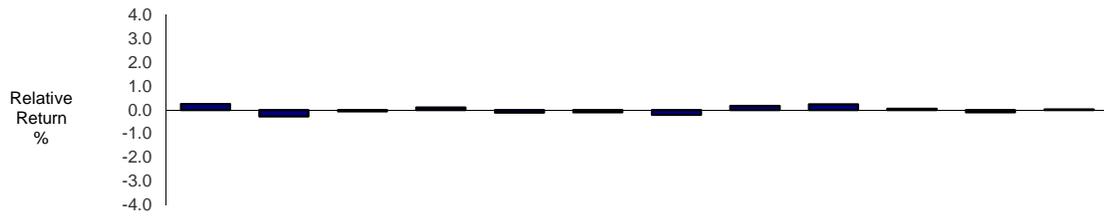
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

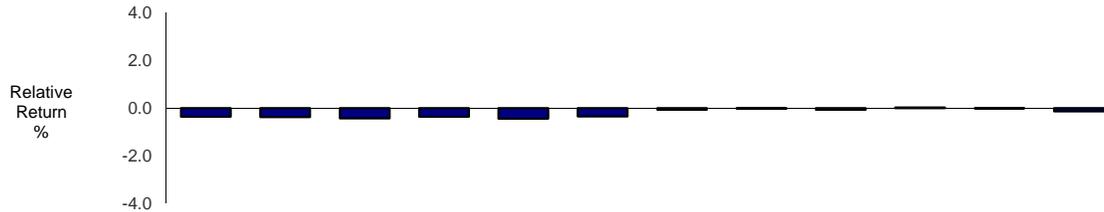
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	122.6	127.2	120.6	124.4	122.4	130.9	144.9	155.8	150.5	153.3	150.4	149.1
Net Investment	2.7	0.0	-0.1	0.6	-0.0	-0.0	0.3	-0.2	1.5	-0.2	0.6	-0.3
Capital Gain/Loss	1.8	-6.6	3.9	-2.5	8.5	14.0	10.6	-5.1	1.3	-2.7	-2.0	4.4
Final	127.2	120.6	124.4	122.4	130.9	144.9	155.8	150.5	153.3	150.4	149.1	153.2
Income	2.7	0.0	0.0	0.7	0.0	-0.0	0.5	-0.1	1.7	-0.1	0.6	-0.1
Proportion Of Total Fund (%)	24	24	25	24	25	26	26	24	24	23	23	22

## Quarterly Returns



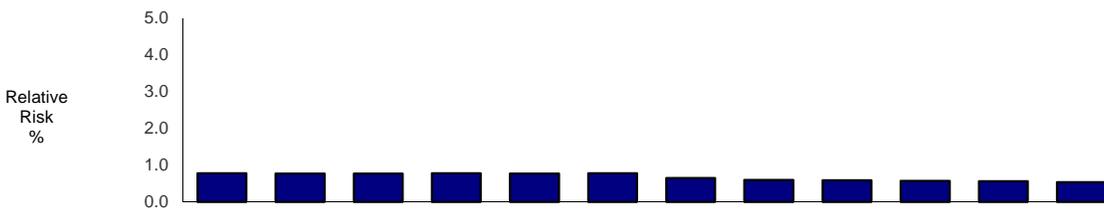
Fund	3.7	-5.2	3.3	-1.5	7.0	10.6	7.7	-3.3	2.0	-1.8	-1.0	2.9
Benchmark	3.5	-4.9	3.3	-1.6	7.1	10.7	7.9	-3.5	1.8	-1.9	-0.9	2.8
Relative Return	0.2	-0.3	-0.0	0.1	-0.1	-0.1	-0.2	0.2	0.2	0.0	-0.1	0.0

## Annualised Rolling 5 Year Returns



Fund	8.5	6.9	6.7	6.6	8.1	9.6	10.0	7.8	8.6	7.8	7.7	7.7
Benchmark	8.9	7.3	7.2	7.0	8.5	10.0	10.1	7.9	8.7	7.8	7.7	7.9
Relative Return	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.1	-0.0	-0.1	0.0	-0.0	-0.1

## Rolling 5 Year Risk



Relative Risk	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.5
Information Ratio	-0.5	-0.5	-0.6	-0.5	-0.6	-0.5	-0.1	-0.1	-0.1	0.0	-0.0	-0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT

Periods to end December 2017

Benchmark - LB OF MERTON UBS GLOBAL EQUITY BM.

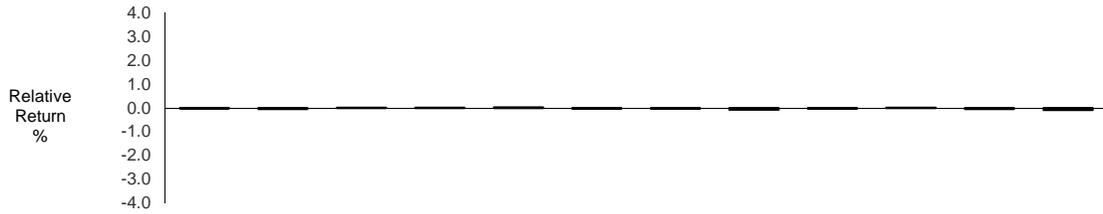
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

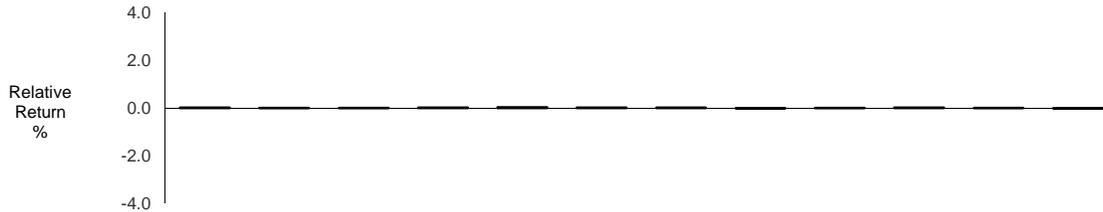
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	212.2	226.2	218.6	206.4	219.2	226.1	240.3	260.3	273.2	287.1	290.7	296.5
Net Investment	0.5	1.1	1.0	0.5	5.6	1.3	1.0	0.6	0.8	1.2	1.4	0.8
Capital Gain/Loss	13.5	-8.7	-13.1	12.3	1.3	13.0	19.0	12.3	13.0	2.5	4.4	13.5
Final	226.2	218.6	206.4	219.2	226.1	240.3	260.3	273.2	287.1	290.7	296.5	310.8
Income	0.5	1.1	0.9	0.5	0.6	1.2	0.9	0.6	0.7	1.3	1.3	0.7
Proportion Of Total Fund (%)	43	43	42	43	43	42	43	44	44	44	45	45

## Quarterly Returns



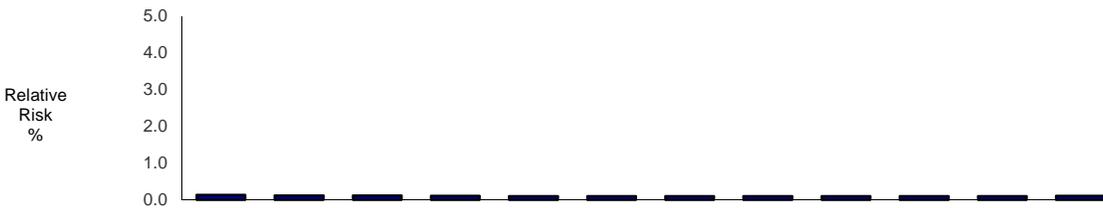
Fund	6.6	-3.4	-5.6	6.2	0.8	6.3	8.3	4.9	5.0	1.3	1.9	4.8
Benchmark	6.6	-3.3	-5.6	6.2	0.7	6.3	8.3	5.0	5.0	1.3	2.0	4.9
Relative Return	-0.0	-0.0	0.0	0.0	0.0	-0.0	-0.0	-0.1	-0.0	0.0	-0.0	-0.1

## Annualised Rolling 5 Year Returns



Fund	9.6	11.6	7.9	7.5	7.3	8.3	13.4	12.7	12.2	13.2	12.6	13.0
Benchmark	9.6	11.6	7.9	7.5	7.3	8.3	13.3	12.7	12.2	13.2	12.6	13.0
Relative Return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0

## Rolling 5 Year Risk



Relative Risk	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Information Ratio	0.1	0.0	0.0	0.2	0.3	0.2	0.2	-0.0	0.0	0.2	0.0	-0.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - UBS ASSET MANAGEMENT

Periods to end December 2017

Benchmark - AREF/IPD ALL BALANCED

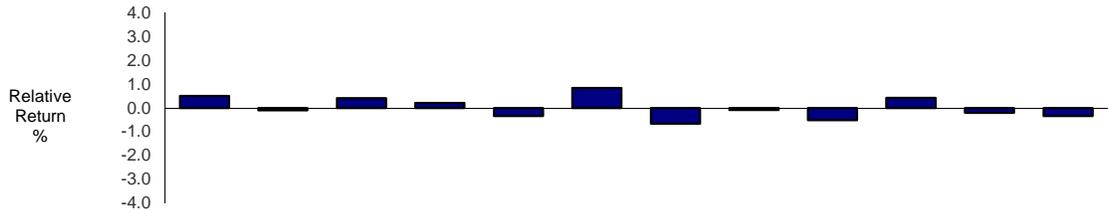
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

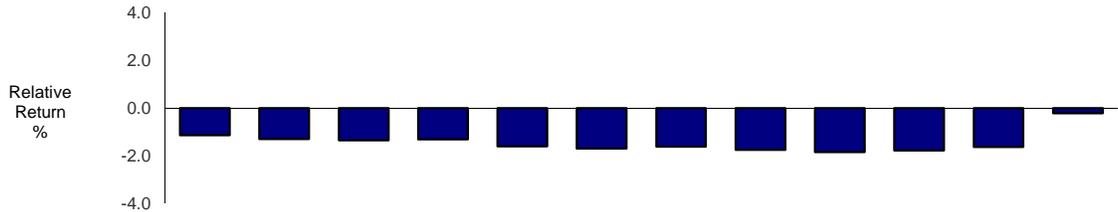
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	9.6	9.9	10.2	10.4	10.6	15.2	15.2	14.9	15.2	15.3	15.6	15.9
Net Investment	0.1	0.0	-0.0	-0.0	4.6	0.0	0.0	0.1	-0.1	0.0	0.1	-0.1
Capital Gain/Loss	0.2	0.2	0.2	0.2	-0.0	-0.0	-0.3	0.2	0.1	0.3	0.2	0.3
Final	9.9	10.2	10.4	10.6	15.2	15.2	14.9	15.2	15.3	15.6	15.9	16.1
Income	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Proportion Of Total Fund (%)	2	2	2	2	3	3	2	2	2	2	2	2

## Quarterly Returns



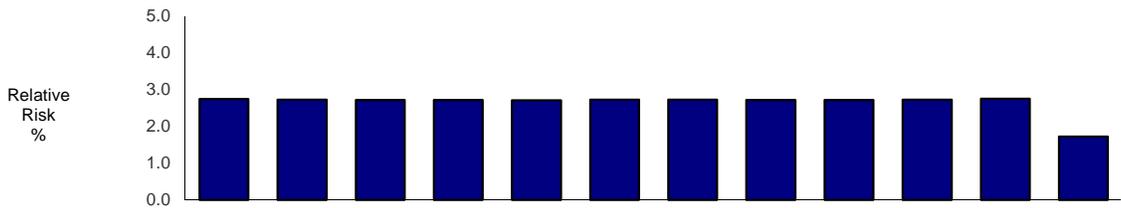
Fund	3.3	3.2	3.4	3.1	0.7	1.0	-1.3	2.2	1.5	2.7	2.2	2.8
Benchmark	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.0	2.3	2.4	3.1
Relative Return	0.5	-0.1	0.4	0.2	-0.3	0.8	-0.7	-0.1	-0.5	0.4	-0.2	-0.3

## Annualised Rolling 5 Year Returns



Fund	7.2	7.1	7.3	7.5	7.0	6.6	6.2	6.3	6.5	7.0	7.7	10.0
Benchmark	8.4	8.5	8.8	9.0	8.8	8.4	7.9	8.2	8.5	8.9	9.5	10.3
Relative Return	-1.1	-1.3	-1.3	-1.3	-1.6	-1.7	-1.6	-1.8	-1.9	-1.8	-1.6	-0.2

## Rolling 5 Year Risk



Relative Risk	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	1.7
Information Ratio	-0.4	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.6	-0.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

# Rolling Years with Relative Risk

LONDON BOROUGH OF MERTON - BLACKROCK

Periods to end December 2017

Benchmark - AREF/IPD ALL BALANCED

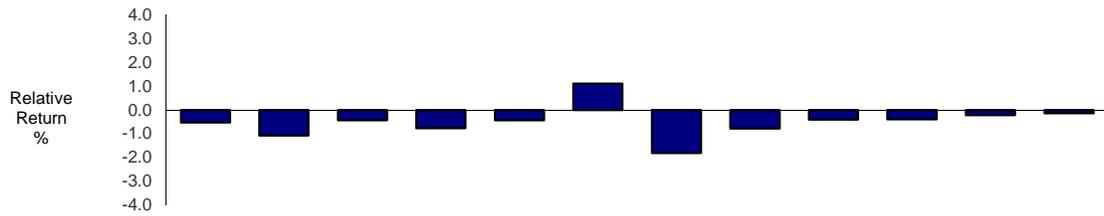
Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

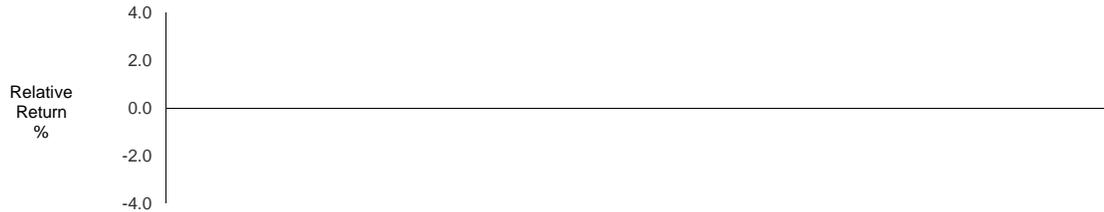
	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	6.0	6.1	6.3	6.5	6.7	6.7	6.8	6.7	6.8	6.9	7.1	7.2
Net Investment	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.1	0.1	0.1	0.1	0.0	0.1	-0.2	0.1	0.1	0.1	0.1	0.2
Final	6.1	6.3	6.5	6.7	6.7	6.8	6.7	6.8	6.9	7.1	7.2	7.4
Income	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	1	1	1	1	1	1	1	1	1	1	1	1

## Quarterly Returns



Fund	2.3	2.2	2.6	2.1	0.6	1.2	-2.5	1.5	1.6	1.9	2.2	3.0
Benchmark	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.0	2.3	2.4	3.1
Relative Return	-0.5	-1.1	-0.4	-0.8	-0.4	1.1	-1.8	-0.8	-0.4	-0.4	-0.2	-0.1

## Annualised Rolling 5 Year Returns



Fund  
Benchmark  
Relative Return

## Rolling 5 Year Risk



Relative Risk  
Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

## Appendices

# Asset Mix and Returns

LONDON BOROUGH OF MERTON - TOTAL COMBINED  
Benchmark - MERTON - TOTAL COMBINED

Periods to end December 2017  
Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/		29/12/2017		Return	B'M
	Value	%			Loss	Income	Value	%		
U.K. EQUITIES	287,889	44	12,882	9,848	11,941	1,299	302,865	44	4.6	5.0
OVERSEAS EQUITIES	199,625	30	3,469	4,602	9,770	11	208,263	30	4.9	4.8
NORTH AMERICA	67,964	10	500	2	3,805		72,267	10	5.6	5.6
DT L&P N AMERICAN EQ FD	6,817	1	500	2	391		7,706	1	5.6	
UNITED STATES	61,147	9			3,414		64,561	9	5.6	5.6
CONTINENTAL EUROPE	56,167	8	2,169	2,536	742	11	56,542	8	1.3	0.3
EUROLAND TOTAL	8,638	1	1,568	573	293	7	9,925	1	3.3	
FRANCE	1,591	0	348		94		2,032	0	5.7	
GERMANY	2,385	0	810	452	-21		2,721	0	-0.6	
ITALY	862	0			14		875	0	1.6	
NETHERLANDS	2,290	0	410		2	7	2,702	0	0.1	
SPAIN	620	0		40	61		640	0	10.2	
AUSTRIA	891	0		81	145		955	0	16.8	
NON EUROLAND TOTAL	9,989	2	603	1,682	336	5	9,245	1	3.8	
NORWAY	377	0			46		423	0	12.1	
DENMARK	1,274	0			146		1,420	0	11.5	
SWITZERLAND	6,309	1	603	1,321	230		5,821	1	4.1	
SWEDEN	2,028	0		361	-87	5	1,580	0	-4.2	
OTHER EUROPE TOTAL	859	0	-1	280	26	-1	604	0	3.2	
EUROPE	36,681	6			87		36,768	5	0.2	
TOTAL FAR EAST	53,802	8	550	1,999	4,049		56,403	8	7.6	7.7
JAPAN	27,931	4	550	1,706	2,184		28,959	4	7.9	7.9
AAM GLOBAL ASIA PACIFIC	8,059	1		43	502		8,519	1	6.2	7.1
ASIA-PACIFIC EX JAPAN	17,812	3		250	1,362		18,924	3	7.6	7.8
OTHER INTL EQUITIES	21,692	3	250	66	1,175		23,051	3	5.4	6.4
EMERGING MARKETS	12,360	2	250	66	465		13,009	2	3.7	6.6
GLOBAL EMERGING MARKETS	9,332	1			710		10,042	1	7.6	6.1
U.K. BONDS	37,445	6	1	213	1,274	1	38,508	6	3.4	3.4
OVERSEAS BONDS	36,768	6	470	20	170		37,388	5	0.5	0.2
OTHER OVERSEAS BONDS TOTAL	36,768	6	470	20	170		37,388	5	0.5	
DEUTSCHE GLOBAL AGGREGATE BOND	36,768	6	470	20	170		37,388	5	0.5	
U.K. INDEX - LINKED	74,713	11	-1	519	2,936	-1	77,129	11	3.9	3.9
CASH/ALTERNATIVES	2,929	0	23,724	24,528	0	-17	2,125	0	-0.9	
U.K. PROPERTY	22,250	3	1,445	1,400	478	174	22,773	3	3.0	3.1
<b>TOTAL ASSETS</b>	<b>661,619</b>	<b>100</b>	<b>41,992</b>	<b>41,129</b>	<b>26,569</b>	<b>1,103</b>	<b>689,050</b>	<b>100</b>	<b>4.2</b>	<b>4.3</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - TOTAL COMBINED  
Benchmark - MERTON - TOTAL COMBINED

Periods to end December 2017  
Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Total Equity</i>	6.5	-3.0	-6.6	5.4	0.8	6.4	8.0	4.2	5.2	1.7	1.8	4.7	14.0	11.9	11.8
<i>Total Bonds</i>	4.2	-7.1	4.2	0.4	7.5	10.3	4.8	-3.9	1.9	-1.2	-1.1	1.9	1.5	7.1	6.2
<i>UK IL</i>	3.3	-3.2	2.4	-3.3	6.6	11.1	10.7	-2.6	2.3	-2.4	-0.6	3.9	3.1	9.3	9.5
<i>Cash/ Alts</i>	0.8	-0.6	-4.2	-1.1	8.0	-0.3	-0.2	-3.8	-0.7	-0.8	-0.6	-0.9	-3.0	-1.7	-1.1
<i>Property</i>	3.0	3.0	3.3	2.9	0.9	1.2	-1.7	2.1	1.7	2.6	2.3	3.0	10.0	8.4	9.9
<i>Total Assets</i>	5.7	-3.4	-4.0	3.5	2.3	7.2	7.5	2.1	4.3	0.8	1.1	4.2	10.8	10.6	10.5

# not invested in this area for the entire period

LONDON BOROUGH OF MERTON

ABERDEEN FUND MANAGEMENT LIMITED

## Asset Mix and Returns

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED

Periods to end December 2017

Benchmark - MERTON - ABERDEEN ACTIVE EQUITY

Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
<i>U.K. EQUITIES</i>	67,251	53	5,354	3,891	2,186	261	70,899	54	3.6	5.0
<i>NORTH AMERICA</i>	6,817	5	500	2	391		7,706	6	5.6	5.6
<i>CONTINENTAL EUROPE</i>	19,486	15	2,169	2,536	654	11	19,774	15	3.4	0.3
<i>JAPAN</i>	10,339	8	550	1,456	811		10,244	8	7.9	7.7
<i>TOTAL PACIFIC (EX.JAPAN)</i>	8,059	6		43	502		8,519	6	6.2	7.1
<i>OTHER INTL EQUITIES</i>	12,360	10	250	66	465		13,009	10	3.7	6.6
<i>CASH/ALTERNATIVES</i>	1,625	1	11,898	12,573	0	1	950	1	0.1	
<b>TOTAL ASSETS</b>	<b>125,937</b>	<b>100</b>	<b>20,722</b>	<b>20,567</b>	<b>5,010</b>	<b>137</b>	<b>131,102</b>	<b>100</b>	<b>4.1</b>	<b>4.8</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED

Periods to end December 2017

Benchmark - MERTON - ABERDEEN ACTIVE EQUITY

Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>UK Equities</i>	5.4	-1.5	-8.6	2.2	0.8	7.6	5.7	3.1	4.9	2.6	1.0	3.6	12.6	8.9	9.3
<i>N. America</i>	5.8	-5.7	-4.8	6.8	4.4	10.0	6.6	8.1	5.1	0.6	1.3	5.6	13.1	15.0	17.3
<i>Europe ex UK</i>	12.2	-7.3	-6.0	7.7	2.3	6.1	8.8	1.4	6.8	6.4	2.4	3.4	20.4	14.9	12.0
<i>Japan</i>	12.9	-5.4	-9.0	10.6	-9.4	0.1	10.0	1.4	3.8	2.6	-0.4	7.9	14.5	7.6	11.5
<i>Pacific</i>	8.9	-7.2	-12.8	4.1	4.1	12.1	9.6	-0.3	13.3	3.2	-0.6	6.2	23.5	13.0	9.3
<i>Other Intl.</i>	8.4	-7.2	-11.8	4.2	11.3	12.0	9.4	-0.5	10.5	2.1	1.0	3.7	18.2	14.0	7.7
<i>Cash/ Alts</i>	0.8	0.0	0.3	-0.1	14.1	0.7	0.1	0.1	0.0	0.0	0.1	0.1	0.2	5.2	3.9
<i>Total Assets</i>	7.4	-3.8	-8.5	4.2	1.6	7.5	7.1	2.2	6.2	2.9	0.9	4.1	14.8	10.6	10.0

# not invested in this area for the entire period

LONDON BOROUGH OF MERTON

UBS GLOBAL ASSET MANAGEMENT

## Asset Mix and Returns

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT  
 Benchmark - LB OF MERTON UBS GLOBAL EQUITY B/M

Periods to end December 2017  
 Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
TOTAL EQUITIES	66,484	99	3,633	3,374	3,200	296	69,943	99	5.3	5.1
CASH/ALTERNATIVES	466	1	7,193	7,157	0	0	503	1	0.0	
<b>TOTAL ASSETS</b>	<b>66,950</b>	<b>100</b>	<b>10,827</b>	<b>10,530</b>	<b>3,200</b>	<b>222</b>	<b>70,446</b>	<b>100</b>	<b>5.1</b>	<b>5.1</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT  
 Benchmark - LB OF MERTON UBS GLOBAL EQUITY B/M

Periods to end December 2017  
 Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Total Equity</i>	4.2	0.2	-7.2	4.0	-0.4	4.8	8.2	4.2	4.1	0.7	2.6	5.3	13.1	10.3	10.0
<i>Cash/ Alts</i>	0.2	0.0	-12.8	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.2	-4.3	-2.1
Total Assets	4.1	0.0	-7.4	3.9	-0.5	4.6	8.0	4.1	3.9	0.6	2.4	5.1	12.5	9.7	9.6

# not invested in this area for the entire period

LONDON BOROUGH OF MERTON

ABERDEEN FUND MANAGEMENT LIMITED

## Asset Mix and Returns

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED  
 Benchmark - LB OF MERTON ABERDEEN BONDS B/M

Periods to end December 2017  
 Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
<i>U.K BONDS</i>	37,445	25	1	213	1,274	1	38,508	25	3.4	3.4
<i>OVERSEAS BONDS</i>	36,768	25	470	20	170		37,388	24	0.5	0.2
<i>U.K. INDEX - LINKED</i>	74,713	50	-1	519	2,936	-1	77,129	50	3.9	3.9
<i>CASH/ALTERNATIVES</i>	139	0	752	758	0		133	0	-0.0	
<b>TOTAL ASSETS</b>	<b>149,066</b>	<b>100</b>	<b>1,222</b>	<b>1,509</b>	<b>4,380</b>	<b>-115</b>	<b>153,159</b>	<b>100</b>	<b>2.9</b>	<b>2.8</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - ABERDEEN FUND MANAGEMENT LIMITED

Periods to end December 2017

Benchmark - LB OF MERTON ABERDEEN BONDS B/M

Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>UK Bonds</i>	4.6	-6.7	4.0	-1.3	6.9	9.9	5.5	-5.4	2.6	-1.1	-0.2	3.4	4.7	7.1	7.5
<i>O/S Bonds</i>	3.9	-7.5	4.4	2.1	8.1	10.7	4.0	-2.4	1.1	-1.2	-2.0	0.5	-1.7	7.0	4.8
<i>UK IL</i>	3.3	-3.2	2.4	-3.3	6.6	11.1	10.7	-2.6	2.3	-2.4	-0.6	3.9	3.1	9.3	9.5
<i>Cash/ Alts</i>	9.9	13.9	-12.5	-0.6	121.1	n/a	-0.0	-0.0	-0.0	0.0	0.0	-0.0	-0.0	n/a	n/a
<i>Total Assets</i>	3.7	-5.2	3.3	-1.5	7.0	10.6	7.7	-3.3	2.0	-1.8	-1.0	2.9	2.0	8.0	7.7

# not invested in this area for the entire period

LONDON BOROUGH OF MERTON

UBS GLOBAL ASSET MANAGEMENT

## Asset Mix and Returns

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT  
Benchmark - LB OF MERTON UBS GLOBAL EQUITY BM.

Periods to end December 2017  
Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
<i>U.K. EQUITIES</i>	163,486	55	3,895	2,583	7,265	741	172,064	55	4.9	5.0
<i>NORTH AMERICA</i>	61,147	21			3,414		64,561	21	5.6	5.6
<i>CONTINENTAL EUROPE</i>	36,681	12			87		36,768	12	0.2	0.3
<i>JAPAN</i>	17,592	6		250	1,373		18,715	6	7.8	7.9
<i>TOTAL PACIFIC (EX.JAPAN)</i>	17,812	6		250	1,362		18,924	6	7.6	7.8
<i>CASH/ALTERNATIVES</i>	-202	0	3,835	3,895		0	-262	0	n/a	
<b>TOTAL ASSETS</b>	<b>296,517</b>	<b>100</b>	<b>7,731</b>	<b>6,978</b>	<b>13,501</b>	<b>704</b>	<b>310,771</b>	<b>100</b>	<b>4.8</b>	<b>4.9</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - UBS GLOBAL ASSET MANAGEMENT  
 Benchmark - LB OF MERTON UBS GLOBAL EQUITY BM.

Periods to end December 2017  
 Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>UK Equities</i>	4.7	-1.6	-5.7	4.0	-0.4	4.7	7.7	3.7	4.5	1.5	2.0	4.9	13.5	10.2	10.3
<i>N. America</i>	5.9	-5.4	-3.5	9.0	4.2	10.3	7.1	9.0	4.8	-0.8	1.4	5.6	11.3	16.3	19.6
<i>Europe ex UK</i>	10.9	-6.0	-4.4	6.3	0.2	4.3	9.1	4.9	7.4	4.8	3.7	0.2	16.9	14.0	13.3
<i>Japan</i>	16.4	-2.3	-8.0	12.5	-4.3	8.8	12.1	5.2	3.6	1.6	0.9	7.8	14.4	18.2	16.2
<i>Pacific</i>	8.5	-8.3	-11.4	10.4	5.6	7.7	12.4	1.6	7.4	0.2	0.4	7.6	16.4	13.7	9.0
<i>Cash/ Alts</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>Total Assets</i>	6.6	-3.4	-5.6	6.2	0.8	6.3	8.3	4.9	5.0	1.3	1.9	4.8	13.6	12.6	13.0

# not invested in this area for the entire period

## LONDON BOROUGH OF MERTON

UBS ASSET MANAGEMENT

## Asset Mix and Returns

LONDON BOROUGH OF MERTON - UBS ASSET MANAGEMENT  
 Benchmark - AREF/IPD ALL BALANCED

Periods to end December 2017  
 Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
CASH/ALTERNATIVES	900	6		99			800	5	0.0	
TOTAL PROPERTY	15,019	94	1,400	1,400	305	115	15,324	95	2.9	
<b>TOTAL ASSETS</b>	<b>15,919</b>	<b>100</b>	<b>1,400</b>	<b>1,499</b>	<b>305</b>	<b>115</b>	<b>16,125</b>	<b>100</b>	<b>2.8</b>	<b>3.1</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - UBS ASSET MANAGEMENT  
 Benchmark - AREF/IPD ALL BALANCED

Periods to end December 2017  
 Pound Sterling

This page summarises the long term returns at asset class level

Return %	2015				2016				2017				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Cash/ Alts</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0	-0.0	-0.0
<i>Property</i>	3.5	3.4	3.6	3.2	0.8	1.0	-1.4	2.3	1.6	2.9	2.3	2.9	10.0	9.0	10.4
Total Assets	3.3	3.2	3.4	3.1	0.7	1.0	-1.3	2.2	1.5	2.7	2.2	2.8	9.5	8.5	10.0

# not invested in this area for the entire period

LONDON BOROUGH OF MERTON

BLACKROCK

# Asset Mix and Returns

LONDON BOROUGH OF MERTON - BLACKROCK  
 Benchmark - AREF/IPD ALL BALANCED

Periods to end December 2017  
 Pound Sterling

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation						Stock Selection			
	29/09/2017		Purchases	Sales	Gain/ Loss Income		29/12/2017		Return	B'M
	Value	%			Value	%				
CASH/ALTERNATIVES			45	45					0.0 #	
U.K. PROPERTY	7,230	100	45		173	60	7,448	100	3.2	3.1
<b>TOTAL ASSETS</b>	<b>7,230</b>	<b>100</b>	<b>90</b>	<b>45</b>	<b>173</b>	<b>41</b>	<b>7,448</b>	<b>100</b>	<b>3.0</b>	<b>3.1</b>

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

# not invested in this area for the entire period

## Summary of Long Term Returns

LONDON BOROUGH OF MERTON - BLACKROCK  
 Benchmark - AREF/IPD ALL BALANCED

Periods to end December 2017  
 Pound Sterling

This page summarises the long term returns at asset class level

Return %	----- 2015 -----				----- 2016 -----				----- 2017 -----				1yr	3yrs % pa	5yrs % pa
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Property	2.3	2.5	2.8	2.3	0.9	1.5	-2.2	1.7	1.9	2.1	2.4	3.2	10.0	7.3	
Total Assets	2.3	2.2	2.6	2.1	0.6	1.2	-2.5	1.5	1.6	1.9	2.2	3.0	8.9	6.3	

# not invested in this area for the entire period

**London Borough of Merton  
Pension Fund Advisory Committee**

**Date: 07 March 2018**

**Subject: Performance of the Pension Fund for the Quarter Ending December 2017**

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor Phillip Jones

Contact officer: Roger Kershaw

This is a Private Document

**RECOMMENDATION**

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 31 December 2017, attribution of the results and the market environment during the period.

**1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 31 December 2017.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 31 December 2017 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

**Reason for Exemption from Disclosure**

Information relating to the financial or business affairs of a particular person. (Including the authority holding that information).

## 2.0 PERFORMANCE REPORT

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by State Street GS Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 31 December 2017.
- 2.2 The report highlights the performance of the total Fund by asset class compared to the customised benchmark. It also includes comprehensive analysis of the performance of each manager against their specific benchmark and a comparison of performance over longer periods.
- 2.3 At 31 December 2017 the total Fund was valued at £689.1m, up by £27.4m (or 4.2%) since 30 September 2017.

## 3.0 Market Background/Outlook

- 3.1 Investment markets saw a continued focus on developments within the political sphere globally over the final quarter of 2017, as equities advanced and volatility remained low amidst signs of strong economic growth. Much attention was given to the progress of tax reform through the US Congress in particular, which has been a key priority for the Trump administration. Markets were cheered by clear signs of a legislative package emerging which would have support across the Republican party, and a final deal was passed in December.

Other political events over the quarter received a more mixed response from investors. While there was progress in the ongoing Brexit negotiations between the UK and the Eurozone, talks over the formation of a coalition government broke down in Germany. There was also continuing uncertainty in Catalonia following a disputed referendum over independence from Spain in October. The re-election of Prime Minister Abe in Japan was welcomed by markets however.

A third interest rate increase in 2017 from the US Federal Reserve (Fed) had been widely expected and came as no surprise in December. While the Bank of England (BoE) also moved to increase its base rate in November, further increases are likely to be gradual. In the meantime, other major central banks such as the European Central Bank (ECB) and the Bank of Japan (BoJ) reiterated their commitment to loose monetary policy.

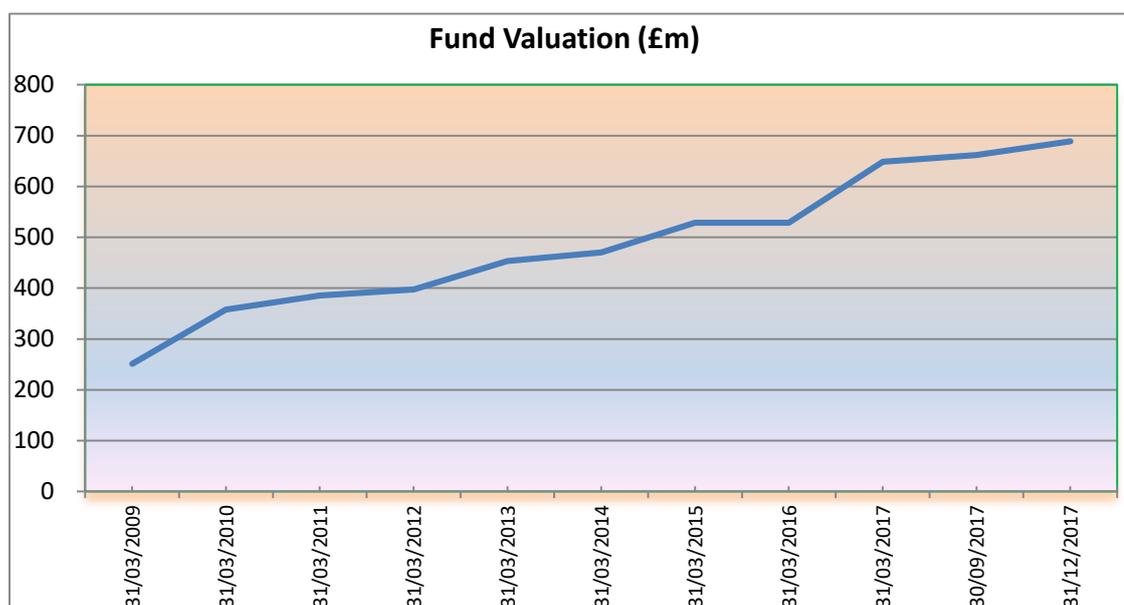
## 4.0 PERFORMANCE OF THE FUND

- 4.1 The table below shows the Fund's strategic asset allocation as at 31 December 2017 against the asset allocation of the benchmark. The Fund was overweight in Equities and underweight in Bonds and Property compared to the benchmark.

At 31/12/2017	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	74.2	22.2	0.3	3.3	100
Fund Benchmark	70.4	24.7	N/A	4.9	100
Difference	3.8	(2.5)	N/A	(1.6)	-

overweight / (underweight)					
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- 4.2 The Fund under performed the benchmark by 0.1% for the quarter ending 31 December 2017. It gained 4.2% compared to the benchmark return of 4.3% for the period.
- 4.3 The 0.1% under performance was due to stock selection. The manager's results are discussed in more detail below in section 5.
- 4.4 The following graph illustrates the Fund's market value trend between 31 March 2009 and 31 December 2017. It shows that the market value of the Fund has appreciated by £438m or 175% over the 8 ¾ yr. periods.



- 4.5 The table below shows the market value of each Portfolio at the start and end of the period. The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of investments.

<i>Fund</i>	<b>Market Value 30/09/17 £000</b>	<b>Capital Gain/loss £000</b>	<b>Income £000</b>	<b>Market Value 31/12/17 £000</b>	<b>% of Total Fund</b>
<b>UBS Passive Equity</b>	296,517	13,501	704	310,771	46
<b>Aberdeen Fixed Income</b>	149,066	4,380	(115)	153,159	22
<b>Aberdeen Active Equity</b>	125,937	5,010	137	131,102	19
<b>UBS Active Equity</b>	66,950	3,200	222	70,446	10
<b>UBS Property</b>	15,919	305	115	16,125	2
<b>BlackRock Property</b>	7,230	173	41	7,448	1
<b>Total External Fund</b>	<b>661,619</b>	<b>26,569</b>	<b>1,103</b>	<b>689,050</b>	<b>100</b>
<b>Internal Investments</b>	150	-	-	150	-

<b>Total</b>	<b>661,769</b>	<b>26,569</b>	<b>1,103</b>	<b>689,200</b>	<b>100</b>
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4.6 The following table provides detailed analysis of the return on the Fund's investment for the period relative to the benchmark.

<b>Sector</b>	<b>Market Value Sept 17 £000</b>	<b>Market Value Dec 17 £000</b>	<b>Fund Return Dec 2017 %</b>	<b>Benchmark Return Dec 2017 %</b>
<b>UK Equities</b>	287,889	302,864	4.6	5.0
<b>Overseas Equities</b>	199,625	208,263	4.9	4.8
• <i>North America</i>	67,964	72,267	5.6	5.6
• <i>Continental Europe</i>	56,167	56,542	1.6	0.3
• <i>Total Far East</i>	53,802	56,403	7.6	7.7
• <i>Other Intl Equities</i>	21,692	23,051	5.4	6.4
<b>UK Bonds</b>	37,445	38,508	3.4	3.4
<b>Overseas Bonds</b>	36,768	37,388	0.5	0.2
<b>UK Index-Linked</b>	74,713	77,129	3.9	3.9
<b>Cash Alternatives</b>	2,929	2,125	(0.9)	-
<b>Property</b>	22,250	22,773	3.0	3.1
<b>Total</b>	<b>661,619</b>	<b>689,050</b>	<b>4.2</b>	<b>4.3</b>

4.7 The Fund's assets are invested in various sectors and markets globally. During the quarter to 31 December 2017, all asset classes yielded positive returns although not all met the benchmark.

## 5.0 FUND MANAGER PERFORMANCE

### UBS

5.1 UBS manages three portfolios for LB Merton Pension Fund.

#### (1) UBS Active Global (Equity)

5.2 The market value of the active equity portfolio managed by UBS was £70.4m (£67m in September 2017). During the quarter the manager's performance of 5.1% was in-line with the benchmark.

The table below shows the movement during the period within the portfolio.

<b>UBS Active Equity</b>	<b>30/09/2017</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/Loss</b>	<b>Income</b>	<b>31/12/2017</b>	
	<b>£000</b>	<b>%</b>					<b>£000</b>	<b>£000</b>
<b>Total Equities</b>	66,484	99	3,633	3,374	3,200	296	69,943	99
<b>Cash &amp; Cash Alternatives</b>	466	1	7,193	7,157	-	-	503	1
<b>Total</b>	<b>66,950</b>	<b>100</b>	<b>10,826</b>	<b>10,531</b>	<b>3,200</b>	<b>222</b>	<b>70,446</b>	<b>100</b>

The manager's mandate is summarised in the following:

- For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the benchmark by 1% p.a.
- For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the benchmark by 2.0% p.a.

Performance of the UBS Active Equity over various time periods

<b>Period</b>	<b>Manager</b>	<b>Benchmark</b>	<b>Variance</b>	<b>Comment</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Last 3 months</b>	5.1	5.1	-	In-line
<b>Last 12 months</b>	12.5	14.2	(1.7)	underperformed
<b>Last 3 years</b>	9.7	10.6	(0.9)	underperformed
<b>Last 5 years</b>	9.6	10.5	(0.9)	underperformed

## (2) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £310.8m (£296.5m in September 2017). During the quarter the manager's performance of 4.8% underperformed the benchmark of 4.9%.

The table below shows the movement of assets during the quarter.

<b>UBS Passive</b>	<b>Sept 2017</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/ Loss</b>	<b>Income</b>	<b>Dec 2017</b>	
	<b>£000</b>	<b>%</b>					<b>£000</b>	<b>£000</b>
<b>UK Equities</b>	163,486	55	3,895	2,583	7,265	741	172,064	55
<b>North America</b>	61,147	21	-	-	3,414	-	64,561	21
<b>Continental Europe</b>	36,681	12	-	-	87	-	36,768	12
<b>Japan</b>	17,592	6	-	250	1,373	-	18,715	6
<b>Total Pacific (ex Japan)</b>	17,812	6	-	250	1,362	-	18,924	6
<b>Cash &amp; Alternatives</b>	(202)	-	3,838	3,895	-	-	(262)	0
<b>Total</b>	<b>296,517</b>	<b>100</b>	<b>7,731</b>	<b>6,978</b>	<b>13,501</b>	<b>704</b>	<b>310,771</b>	<b>100</b>

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	4.8	4.9	(0.1)	underperformed
Last 12 months	13.6	13.8	(0.2)	underperformed
Last 3 years	12.6	12.7	(0.1)	underperformed
Last 5 years	13.0	13.0	-	In-line

### (3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £16.1m (£15.9m in September 2017). During the quarter the manager's performance of 2.8% underperformed the benchmark of 3.1%.

The table below shows the movement during the period within the portfolio.

UBS Triton (Property)	30/09/2017		Purchases	Sales	Gain/Loss	Income	31/12/2017	
	£000	%	£000	£000	£000	£000	£000	%
Property	15,019	94	1,400	1,400	305	115	15,324	95
Cash & Cash Alternatives	900	6	-	99	-	-	800	5
<b>Total</b>	<b>15,919</b>	<b>100</b>	<b>1,400</b>	<b>1,499</b>	<b>305</b>	<b>115</b>	<b>16,125</b>	<b>100</b>

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	2.8	3.1	(0.3)	underperformed
Last 12 months	9.5	10.2	(0.7)	underperformed
Last 3 years	8.5	8.4	0.1	outperformed
Last 5 years	8.5	10.3	(1.8)	underperformed

### Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund.

#### (1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £131.1m (£125.9m in September 2017). During the quarter the manager's performance of 4.1% underperformed the benchmark of 4.8%.

The following below shows the movement during the period within the portfolio.

<b>Aberdeen Active Equity</b>	<b>30/09/2017</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/ Loss</b>	<b>Income</b>	<b>31/12/2017</b>	
	<b>£000</b>	<b>%</b>					<b>£000</b>	<b>£000</b>
<b>UK Equities</b>	67,251	54	5,354	3,891	2,186	261	70,899	54
<b>North America</b>	6,817	5	500	2	391	-	7,706	6
<b>Continental Europe</b>	19,486	16	2,169	2,536	654	11	19,774	15
<b>Japan</b>	10,339	8	550	1,456	811	-	10,244	8
<b>Total Pacific (ex Japan)</b>	8,059	6	-	43	502	-	8,519	6
<b>Other Intl Equities</b>	12,360	10	250	66	465	-	13,009	10
<b>Cash &amp; Alternatives</b>	1,625	1	11,898	12,573	-	1	950	1
<b>Total</b>	<b>125,937</b>	<b>100</b>	<b>20,722</b>	<b>20,567</b>	<b>5,010</b>	<b>137</b>	<b>131,102</b>	<b>100</b>

- 5.7 Although this portfolio is an active mandate, 35% is held in pooled funds. The Manager is required to outperform the benchmark by 1.25% p.a over rolling 3yr periods.

This table shows the performance of the portfolio

<b>Period</b>	<b>Manager %</b>	<b>Benchmark %</b>	<b>Variance %</b>	<b>Comment</b>
<b>Last 3 months</b>	4.1	4.8	(0.7)	underperformed
<b>Last 12 months</b>	14.8	15.9	(1.1)	underperformed
<b>Last 3 years</b>	10.6	12.6	(2.0)	underperformed
<b>Last 5 years</b>	10.0	11.7	(1.7)	underperformed

## (2) Aberdeen (Bonds)

- 5.8 The market value of the bonds portfolio was £153.2m (£149.1m in September 2017). During the quarter the manager's performance of 2.9% outperformed the benchmark of 2.8%.

The table below shows the movement during the period within the portfolio.

<b>Aberdeen (Bonds)</b>	<b>30/09/2017</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/ Loss</b>	<b>Income</b>	<b>31/12/2017</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
<b>UK Bonds</b>	37,445	25	1	213	1,274	1	38,508	26
<b>Overseas Bonds</b>	36,768	25	470	20	170	-	37,388	24
<b>UK Index Linked</b>	74,713	50	(1)	519	2,936	(1)	77,129	50
<b>Cash &amp; Alternatives</b>	139	0	752	758	-	-	133	-
<b>Total</b>	<b>149,066</b>	<b>100</b>	<b>1,222</b>	<b>1,509</b>	<b>4,380</b>	<b>(115)</b>	<b>153,159</b>	<b>100</b>

The manager is required to outperform its benchmark by 0.75% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

<b>Period</b>	<b>Manager</b>	<b>Benchmark</b>	<b>Variance</b>	<b>Comment</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Last 3 months</b>	2.9	2.8	0.1	outperformed
<b>Last 12 months</b>	2.0	1.8	0.2	outperformed
<b>Last 3 years</b>	8.0	8.0	-	In-line
<b>Last 5 Years</b>	7.7	7.9	(0.2)	underperformed

### **BlackRock (Property)**

- 5.9 The market value of the property portfolio managed by Blackrock was £7.5m (£7.2m in September 2017). During the quarter the manager's performance of 3.0% underperformed the benchmark of 3.1%.

The following table below shows the movement in the portfolio during the period.

<b>Blackrock</b>	<b>30/09/2017</b>		<b>Purchases</b>	<b>Sales</b>	<b>Gain/Loss</b>	<b>Income</b>	<b>31/12/2017</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
<b>Property</b>	7,230	100	45	-	173	60	7,448	100
<b>Cash &amp; Cash Alternatives</b>	-	-	45	45	-	-	-	-
<b>Total</b>	<b>7,230</b>	<b>100</b>	<b>90</b>	<b>45</b>	<b>173</b>	<b>41</b>	<b>7,448</b>	<b>100</b>

The manager is required to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

This table shows the performance of the portfolio.

<b>Period</b>	<b>Manager</b>	<b>Benchmark</b>	<b>Variance</b>	<b>Comment</b>
	<b>%</b>	<b>%</b>	<b>%</b>	

<b>Last 3 months</b>	3.0	3.1	(0.1)	underperformed
<b>Last 12 months</b>	8.9	10.2	(1.3)	underperformed
<b>Last 3 years</b>	6.3	8.4	(2.1)	underperformed

**6. OTHER ISSUES AFFECTING THE FUND**

6.1 None

**7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

7.1 All relevant implications are included in the report.

**8. LEGAL AND STATUTORY IMPLICATIONS**

8.1 All relevant implications are included in the report.

**9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

9.1 N/A

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

10.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

**11. BACKGROUND PAPERS**

11.1 State Street Analytics performance report and individual Fund Managers investment reports.

## London Local Authority Response to London CIV Consultation on Strategy

Completed by on behalf of Merton:

London Borough of Merton Pension Fund
---------------------------------------

Do you believe the Strategy Proposal from the London CIV is: Yes    No

Broadly appropriate subject to clarifications and further detail	<input type="checkbox"/>	<input checked="" type="checkbox"/>
--	--------------------------	-------------------------------------

Needs revisions and/or a different direction	<input checked="" type="checkbox"/>	<input type="checkbox"/>
--	-------------------------------------	--------------------------

<i>As a minimum Merton Pension Fund wants to have control over its Strategic Asset Allocation and in selecting the individual fund managers on the LCIV platform to manage the investments on its behalf.</i>
---

### Governance

Do you agree with the proposals to: Yes    No

Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
--	-------------------------------------	--------------------------

Form a small consultative shareholder group of 12 Treasurers and Pension Chairs. How to determine that 12 is the correct number to represent all 32 boroughs? How this will be decided?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
---	-------------------------------------	--------------------------

Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer. Merton Pension Fund wish to see the treasurer representative on the board given equal status, with full voting rights. By giving Funds this greater influence in the decision making process would help to build trust with the LCIV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
---	-------------------------------------	--------------------------

**The Chair of the main Shareholder group should be:**

	Tick
Political leader	<input type="checkbox"/>
Elected from the Shareholders	<input checked="" type="checkbox"/>
Independent	<input type="checkbox"/>

\*\*\*\*

**The Chair of the Shareholder consultative group should be:**

	Tick
The Chair of the shareholder group	<input type="checkbox"/>
The Chair of the London CIV	<input checked="" type="checkbox"/>
Elected by all Shareholders	<input type="checkbox"/>

\*\*\*\*

**The London CIV Board should be expanded by:**

	Tick
The Chair of the main shareholder group	<input type="checkbox"/>
A Shareholder nominated by all shareholders	<input checked="" type="checkbox"/>

\*\*\*\*

**Yes      No**

<b>It is proposed that the IAC becomes a forum to share ideas and consult with LLA's, when appropriate. Do you agree?</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
---	--------------------------	-------------------------------------

*Additional comments:*

Merton Pension Fund agrees with the "share Ideas and consult with LLA" proposal but the IAC must meet on a regular basis (2-3 months) and not simply when it is appropriate.

Effective work with both treasurers and the pension managers is key to restoring trust in the LCIV and the IAC could be a valuable forum for sharing ideas.

This will enable the LLAs to have regular opportunities to discuss concerns regarding investments and Investment managers.

**Client**

**Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:**

	<b>Yes</b>	<b>No</b>		
A service level agreement which would set out how the London CIV would service and consult with LLAs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
This Responsible Investment Policy should be agreed by what % of Shareholders:	50% <input type="checkbox"/>	66% <input checked="" type="checkbox"/>	75% <input type="checkbox"/>	Other <input type="checkbox"/>

\*\*\*\*

	<b>Yes</b>	<b>No</b>
<b>Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

\*\*\*\*

	<b>Yes</b>	<b>No</b>
<b>Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

\*\*\*\*

<p><i>Additional comments:</i></p> <p><i>The SLA should be similar to Merton’s IMA with its fund managers in particular: -</i></p> <ul style="list-style-type: none"> <li>• <i>the process of how the fee saving will be met by the individual funds</i></li> <li>• <i>exit process</i></li> <li>• <i>communication</i></li> <li>• <i>reinvestment options/moving investment from one sub fund to another</i></li> </ul>
--

**Investment**

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool <b>will</b> improve the Investment returns of my Borough’s Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	<input type="checkbox"/>
The revised strategy of the London CIV <b>will not</b> improve the investment returns of my Borough’s Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	<input checked="" type="checkbox"/>

\*\*\*\*

Merton Pension Fund (MPF) would like to retain the full strategic and the tactical asset allocation responsibilities. This will help the to address the Fund’s cash flow requirements, risk appetites, funding level concerns and the responsible investment policy in specific to the fund’s needs. This is broadly provided by the basic blended on the proposal but concerns over the simple blended buckets across core asset classes only.

The MPF propose another moderate option which will allow the fund to have control over all the concerns raised above. •

This Option which will follow the same overall responsibilities as the Basic option however will not be blended so Funds can invest in the strategies that meet their individual requirements. Each Manager within the Pool will have a separate investment focus (eg Income, Growth, low carbon, concentrated/diverse, geographically focussed, etc)

Please send your response to [Chloe Crouch](#) by 28<sup>th</sup> February 2018

**London Borough of Merton**  
**Pension Fund Advisory Committee**

**Date: 07 March 2018**

**Subject: London Collective Investment Vehicle (London CIV) update and Shareholders consultation.**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor

Contact officer: Roger Kershaw

This is a Private Document

**RECOMMENDATION**

Merton Pension Fund is a shareholder of the London LGPS CIV Ltd which is authorised and regulated by the Financial Conduct Authority. All thirty-three London authorities (including the City of London) are members of the London CIV.

Members are asked to note the update on London CIV on the main report and to discuss and approve the shareholder's consultation document. Appendix 3

**The Purpose of the Report**

This report provides the Panel an update on LCIV's current position and the investment options available for the boroughs to invest via LCIV platform.

The report and the Appendix 1 -3 details the London CIV consultation proposal and the Merton Pension Fund's draft response.

**Reason for Exemption from Disclosure**

Information relating to the financial or business affairs of a particular person or entity. (Including the authority holding that information).

## 1. CONTEXT

- 1.1 The London CIV was launched in December 2015, the London CIV is unique in being the first fully authorised and regulated investment management company set up by local government, for local government in the UK.
- 1.2 The London CIV aim to delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.”
- 1.3 London CIV’s currently have 6.3bn AUM across 11 sub-funds, £6.9bn AUM in passive alongside the CIV platform. the table below detail the number of Sub funds available and, the investment by boroughs.

Fund	AUM (29/12/17)*	Delegated Manager	Launch Date	No. of investors
<b>Global Equities</b>				
LCIV RBC Sustainable Equity	Pending	RBC Global Asset Management	Not yet launched	Pending
LCIV HN Emerging Markets	£80m	Janus Henderson	08 Jan 2018	1
LCIV EP Income Equity	£140m	Epoch Investment Partners	08-Nov-17	1
LCIV LV Global Equity	£442m	Longview Partners	17 Jul 2017	3
LCIV NW Global Equity	£641m	Newton Investment Management	22 May 2017	3
LCIV Global Alpha Growth	£1.8bn	Baillie Gifford & Co	11-Apr-16	9
LCIV Global Equity Alpha	£742m	Allianz Global Investors GMBH	02 Dec 2015	3
<b>UK Equity</b>				
LCIV MJ UK Equity Fund	£531m	Majedie Asset Management	18-May-17	3
<b>Multi-Asset</b>				
LCIV NW Real Return	£344m	Newton Investment Management	16 Dec 2016	3
LCIV RF Absolute Return	£834m	Ruffer LLP	21 Jun 2016	9
LCIV PY Global Total Return	£359m	Pyrford International Limited	17 Jun 2016	4
LCIV Diversified Growth	£477m	Baillie Gifford & Co	15 Feb 2016	6

### Governance Review

- 1.4 A Governance Review that was commissioned from Willis Towers Watson by the London Local Authorities and the London CIV was presented at the PSJC in December 2017.
- 1.5 The Review and feedback from shareholders indicated a need for the London CIV to change its Governance Arrangements and clarify its purpose and future strategy. The report highlighted the need to clarify the purpose of the LCIV and establish new governance arrangements

- 1.6 As a result, the LCIV has initiated a consultation exercise (Appendix 1-3) with key stakeholders to clarify the purpose of the London CIV and set out the direction of its future strategy. Although the governance review report proposes a considered vision of how the London CIV should operate, it does not purport to be a fully formed proposal and as such LCIV welcome constructive engagement and feedback.
- 1.7 Consultation is underway with Shareholders with recommendations to be made to the Leaders' committee in March. The consultation is aimed at three key areas
- Governance arrangements with Shareholders
  - Formalisation of relationship between LCIV and Clients
  - Level of Investment discretion granted to the LCIV
- 1.8 Appendix 3- details the Merton Pension Fund's response to the Consultation. A draft response was submitted on the due date 28 Feb and after today's meeting the Fund will submit its final response to LCIV.

## **2. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

2.1 N/A.

## **3. LEGAL AND STATUTORY IMPLICATIONS**

3.1 are no legal implications or legislative requirements associated with this report.

## **4. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

4.1 N/A

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

5.1 N/A

## **6. BACKGROUND PAPERS**

6.1 LCIV presentation and the Consultation documents



# LCIV Proposed Strategy for Consultation

January 2018

# Contents



- Introduction – Page 3
- Background – Page 4
- Executive Summary – Page 5
- Consultation Process – Page 6
- Governance – Page 9
- Client– Page 12
- Investment – Page 17

- The Governance Review that was commissioned from Willis Towers Watson by the LLAs and the London CIV was presented at the PSJC in December 2017. The Review and feedback from shareholders indicated a need for the London CIV to change its Governance Arrangements and clarify its purpose and future strategy.
- The London CIV, formally established two and a half years ago, has brought £14bn of LLAs assets under LCIVs oversight. In the current year, there will be an annualised £6m of savings in management fees for LLAs which exceeds the cost of operating the CIV. However, the London CIV recognises that to date, while it has achieved a great deal, its current vision needs to be clearer and it needs to be delivered in a more compelling way for LLAs to achieve their objectives.
- This report aims to initiate a consultation with key stakeholders to clarify the purpose of the London CIV and set out the direction of its future strategy. Although the report proposes a considered vision of how the London CIV should operate, it does not purport to be a fully formed proposal and as such we welcome constructive engagement and feedback.
- A consultation process is therefore key to ensuring that the proposals are appropriate for London. The key steps in the Consultation process are set out on page 7 and it is hoped that this can be concluded by the end of the 1<sup>st</sup> Quarter 2018. This would then allow the London CIV to start building for the future.

*“A Collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.”*

# Background



- The review by Willis Towers Watson indicated that the London CIV was in an “invidious” position and urgently needed to refresh its governance arrangements and clarify the mission of the London CIV and its future direction.
- The London CIV was initially set up as a voluntary arrangement and has faced a number of challenges in building a pooling vehicle for LLAs. A number of concerns have been raised:
  - The lack of transparency and communication by the London CIV with LLAs
  - The lack of clarity over future fund launches
  - The time required to launch funds
  - The level of LCIV staff turnover
  - Concerns over the capabilities of LCIV in managing LLA assets
  - The ineffectiveness of the various governance bodies
  - Concerns that real benefits will not be delivered to LLAs
- These concerns need to be addressed by revisiting how the LCIV will operate and engage with LLAs going forward. In particular the Board of the LCIV now wishes to consult on three key areas: **Governance, Client and Investment**:
  - The creation of effective supervisory arrangements to improve the channels of communication between LCIV and LLAs Pooling. – a **Shareholder** perspective
  - The needs of Local Authority Pension Funds to achieve their individual pooling objectives– a **Client** perspective
  - That in operating the Pool investment efficiencies are maximised wherever possible so that the benefits of fee savings and enhanced performance amounting to 50 bp p.a. are realised. – an **Investment** perspective.
- Importantly, the LCIV budget for 2018 remains unchanged as the LCIV Board believes that the changes outlined in this report can be achieved in 2018 within the existing financial framework.

# Executive Summary



- The design of the London CIV was intended to provide London Local Authorities (LLAs) with a investment organisation to undertake Voluntary Pooling. Difficulties in executing this vision and the Central Government policy of mandated pooling mean that it is now appropriate to revisit the design of the London CIV.
- The need to clarify the vision and strategic direction of the London CIV has been recognised by both LLAs and the London CIV and there is now an appetite to find an effective and sustainable way forward to deliver Pooling alongside the benefits originally envisaged when the London CIV was established.
- The London CIV wishes to consult with LLAs throughout the first quarter 2018 to develop a sustainable pooling vehicle for London and is proposing the following initial Key Proposals:

## **Governance – Clearer Roles**

In line with the discussions at the December PSJC, the London CIV will;

- Host two General Meetings a year with all shareholders and disband the PSJC under the London Councils framework.
- Form a small consultative shareholder group of 12 Treasurers and Pension Chairs.
- Invite the Chair of the General Meeting onto the Board of the London CIV and a Treasurer as an observer.

## **Client – More Personalised Engagement**

- A general service level agreement with the London CIV will be agreed. This would set out how the London CIV would service and consult with LLAs.
- The London CIV would agree with each LLA individually:
  - The level of investment discretion delegated to the London CIV from three choices of Investment Mandate. This would allow the level of delegation to the London CIV to be personalised for each LLA.
  - A transition plan to agree a match of the strategic asset allocation of each LLA to the London CIV investment offering. The timing of the transition would be agreed to allow LLAs to either be early adopters or late adopters of Pooling.
- A Responsible Investment Policy framework would be proposed by the London CIV and agreed by shareholders.

## **Investment – Greater Benefits (50bp p.a.)**

- Develop blended investment mandates for core asset classes that have a number of managers in each fund.
- Allow LLAs the option to grant investment discretion to the London CIV to gain greater efficiencies.
- Offer Passive Trackers and a Liability Aware Fund as a low cost option.
- Existing funds continue to be managed as normal.

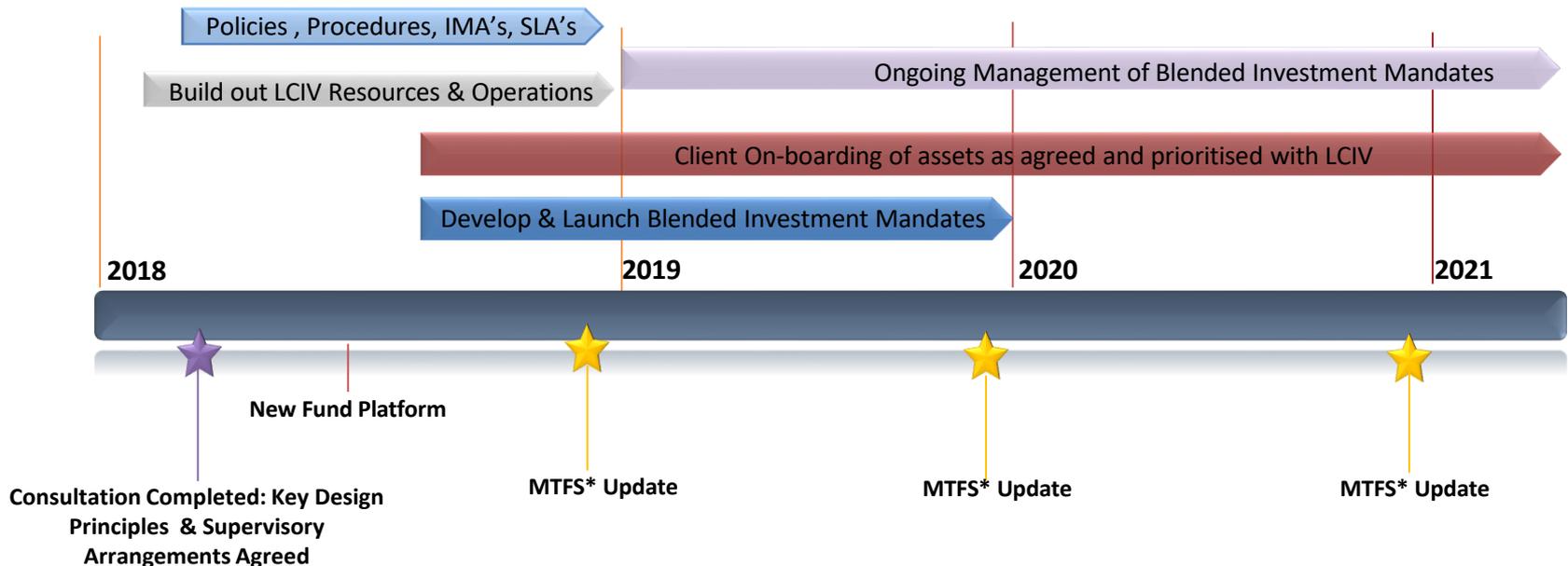
## **Financial – No Change in Budgets in 2018**

# Consultation Process

- Governance Review Presented and wider review initiated
  - Governance Steering Committee 11<sup>th</sup> December
  - PSJC 11<sup>th</sup> December
  - London CIV Board 13<sup>th</sup> December
- 1st Consultation Cycle
  - Treasurer's Group 18<sup>th</sup> Jan
  - PSJC 31<sup>st</sup> Jan\*
- 2<sup>nd</sup> Consultation Cycle
  - London CIV Board 14<sup>th</sup> February
  - Treasurer's Group 15<sup>th</sup> February
- Final Version
  - PSJC 14<sup>th</sup> March
  - Leaders 20<sup>th</sup> March\*

# Indicative Timelines of LCIV Proposal

- Detailed planning has not occurred so timelines are only indicative. However, we would aim to have the new arrangements operating by end 2018.
- Key milestones:
  - Complete consultation in 1<sup>st</sup> quarter 2018
  - Build out LCIV resources and operations during 2018
  - LCIV develops blended investment funds with first funds launched in 2018.
  - First LLA fully transitioned into LCIV by end 2018.
  - The blended investment funds would be further developed over 2019.
  - The transition of all LLAs to the LCIV could exceed two years as we begin to transition LLAs and expect to improve the pace with experience.



\* Medium Term Financial Strategy

# Governance

# LCIV Governance

## Key Governance Proposals

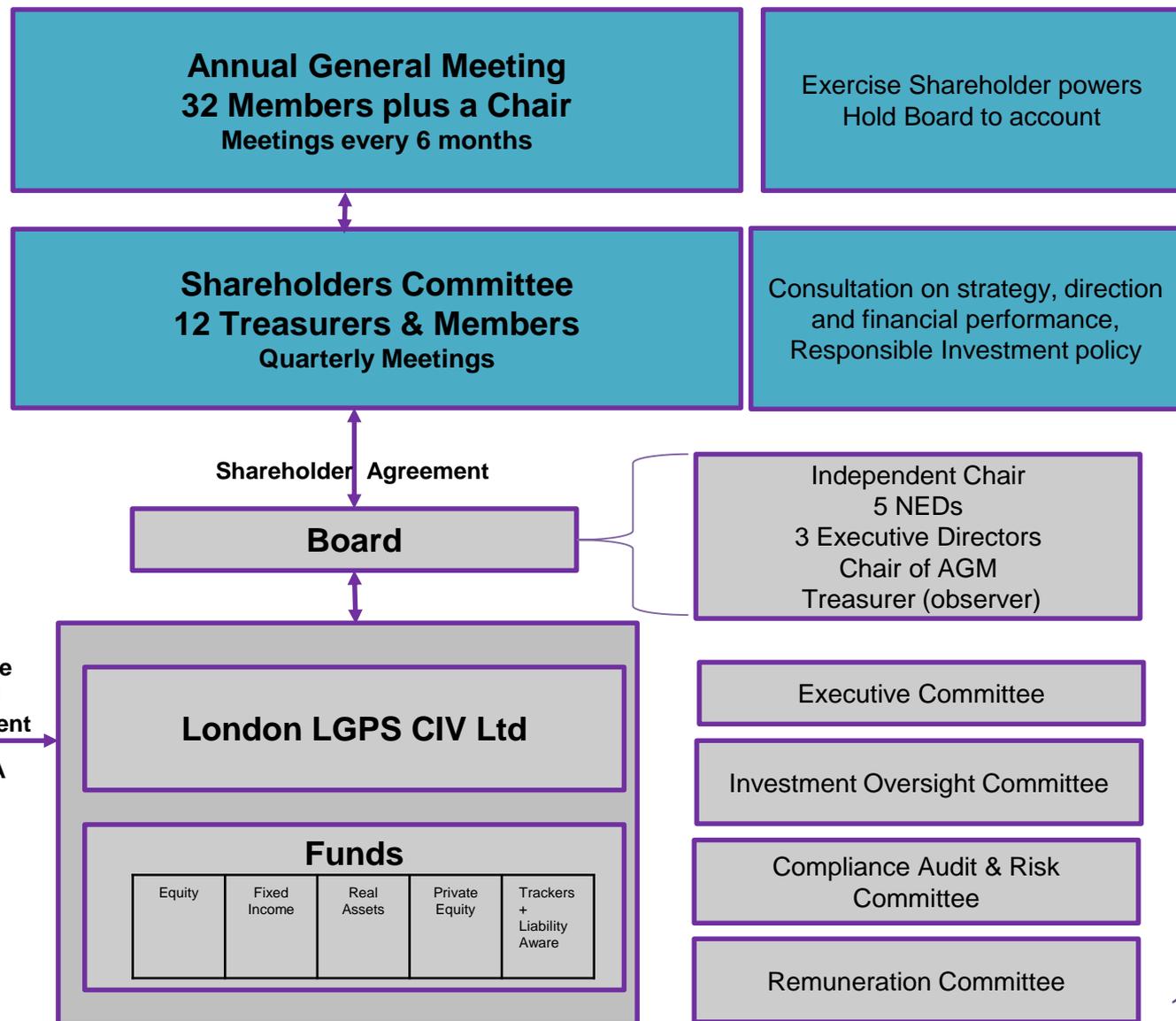
### Shareholder

- A General Meeting of the London CIV will be held twice a year with all 32 shareholders plus a Chair, managed by London CIV. The meeting is to inform all shareholders on the performance of the LCIV and allow shareholders to exercise their rights under the Shareholders Agreement.
- A new 12 person Shareholders Committee will be formed of a mix of Treasurers and Members. The committee meets quarterly and will consult on strategy and allow shareholders to share issues and concerns with the LCIV Board. Chaired by the Chair of the LCIV.
- The London CIV Board is expanded with the addition of the Chair of the General Meeting. A treasurer will be an observer. The Board will continue to take decisions in the interests of all shareholders and seek to consult with shareholders before taking critical decisions.
- The Shareholder Agreement is not altered but continues to set out the responsibilities of the various parties. The arrangements are formalised by Terms of Reference of the General Meeting and Shareholders Committee.

### Client

- The IAC becomes a forum to share ideas and consult with LLAs, when appropriate.
- The arrangements with LLAs are formalised via a Service Level Agreement (SLA) and, if appropriate, an Investment Management Agreement (IMA).

# Proposed Governance Structure of London CIV



**Client**

# Client Engagement

The LCIV has operated to date on the basis that LLAs engagement with the LCIV is voluntary. This led to a client engagement model where the LCIV acts as a procurement vehicle with LLAs expressing their requirements via Working Groups. Central Government has now mandated pooling and we need to find a new engagement model that meets the investment objectives of all LLAs and the fact that LCIV was not formed with a set of common investment beliefs.

Given the wide range of LLAs investment objectives it is proposed that LCIV seeks to develop a personalised approach for each LLA.

- We therefore propose a new client engagement model where roles and responsibilities are clearly defined, and we establish a more formal and professional relationship.
  - A Service Level Agreement will provide clarity of roles and responsibilities, a clear mandate holding LCIV to account and alleviate some of your current responsibilities. LCIV will provide performance reviews, feedback on your investment mandates, and be available for committee meetings as required. Each LLA will have a named client relations director and client service executive for support.
  - If appropriate, an individual Investment Management Agreement (IMA) will be agreed between the LLA Pension Fund and LCIV setting out the level of investment discretion delegated to LCIV.
- LCIV will work closely with each LLA to map their Strategic Asset Allocation to the LCIV funds and determine the type of investment mandate the LLA prefers. A transition plan and the timing of the transition would be agreed to allow LLAs to decide to be either be early or later adopters of pooling.
- To ensure that the LCIV understands the needs of LLAs, we would carry out regular consultations to determine future client requirements.
- The LCIV will not be able to accommodate individual ESG policies for each LLA. Instead it will propose a Responsible Investment Policy that will be laid before Shareholders at an AGM and then, if agreed, this will be binding on all LLAs.

# Client Reporting: Sample of Reports

## CIV Quarterly Report

- Commentary on your Personalised Investment Mandate via both qualitative and quantitative analysis.

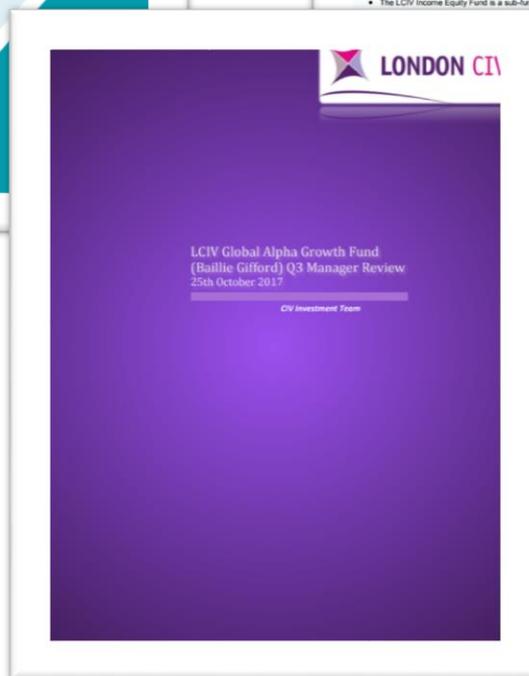


## Information Sheet

- Objective
- Policy
- Fund summary
- Practical information
- Key characteristics
- Top 10 Holdings
- Sector & Country Weights

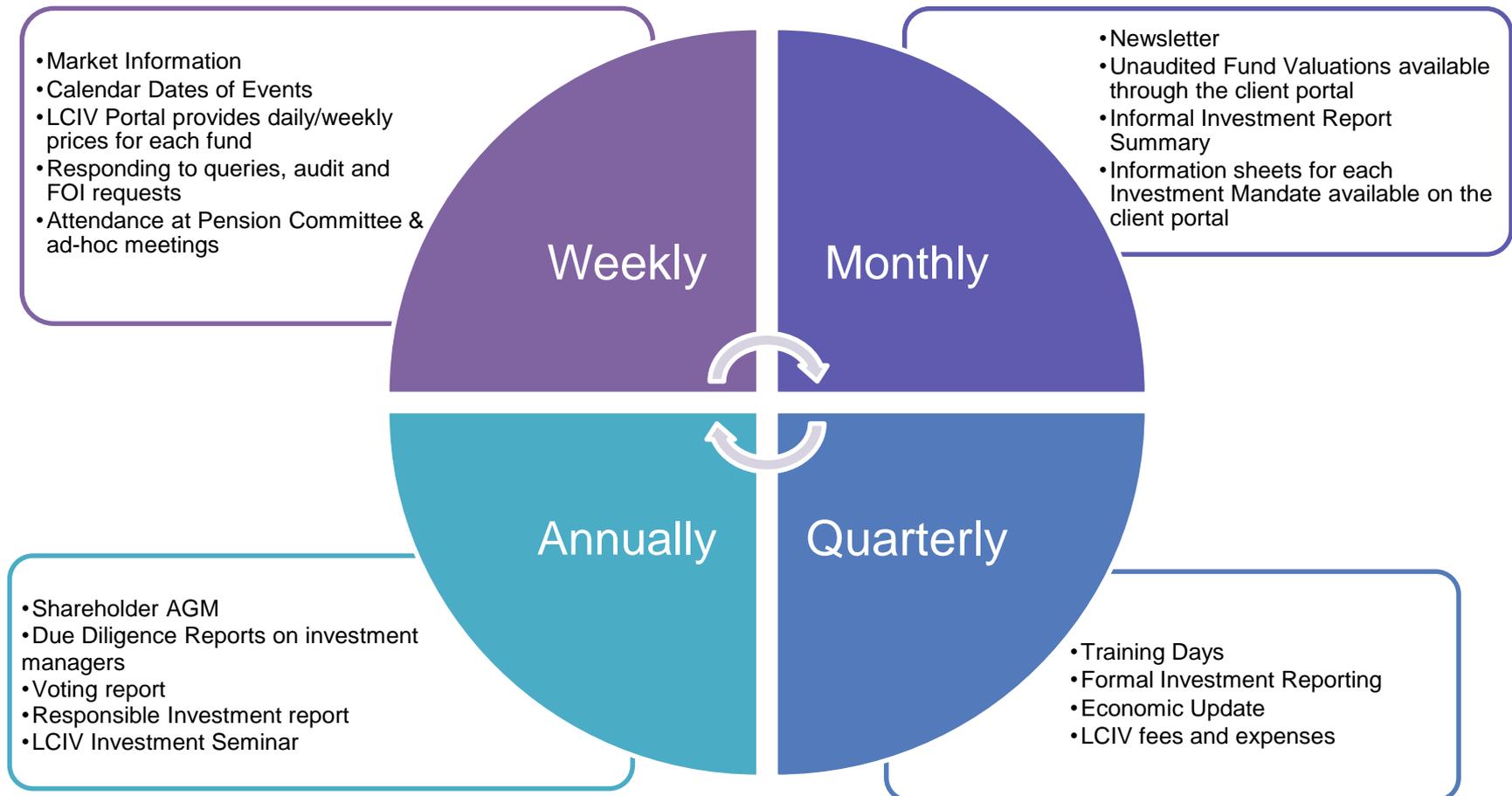
## Market Review

- LCIV Investment team review of current market conditions, concerns and opportunities.



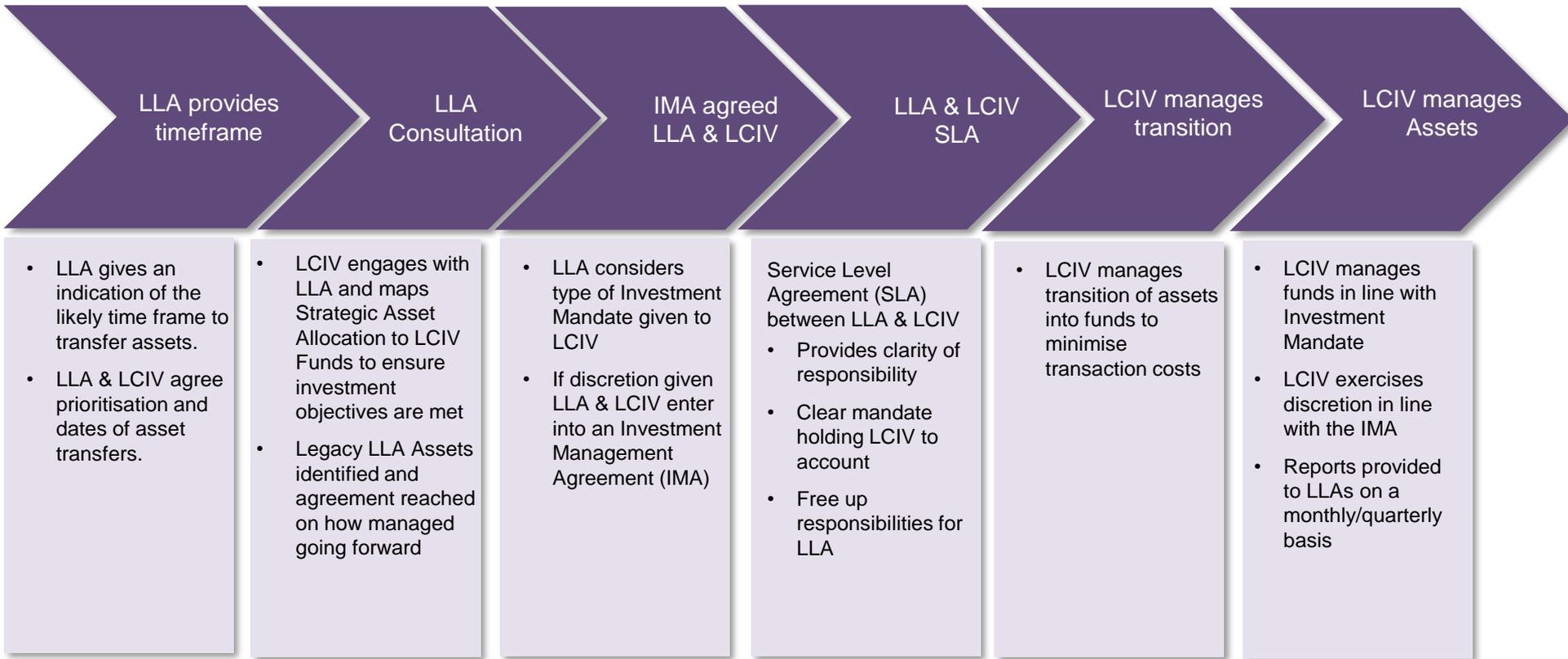
# Client Engagement Model

Named Client Relations Directors and Client Service Executives will be the principal London CIV contacts, who are available to respond to any queries, audits and FOI requests. They are available to attend Pension Committees and ad hoc meetings when required.



# On-boarding Model – Client by Client

The diagram below illustrates the on-boarding process for an individual LLA. We anticipate repeating this process 32x, prioritised and planned in consultation with the LLAs as we identify early and later adopters.



# Investment

# Investment Overview



The pools approach to investment is critical to the delivery of benefits. The scale of the benefits of pooling were investigated by Central Government and accepted to be significant enough to warrant making pooling mandatory. When discussions were taking place with Leaders to establish the London CIV PwC defined the benefits of pooling for London as an estimated saving of 15bp in fees and 35bp in investment outperformance.

In order to achieve the 50 bp p.a. of benefits it is important that the LCIV is given appropriate discretion in the management of the LLA assets. In particular, it needs discretion to be able to:

- Adapt to new investment approaches as they arise or as regulations change.
- Gain access to the full universe of investment managers.
- Have clarity and certainty over the size of the Investment mandate to negotiate fees.
- Minimise operational drag in implementing Investment decisions.
- Maximise visibility of cash flow so it can be managed efficiently.
- Maximise tax efficiency.
- Ensure efficient transitioning of assets across managers or asset classes.
- Ensure FX hedging efficiency.

# Investment– Current Issues

- The current Investment model that was adopted is predominantly a **procurement platform**, with each LLA asking the London CIV to put a specific strategy or manager on the platform.
- The current investment approach has introduced a number of significant investment constraints:
  - **Access** to managers. It actually reduces access as the volume of money necessary for 32 different LLAs to reach allocation targets will automatically exclude certain investment opportunities and smaller managers.
  - **Inefficient implementation and launch process.** No fund can be launched without sufficient seed money from the LLAs. The lack of first mover advantage has meant that this seed money is often not readily forthcoming. This creates delays and potentially leads to high “opportunity costs”.
  - **Liquidity management.** Access to illiquid strategies can often lead to LLAs holding back cash for investment, which creates cash drag.
  - **Rebalancing.** A consistent, efficient rebalancing strategy which accounts for market liquidity is currently not available via the London CIV. This can lead to asset allocations significantly deviating from the strategic levels.
  - **Manager deselection.** The responsibility to decide to terminate a manager is unclear and potentially slow.
  - **Risk** There is no assessment on the risk consequence of adding a new manager to a LLA portfolio, so losing the benefits of recycling reductions in risk to generate greater returns.
  - **Lack of Accountability** of decisions can lead to poor outcomes
  - **Rigidity.** Inflexible fund structuring can exclude investment opportunities.
- Our assessment of the current model indicates that it will not achieve the 50bp p.a. target originally specified.
  - Almost no discretion has been granted to the LCIV to achieve the 35bp improved investment performance.
  - Fee savings should be achievable. Savings to date have been modest, though greater savings are expected in Fixed Income and Real Assets.

# Investment Overview - Proposal

The Board proposes giving the LLAs **three flexible investment mandate options** that can deliver the full investment benefits originally specified when the London CIV was formed and would enable LLAs to meet their individual objectives.

The **three investment mandate options** proposed for consultation are;

- **Low Cost:** Passive Equity Funds and a Liability Aware fund.
- **Basic:** Blended Investment Mandates established across asset classes with the LLAs selecting fixed amounts in each according to their Strategic Asset Allocation.
- **Enhanced:** Blended and Low Cost Investment Mandates established with LCIV providing tactical asset allocation as opportunities arise. LLAs will be able to tailor the amount of discretion afforded to the LCIV in their individual IMA.

Each LLA can choose which option they feel is most suitable and appropriate for them and this may evolve over time. Every LLA will have a Service Level Agreement (SLA) with LCIV providing clarity of roles and responsibilities.

# Three Investment Mandate Options



## LLA Responsibilities

## LCIV Responsibilities

### Low Cost

- LLAs invest in Passives (off-ACS) Equity fund investments
- LLAs may select Liability Aware Fund themselves, or ask LCIV to assist
- LLAs manage the allocation between Equity and LDI, as well as the rebalancing between them.

- LCIV will ensure that passive funds are suitable and LDI manager is acting appropriately.

### Basic

- LLAs retain responsibility for strategic and tactical asset allocation, cash management and rebalancing

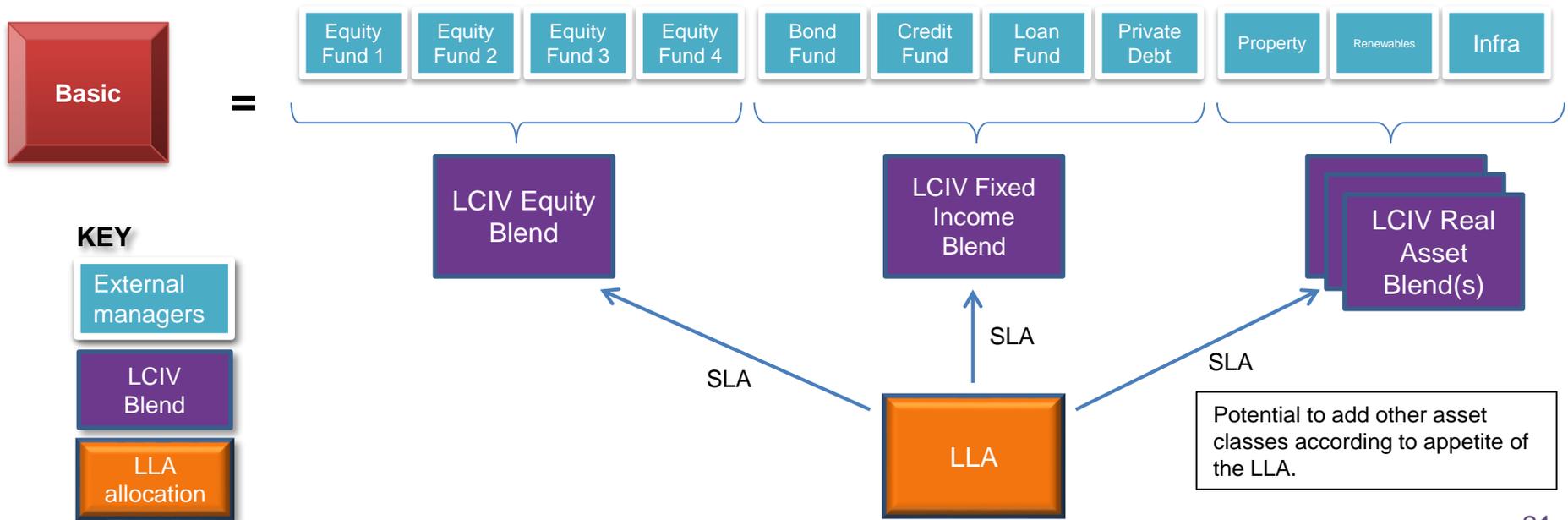
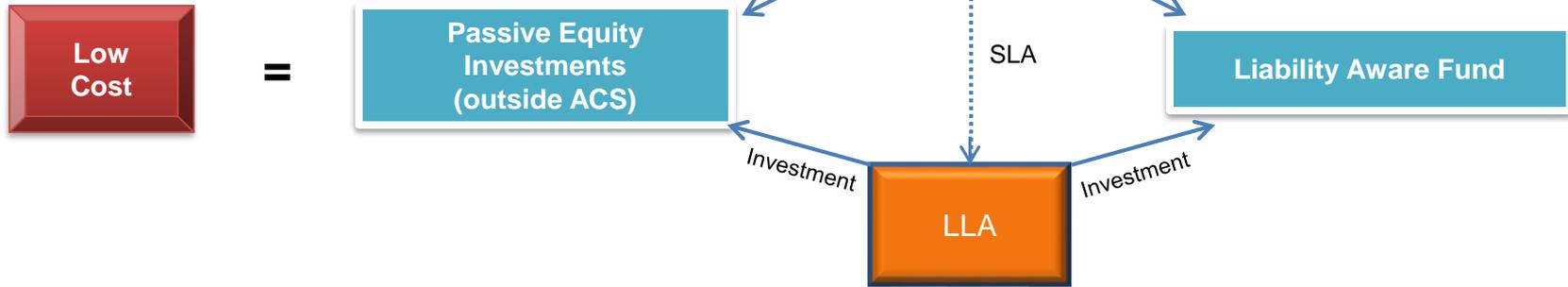
- LCIV develops Blended investment mandates in each core asset class (e.g. Equity, Fixed Income, Real Assets etc.)
- LCIV responsible for selecting and terminating underlying investment managers

### Enhanced

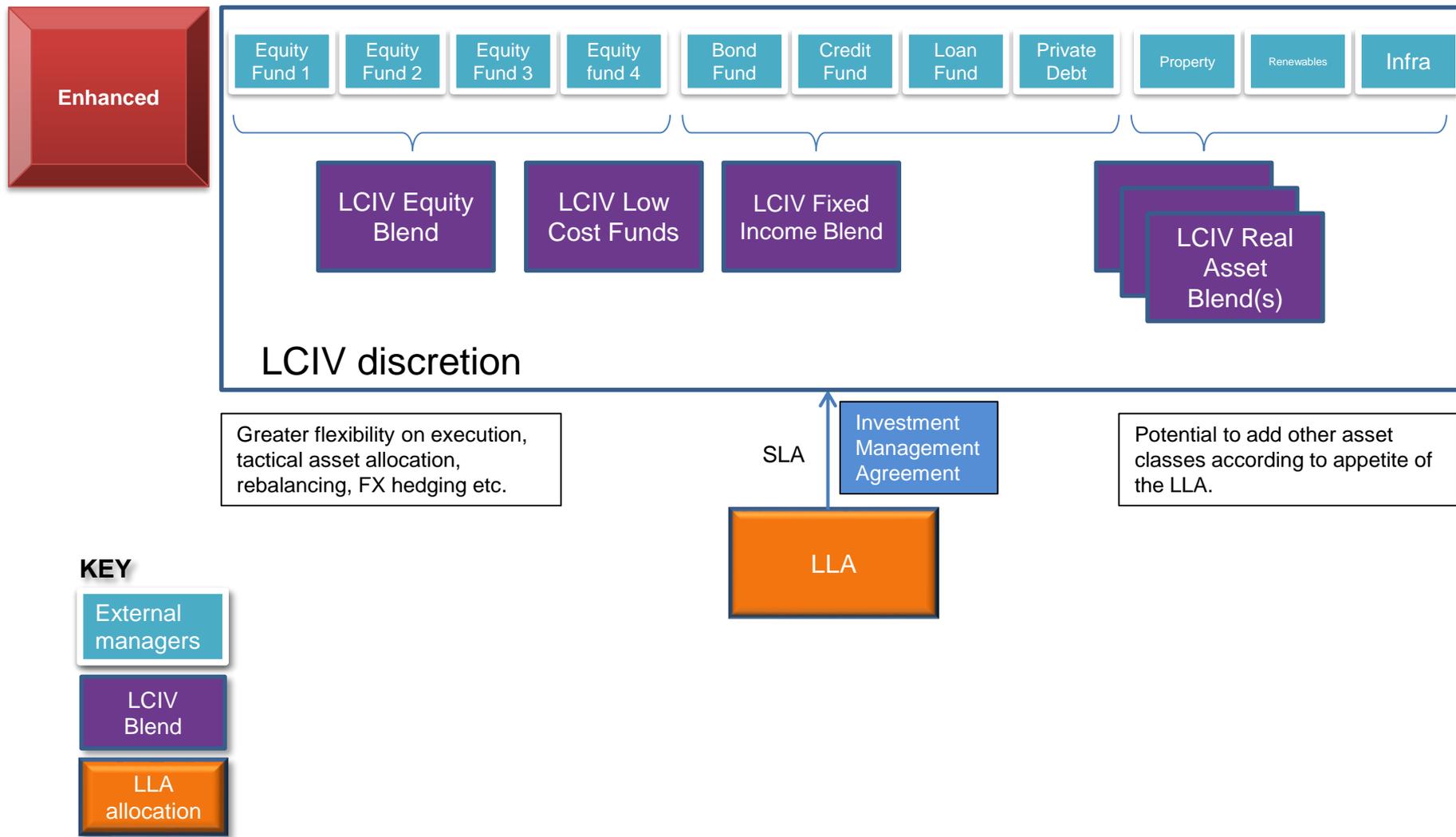
- LLA determines overall Strategic Asset Allocation and defines which other delegations it is comfortable affording the LCIV in an IMA.

- LCIV invests in the LCIV funds as in Basic option.
- In addition the assets are managed in line with IMA. This might include for example:
  - Tactical Asset Allocation (within ranges set by LLA)
  - Rebalancing (frequency and range to be agreed by LLA)
  - FX hedging
  - Transition management
  - Cash Management

# Flexible choice: Three Investment Mandate Options



# Flexible choice: Three Investment Mandate Options



# Investment Model Options Overview

Levers	Explanation	Current Model	Low Cost	Basic	Enhanced
Rebalancing	Consistent and efficient rebalancing strategy	Available	Available	Available	Available
Liquidity	Provision of liquidity to separate accounts and tailored strategies so minimise cash drag.	Available	Available	Available	Available
Diversification	Well-diversified portfolios, built to fully utilise risk budget.	Potentially available, with caveats	Potentially available, with caveats	Potentially available, with caveats	Available
Illiquid	Vintage diversification, secondaries, manager access, co-invest opportunities	Available	Potentially available, with caveats	Available	Available
Manager termination	Consistent and efficient sell discipline and implementation	Available	Available	Available	Available
Operational & Administration	Custody fees, implementation efficiency, Audit costs, transition costs, etc.	Potentially available, with caveats	Available	Potentially available, with caveats	Available
Governance	Both in terms of fund manager governance and reporting to the LLAs	Available	Available	Available	Available
Alpha	Speed of appointment and reallocation	Available	Available	Available	Available
<b>Probability of reaching 50bp outperformance target (net of LCIV costs).</b>	Made up of 15bps fee savings + 35 bps investment outperformance	<b>20%</b> - fee savings largely negated by LCIV fees. Some investment outperformance but insufficient to meet target.	<b>20%</b> - cheapest option will lead to fee savings. Investment outperformance entirely dependent on individual LLAs.	<b>75%</b> - fee savings and investment outperformance achievable.	<b>95%</b> - fee savings and investment outperformance achievable.

## Key

Borough only, if possible

Potentially available, with caveats

Available



**LONDON CIV**

22 January 2018

Dear Leader

### **Future Direction of the London CIV**

The London CIV will be bringing a report on the future direction of the London CIV to the Leaders' meeting in March.

Ahead of that, we thought that it would be useful to write setting out where the CIV is now and the reasons for bringing you a report in March.

The London CIV was formally established two and half years ago. Since then it has secured regulatory approval, established a team of 16 staff and by the end of this year will have brought £14bn of LLAs assets under LCIVs oversight. In the current year, there will be an annualised £6m of savings to the LLAs in management fees as a result of the work of the CIV. This puts the CIV some way ahead of the other pooled funds that are currently being established.

However the wider context has changed radically since London Councils took its decision to establish the CIV. In particular, the Government has decided that pooling should be mandatory across the country and have set an ambitious timetable for this to be progressed. The London CIV was very consciously set up as a voluntary scheme with the decisions on investment lying with the individual LLA pension funds.

In order to respond to this changed context and take stock of progress, a Governance review was undertaken last year jointly by LCIV, the Joint Committee (PSJC) overseeing the work of the CIV, and the LLA Treasurers. Willis Towers Watson was commissioned to lead the review and presented their final report to the Governance Review Steering Group in December.

The Towers Watson report pointed to the need to both clarify the purpose of the CIV and establish new governance arrangements that reflected this purpose. At present, the CIV is reporting to multiple different stakeholders in a complex way with the risk that none of them feel entirely satisfied with their ability to influence it. The report also recommended that the CIV strengthen its capacity to engage with individual LLAs.

The PSJC will consider its response to the report at its meeting on the 31<sup>st</sup> January. From discussions at the Steering Group, there is a fair degree of agreement on the changes to the governance that need to be made. As part of the discussion the PSJC will also receive a report on the alternative pooling models that have been set up so that we can compare and contrast them with the London model. LCIV have also reflected on what is the most effective approach to investment and engagement with individual LLAs going forward.

Recommendations from this discussion will come to the Leaders' Committee in March.

At the same meeting, the PSJC will have the updated Medium Term Financial Strategy and Budget for next year for the CIV to approve. The numbers put forward in it will be very much in line with the Strategy agreed last year.

LCIV is a start-up and has perhaps inevitably experienced some of the growing pains that go with this. Hugh Grover, who played a vital role in getting LCIV up and running has now stepped down and Mark Hyde-Harrison, a very experienced investment manager is covering the role on an interim basis. We will also be recruiting for a new Chief Investment Officer in the near future. In both cases it makes sense to complete the review work before undertaking this recruitment. The LCIV are confident that we can continue to make good progress.

London was a pioneer in establishing pooled arrangements and is consequently ahead of the rest of the country in this regard and LLA leaders played a key role in creating the LCIV. It makes sense to take stock now on how best to deliver the original vision for the CIV in the light of the wider changes that are happening on local authority pension fund management.

Do please get in touch if you would to have a discussion ahead of the Leaders' Committee meeting in March.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R W Kerslake', written in a cursive style.

Lord Kerslake

**London Borough of Merton**  
**Pension Fund Advisory Committee**

**Date: 07 March 2018**

**Subject: Merton Pension Fund – Investment Strategy Implementation**

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Phillip Jones

Contact officer: Roger Kershaw

This is a Private Document

**RECOMMENDATION**

Members are asked to note this report which outlines the implementation plan of the newly approved Investment Strategy.

**The Purpose of the Report**

The Merton Pension Fund approved a revised investment strategy in March 2017 after the investment review carried out by the Fund's consultant JLT Employee Benefits.

This report details the process of implementing the strategy and which includes moving investments into suitable LCIV funds. Where investment options are not available through LCIV the Fund will invest outside LCIV to meet its expected investment return.

**Reason for Exemption from Disclosure**

Information relating to the financial or business affairs of a particular person. (Including the authority holding that information).

## 1. **Context**

- 1.1 The triennial valuation is a requirement under regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008 and its purpose is to value the assets and liabilities of the pension fund with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded over the reasonable period. The 31 March 2016 is a valuation year for LGPS Pension Funds and as such the Merton Pension Fund had its valuation and completed.
- 1.2 The Merton Pension Fund (The fund) reviewed its investment strategy alongside as part of actuarial valuation. Officers of the Fund have worked with Fund's investment consultant JLT Employee Benefits to come up with the revised investment Strategy.
- 1.3 The financial health of the fund is largely dependent upon the contributions paid in and the investment returns generated. Given the constraints on the contributions paid in, the investment strategy is of increasing importance.
- 1.4 Following the approval of the investment strategy in March 2017 Committee, this report outlines the implementation plan of the strategy
- 1.5 The key elements of the Investment strategy statement are;
  - To achieve the investment return assumed in the Scheme's actuarial review.
  - To maximise the investment return within the agreed risk budget.
  - To achieve the investment objective with responsible Corporate Governance and compliance with the Authority's policy regarding Responsible Investment

## 2. **Proposal and Reasons**

- 2.1 Throughout the triennial valuation process the Fund's investment consultant and actuary Barnet Waddingham looked at various investment options to arrive at the strategic options that provided the best fit with the Funding Strategy. The Committee agreed to take forward Option 4a as the agreed investment allocation.

# POTENTIAL STRATEGIES

## RISK & RETURN



Portfolio	Strategic Allocation	Current Allocation	1	2	3	4a	4b Recommended	5
UK Equities	42.0%	42.6%	7.5%	10.0%	10.0%	10.0%	10.0%	10.0%
Overseas Equities	28.0%	26.4%	22.5%	22.5%	25.0%	30.0%	30.0%	30.0%
Emerging Market Equities	-	3.3%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Diversified Growth Fund	-	-	12.5%	10.0%	10.0%	10.0%	10.0%	10.0%
Property	5.0%	3.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Private Credit	-	-	7.5%	7.5%	7.5%	5.0%	7.5%	7.5%
Infrastructure	-	-	5.0%	7.5%	7.5%	7.5%	7.5%	7.5%
<b>Growth Assets</b>	<b>75.0%</b>	<b>75.8%</b>	<b>70.0%</b>	<b>72.5%</b>	<b>75.0%</b>	<b>77.5%</b>	<b>80.0%</b>	<b>80.0%</b>
Long Gilts	6.3%	4.0%	7.5%	7.5%	-	-	-	-
Long Index Linked Gilts	12.5%	12.3%	12.5%	10.0%	15.0%	10.0%	10.0%	-
Corporate Bonds	6.3%	7.9%	-	-	-	-	-	-
Multi Asset Credit	-	-	10.0%	10.0%	10.0%	12.5%	10.0%	10.0%
Secured Loans	-	-	-	-	-	-	-	10.0%
<b>Stabilising Assets</b>	<b>25.0%</b>	<b>24.2%</b>	<b>30.0%</b>	<b>27.5%</b>	<b>25.0%</b>	<b>22.5%</b>	<b>20.0%</b>	<b>20.0%</b>
Expected Return	5.0%	5.1%	5.3%	5.4%	5.5%	5.7%	5.8%	6.2%
Deficit Risk / VaR	£148.2m	£148.4m	£122.2m	£126.3m	£127.8m	£138.7m	£144.1m	£144.1m

2.2 Option 4a has 80% allocation to growth assets and 20% allocation to stabilising assets. (Protection). This gives a high protection that the fund deficit will not increase above £144.1m in a 1-in-20 scenario.

2.3 The table below (extract from the approved Investment Strategy) details the revised asset allocation and their expected returns.

Asset Class	Strategic allocation (%)	Minimum/Maximum range allowed (%)	Expected return p.a.*	Expected Risk (Volatility) p.a. **
<b>Growth Assets</b>				
UK Equity	10	0-45	6.2%	17.5%
Developed Overseas Equity	30	15-40	6.2%	18.0%
Emerging Market Equity	10	0-20	7.1%	25.6%
Diversified Growth	10	0-20	5.9%	12.4%
Property	5.0	0-10	6.0%	3.7%
Infrastructure	7.5	0-15	7.3%	14.7%
Private Credit	5.0	0-10	7.0%	7.8%
<b>Stabilising Assets</b>				
Corporate Bonds	0.0	0-10	n/a	n/a
Long Dated UK Gilts	0.0	0-5	n/a	n/a
Multi-Asset Credit	12.5	0-20	5.0%	1.2%
Index Linked Gilts	10	0-30	1.3%	9.1%

2.4 The implementation plan of the investment strategy is as follows:

	Target date for Completion	% of the Fund
<p><b><u>Strand One</u></b></p> <p>Terminate Active Aberdeen Equity Mandate</p> <p>Terminate Active UBS Equity Mandate</p> <p>Invest proceeds with London CIV</p> <ul style="list-style-type: none"> <li>• LCIV Baillie Gifford- Global Fund</li> <li>• LCIV RBC sustainable Equity</li> <li>• LCIV Baillie Gifford- Diversified Growth</li> <li>• LCIV Pyrford – Diversified Growth</li> </ul>	<p>April 2018</p> <p>April 2018</p> <p>On going</p>	30%
<p><b><u>Strand Two</u></b></p> <p>Terminate UBS passive Mandate</p> <p>Invest proceeds on</p> <ul style="list-style-type: none"> <li>• Emerging market equity fund</li> <li>• Low carbon fund</li> <li>• Smart Beta</li> <li>• Passive fund</li> </ul>	Autumn 2018	45%
<p><b><u>Strand Three</u></b></p> <p>Terminate Aberdeen Bond Mandate</p> <p>Invest proceeds on</p> <p style="padding-left: 40px;">Multi Asset credit</p> <p style="padding-left: 40px;">Invest in Private Credit</p>	December 2018	17.5%
<p><b><u>Strand Four</u></b></p> <p>Invest in Infrastructure Fund</p>	Q1 2019	7.5%

2.5 the 2017 review suggested a number of changes which the Committee approved in March 2017. It is important to ensure that efficiencies are gained whilst transitioning from a) old to new mandates, b) old to new managers and c) from the Fund to the London CIV.

2.6 These changes need to take place whilst ensuring that the Fund is in line with its strategic investment allocation. It is therefore recommended that the Fund use a transition management services and JLT Asset Transition Team is working with the Fund officers in managing the transition process. This will ensure quick and efficient transitioning of assets without delay within the framework set out by the underlying managers

### **3. Finance**

- 3.1 This report is for consideration at this stage and as such there are no finance implications.
- 3.2 However, as the Fund works through its implementation plan there will be costs associated with transitions from a) old asset classes to new ones, b) from old managers to new ones c) from the Merton Fund to the London CIV. Further there will also be costs associated with any advice that is required with regards to implementation of the investment strategy.
- 3.3 The Committee will be provided with regular updates as part of the implementation plan.

### **4. Risk Management**

- 4.1 Investment decisions involve taking risks that Members of the Committee should bear in mind of at all times. Generally, risk is taken to mean the Variability of Returns. Investments with greater Risk must usually promise higher returns than more 'stable' Investments before investors will buy them.
- 4.2 Members must consider the risk/reward trade-off. Generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

### **5. LEGAL AND STATUTORY IMPLICATIONS**

- 5.1 The Merton Pension Fund is run in accordance with the Local Government Pension Scheme (Transitional Provisions) Regulations 1997 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013 and is for the benefit of Council employees and outside organisations, which have entered into an agreement with Merton to provide pensions for their staff
- 6.2 The Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.

### **7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 7.1 N/A

### **8. BACKGROUND PAPERS**

- 8.1 Investment strategy Statement

## London Local Authority Response to London CIV Consultation on Strategy

Completed by on behalf of Merton:

London Borough of Merton Pension Fund

Do you believe the Strategy Proposal from the London CIV is: Yes No

Broadly appropriate subject to clarifications and further detail	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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Needs revisions and/or a different direction	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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*As a minimum Merton Pension Fund wants to have control over its Strategic Asset Allocation and in selecting the individual fund managers on the LCIV platform to manage the investments on its behalf.*

### Governance

Do you agree with the proposals to: Yes No

Have two meetings a year with all shareholders and disband the PSJC under the London Councils framework.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Form a small consultative shareholder group of 12 Treasurers and Pension Chairs. <i>How to determine that 12 is the correct number to represent all 32 boroughs? How this will be decided?</i>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Invite the Chair of the main Shareholder Group onto the Board of the London CIV and a Treasurer as an observer. Merton Pension Fund wish to see the treasurer representative on the board given equal status, with full voting rights. By giving Funds this greater influence in the decision making process would help to build trust with the LCIV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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**The Chair of the main Shareholder group should be:**

	Tick
Political leader	<input type="checkbox"/>
Elected from the Shareholders	<input checked="" type="checkbox"/>
Independent	<input type="checkbox"/>

\*\*\*\*

**The Chair of the Shareholder consultative group should be:**

	Tick
The Chair of the shareholder group	<input type="checkbox"/>
The Chair of the London CIV	<input checked="" type="checkbox"/>
Elected by all Shareholders	<input type="checkbox"/>

\*\*\*\*

**The London CIV Board should be expanded by:**

	Tick
The Chair of the main shareholder group	<input type="checkbox"/>
A Shareholder nominated by all shareholders	<input checked="" type="checkbox"/>

\*\*\*\*

**Yes      No**

<b>It is proposed that the IAC becomes a forum to share ideas and consult with LLA's, when appropriate. Do you agree?</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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*Additional comments:*

Merton Pension Fund agrees with the "share Ideas and consult with LLA" proposal but the IAC must meet on a regular basis (2-3 months) and not simply when it is appropriate.

Effective work with both treasurers and the pension managers is key to restoring trust in the LCIV and the IAC could be a valuable forum for sharing ideas.

This will enable the LLAs to have regular opportunities to discuss concerns regarding investments and Investment managers.

**Client**

**Do you agree that the relationship between each London Local Authority and the London CIV should be formalised by:**

	<b>Yes</b>	<b>No</b>		
A service level agreement which would set out how the London CIV would service and consult with LLAs.	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
A Responsible Investment Policy framework for the London CIV which is proposed by the London CIV and agreed by shareholders.	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
This Responsible Investment Policy should be agreed by what % of Shareholders:	50% <input type="checkbox"/>	66% <input checked="" type="checkbox"/>	75% <input type="checkbox"/>	Other <input type="checkbox"/>

\*\*\*\*

	<b>Yes</b>	<b>No</b>
<b>Do you believe that the proposed investment approach of the London CIV can fulfil your Strategic Asset Allocation.</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

\*\*\*\*

	<b>Yes</b>	<b>No</b>
<b>Do you agree with the proposal that each LLA would have an individual investment consultation with the London CIV. This would enable LLAs to choose earlier or later pooling.</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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<p><i>Additional comments:</i></p> <p><i>The SLA should be similar to Merton’s IMA with its fund managers in particular: -</i></p> <ul style="list-style-type: none"> <li>• <i>the process of how the fee saving will be met by the individual funds</i></li> <li>• <i>exit process</i></li> <li>• <i>communication</i></li> <li>• <i>reinvestment options/moving investment from one sub fund to another</i></li> </ul>
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**Investment**

Which Statement do you believe best represents your view of the London CIV revised strategy:	Tick
The revised strategy proposed by the London CIV of a high quality efficient pool <b>will</b> improve the Investment returns of my Borough’s Pension Fund as it will enable the Pension Committee to clearly delegate manager selection and related investment decisions to the London CIV in a more efficient manner.	<input type="checkbox"/>
The revised strategy of the London CIV <b>will not</b> improve the investment returns of my Borough’s Pension Fund as it will no longer enable the Pension Committee to make tactical asset allocations and manager selections.	<input checked="" type="checkbox"/>

\*\*\*\*

Merton Pension Fund (MPF) would like to retain the full strategic and the tactical asset allocation responsibilities. This will help the to address the Fund’s cash flow requirements, risk appetites, funding level concerns and the responsible investment policy in specific to the fund’s needs. This is broadly provided by the basic blended on the proposal but concerns over the simple blended buckets across core asset classes only.

The MPF propose another moderate option which will allow the fund to have control over all the concerns raised above. •

This Option which will follow the same overall responsibilities as the Basic option however will not be blended so Funds can invest in the strategies that meet their individual requirements. Each Manager within the Pool will have a separate investment focus (eg Income, Growth, low carbon, concentrated/diverse, geographically focussed, etc)

Please send your response to [Chloe Crouch](#) by 28<sup>th</sup> February 2018