

LONDON BOROUGH OF MERTON PENSION FUND



**ANNUAL REPORT
2019-20**

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Chair's Statement

Merton's Local Government Pension Scheme (LGPS) serves over fourteen thousand members, has assets worth over three quarters of a billion pounds, and has three complementary strategic duties.



The first is our duty to our members, who deserve fully funded pensions as they enjoy their retirement. The second is our duty to the residents of Merton (and the other employers that use our LGPS), who rightly expect us to invest wisely and so minimise the contributions that they have to make. The third is our duty to our wider community and to society as whole. This means investing ethically and always with human rights and the environment at the forefront of our mind.

Our LGPS's investment decisions are guided, monitored and reviewed by the Merton Pension Advisory Panel. This consists of councillors Adam Bush and Mark Allison, member representatives Gwyn Isaac (GMB) and Tina Pickard (UNISON), Director of Corporate Resources and me. As chair of the panel, I have once again been given the opportunity to introduce this year's report.

Though this report's focus is the 2019/20 financial year – and so only includes the first couple of months of the UK's COVID-19 crisis – it is the resilience of the fund in face of this crisis that often interests most people; so I will touch on that later. But first, 2019.

The 2019/2020 financial year began with our mandatory triennial valuation, and – because of years of business-like management and the gradual implementation of the 2017 investment strategy – the result was excellent. Our fund was valued at £721 million and was judged to be 103% funded compared to current and future liabilities as at 31 March 2019.

This set the year off to a good start and we built upon it by continuing to focus on a number of operational priorities. Specifically, the diversification of our strategic allocation, the ‘future proofing’ of our financial position against potential financial volatility, the transferring of assets to the London Collective Investment Vehicle (in order to achieve greater value for money), and the continued decarbonisation of our portfolio.

The last of these – the decarbonisation of our portfolio – has been a personal priority of mine since I assumed the role of chair. Agreeing a methodology through which we could implement our vision for a less carbon intensive pension fund was not easy. While many people focus on the extraction of fossil fuels, this is far too limited a means of measurement to make the kind of impact we want and need. For example, investment in steel manufacturing (which can only be done using coke) would not be counted, and neither would the building and transporting of cars, which use that steel and energy from fossil fuels along the way.

For this reason – and as I explained last year – we instead calculate and analyse our portfolio's Weighted Average Carbon Intensity. We do this through measuring the direct and indirect greenhouse gas emissions of each company we invest in and weighting it in accordance with how much money we invest in it. As a result of this analysis, we then move our funds out of high carbon emitting investments to less carbon emitting ones, all the while ensuring that their projected performance meets out financial needs and that we maintain a diverse and balanced portfolio.

Although there is more work to be done, I am pleased to report that as of May this year our measurable carbon footprint was 32% lower than it was the year before, and 27% lower than the MSCI global standard.

As I touched on earlier, the last quarter of financial year 2019/20 and the first two quarters of this financial year have been defined by the COVID-19 crisis, and as such became a test of how resilient and well managed our portfolio was. With this in mind, I am delighted to say that the most recent valuation of our fund (undertaken in June

2020) values it at c£785M, effectively returning to us to the pre-COVID peak value of December 2019. In short, our portfolio proved resilient and we passed the test with flying colours.

To build on all these achievements, the advisory panel now intends to publish a new investment belief statement, confirm a new target strategic allocation, for our portfolio, and continue to work to the operational priorities I outlined above. It is going to be another busy year for both our officers and our advisors.

With that in mind, I look forward to continuing to work with committee members, the LCIV and the officers of Merton Council to achieve these objectives, and would like to pay particular thanks to Nema Sivayogan and Roger Kershaw for working so hard in difficult circumstances, and for the business like way they ensure both the fund's strategic progress and its excellent operational performance.

Very best wishes,

A handwritten signature in black ink, appearing to read 'Owen Pritchard', written over a light grey rectangular background.

Councillor Owen Pritchard

Chair- Merton Pension Fund Advisory Panel

Merton Pension Fund Introduction

The Merton Pension Fund is a Local Government Pension Scheme (LGPS) that provides defined benefit pensions to its members.

The Scheme is governed by the Public Service Pensions Act 2013 and the Fund is administered in accordance with the following secondary legislation:

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

The Regulations prescribe the content of the report and this report complies with these regulations.

The Local Government Pension Scheme (LGPS) provides defined benefit pensions determined by national regulations. The benefits are mandatory, and not subject to local amendment or Pension Fund performance and they are adjusted for inflation. The liability to pay these benefits, both currently and in future years is financed by employee and employer contributions and income from the investments of the Pension Fund.

The scheme has to be fully funded or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources over a reasonable period.

Employee contribution rates are set by statutory regulations and therefore fixed. The employer contribution is determined, triennially, by an actuarial review that takes into account the funds current funding level and the expected future investment return. Thus the amount and performance of Pension Fund investment is significant to the level of the employer contribution, and supports the need for effective management of the Fund.

The London Borough of Merton is the administrating body and the main employer of the Merton Pension Fund, owning 92% of the Fund.

The Fund also has other employers who provide services to the Council and/or to the Borough. There are 29 employers in total and out of which only 17 of them have contributing active members. The employers are made up of academies, housing associations and community admission bodies. The Full list of the participating employers in shown on page 36.

As at 31 March 2020 the Fund had 14,318 total members. Being 4,341 active members; 5,960 deferred and 4,017 pensioners.

As at 31 March 2020 the Fund net asset value was £689m. This showed a decrease of £32m from the previous year. The Fund Investments are managed by external Fund managers who have been appointed though a rigorous selection process and the London CIV Pool. Each quarter the Fund managers' performance is measured against the set benchmark to which they are held accountable. In the financial year 2019/20 the Fund had a total income of £51m and total expenditure of £34m.

The pension administration is managed by the Wandsworth pensions shared services.

Statement of Responsibilities of the Pension Fund

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For the Council, that officer is the Director of Corporate Services;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Pension Fund Advisory Panel has examined the Pension Fund accounts and annual report and authorised the Chairman of the General Purpose Committee to approve them on its behalf.

The Responsibilities of the Director of Corporate Services.

The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Director of Corporate Services has also:

- Kept proper accounting records, which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other Irregularities.



CAROLINE HOLLAND

Director of Corporate Services

Management and Advisors of the Fund

Below is a list of the Pension Fund internal management contact, external managers and advisers.

1. Scheme Administrator (Section 151 Officer Local Government Act)

Caroline Holland,
London Borough of Merton,
Merton Civic Centre,
Morden, Surrey, SM4 5DX

2. Investment Managers

BlackRock	UBS Asset Management
Quinbrook Infrastructure Partners	Macquarie
Churchill	JP Morgan Asset Management
Permira	London Collective Investment Vehicle
Wells Fargo Asset Management	

3. Custody

J.P. Morgan Custody Services	
Northern Trust	BNP Paribas.

4. AVC Providers

Prudential PLC

5. Investment Adviser

Mercer Ltd.

6. Fund Actuary

Barnett Waddingham LLP,

7. Legal Advisers

London Borough of Merton –Shared Legal Services

8. Bankers

Lloyds Bank Plc

9. Auditor

Ernst & Young LLP

10. Scheme Administration

Pensions Shared Service, London Borough of Wandsworth

11. Performance Monitoring and Analysis.

- Mercer Ltd.
- Pensions & Investment Research Consultants Limited (PIRC Limited)

Risk Management

The risks to the sustainability and affordability of financing the Pension Scheme in its present form are apparent through actuarial and other advice. Triennial and interim actuarial reviews and the annual IAS26 report by the Fund's actuary, focus the governance process on the risks inherent in the mechanism of the scheme's financing; (i.e. the relationship between employee and employer contributions and the value and income of the Pension Fund.) Data obtained regarding risks allows those concerned with the Fund's governance and management to consider and take advice on how to mitigate them.

Risk in the Pension Fund can be broadly classified into two types:

1. Fund management risk considers the risk associated with investments, strategic risk and investment related regulations.
2. Administration risk includes the risk associated with Regulations and internal systems and processes.

In managing the Pension Fund, it is not possible to avoid risk, so the main focus is identifying, monitoring, controlling, managing, mitigating or transferring risk.

Assurance is sought over third party operations through the review of AAF01 /06 and SSAE16 reports of fund managers and custodians on an annual basis by Members of the Panel.

Third party risks such as late payment of contributions are managed through monthly monitoring of payment schedules and reconciliation of payments received.

Investment risk is managed through regular review of performance and against the investment strategy agreed by the Panel. The Fund also obtains on a need-by-need basis advice from professional advisers including Mercer Ltd, Barnet Waddingham LLP, and PIRC. The key risk areas and the means of mitigating them are as follows:

Type of Risk	Mitigation Details
<p>Financial Risk The risk that investment strategy fails to produce the investment return assumed in funding strategy and actuarial assessment.</p>	<p>Investment asset allocation has been guided by an asset/liability modelling exercise, and consideration of the Authority's tolerance of volatility in the employer contribution. Monitoring of the Fund's investment allows any significant drift of allocations away from their target level and corrected where necessary. The Fund policy to diversify investment across a range of asset classes, sectors, markets, and investment managers, and to avoid excessive concentration of investment in any one stock or area.</p>
<p>Demographic Risk The risk that a continuing improvement in mortality rates increases the Fund's liabilities.</p>	<p>The general increase in life expectancy of 1 year, for all members of the Fund, will reduce the funding level by between 2% to 3%. Current actuarial assumptions go some way to accommodating this and the assumptions are updated for each actuarial valuation.</p>
<p>Regulatory Risk The risk of changes in the Regulations governing the Scheme or its tax status.</p>	<p>The Administering Authority monitors and participates in the consultation process for changes in Regulations and seeks advice from the Fund actuary, LGA, London CIV, PLSA and CIPFA on the financial implications of any proposed changes.</p>
<p>Governance Risk The risk of structural changes in an individual employer's membership or closure to new membership, or their financial stability, or their ceasing to exist without having fully funded their pension liabilities.</p>	<p>These risks are addressed by the Administering Authority maintaining adequate contact with the individual employers participating in the Fund, and ensuring that it has current information on their status. Scheduled and Admitted bodies considered a significant risk might be asked to provide an indemnity or performance bond. Costs incurred where contributions due are paid significantly later than expected can be recovered from the relevant employer.</p>

<p>Asset Security Risk The risk of loss of investment assets or cash by fraud or negligence</p>	<p>The processing of investments is split between investment managers, who make decisions on the purchase and sale of investments, and separate, independent custodians who settle and pay investment transactions and receive proceeds.</p> <p>The Authority obtains AAF01/06 and SSAE16 audit reports (an in-depth audit examination of an organisation’s internal control) on its investment managers to ensure that they are handling the Authority’s investment affairs in a proper and secure manner; it also monitors the creditworthiness of the custodians that hold assets and cash.</p>
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Risk Register

The risk register is a tool used to effectively identify, prioritise, manage and monitor risks associated with the Merton Pension Fund.

It assists the Fund by:

- identifying managed and unmanaged risks
- providing a systematic approach for managing risks
- implementing effective and efficient control
- identifying responsibilities
- identifying risks at the planning stage and monitoring the risks
- helping the Fund to achieve its objectives

The Pension Fund Risks are identified and managed as part of the Corporate Risk Register. The risk listed on the registered are reviewed and updated every quarter.

Financial Performance

During the year, the Fund received £37.7m in contributions and transfers in and paid out £32.2m in benefits and payments to leavers. This showed a net addition of £5.5m from dealing with members. The fund accounted for £13.0m investment income in year.

Analytical Review

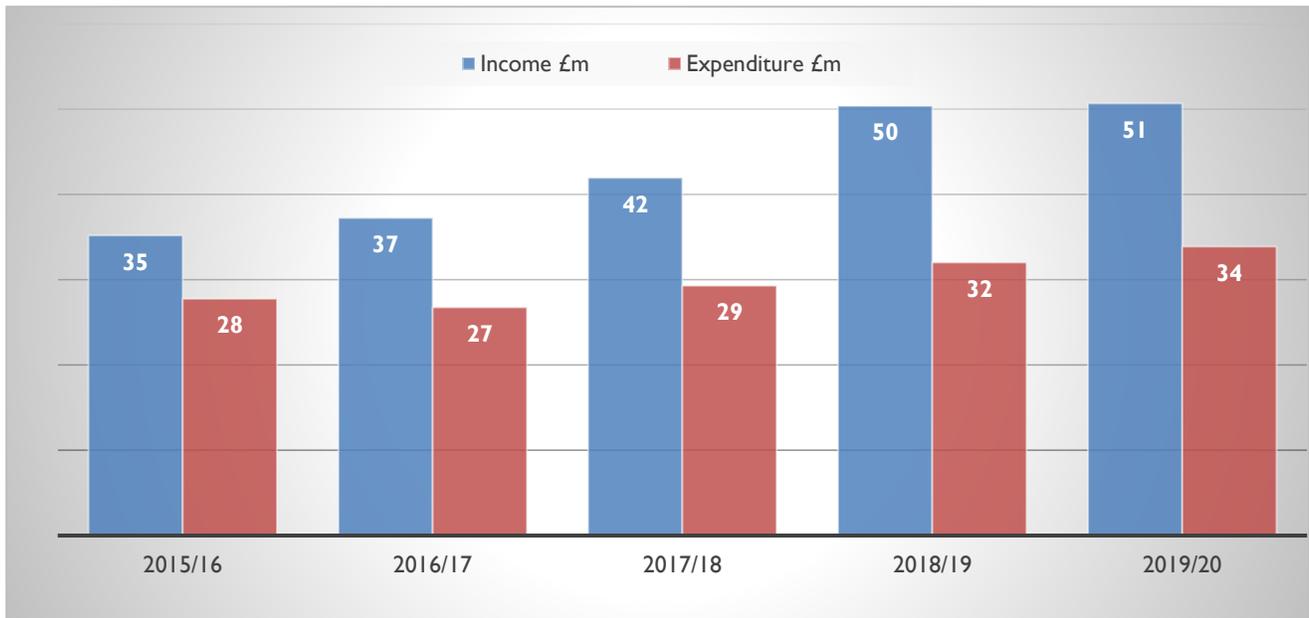
Fund Account	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Contributions Income	-24,139	-25,923	-29,493	-42,386	-37,738
Benefits paid	26,530	24,903	27,441	31,058	32,169
Net Dealings with Members	2,391	-1,020	-2,052	-11,328	-5,569
Management Expenses	1,230	1,854	1,869	1,133	1,701
Returns on Investments	-11,064	-11,326	-12,457	-8,014	-13,011
Change in Market Value	19,211	-109,202	4	-39,893	48,680
Net (Increase)/Decrease in Fund	11,768	-119,694	-12,636	-58,102	31,801

Overall member contributions have increased by 19.1% over the past five years. (01/04/2015 to 31/03/2020). This is due to a natural increase in employer and employees' contributions, bulk transfers and auto enrolment. The employers' contributions were reviewed and agreed as a part of the Fund's triennial valuation in 2016. The March 2019 valuation has recently been completed.

Over the 5 years there has been an increase in the Fund of £159m. This increase is primarily due to change in market and the implementation of the new diversified investment strategy in 2018.

The table below summaries the Fund's income and expenditure for the past five years to 2019/20.

Pension Scheme Income and Expenditure for the past 5 years (including investment income)



Code of Transparency

The LGPS Scheme Advisory Board has developed the Code of Transparency to assist LGPS funds in obtaining data they will require to report costs incurred by their investment funds

The Fund uses pooled investment vehicles for which it does not receive separate fee invoices but rather the fees are taken directly from the asset value of the fund so the code has helped to make identification of these fees easier. All fund managers provide a full breakdown of fees which are borne by the Fund.

Investment Policy and Performance

Introduction to Investment Policy

The overall responsibility for the Pension Fund and its investment rests with the Council of the London Borough of Merton in its role as administering authority, which exercises this responsibility via the Pension Fund Advisory Panel, assisted by Merton Pension Board.

The investment objective is to achieve a fund value and investment performance that allows the actuarial assessment to determine a tolerably stable, minimised, employers' contribution.

Regulations require that the administering authority shall obtain and give regard to proper advice. It must also consider the appropriateness of investments and the need for diversification and management of risk.

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.

Local Government Pension Scheme Regulations 2016 (The Regulations 7 (1)) requires administering authorities to formulate an investment strategy statement (ISS) Accordingly, administering authorities are required to prepare and maintain an Investment Strategy Statement (ISS) advising how their investment strategy has been determined and implemented in accordance with the Regulation 7 guidance including:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

- The authority's policy on how social, environmental, or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and,
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

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Performance summary – Period ending 31 March 2020

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	-15.6	n/a	-4.0	n/a	1.3	n/a
UBS – Alternative Beta	-16.0	-16.1	-4.4	-4.7	n/a	n/a
LCIV RBC Sustainable Equity Fund	-14.7	-15.7	-4.5	-5.8	n/a	n/a
LCIV Global Alpha Growth Fund	-13.2	-15.8	-1.3	-6.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	-14.6	-14.6	-1.1	-1.5	n/a	n/a
Global Equities						
UBS – HALO EM Fund	-18.1	-20.1	-9.3	-14.2	n/a	n/a
LCIV Emerging Market Equity Fund	-17.7	-18.4	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	-4.8	1.5	-2.3	6.5	n/a	n/a
LCIV Diversified Growth Fund	-14.1	1.0	-8.2	4.2	n/a	n/a
Diversified Growth Fund						
UBS Triton Property Unit Trust	-0.7	-1.3	0.9	0.0	6.1	4.9
BlackRock UK Property Fund	-2.5	-1.3	-1.2	0.0	4.4	4.9
Property						
MIRA Infrastructure Global Solution II, L.P.	6.7	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	-13.0	1.8	-10.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	6.5	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Pemira Credit Solutions IV	-5.0	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	4.9	1.7	7.7	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	-8.9	n/a	n/a	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	-16.9	1.2	-13.8	4.9	n/a	n/a
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
	-12.5		-4.3		1.6	
Strategic Target (4.8% p.a.)	1.2		4.8		4.8	

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 year benchmark returns.

Environmentally and Socially Responsible Investment and Governance

The Merton Pension Fund is committed to being a long-term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material Environmental, Social and Governance (ESG) factors within its investment analysis and decision making.

The Fund policy regarding ESG considerations is set out in the Responsible Investment Policy and addressed within the Investment Strategy Statement, available via the following link:

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Subscriptions to Supporting Organisations

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS Funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.

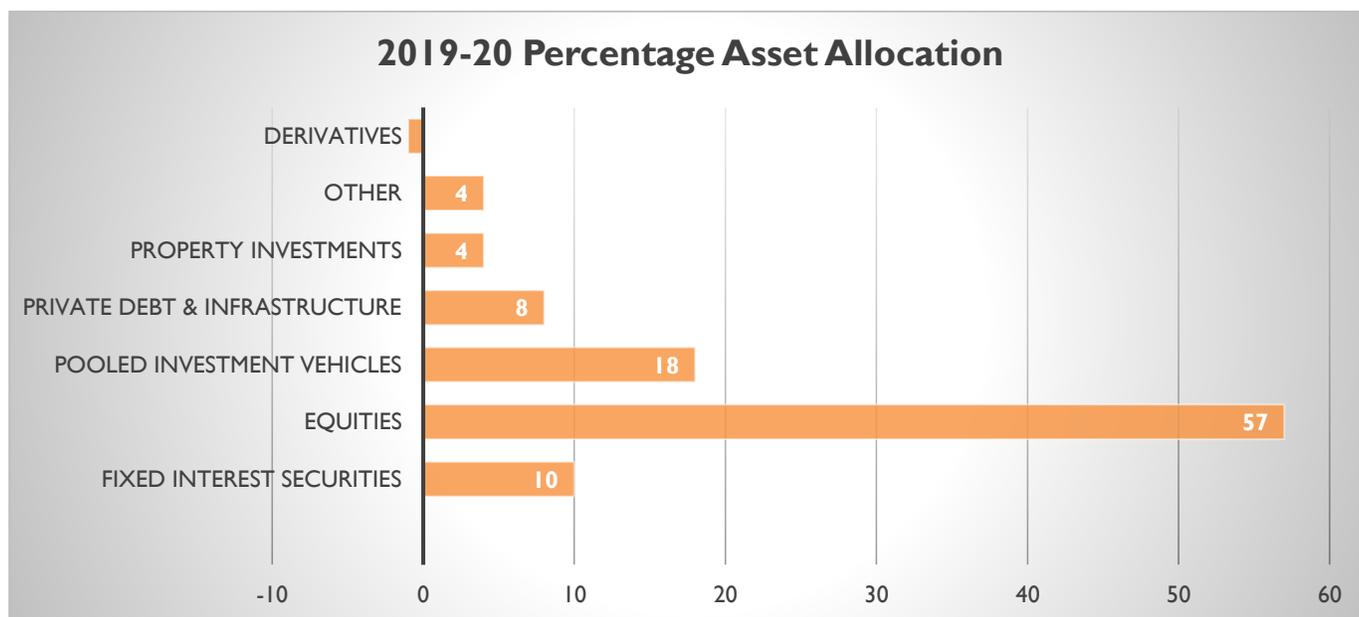
The Fund is also member of the Pensions and Lifetime Savings Association, which provides access to advisory, conference and training services.

Fund Valuation

As at 31 March 2020, the value of the Fund was £689m a decrease of £32m on the value of the Fund from the previous year.

The change in the Fund value over the period is a combination of the net money flows into or out of the Fund, Investment Income received and any gain or loss on the capital value of the investments. The main types of investments and their value are shown below.

Net Asset Value	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Fixed Interest Securities	131	153	152	88	70
Equities	194	237	244	451	395
Pooled Investment Vehicles	180	233	236	136	123
Property Investments	21	21	23	24	24
Private Debt	0	0	0	3	16
Infrastructure	0	0	0	6	38
Derivatives	0	0	0	0	-7
Other	5	7	7	15	31
Total Investment Assets	531	651	663	721	690



Fund Managers Performance

The Fund's investments are managed by external fund managers in eight different asset classes. Fund managers are awarded active or passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast passive managers will buy and hold investments to replicate a market index.

The managers have full discretion and operate within agreed deadlines specified in the Investment Management Agreement (IMA) and in accordance with the Fund's Investment Strategy Statement to make investment decisions without referral to the Authority; provided that the activity and action are in compliance with the IMA.

The Council holds fund managers accountable for decisions on asset allocation within the benchmark under which they operate. Managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Panel meeting in discussion with the Investment Adviser and Officers, and they are called to a Panel meeting if there are issues that need to be addressed. Officers

meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above

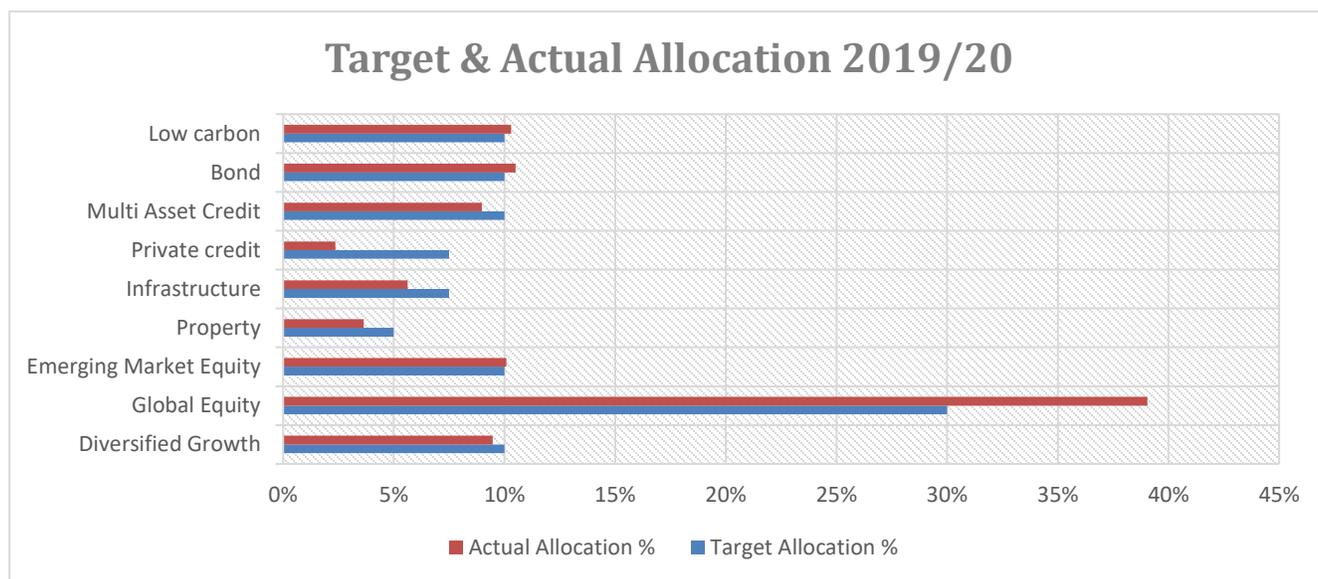
Over the 12 months to 31 March 2020, total Fund assets returned -4.3% compared to the target of 4.8%. This equates to underperformance by 9.9%. The Fund's total market value decreased by £32m over the quarter, from £721m to £689m. This is mainly due to the impact COVID19 had on the world economy. After a significant drop in quarter 1 2020 the investments started to pick in quarter 2 and showed a steady and fast growth.

The Funds 3 year annualised performance is 1.6% against a target of 4.8%.

PERFORMANCE SUMMARY 31 MARCH 2020

Asset Allocation

The Merton Pension Fund investment portfolio is a well-diversified portfolio and in 2019-20 the fund moved 92% of the assets on to the new strategies. It is important to note that 52% of the fund’s assets were transited on the LCIV pool. The Chart below shows the fund asset classes and the current allocation as at March 2020.



The actual asset allocation may fluctuate from the target allocations due to the relative movement of investment values in the markets, or funds to be redeemed and re allocated to the Private market investments. It normally takes 3 to 5 years to be fully allocated to the private market investments. Please find below the asset allocation by fund managers,

Actual Asset Allocation by Manager

Investment Manager	31-Mar		31-Mar	
	2019		2020	
	£000	%	£000	%
Aberdeen Asset Management	116617	16	7	0%
UBS Asset Management	222988	31	176181	26%
Blackrock (10% LCIV, 1% property)	78,321	11	76,197	11%
Baillie Gifford (LCIV)	103,991	15	100,180	14%
Pyrford (LCIV)	33,671	5	32,909	5%
RBC (LCIV)	74,694	11	71,358	10%
CQS (LCIV)	69,360	10	59,756	9%
JPM (LCIV)	0	0	25,753	4%
Quinbrook	4,389	1	7,339	1%
Macquarie	1,157	0	10,969	1.5%
Churchill	2,534	0	11,233	1.5%
JPM Infrastructure	0	0	19,445	3%
Permira	0	0	4,474	1%
Wells Fargo	0	0	88,961	13%
Total Investment at Market Value	707,722	100	684,762	100%

Pension Administration Report

London Borough of Merton, as administering authority is responsible for administering the Pension Fund. The Council is currently in a shared service arrangement with London boroughs of Wandsworth & Richmond, Camden and Waltham Forest.

Management Performance – Membership

5 Year Membership Data	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	% Change 16 to 20
Active Members	3,722	4,019	3,933	4,150	4,341	17%
Deferred Members	4,163	4,570	4,691	4,738	4,899	18%
Pensioner Members	3,615	3,725	3,849	3,926	4,017	11%
Frozen Refunds	532	669	803	854	1061	99%

Although there has been an increase in active members since 2016 both deferred and pensioner members continue to increase. Therefore, those drawing benefits or about to draw benefits are growing at a much faster rate than those contributing to the Fund.

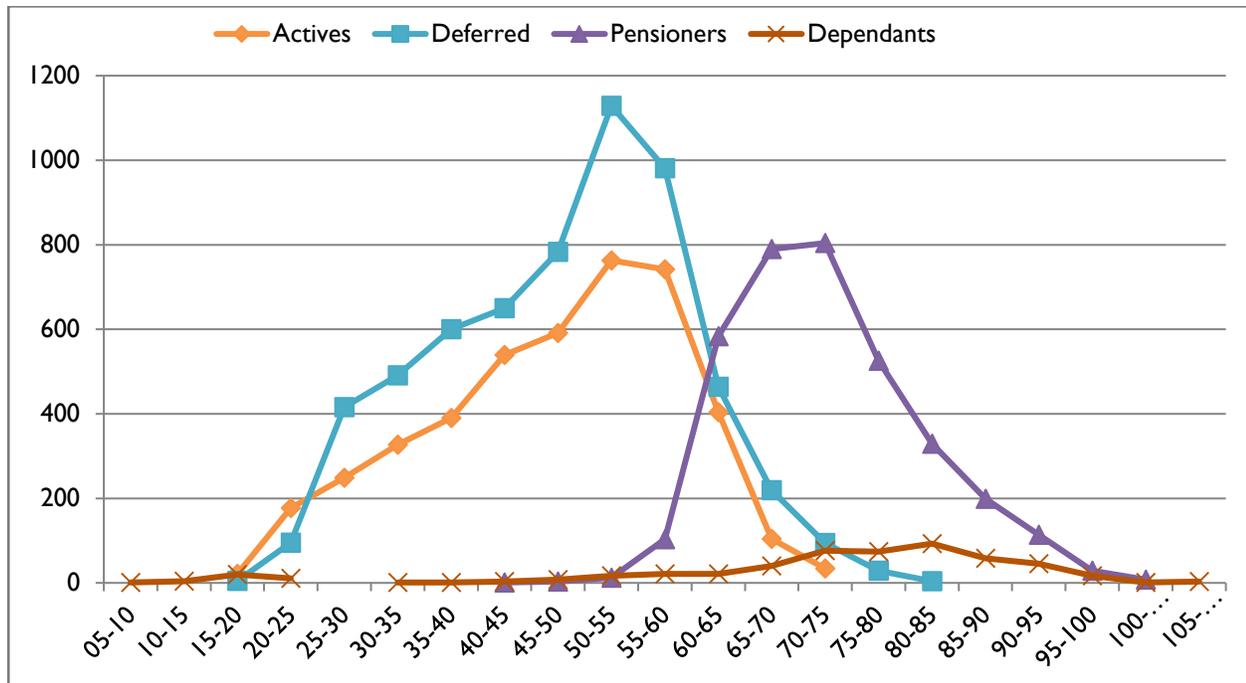
Key Management Performance Indicators

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

Performance indicator	Target Response Time	2015/16	2016/17	2017/18	2018/19	2019/20
		%	%	%	%	%
Payment of Retirement Allowance	10 Days	92.21	89.42	97.69	96.92	99.74
Benefit Estimates	8 Days	95.31	96.82	99.72	97.05	97.87
Death Cases – First Letter	5 Days	97.92	81.16	79.37	91.45	85.44
Death Benefit Letters	5 Days	100.00	85.00	89.23	88.31	86.52
Onward Transfer Quotes	10 Days	100.00	80.00	80.77	85.27	90.86
Inward Transfer Quotes	10 Days	71.88	71.43	83.06	70.29	82.30

Age Profile /Longevity

The graph below provides an analysis in five-year bandings of active and deferred members, pensioners, widows and dependent’s. The graph shows that the age profile of members is conventional with the number of normal pensioners peaking at around 70yrs.



The average age of each category is indicated in the table below.

Category	Average age for category
Active Members	46 years 9 months
Deferred Members	48 years 0 month
Pensioners	72 years 5 months
Widows/Dependants	73 years 1 months

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31st March 2020 the assumed life expectancy from age 65 was as follows:

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The actuary's analysis of LGPS pensioner longevity over the course of the last 20 years or so confirms that pensioners are living longer. Although life expectancy is assumed to be slightly less than in 2018.

Pension Scheme Case Load

5 Year Case Type Analysis	March	March	March	March	March
	2016	2017	2018	2019	2020
Active members	3722	4020	3933	4149	4341
Retirements	94	68	87	71	60
Deaths	76	83	75	91	99
Transfers Received	29	26	92	73	79
Deferred Benefits	232	350	238	279	632
Transfers Paid	24	20	57	99	100
New Starters	365	664	614	544	902
Widows Benefits	22	30	18	36	29
Benefit Estimates	209	440	360	474	470
Redundancy Estimates	266	182	147	102	151
Transfer In Estimates	64	56	183	138	113
Transfer Out Estimates	40	60	104	129	186

Note: Estimates refer to cases where the member or the employer has requested a provisional calculation of the relevant benefit rather than the benefit event actually occurring.

Pension Scheme Case Load Trends

5 Year Analysis	March	March	March	March	March
	2016	2017	2018	2019	2020
% Retirement of active members (includes actual redundancies)	2.53	1.69	2.21	1.71	1.38
% Redundancy estimates of active members (not including bulk transfer)	7.15	4.53	3.74	2.46	3.48
% Change in Deferred Benefits	-20.27	50.86	-32.00	17.23	126.52
% Change in Redundancy Benefits (not including bulk transfers)	-20.45	-31.58	-19.23	-30.61	-0.84

Asset Pools

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

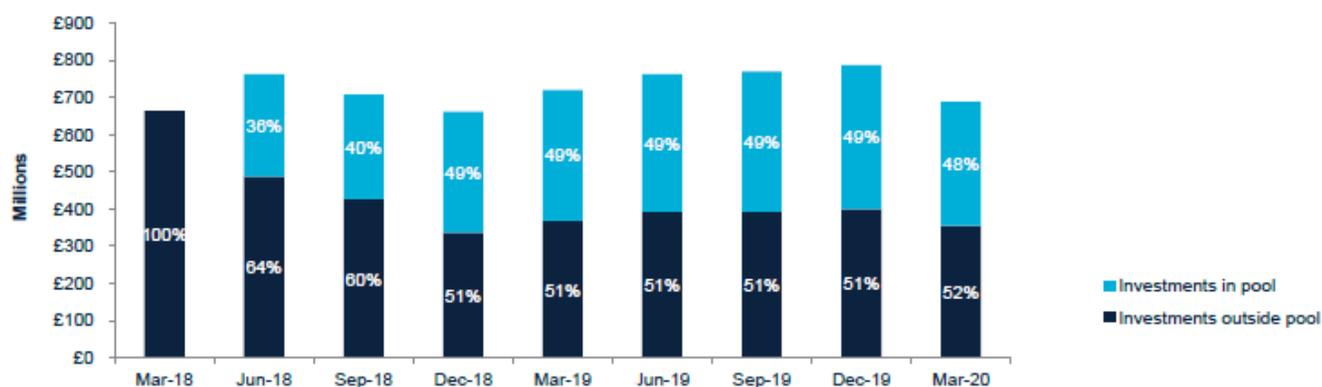
- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Merton made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016. Additionally, the Fund pays an annual service charge of £25k to support the work of the LCIV and a Development Funding Cost (DFC) of £85k as agreed in the LCIV AGM.

Establishment of the LCIV has significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with Merton Pension Fund.

The Fund had total LCIV holdings of £358m at 31 March 2020 accounting for 48% of total assets of the Pension Fund.

Proportion of Fund Allocated via LCIV


As a result of the transition to the new strategic asset allocations set out in the 2017 Strategy Review, the proportion of the Fund invested in the pool has remained broadly unchanged at 48% in Q1 2020.

Note that the BlackRock World Low Carbon Equity Tracker Fund has been classified as an LCIV fund.

The below table shows the Merton's investments in LCIV sub funds and their respective values as at 31 March 2020.

LCIV Valuation 31 March 2020

FUND	31 March 2020 £m
LCIV RBC Sustainable Equity Fund	71.36
LCIV Global Alpha Growth Fund	70.16
LCIV Emerging Markets	25.75
LCIV Global Total Return Fund	32.91
LCIV Diversified Growth Fund	30.02
LCIV MAC Fund	59.76
Blackrock World Low Carbon Equity Tracker Fund	68.53
Total	358.48

Actuary's Statement as at 31 March 2020

Introduction

The last full triennial valuation of the London Borough of Merton Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

2019 valuation results

The 2019 valuation certified a primary rate of 19.0% of pensionable pay. The primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In addition, "secondary" contributions were required in order to target a fully funded position for the Fund's by no later than 31 March 2032. Some employers in the fund were in surplus at the 2019 valuation and so were certified with negative secondary contributions. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	-1.5%	-1.5%	-1.5%
Equivalent to total monetary amounts of	-£1,391,000	-£1,441,000	-£1,495,000

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period, details of which can be found in the formal report on the actuarial valuation dated March 2020.

Contribution rates

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

The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;

plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £718m which represented 103% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

Assumptions

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

Assumption	31 March 2019
Discount rate	4.8% p.a.
Pension increases	2.6% p.a.
Salary increases	3.6% p.a.
Mortality	Members - S3PA Heavy tables with a multiplier of 110% for males and 105% for females and projected improvements in line with the 2018 CMI model allowing for an initial addition to improvements of 0.0% p.a., a long term rate of improvement of 1.25% p.a. and a smoothing parameter of 7.5 Dependants - S3DA tables with a multiplier of 70% for males and 80% for females and projected improvements in line with that of members
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Updated position since the 2019 valuation

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

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

On balance, we estimate that the funding position is likely to be slightly lower than the 2019 valuation position when compared on a consistent basis to 31 March 2019.

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

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.



Barry McKay FFA
Partner, Barnett Waddingham LLP

Pension Fund Accounts

2018/19 £000	Fund Account	Notes	2019/20 £000
	Dealings with members, employers and others directly involved in the scheme		
(23,453)	Contributions	7	(24,910)
(18,933)	Transfers in	8	(12,828)
(42,386)	Total Income		(37,738)
25,816	Benefits	9	26,575
5,242	Payments to and on account of leavers	10	5,594
31,058	Total Expenditure		32,169
(11,328)	Net (additions)/withdrawals from dealings with members		(5,569)
1,133	Management expenses	11	1,701
(10,195)	Net (additions)/withdrawals including Fund management expenses		(3,868)
	Returns on investments		
(8,021)	Investment income	12	(13,011)
7	Taxes on income	13	0
(39,893)	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	48,680
(47,907)	Net returns on investments		35,669
(58,102)	Net (increase)/decrease in the net assets available for benefits during the year		31,801
(663,152)	Opening net assets of the scheme		(721,254)
(721,254)	Closing net assets of the scheme		(689,453)

Net Assets Statement

2018/19 £000		Notes	2019/20 £000
707,872	Investment assets	14	685,130
707,872	Total Investments		685,130
14,679	Current assets	20	5,662
(1,297)	Current liabilities	21	(1,339)
721,254	Net assets of the Fund available to Fund benefits at period end		689,453

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

1. Description of Fund

The London Borough of Merton Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton (“the Authority”). The Authority is the reporting entity for this Pension Fund.

The LGPS Regulations require the Authority to maintain specified pension arrangements for eligible employees, and to act as the Administering Authority for these arrangements.

(a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

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

The Pension Fund Advisory Panel (PFAP) oversees and advises on investment of the Fund. This Panel comprises Council Members, a pensioner representative, staff side representative and officers, with the Director of Corporate Services responsible for administration. The Authority takes independent professional advice on investment policy and strategy.

The Public Service Pensions Act 2013 requires each Fund within the Local Government Pension Scheme, to establish and run a Local Pension Board. Merton’s Local Pension Board is responsible for assisting the Council as administering authority to ensure the effective and efficient governance and administration of the Fund and to comply with legislation and with any requirement imposed by The Pensions Regulator.

The Board meets quarterly and has no decision-making powers on policy matters but may make recommendations to PFAP. The Board has four members comprising two employers and two scheme member representatives.

(b) Membership

Certain associated organisations, known as Admitted and Scheduled Bodies, may also participate in the Pension Scheme. The Scheduled Bodies have a right to be incorporated, whereas Admitted Bodies require the agreement of the Administering Authority. In addition to the Authority, the Admitted and Scheduled Bodies that currently contribute to the Fund are shown in the following table:

MERTON PENSION FUND ANNUAL REPORT 2019/20

Admitted Bodies	Scheduled Bodies
<ul style="list-style-type: none"> • Greenwich Leisure • Merton Priory Homes • CATCH 22 	<ul style="list-style-type: none"> • Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • Harris Wimbledon • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy • Aragon Academy • Stanford Primary Academy • Chapel Street

The following table summarises the membership numbers of the scheme.

2018/19		2019/20
	Active Members	
3,717	London borough of Merton	3,880
381	Scheduled bodies	415
52	Admitted bodies	46
4,150		4,341
	Pensioners	
3,643	London borough of Merton	3,715
164	Scheduled bodies	171
119	Admitted bodies	131
3,926		4,017
	Deferred Pensioners	
5,113	London borough of Merton	5,451
354	Scheduled bodies	390
125	Admitted bodies	119
5,592		5,960

(c) Funding

The scheme is financed by contributions from employees and employers, together with income and proceeds from investment of the Pension Fund administered by the Authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2020. The employee contributions are matched by the employer contributions, which are set, based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March

2019 (effective from April 2020). Currently, employer contribution rates range from 12.0% to 26.4%. Employers pay a monetary contribution towards past service costs.

(d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Normal Pension Age is no longer assumed to be 65, but rather the State Pension Age, which is subject to change. This would affect survivor benefits and ill health provision.

2. Basis of Preparation

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

The financial statements summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is disclosed in Note 19.

The Fund was 103% funded at the 31 March 2019 valuation and remained the same as at 31 March 2020. The Fund is cash flow neutral with the majority of the investment income being reinvested into the respective investment for added growth. The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

2.1 Going Concern

The accounts have been prepared on a going concern basis. Merton Pension Fund is an open scheme with a strong covenant from the participating employers and therefore able to take a long-term outlook when considering the general funding implications of external events.

The impact of the Coronavirus pandemic on investment markets did adversely affect the performance of investments to 31 March 2020, however investment performance

for the first quarter of 2020/21 has improved significantly and is performing better than the target level of return. The latest actuarial funding update shows the Fund remains 103% funded at 31 March 2020. The vast majority of employers in the Fund are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions. To date the Fund has received no requests from scheduled and admitted bodies to defer pension contributions.

Although the Fund is currently operating a relatively small operating cash flow shortfall it can disinvest to ensure that it is able to remain liquid for a period of least 12 months from the date the financial statements are authorised for issue. The Fund remains in a position to draw on its investments in the most appropriate order should short term liquidity be required with the vast majority of investment assets held being readily convertible to cash within a period of one month. Recognising the mature nature of the Fund, with the increasing number of retired and deferred Fund members relative to active Fund members, the investment strategy of the Fund is now to reinvest in cash generating investment assets to address the current operating cash flow shortfall over time.

Considering all of the above the Fund considers it appropriate to prepare the financial statements on a going concern basis.

3. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

Normal contributions, both from members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit Funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit Funding contributions are made on the advice of the Authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refund of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of

payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

The figure shown as investment income is made up of different types of income (dividend income for equity, interest income for bond and distributions for pooled investments).

Revenue account – expense items

3.4 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.5 Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

By virtue of LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.6 Management Expenses

The code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)*.

(a) Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets by the Fund Managers.

A proportion of the Authority's costs representing management time spent by officers on investment management are charged to the Fund.

(b) Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.7 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1st December 2013.

Net Asset Statement

3.8 Investment Assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

3.9 Movement in the net market value of investment

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.10 Foreign currency

All foreign currency investment transactions are converted into sterling at spot rate. The year end balances are converted using the 31st March rate to show the fair value of the investment.

3.11 Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

3.12 Cash and cash equivalents

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate

the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

Cash equivalents are short term, highly liquid investments that are readily convertible to cash and subject to minimum risk of changes in value.

The cash balance includes cash held by the Fund managers and within the Funds' bank account.

3.13 Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.14 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

3.15 Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes

4. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the Authority has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

4.1 Pension Fund Liability

Actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the Pension Fund

liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used. Please see Notes 18 and 19 for more detail.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The main item in the Fund's Net Asset Statement at 31 March 2020 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £17.4m and a -0.1% reduction would increase the obligation by £17.8m. An adjustment to the mortality age rating assumption of -1 yr. would decrease the obligation by £36.9m. Mccloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.
Unquoted Investments	The Pension Fund contains investments in unithised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 14). These funds are valued according to non-exchange based market valuations.	As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts

6. Events After The Reporting Date

In March 2020 due to COVID19 pandemic the investments value dropped significantly but started to rise in April 2020. As at June 2020 the investments stands at £784.8m, showing an increase of 13.9% since March.

The Fund is an open fund and long term investment focused. The Fund will continue work on this basis and avoid crystallising any losses due to short term events.

7. Contributions Receivable

2018/19 £000	By Category	2019/20 £000
17,348	Employers	18,364
6,105	Members	6,546
23,453	Total	24,910

2018/19 £000	By Authority	2019/20 £000
21,371	Administering	22,680
1,609	Scheduled	1,829
473	Admitted	401
23,453	Total	24,910

2018/19 £000	By Type	2019/20 £000
13,570	Employers normal	14,415
6,044	Employees normal	6,546
3,620	Deficit Funding	3,709
219	Employers additional	240
23,453	Total	24,910

8. Transfers In From Other Pension Funds

2018/19 £000		2019/20 £000
4,523	Individual Transfers	3,165
14,410	Group Transfer	9,663
18,933	Total	12,828

Note: There were two group transfers in 2019/20 from Wandsworth. Legal Services transfer £3.4m. Regulatory Services transfer £6.3m.

9. Benefits Payable

2018/19 £000	By Category	2019/20 £000
21,548	Pensions	22,534
3,755	Commutations and lump sum retirement benefits	3,640
513	Lump sum death benefits	401
25,816	Total	26,575

2018/19 £000	By Authority	2019/20 £000
23,855	Administering	24,182
847	Scheduled	836
1,114	Admitted	1,557
25,816	Total	26,575

10. Payments to and on Account of Leavers

2018/19 £000		2019/20 £000
4,239	Individual transfers	5,461
843	Group transfers	0
112	Refunds of contribution	134
48	State scheme premiums	(1)
5,242	Total	5,594

11. Management Expenses

2018/19 £000		2019/20 £000
387	Administrative costs	632
434	Investment management expenses	654
312	Oversight and governance costs	415
1,133	Total	1,701

11a. Investment Management Expenses

2018/19 Fees Through E5 £000	2018/19 Fees deducted at source £000		2019/20 Fees Through E5 £000	2019/20 Fees deducted at source £000
424	961	Management fees	662	1,652
0	10	Performance related fees	0	11
10	0	Custody fees	(8)	0
0	75	Transaction costs	0	0
434	1,046	Total	654	1,663

Note: Fees deducted at source were calculated and deducted as part of the portfolio's daily Net Asset Value calculation.

12. Investment Income

2018/19 £000		2019/20 £000
1,054	Fixed income (Bonds)	629
3,361	Pooled equity investments	3,536
2,941	Pooled investments (Other)	1,691
803	Pooled property investments	890
0	Infrastructure	4,246
0	Private Debt	1,936
(138)	Other	83
8,021	Total	13,011

13. Taxes on Income

2018/19 £000		2019/20 £000
3	Non-recoverable tax	0
4	Withholding tax	0
7	Total	0

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2020.

2018/19		Fund Manager	2019/20	
£000	%		£000	%
116,617	16	Aberdeen Asset Management	7	0
222,988	31	UBS Asset Management	176,181	25.7
78,321	11	Blackrock	76,107	11.1
103,991	15	Baillie Gifford (LCIV)	100,180	14.6
33,671	5	Pyrford (LCIV)	32,909	4.8
74,694	11	RBC (LCIV)	71,358	10.4
69,360	10	CQS (LCIV)	59,756	8.7
4,389	1	Quinbrook	7,339	1.1
1,157	0.2	Macquarie	11,277	1.7
2,534	0.4	Churchill	11,233	1.6
0	0	JPM Infrastructure	19,445	2.8
0	0	JPM Emerging Markets (LCIV)	25,753	3.8
0	0	Permira	4,474	0.7
0	0	Wells Fargo	88,961	13.0
150	0	LCIV Subscription	150	0
707,872	100	Total	685,130	100

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2020 is shown in the following table.

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
	Investment Assets	
87,451	Fixed Income (bonds)	69,819
451,366	Pooled equity investments	395,323
135,955	Pooled investments (other)	122,684
23,749	Pooled property investments	24,212
2,534	Private Debt	15,707
5,546	Infrastructure	37,687
0	Derivatives	(6,702)
991	Cash held with fund managers	25,851
129	Investment income due	399
707,722	Total Investment Assets	684,980
0	Investment Liabilities	0
150	LCIV Subscription	150
707,872	Net investment assets	685,130

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2019/2020. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

	Market Value 1 April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the Year	Market Value 31 March 2020
	£000	£000	£000	£000	£000
Bonds	87,451	95,192	(87,451)	(25,373)	69,819
Pooled Equity Investments	0	33,225	0	362,098	395,323
Pooled Investments Other	587,322	1,691	(67,050)	(399,279)	122,684
Private Debt	8,080	13,388	0	(5,761)	15,707
Infrastructure	0	36,669	0	1,108	37,687
Pooled Property	23,749	1,000	0	(537)	24,212
	706,602	181,165	(154,501)	(67,834)	665,432
Derivative Contracts					
Forward Currency Contracts	0	0	0	(6,702)	(6,702)
	706,602	180,083	(154,501)	(74,536)	658,730
Other Investment Balances					
Cash with Fund Managers	991			25,856	25,851
Investment Income Due	129				399
External Investments at Market Value	707,722				684,980
LCIV Subscription	150				150
Investment Assets	707,872			(48,679)	685,130

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2018/2019.

	Market Value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the Year	Market Value 31 March 2019
	£000	£000	£000	£000	£000
Bonds	152,315	1,658	(68,960)	2,438	87,451
Equities	244,427	0	(244,427)	0	0
Pooled Investments	236,156	552,275	(238,696)	37,587	587,322
Private Debt	0	8,847	0	(767)	8,080
Pooled Property	22,896	218	0	635	23,749
	655,794	562,997	(552,083)	39,893	706,602
Derivatives (Futures)					
Future Asset	1,329	0	(1,329)	0	0
Future Liability	(1,348)	0	1,348	0	0
	655,775	562,997	(552,064)	39,893	706,602
Other Investment Balances					
Cash with Fund Managers	2,829	0	0	0	991
Investment Income Due	1,434	0	0	0	129
	660,038				707,722
External Investments at Market Value	660,038				707,722
LCIV Subscription	150				150
Investment Assets	660,188			39,893	707,872

14.4 Detail Analysis of Investments

The table below shows an analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.

Market Value 31 March 2019 £000		Market Value 31 March 2020 £000
65,843	Bonds	
21,608	UK quoted	65,787
	Overseas quoted	4,032
87,451		69,819
0	Pooled Investments	
451,367	Emerging Markets (Equities)	67,058
66,595	Global Equities quoted	328,265
69,360	Diversified Growth	62,928
	Multi Asset Credit	59,756
587,322		518,007
	Pooled Property Investments	
7,918	Property Managed Fund/Units quoted	7,553
15,831	Property Managed Fund/Units unquoted	16,659
23,749		24,212
	Private Debt and Infrastructure	
1,157	Macquarie	11,277
2,534	Churchill	11,233
4,389	Quinbrook	7,339
0	JPM	19,071
0	Permira	4,474
8,080		53,394
	Derivatives	
0	Forward Currency Contracts	(6,702)
129	Other Investment Balances	399
991	Cash with Fund Managers	25,851
707,722	Total Investment Assets	684,980
150	LCIV Subscription	150
707,872	Total	685,130

14.5 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2020.

14.6 Investments exceeding 5% of net assets

The table below shows investments exceeding 5% of total net assets, (all these investments are pooled).

% Market Value 2018/19	Security	% Market Value 2019/20
7.2	Aberdeen Global II Index Linked	-
12.7	UBS Life World Equity Tracker	7.6

15. Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Market value based on current yields	Not required	Not required
Pooled investments - Property Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted investments	Level 3	The development, pre-construction and construction-stage assets are held at cost	Not required	Not required

15a Fair Value Hierarchy

The valuation of financial instruments can be classified into three levels, according to the quality and reliability of information used to determine fair values. All the financial instruments of the Fund are classified as level 1, 2 and 3, as follows:

Level 1 – Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trust.

Level 2 – Where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

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Level 3 – Where at least one input that could have a significant effect on the Instrument’s valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2019				31 March 2020		
Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000
674,922	23,749	8,080	Financial assets at fair value through profit and loss	588,827	16,659	53,394
1,120	0	0	Loans and Receivables	26,250	0	0
0	0	0	Financial liabilities at fair value through profit and loss	0	0	0
676,042	23,749	8,080	Total	615,077	16,659	53,394

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

31 March 2019				31 March 2020		
Designated at fair value through profit and loss £000	Assets at amortised cost £000	Financial liabilities at amortised costs £000		Designated at fair value through profit and loss £000	Assets at amortised cost £000	Financial liabilities at amortised costs £000
			Financial Assets			
87,451	0	0	Bonds	69,819	0	0
587,321	0	0	Pooled Investments	518,007	0	0
23,749	0	0	Pooled Property Investments	24,212	0	0
8,080	0	0	Private Debt & Infrastructure	53,394	0	0
0	150	0	LCIV Subscription	0	150	0
0	0	0	Derivatives	(6,702)	0	0
0	991	0	Cash With Fund Managers	0	25,851	0
129	0	0	Other Investment Balances	399	0	0
0	467	0	Debtors	0	865	0
0	12,607	0	Cash	0	3,106	0
706,730	14,215	0		659,129	29,972	0
			Financial Liabilities			
0	0	(1,297)	Creditors			(1,339)
0	0	(1,297)				(1,339)
706,730	14,215	(1,297)		659,129	29,972	(1,339)

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

31 March 2019 £000		31 March 2020 £000
39,893	Financial Assets Fair Value through profit and loss	(48,680)
39,893	Total	(48,680)

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, Mercer Ltd, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	69,819	7.6	75,125	64,513
Equities & Emerging Markets	395,323	11.8	441,971	348,675
Diversified Growth	62,928	5.9	66,641	59,215
Multi Asset Credit	59,756	7.6	64,297	55,215
Pooled Property	24,212	3.6	25,084	23,340
Private Debt & Infrastructure	53,394	4.2	55,637	51,151
Cash	25,851	0.9	26,084	25,618
Derivatives	(6,702)	0.0	(6,702)	(6,702)
Income Due	399	0.0	399	399
LCIV Subscription	150	0.0	150	150
Total Assets	685,130	8.3	748,685	621,575

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	87,451	9.6	95,862	79,040
Equities	451,367	8.7	490,463	412,271
Diversified Growth	66,595	3.5	68,902	64,288
Multi Asset Credit	69,360	9.6	76,019	62,701
Pooled Property	23,749	3.4	24,556	22,942
Private Debt and Infrastructure	8,080	5.5	8,522	7,638
Cash	991	0.6	997	985
Income Due	129	0.0	129	129
LCIV Subscription	150	0.0	150	150
Total Assets	707,872		765,599	650,144

Note: The % change for total assets includes the impact of correlation across asset classes

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2020 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). Whether those changes are caused by factors specific to individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The Fund's investment managers aim to

mitigate this price risk through diversification and the selection of securities and other financial instruments.

The following table shows the volatility between the asset classes invested in.

Asset Type	Potential market movements (+/-) %
Bonds and Index Linked	7.6
Equities	11.8
Diversified Growth	5.9
Multi Asset Credit	7.6
Property	3.6
Private Debt and Infrastructure	4.2
Cash	0.9

17.5 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

17.6 Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the GBP. The majority of foreign equities in the UBS portfolio are priced in GBP thereby reducing currency risk fluctuations. The % change has been derived from the measurement of volatility of the Fund over three years.

The table below shows the currency exposure by asset type as at 31 March 2020.

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	4,032	7.4	4,330	3,734
Private Debt & Infrastructure	48,920	7.4	52,540	45,300
Total Overseas Assets	52,952		56,870	49,034

The table below shows the currency exposure by asset type as at 31 March 2019.

Asset Type	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,608	9.3	23,626	19,590
Private Debt & Infrastructure	8,080	9.3	8,835	7,325
Total Overseas Assets	29,688		32,461	26,915

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2020. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

Assets exposed to currency risk	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	4,032	8.5	4,375	3,689
Private Debt & Infrastructure (US Dollar)	48,920	8.5	53,078	44,762
Total	52,952		57,453	48,451

Assets exposed to currency risk	Value at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds (US Dollar)	21,608	9.30	23,626	19,590
Private Debt & Infrastructure (US Dollar)	8,080	9.30	8,835	7,325
Total	29,688		32,461	26,915

17.7 Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing.

The average long-term credit rating in the bond portfolio is AA as at 31 March 2020. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

The table below shows the credit quality for the Bond portfolio.

Value at 31 March 2019 £000		Value at 31 March 2020 £000
4,466	AAA	25,851
64,005	AA	0
0	AA-	69,819
8,318	A	0
8,931	BBB	0
700	BB or below	0
1,138	Cash	0
8	Settled Cash	0
87,566	Total	95,670

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2020 was £3.1m (31 March 2019: £12.6m).

17.9 Refinancing risk

This is the risk that the Authority will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

18. Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund actuary undertakes a Funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 (effective from April 2020) and the next valuation will take place as at 31 March 2022.

The key elements of the Funding policy are:

- 1) To ensure the long-term solvency of the Fund, i.e. that sufficient Funds are available to meet pension liabilities as they fall due for payment;
- 2) To ensure that employer contribution rates are as stable as possible;
- 3) To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- 4) To reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so, and;

- 5) To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 12 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the Funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

As at the 2019 actuarial valuation, the Fund was assessed as 103% Funded. This corresponded to a surplus of £20m at that time of the valuation.

The table below shows the Funding level and deficit for the past three triennial valuations.

	2013 Valuation	2016 Valuation	2019 Valuation
Funding Level %	89.0	94.0	103.0
Funding Deficit)/surplus £m	(53.2)	(32.7)	20

The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £525.5m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558.2m).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows.

Financial Assumptions

Financial Assumption		31-Mar-19	31-Mar-16
Discount rate		4.80%	5.50%
Pay increase	Long Term	3.60%	3.90%
	Short Term	N/A	Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020
Consumer price inflation (CPI)		2.60%	2.40%
Pension increases		2.60%	2.40%
Pension increases on GMP		Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increases	For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Demographic Assumptions			
Male	Current Pensioners	21.4	24.3
	Retiring in 20 yrs	22.7	26.5
Female	Current Pensioners	24.0	25.9
	Retiring in 20 yrs	25.4	28.2

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for Funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2020, using a valuation methodology that is consistent with IAS19.

The financial assumptions used for the purposes of the calculations are as follows:

Financial Assumptions	Assumptions as at 31 March 2020 %
Inflation/Pension Increase Rate	1.9
Salary Rate Increase	2.9
Discount Rate	2.35

The value of the Fund's promised retirement benefits as at 31 March 2020 was:

31 March 2019 £m		31 March 2020 £m
1,059.9	Present value of promised retirement benefits	975.4m

20. Current Assets

31 March 2019 £000	Current Assets	31 March 2020 £000
1,605	Contributions Due	1,691
467	Sundry Debtors	865
12,607	Cash	3,106
14,679	Total	5,662

Analysis of Debtors

31 March 2019 £000	Current Debtors	31 March 2020 £000
1,442	Administering Body	1,530
163	Admitted and Scheduled Bodies	161
467	Sundry Debtors	865
2,072	Total	2,556

21. Current Liabilities

31 March 2019 £000	Creditors	31 March 2020 £000
(184)	Fund Managers Fees	(83)
(793)	Sundry	(928)
(320)	Payroll	(328)
(1,297)	Total	(1,339)

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2019/20 to AVC schemes outside the Authority's responsibility was £0.438.5m (£0.415m at 31 March 2019). The external providers have reported that at 31 March 2020 the total value of accumulated AVCs is £2.72m (£2.47m at 31 March 2019).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.37m (2018/19: £0.39m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

No members of the pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.

In addition, the four local pension board members are active members of the pension Fund.

Each member of the pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

Key Management Personnel

The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2019 £	31 March 2020 £
Short-term benefits	84,068	80,412
Total remuneration	84,068	80,412

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2020 were £46.7 (31 March 2019 £41.2m).

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts 'called' by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

Governance Arrangements

Merton Council's Pension Fund Advisory Panel (PFAP) advise in making Pension Fund management decision. The Council has delegated its responsibility of looking after the Pension Fund to the PFAP. This is a subcommittee of the Council, subject to the usual rules of political balance and access to information.

The PFAP has responsibility for all Fund matters including governance, investments, funding, accounting, employer, and scheme member engagement, communications and administration.

The Pensions Act 2013 also required mandatory pension boards to be in place. The role of the Board is to review the diligence of decision-making but not the decision itself. As such, a new Board was created.

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 required an Administering Authority to establish a local Pension Board and was formed by 1 April 2015.

Delegation of functions

Merton Council has delegated its Pension Fund management to PFAP.

In addition, and in accordance with the Public Service Pensions Act 2013, Merton Council has established a local Pensions Board 'the Board', for the purposes of assisting the administering authority (Merton) in the governance of the scheme.

The PFAP is advised by the Pension investment management team at Merton and the Fund's investment consultants.

The Director of Corporate Services is responsible for ensuring that the in-house team provides adequate support to both the PFAP and the Board. The investment managers make presentations to the PFAP at its formal meetings on the Fund performance, implementation of the investment policy and any other developments. The public reports to the PFAP are published on the Council's website.

The Fund's procedures are subject to audit and scrutiny by both the Council's internal audit team and its external auditor, Ernst and Young LLP.

This delegation of functions complies with the current guidance issued by the Secretary of State.

The terms of reference for the PFAP are:

- To establish, in consultation with relevant advisors, appropriate investment policy for the Pension Fund, and to advise General Purposes Committee accordingly,
- To advise officers on the exercise of their delegated powers concerning the management and investment strategy of the Pension Fund and to report to and advise General Purposes Committee as appropriate,
- To monitor the performance of the Pension Fund relative to its objectives, benchmarks and targets, and to prompt remedial action as necessary,
- To review the draft Annual Report and Accounts for the Pension Fund, and provide comments to the General Purposes Committee in respect of the investment matters reported therein.

The frequency of meetings

The PFAP meets every quarter; additional meetings are convened as and when required. A yearly calendar giving details of the times and venue of the PFAP's meetings is posted on the Council's website.

The PFAP meetings are held in Merton Civic Centre, Morden and are open to members of the public.

Representatives

The PFAP draws its membership from "interested parties" as follows:

- Membership: Voting – 3 Councilors
- Non-voting – Chief Finance Officer (or delegate),

- Treasury and Pensions Manager,
- Staff Side Representative,
- Pensioner Representative

Only the Councilor members have voting rights. The non-voting employee and pensioner representatives are elected through an election.

Provision is made for Councilor Members and representatives to undergo training sessions to assist them in making informed decisions about investments and other matters related to the Local Government Pension Scheme.

Pensions Board

A local pension's board was established in April 2015 to assist the administering authority in the governance and administration of the Local Government Pension Scheme.

The frequency of meetings

The Board will meet at least three times per year, but may choose to meet more regularly. A yearly calendar giving details of the times and venue of the Board's meetings is posted on the Council's website. The Board meetings are held in Merton Civic Centre.

Representatives

- 2 Member Representatives;
- 2 Employer Representatives; and,
- 1 Further representative without voting rights to be appointed at the discretion of the Council.

All four/five members have voting rights. The employee and pensioner representatives are elected through a postal ballot.

The terms of reference for the Pension Board are:

- (a) To secure compliance with:

i.) Regulations made under the Public Service Pensions Act 2013 that apply to the matters referred to in sections 5 and 6 of that Act.

ii.) Any other legislation relating to the governance and administration of the Scheme and any connected scheme

iii.) Any requirements imposed by the Pensions Regulator in relation to the Scheme.

(b) Ensure the effective and efficient governance and administration of the Scheme. Merton Council will ensure that all members of both the PFAP and the Board receive appropriate training and formally declare that they do not have conflicts of interest.

Governance Compliance Statement

The Governance Policy sets out London Borough of Merton's arrangement for carrying out its responsibilities as Administering Authority for Merton Pension Fund as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

The statement includes:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or;
- Membership of the pensions panel/committee and any associated sub committees within a matrix showing for each member: voting rights attendance at meetings.

The full version of the Governance Compliance Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Funding Strategy Statement

The Funding Strategy Statement for the London Borough of Merton Pension Fund which is administered by London Borough of Merton has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013.

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of the Statement.

The purpose of the FSS is to explain the Fund's approach to meeting the pension scheme's liabilities and in particular:

- to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met;
- to take a prudent longer-term view of funding those liabilities; and
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.

The full version of the Funding Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Investment Strategy Statement

Under the Public Service Pensions Act 2013 (The Act) the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1st November 2016.

Regulation 7(1) requires administering authorities to formulate an investment strategy statement (ISS) which must be in accordance with guidance issue by the Secretary of State

Administering Authorities will be required to prepare and maintain an ISS documenting how the investment strategy for the Fund is determined and implemented. The ISS will be required to cover a number of areas, specifically:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The full version of the Investment Strategy Statement is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Communications Policy

The Local Government Pension Scheme Regulations 2013 (Regulation 67) require each administering authority to prepare, publish and maintain a written statement setting out their policy concerning their communications with:

- a) prospective members;
- b) members;
- c) representatives of members; and,
- d) employing authorities.

In particular, the statement must set out their policy on—

- a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- b) the format, frequency and method of distributing such information or publicity; and
- c) the promotion of the Scheme to prospective members and their employing authorities.

Enquiries

Any enquiries in relation to this Communication Policy Statement should be sent to:

E-mail: pensions@richmondandwandsworth.gov.uk

Telephone: 020 8871 8036

Address:

Pensions Shared Service
Camden, Merton and Wandsworth & Richmond
PO Box 72351
London
SW18 9LQ

The full version of the Communications Policy is available through the below link.

<https://www.merton.gov.uk/council-and-local-democracy/finance/pension-fund-reports>

Independent Auditors Statement & Report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON ON THE PENSION FUND FINANCIAL STATEMENTS

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Merton for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Respective responsibilities of the Director of Corporate Services and the auditor

As explained more fully in the Statement of Responsibilities, the Director of Corporate Services is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of:

- Chair's Statement
- Merton Pension Fund Introduction
- Statement of Responsibilities of the Pension Fund
- Management and Advisors of the Fund
- Risk Management
- Financial Performance
- Investment Policy and Performance
- Pension Administration Report
- Asset Pools
- Actuary's Statement as at 31 March 2020
- Pension Fund Accounts
- Governance Arrangements
- Governance Compliance Statement
- Funding Strategy Statement
- Investment Strategy Statement

- Communications Policy

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion[s] on those financial statements.

Suresh Patel for & on behalf of
Ernst & Young LLP

*Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
12 November 2020*

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Service's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the London Borough of Merton statement of accounts, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the

financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Responsibilities the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent

permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Merton and the London Borough of Merton's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel for & on behalf of
Ernst & Young LLP

*Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
12 November 2020*