

LONDON BOROUGH OF MERTON PENSION FUND



**ANNUAL REPORT
2018-19**

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Chair's Statement

Merton's Local Government Pension Scheme (LGPS) serves over thirteen and half thousand members, owns assets totaling just under three quarters of a billion pounds, and has three strategic aims: To deliver a sustainable and adequate return for its members; to minimise the contribution made by our residents and other employers of the fund; and to operate in the best interests of both our members and our community. Its performance is guided, monitored and reviewed by the Merton Pension Advisory Panel consisting of Councilors Adam Bush and Mark Allison, member representatives Gwyn Isaac (GMB) and Tina Pickard (UNISON), and me.



For all of us involved with pensions the last financial year was a difficult one. The prospect of a global trade war became the biggest worry of financial investors the world over. Uncertainty over international economic policy reached a record high. Business confidence across the seven largest advanced economies in the world fell to its lowest level in five years. And the global economy was subject to a major slowdown in global trade, manufacturing, and industrial production.

Within the UK, new legislation, volatile markets and the uncertainty around Brexit, all added to the difficulty of realising secure and sufficient returns on our investments. When you add to this the moral requirement for investments to be more ethical and considerate of the climate crisis, the challenge confronting our officers and investment advisors became even greater.

Despite these difficulties, the last year was a good one for the Fund. First, we ensured that our Fund's performance was amongst the top 15% of LGPSs in the country. Second, we successfully transitioned 90% of the fund to a new, more balanced, long-term investment strategy. Third, to keep in line with government regulation and maximize value for money, we moved over 50% of our investments into the London Collective

Investment Vehicle (LCIV). Fourth, in keeping with our council's recognition of the global climate crisis, the Fund began a programme to become more sustainable. This meant that as well as investing over 20% of the Fund in Low Carbon, Sustainable, and/or Renewable Energy sectors, we reduced our exposure to fossil fuels by 55% (from 7.9% to 3.6% of the total fund), and – using a new methodology to analyse reported emissions for all stocks that the Fund owns – we cut our total carbon emissions by 30%. But we can't rest on our laurels.

To build on all these achievements the Advisory Panel now intends to complete the transfer to the new investment strategy, further divest from fossil fuels, continue to decarbonise our wider investment portfolio, and look for further opportunities to invest through the London CIV. 2019/20 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 Nemashe Sivayogan and Roger Kershaw for working so hard to 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 blue 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.

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 both the amount of employee contribution and the value and investment return of the Pension Fund. 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 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 currently 29 employers admitted to the Fund, these are made up of academies, housing associations and community admission bodies. As at 31 March 2019 the Fund had 13,668 total members. Being 4,150 active members; 5,592 deferred and 3,926 pensioners. There are 16 employers currently contributing to the fund, as shown in the following table.

Administering, Scheduled and Admitted Bodies as at 31 March 2019

Administering Body

- LB Merton

Scheduled Bodies

- Wimbledon and Putney Commons Conservators
- Harris Academy Merton
- Harris Academy Morden
- Harris Academy Primary
- Harris Academy Wimbledon
- St. Marks Academy
- Benedict Academy
- Park Community School
- CHAS
- Beecholme Academy
- Aragon
- Stanford Primary Academy

Admitted Bodies

- Greenwich Leisure
- Merton Priory Homes
- CATCH 22

As at 31 March 2019 the Fund net asset value was £721m. This showed an increase of £58m from the previous year. The Fund Investments are managed by external Fund managers who have been appointed through a rigorous selection process. Each quarter the Fund managers' performance is measured against the set benchmark to which they

are held accountable. In the financial year 2018/19 the Fund had a total income of £50m and total expenditure of £32m.

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 2018/19 ('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

Aberdeen Asset Management	BlackRock
UBS Asset Management	Quinbrook Infrastructure Partners
Macquarie	Churchill
London Collective Investment Vehicle (LCIV)	

3. Custody

State Street Global Services	J.P. Morgan Custody Services
Northern Trust	BNP Paribas.

4. AVC Providers

Prudential PLC

5. Investment Adviser

JLT Employee Benefits

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.

- JLT Employee Benefits
- 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 JLT Employees Benefits, Barnet Waddingham LLP, and PIRC. The key risk areas and the means of mitigating them are as follows:

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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.</p> <p>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. 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 £42.4m in contributions and transfers in and paid out £31.1m in benefits and payments to leavers. This showed a net addition of £11.3m from dealing with members. The fund accounted for £8.0m investment income in year, all of which was reinvested within the portfolio with the aim to increase the value of the Fund.

Analytical Review

Fund Account	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Contributions Income					
Employers	-29,005	-16,489	-17,413	-17,026	-17,348
Members	-5,335	-5,497	-5,762	-5,719	-6,105
Transfers In	-983	-2,153	-2,748	-6,748	-18,933
Total	-35,323	-24,139	-25,923	-29,493	-42,386
Benefits paid					
Pensions	18,473	19,239	19,746	20,516	21,548
Other leaver benefits	3,641	4,559	3,727	4,250	4,428
Transfers out	1,109	2,732	1,430	2,675	5,082
Total	23,223	26,530	24,903	27,441	31,058
Net Dealings with Members	-12,100	2,391	-1,020	-2,052	-11,328
Management Expenses	856	1,230	1,854	1,869	1,133
Returns on Investments	-10,638	-11,064	-11,326	-12,457	-8,014
Change in Market Value	-48,464	19,211	-109,202	4	-39,893
Net Increase/(Decrease)in Fund	-70,346	11,768	-119,694	-12,636	-58,102

Overall member contributions have increased by 14.4% over the past five years. (01/04/2014 to 31/03/2019). 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 is currently in process.

Over the 5 years there has been an increase in the Fund of £179m. This increase is primarily due to change in market and the implementation of the new diversified investment strategy in 2018.

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The table below summaries the Fund's income and expenditure for the past five years to 2018/19.

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



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 2013 (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.

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.

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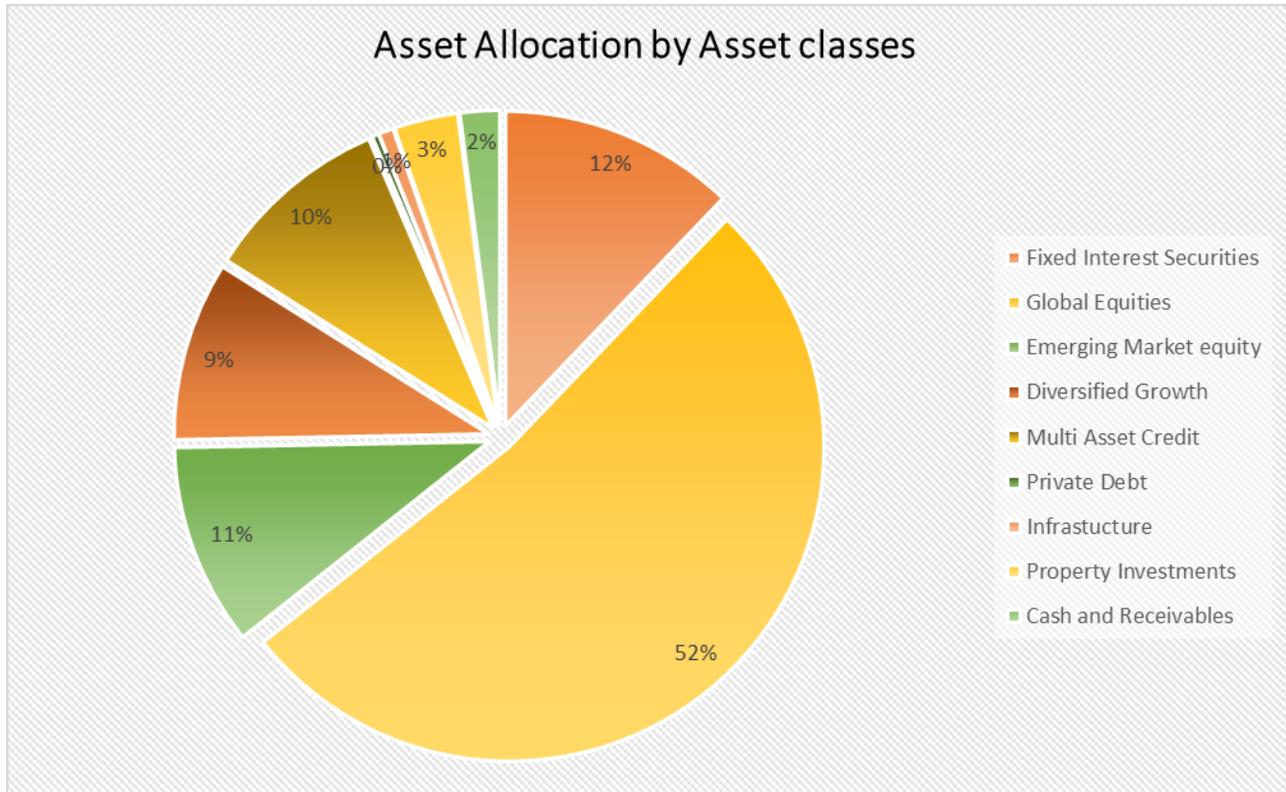
The Fund is also member of the Pensions and Lifetime Savings Association, which provides access to advisory, conference and training services.

Fund Valuation

As at 31 March 2019 the value of the Fund was £721m an increase of £58m 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.

Net Asset Value	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Fixed Interest Securities	127.1	130.9	153.2	152.3	87.6
Equities	200.8	194	236.7	244.4	0
Global Equities	0	0	0	0	376.4
Emerging Market equity	0	0	0	0	74.9
Diversified Growth	0	0	0	0	66.6
Multi Asset Credit	0	0	0	0	69.4
Private Debt	0	0	0	0	2.5
Infrastructure	0	0	0	0	5.5
Property Investments	15.4	21.2	21.3	22.9	23.7
Cash and Receivables	17.6	5	6.9	7.4	14.8
Total Investment Assets	542.6	530.8	650.5	663.2	721.4



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 3 months to 31 March 2019, total Fund assets returned 8% compared to the target of 1.3%. This equates to outperformance by 6.7%. The Fund's total market value increased by £58m over the quarter, from £663.0m to £721.0m.

Over the last 12 months, the Fund performance is 7.7%, and 3 year annualised performance is 10.6%. The annual performance target is 5.5%.

The table below shows each portfolios performance against their benchmarks for the Quarter to 31/3/19, 1 year and 3 years.

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PERFORMANCE SUMMARY 31 MARCH 2019

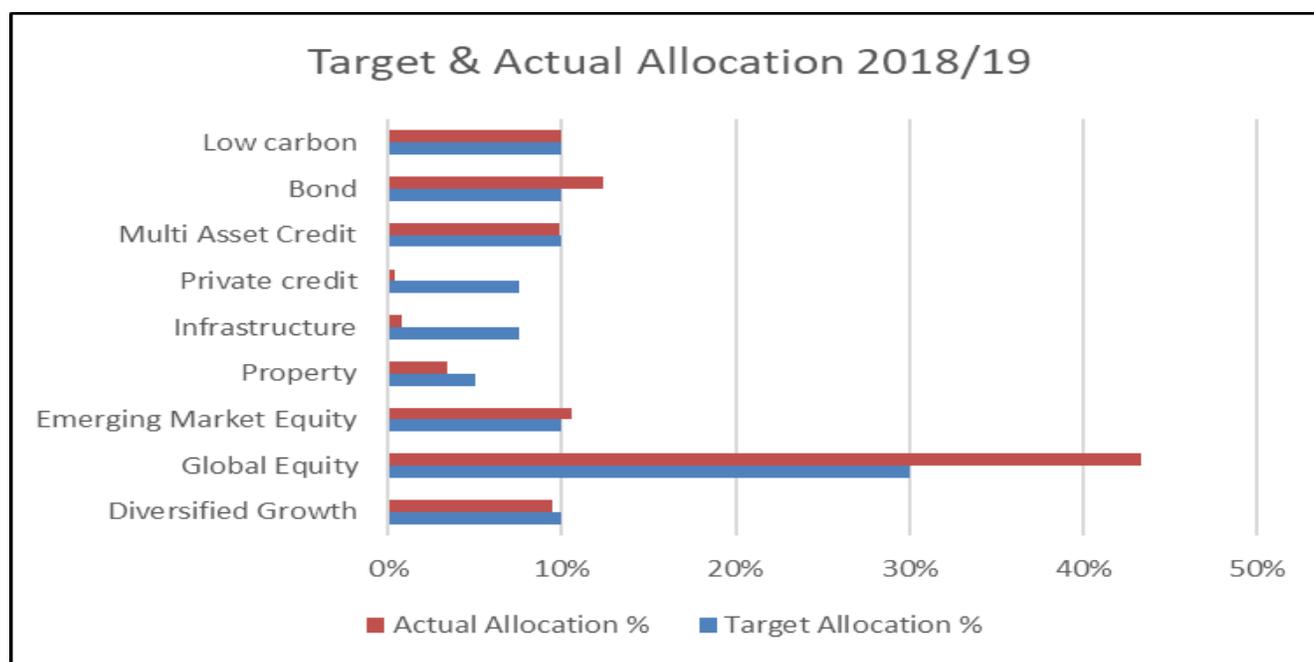
Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund †	9.8	n/a	7.9	n/a	11.8	n/a
UBS – Alternative Beta	9.2	9.2	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Fund	13.4	9.9	n/a	n/a	n/a	n/a
LCIV Global Alpha Fund	12.4	10.2	n/a	n/a	n/a	n/a
BlackRock Low Carbon	9.5	9.8	n/a	n/a	n/a	n/a
Global Equities						
Aberdeen Emerging Market	7.3	7.5	n/a	n/a	n/a	n/a
UBS – HALO EM Fund	11.2	7.4	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	2.7	1.1	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	6.2	1.1	n/a	n/a	n/a	n/a
DGF						
UBS Property Unit Trust	0.6	0.3	7.1	4.8	6.9	6.1
BlackRock Property Fund	0.1	0.3	4.9	4.8	6.1	6.1
Property						
MIRA Infrastructure L.P.*	-6.5	0.2	n/a	n/a	n/a	n/a
Quinbrook LP*	-1.6	0.6	n/a	n/a	n/a	n/a
Infrastructure						
Churchill *	-1.4	0.5	n/a	n/a	n/a	n/a
Private Credit						
Aberdeen Bonds Portfolio	4.7	4.7	6.3	5.9	7.5	7.4
Bonds						
LCIV MAC Fund	2.6	1.2	n/a	n/a	n/a	n/a
Multi-Asset Credit						
TOTAL MERTON PENSION FUND	8.0		7.7		10.6	
Strategic Target (5.5% p.a.)	1.3		5.5		5.5	

Notes: * Partial quarter performance shown. These funds were entered into in mid-January 2019 and hence the fund returns are not reflecting the entire of Q1 2018. Returns for private market managers are approximate, and may be low initially due to the j-curve effect.

† Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

Asset Allocation

The Merton Pension Fund investment portfolio is a well-diversified portfolio and in 2018-19 the fund moved 84% of the assets on to the new strategies. It is important to note that 49% 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 2019.



The actual asset allocation may fluctuate from the target allocations due to the relative movement of investment values in the markets, or because an investment manager believes that a marginally different allocation would, at a particular time, improve the Fund’s investment performance. Please find below the asset allocation by fund managers,

Actual Asset Allocation by Manager

Investment Manager	31-Mar 2018 £000	%	31-Mar 2019 £000	%
Aberdeen Asset Management	277,265	42	116,61	16
UBS Asset Management	375,198	57	222,98	31
Blackrock	7,575	1	78,321	11
Baillie Gifford (LCIV)	0	0	103,991	15
Pyrford (LCIV)	0	0	33,671	5
RBC (LCIV)	0	0	74,694	11
MAC (LCIV)	0	0	69,360	10
Quinbrook	0	0	4,389	1
Macquarie	0	0	1,157	0
Churchill	0	0	2,534	0
Total Investment at Market Value	660,038	100	707,722	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	March 2015	March 2016	March 2017	March 2018	March 2019	% Change 15 to 19
Active Members	3,694	3,722	4,019	3,933	4,150	12
Deferred Members	3,783	4,163	4,570	4,691	4,738	25
Pensioner Members	3,509	3,615	3,725	3,849	3,926	12
Frozen Refunds	500	532	669	803	854	71

Although there has been an increase in active members since 2014 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.

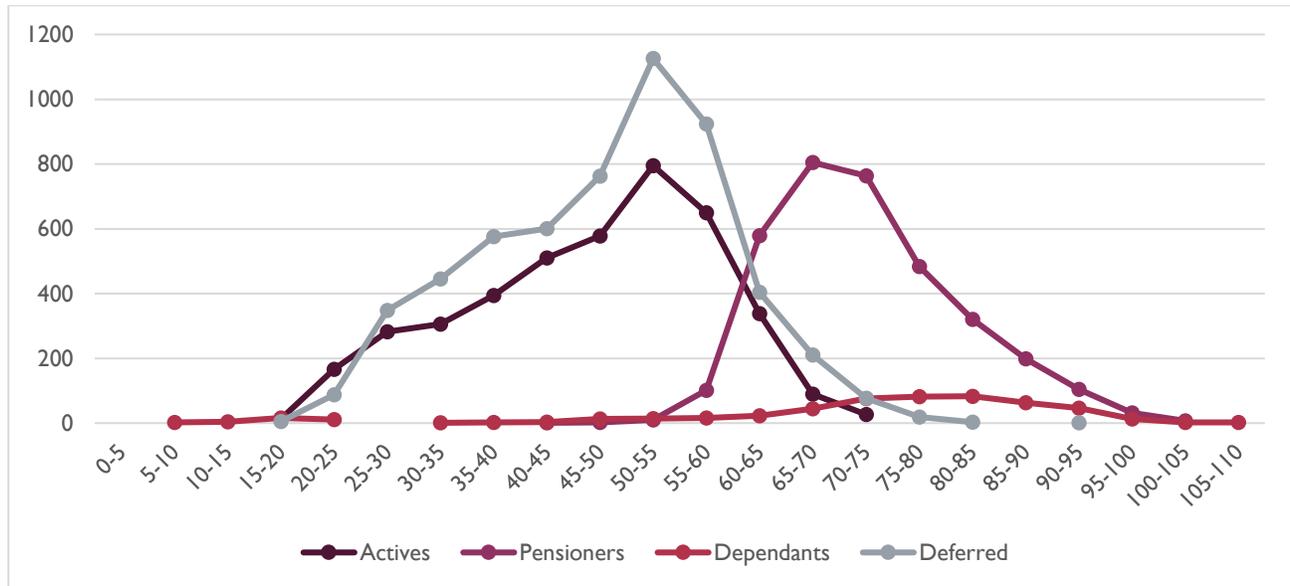
Key Management Performance Indicators

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

Performance Indicator	Target Response Time	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Payment of Retirement Allowance	10 Days	81.63	92.21	89.42	97.69	96.92
Benefit Estimates	8 Days	91.53	95.31	96.82	99.72	97.05
Death Cases – First Letter	5 Days	99.97	97.92	81.16	79.37	91.45
Death Benefit Letters	5 Days	96.08	100.00	85.00	89.23	88.31
Onward Transfer Quotes	10 Days	78.65	100.00	80.00	80.77	85.27
Inward Transfer Quotes	10 Days	73.91	71.88	71.43	83.06	70.29

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 2019 the assumed life expectancy from age 65 was as follows:

Life Expectancy from age 65 are		
Retiring March 2019	Males	23.4
	Females	24.8
Retiring in 20 years	Males	25.0
	Females	26.6

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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 2015	March 2016	March 2017	March 2018	March 2019
Active Members	3,694	3,722	4,020	3,933	4,149
Retirements	146	94	68	87	71
Deaths	103	76	83	75	91
Transfers Received	18	29	26	92	73
Deferred Benefits	291	232	350	238	279
Transfers Paid	19	24	20	57	99
New Starters	537	365	664	614	544
Widows Benefits	41	22	30	18	36
Benefit Estimates	157	209	440	360	474
Redundancy Estimates	320	266	182	147	102
Transfer In Estimates	36	64	56	183	138
Transfer Out Estimates	36	40	60	104	129

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 2015	March 2016	March 2017	March 2018	March 2019
% Retirement of active members (includes actual redundancies)	3.95	2.53	1.69	2.21	1.71
% Redundancy estimates of active members (not including bulk transfer)	8.66	7.15	4.53	3.74	2.46
% Change in Deferred Benefits	-12.08	-20.27	50.86	-32.00	17.23
% Change in Redundancy Benefits (not including bulk transfer)	211.76	-20.45	-31.58	-19.23	-30.61

Actuarial Report of the Fund (Based on 2016 valuation)

Actuarial Report on the Pension Fund (Background)

The assets and liabilities of the Fund are valued at three-yearly intervals by the Council's Actuary (Barnett Waddingham LLP). The last valuation was as at 31st March 2016.

The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

Regulations require the actuary to set the employer's contribution rate so that it is sufficient to meet 100% of existing and prospective liabilities including pension increases, or plan to do so.

The valuation of the Fund is underpinned by 'economic' and 'statistical' assumptions. The major 'economic' assumptions relate to price inflation, pay escalation and the rate of dividend growth. The 'statistical' assumptions cover future rates of withdrawal and retirement from service, mortality, the proportion of married members and the progression of pensionable pay through increasing responsibility and promotion.

Executive Summary of the 2016 Triennial Valuation Report

The overall funding level has increased from 89% in 2013 to 94% in 2016 and the deficit reduced from £53.2m to £32.7m in the same period.

The average required employer contribution to restore the funding position to 100% over the next 12 years is 15.2% of pensionable salaries.

A summary of the assumptions adopted in the valuation are shown as part of the statement of accounts in this report.

Pension Fund Accounts

2017/18 £000	Fund Account	Notes	2018/19 £000
	Dealings with members, employers and others directly involved in the scheme		
(22,745)	Contributions	7	(23,453)
(6,748)	Transfers in	8	(18,933)
(29,493)	Total Income		(42,386)
24,695	Benefits	9	25,816
2,746	Payments to and on account of leavers	10	5,242
27,441	Total Expenditure		31,058
(2,052)	Net (additions)/withdrawals from dealings with members		(11,328)
1,869	Management expenses	11	1,133
(183)	Net (additions)/withdrawals including Fund management expenses		(10,195)
	Returns on investments		
(12,605)	Investment income	12	(8,021)
148	Taxes on income	13	7
4	(Profit) and losses on disposal of investments and changes in the market value of investments	14.3	(39,893)
(12,453)	Net returns on investments		(47,907)
(12,636)	Net (increase)/decrease in the net assets available for benefits during the year		(58,102)
(650,516)	Opening net assets of the scheme		(663,152)
(663,152)	Closing net assets of the scheme		(721,254)

Net Assets Statement

2017/18 £000		Notes	2018/19 £000
661,536	Investment assets	14	707,872
(1,348)	Investment liabilities	14	0
660,188	Total Investments		707,872
4,581	Current assets	20	14,679
(1,617)	Current liabilities	21	(1,297)
663,152	Net assets of the Fund available to Fund benefits at period end		721,254

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:

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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

The following table summarises the membership numbers of the scheme.

2017/18		2018/19
	Active Members	
3,565	London borough of Merton	3,717
305	Scheduled bodies	381
63	Admitted bodies	52
3,933		4,150
	Pensioners	
3,571	London borough of Merton	3,643
163	Scheduled bodies	164
115	Admitted bodies	119
3,849		3,926
	Deferred Pensioners	
5,074	London borough of Merton	5,113
302	Scheduled bodies	354
118	Admitted bodies	125
5,494		5,592

(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 2013.

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 2019. 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 2016. 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, summarised in the following table.

	Service pre 1 April 2008	Service Post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3x pension. In addition, part of the annual pension can be exchanged for a one off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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 2018/19 financial year and its financial position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the ‘Code of Practice on Local Authority Accounting in the United Kingdom 2018/19’, 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 Account is operated on an accruals basis except where otherwise stated.

The accounts have been prepared 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 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.

3.12 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).

3.13 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.

3.14 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.

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 2019 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.	<p>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.</p> <p>Additionally, the actuary has included the impact of the McCloud case judgement dated 27th June 2019.</p>	<p>The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £18.1m and a -0.1% reduction would increase the obligation by £18.5m. An adjustment to the mortality age rating assumption of -1 yr. would decrease the obligation by £36.5m.</p> <p>The impact of the McCloud case judgement is estimated to increase liabilities by 0.7% which amounts to £7.1m as at 31st March 2019.</p>

In the IAS26 report previously issued for the Fund as at 31 March 2019 no allowance was made for the recent McCloud judgement, which relates to age discrimination within the New Judicial Pension Scheme. This was due to the uncertainty of how this judgement may affect LGPS members' past or future service benefits.

However before the government lost its appeal at the supreme court the Scheme Advisory Board, with consent of the MHCLG, commissioned GAD to report on the possible impact of the McCloud judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts under IAS26 as at 31 March 2019.

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The actuary used analysis provided by GAD along with the results of IAS26 disclosure prepared for the Fund at 31 March 2019. The membership data, valuation method, and financial and demographic assumptions adopted for the calculations are set out in the IAS26 disclosure. The key assumption is the assumed rate of future salary increases.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary also allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

6. Events After The Reporting Date

There has been one adjusting event that provides additional information about conditions that existed at the end of the reporting period. There has been additional evidence regarding the McCloud case judgement, including the legal ruling by the Supreme Court on 27th June 2019, which rejected the Government's appeal. The impact on the present value of the future retirement benefit is included within Note 19.

7. Contributions Receivable

2017/18 £000	By Category	2018/19 £000
17,026	Employers	17,348
5,719	Members	6,105
22,745	Total	23,453

2017/18 £000	By Authority	2018/19 £000
20,900	Administering	21,371
1,372	Scheduled	1,609
473	Admitted	473
22,745	Total	23,453

2017/18 £000	By Type	2018/19 £000
12,783	Employers normal	13,570
5,719	Employees normal	6,044
3,430	Deficit Funding	3,620
813	Employers additional	219
22,745	Total	23,453

8. Transfers In From Other Pension Funds

2017/18 £000		2018/19 £000
3,760	Individual Transfers	4,523
2,988	Group Transfer	14,410
6,748	Total	18,933

Note: There were two group transfers in 2018/19. HR Staff from LB Sutton to LB Merton (£5.4m) and SSA Environmental staff to Merton Regularity Services Partnership (£9m).

9. Benefits Payable

2017/18 £000	By Category	2018/19 £000
20,516	Pensions	21,548
3,558	Commutations and lump sum retirement benefits	3,755
621	Lump sum death benefits	513
24,695	Total	25,816

2017/18 £000	By Authority	2018/19 £000
22,915	Administering	23,855
861	Scheduled	847
919	Admitted	1,114
24,695	Total	25,816

10. Payments to and on Account of Leavers

2017/18 £000		2018/19 £000
2,425	Individual transfers	4,239
250	Group transfers	843
68	Refunds of contribution	112
3	State scheme premiums	48
2,746	Total	5,242

11. Management Expenses

2017/18 £000		2018/19 £000
460	Administrative costs	387
1,108	Investment management expenses	434
301	Oversight and governance costs	312
1,869	Total	1,133

11a. Investment Management Expenses

2017/18 £000		2018/19 Fees invoiced £000	2018/19 Fees deducted at source £000
788	Management fees	424	961
10	Performance related fees	0	10
10	Custody fees	10	0
300	Transaction costs	0	75
1,108	Total	434	1,046

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

12. Investment Income

2017/18 £000		2018/19 £000
2,232	Income from bonds	1,054
8,860	Income from equities	3,361
166	Pooled investments – unit trusts and other managed Funds	2,941
826	Pooled property investments	803
521	Other	(138)
12,605	Total	8,021

13. Taxes on Income

2017/18 £000		2018/19 £000
115	Non-recoverable tax	3
33	Withholding tax	4
148	Total	7

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 2019.

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2017/18		Fund Manager	2018/19	
£000	%		£000	%
277,265	42	Aberdeen Asset Management	116,617	16
375,198	57	UBS Asset Management	222,988	31
7,575	1	Blackrock	78,321	11
0	0	Baillie Gifford (LCIV)	103,991	15
0	0	Pyrford (LCIV)	33,671	5
0	0	RBC (LCIV)	74,694	11
0	0	CQS (LCIV)	69,360	10
0	0	Quinbrook	4,389	1
0	0	Macquarie	1,157	0.2
0	0	Churchill	2,534	0.4
660,038	100	Total	707,722	100

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2019 is shown in the following table. Derivative assets are recognised at market value, and derivative liabilities are recognised at economic exposure.

Market Value 31 March 2018 £000		Market Value 31 March 2019 £000
	Investment Assets	
152,315	Bonds	87,451
244,427	Equities	0
236,156	Pooled investments	587,322
22,896	Pooled property investments	23,749
1,329	Derivative contracts - Futures	0
0	Private Debt and Infrastructure	8,080
2,829	Cash held with Fund managers	991
1,434	Investment income due	129
661,386	Total Investment Assets	707,722
	Investment Liabilities	
(1,348)	Derivative contracts – Futures	0
150	LCIV Subscription	150
660,188	Net investment assets	707,872

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 2018/2019. 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 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
External Investments at Market Value	660,038				707,722
LCIV Subscription	150				150
Investment Assets	660,188			39,893	707,872

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Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2017/2018.

	Market Value 1 April 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2018 £000
Bonds	153,178	4,870	(2,974)	(2,759)	152,315
Equities	236,697	64,820	(50,592)	(6,498)	244,427
Pooled Investments	232,468	14,510	(18,655)	7,833	236,156
Pooled Property	21,321	444	(262)	1,393	22,896
	643,664	84,644	(72,483)	(31)	655,794
Derivatives (Futures)					
Future Asset	2,328	8,170	(9,193)	24	1,329
Future Liability	(2,330)	0	0	0	(1,348)
	643,662	92,814	(81,676)	(7)	655,775
Other Investment Balances					
Cash with Fund Managers	3,638	0	0	0	2,829
Investment Income Due	1,310	0	0	0	1,434
Realised Loss on FX	0	0	0	3	0
External Investments at Market Value	648,610				660,038
LCIV Subscription	150				150
Investment Assets	648,760			(4)	660,188

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14.4 Detail Analysis of Investments

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

Market Value 31 March 2018 £000		Market Value 31 March 2019 £000
	Bonds	
114,952	Public Sector : UK quoted	65,843
37,363	: Overseas quoted	21,608
152,315		87,451
	Equities (Direct)	
226,155	UK quoted	0
18,272	Other European quoted	0
0	Global Equities quoted	0
244,427		0
	Pooled Investments	
54,917	UK (Equities)	0
35,927	Other European (Equities)	0
69,087	American (Equities)	0
27,858	Japanese (Equities)	0
26,083	Other Overseas (Equities)	0
22,283	Developing Markets (Equities)	0
0	Global Equities quoted	451,367
0	Diversified Growth	66,595
0	Multi Asset Credit	69,360
236,155		587,322
	Pooled Property Investments	
7,561	Property Managed Fund/Units quoted	7,918
15,336	Property Managed Fund/Units unquoted	15,831
22,896		23,749
	Private Debt and Infrastructure	
0	Macquarie	1,157
0	Churchill	2,534
0	Quinbrook	4,389
0		8,080
1,434	Other Investment Balances	129
2,829	Cash with Fund Managers	991
1,329	Derivatives (Futures)	0
661,386	Total Investment Assets	707,722
(1,348)	Derivatives (Futures)	0
150	LCIV Subscription	150
660,187	Total	707,872

14.5 Analysis of derivatives

As at 31 March 2019, the Fund had no exposure to future contracts. The below table shows last year's position for information only.

The following table reflects the Fund's exposure to future contracts.

Type	Expires	Economic exposure £000	Market value 31 March 2018 £000	Economic exposure £000	Market value 31 March 2019 £000
UK Equities	Three – Six months	1,348	1,329	0	0

14.6 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2019.

14.7 Investments exceeding 5% of net assets

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

% Market Value 2017/18	Security	% Market Value 2018/19
11.65	Aberdeen Global II Index Linked	7.2
9.38	UBS Life North America Equity Tracker	0
7.35	UBS Life UK Equity Tracker	12.7
5.69	Aberdeen Global II Global Aggregate	0
5.34	UBS Life Europe Ex UK Equity Tracker	0

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.

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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 equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	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.

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.

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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 2018				31 March 2019		
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
635,660	22,896	0	Financial assets at fair value through profit and loss	674,922	23,749	8,080
2,979	0	0	Loans and Receivables	1,120	0	0
(1,348)	0	0	Financial liabilities at fair value through profit and loss	0	0	0
637,291	22,896	0	Total	676,042	23,749	8,080

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 2018				31 March 2019		
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						
152,315	0	0	Bonds	87,451	0	0
244,427	0	0	Equities	0	0	0
236,156	0	0	Pooled Investments	587,321	0	0
22,896	0	0	Pooled Property Investments	23,749	0	0
0	0	0	Private Debt & Infrastructure	8,080	0	0
0	150	0	LCIV Subscription	0	150	0
1,329	0	0	Derivative Contracts	0	0	0
0	2,829	0	Cash With Fund Managers	0	991	0
1,434	0	0	Other Investment Balances	129	0	0
0	641	0	Debtors	0	467	0
0	3,698	0	Cash	0	12,607	0
658,557	7,318	0		706,730	14,215	0
Financial Liabilities						
(1,348)	0	0	Derivative Contracts	0	0	0
0	0	(1,344)	Creditors	0	0	(1,297)
(1,348)	0	(1,344)		0	0	(1,297)
657,209	7,318	(1,344)		706,730	14,215	(1,297)

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 2018 £000		31 March 2019 £000
(4)	Financial Assets Fair Value through profit and loss	39,893
(4)	Total	39,893

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, JLT Employee Benefits, 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.

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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

Asset Type	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
UK Equities	281,073	9.4	307,494	254,652
Overseas Equities	199,510	9.4	218,264	180,756
Bonds and Index Linked	152,315	10.3	168,003	136,626
Property	22,896	3.5	23,698	22,095
Cash	2,829	0.7	2,849	2,809
Income Due	1,434	0.0	1,434	1,434
LCIV Subscription	150	0.0	150	150
Total Assets	660,207		721,892	598,522

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 2019 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.

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

Asset Type	Potential market movements (+/-) %
Bonds and Index Linked	9.6
Equities	8.7
Diversified Growth	3.5
Multi Asset Credit	9.6
Property	3.4
Private Debt and Infrastructure	5.5
Cash	0.6

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.

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 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 table below shows the currency exposure by asset type as at 31 March 2018.

Asset Type	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities	199,510	8.8	217,067	181,953
Overseas Bonds	37,363	8.8	40,651	34,075
Total Overseas Assets	236,873		257,718	216,028

The following table calculates the aggregate currency exposure within the Fund as at 31 March 2019. 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.

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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

Assets exposed to currency risk	Value at 31 March 2018 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Equities (Danish Krone)	1,287	9.00	1,403	1,171
Overseas Equities (EURO)	13,977	9.00	15,235	12,719
Overseas Equities (Swedish Krona)	1,618	9.70	1,775	1,461
Overseas Equities (Swiss Franc)	4,805	10.30	5,300	4,310
Overseas Bonds (US Dollar)	37,508	9.70	41,146	33,869
Total	59,195		64,859	53,530

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.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria. The average long-term credit rating in the bond portfolio is AA as at 31 March 2019. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

Value at 31 March 2018 £000		Value at 31 March 2019 £000
7,768	AAA	4,466
111,342	AA	64,005
14,470	A	8,318
15,536	BBB	8,931
1,219	BB or below	700
1,980	Cash	1,138
38	Settled Cash	8
152,353	Total	87,566

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 2019 was £12.6m (31 March 2018: £3.7m).

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 setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

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. 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 2016 actuarial valuation, the Fund was assessed as 94% Funded. This corresponded to a deficit of £32.7m at that time.

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

	2010 Valuation	2013 Valuation	2016 Valuation
Funding Level %	84.0	89.0	94.0
Funding (Deficit) £m	(67.2)	(53.2)	(32.7)

The assessed value of assets held by the Fund at 31 March 2016 was £525.5m (2013 valuation: £451.0m), whilst the liabilities accrued in respect of pensionable service were £558.2m (2013 valuation: £504.2m).

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 March 2016	31 March 2013
Discount rate	Long Term Short Term	5.5%	5.9%
Pay increase		3.9%	4.5%
		Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020	CPI for period 31 March 2013 to 31 March 2015
Consumer price inflation (CPI)		2.4%	2.7%
Pension increases		2.4%	2.7%
		Funds will pay limited increases for members that have reached Statutory Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase.	
Pension increases on GMP		For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.	No allowances for limit in increase for any members

Demographic Assumptions

The main assumptions are detailed below:

Demographic Assumptions	31 March 2016	31 March 2013
Allowance for improvement in life expectancy	2015 Continuous Mortality Investigation (CMI) Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI Model with a long-term rate of improvement of 1.5% p.a.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	Members will commute pension at retirement to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
Allowance for 50:50 membership	Based on members' current section	10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme

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 2019, using a valuation methodology that is consistent with IAS19.

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

Financial Assumptions	Assumptions as at 31 March 2019 %
Inflation/Pension Increase Rate	2.40
Salary Rate Increase	3.90
Discount Rate	2.40

The value of the Fund's promised retirement benefits as at 31 March 2019 was:

31 March 2018 £m		31 March 2019 £m
1,002.5	Present value of promised retirement benefits	1,052.8

Based on the calculation carried out by the Fund actuary the estimated increase in promised retirement benefits because of the McCloud case judgment is £7.1m (0.98% of the Net asset value) as at 31 March 2019. This makes the total present value of total promised retirement benefit £1,059.9m.

20. Current Assets

31 March 2018 £000	Current Assets	31 March 2019 £000
242	Contributions Due	1,605
641	Sundry Debtors	467
3,698	Cash	12,607
4,581	Total	14,679

Analysis of Debtors

31 March 2018 £000	Current Debtors	31 March 2019 £000
168	Administering Body	1,442
74	Admitted and Scheduled Bodies	163
641	Sundry Debtors	467
883	Total	2,072

21. Current Liabilities

31 March 2018 £000	Creditors	31 March 2019 £000
(755)	Fund Managers Fees	(184)
(589)	Sundry	(793)
(273)	Payroll	(320)
(1,617)	Total	(1,297)

22. Additional Voluntary Contributions

The scheme provides its members the facility 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 AVCs are not included in the Pension Fund investments but are paid 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 2018/19 to AVC schemes outside the Authority’s responsibility was £0.415m (£0.442m at 31 March 2018). The provider prudential reported that at 31 March 2019 the total value of accumulated AVCs is £2.47m (£2.36m at 31 March 2018).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.39m (2017/18: £0.41m) 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 2018 £	31 March 2019 £
Short-term benefits	103,114	84,068
Total remuneration	103,114	84,068

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2019 were £41.2m (31 March 2018 £0m).

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@wandsworth.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 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 2019 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 2018/19.

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 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 Services' 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 Pension Fund Annual Report 2018-19, 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 2018/19, 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 Merton Pension Fund, 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 Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.



Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
31 July 2019

The maintenance and integrity of the Merton Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2019, 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 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Corporate Services and the auditor

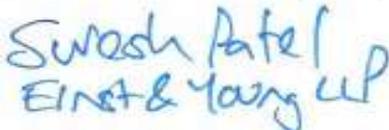
As explained more fully in the Statement of Responsibilities, the Director of Corporate Services is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

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 2018/19.

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:

- 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
- Actuarial Report of the Fund (Based on 2016 valuation)
- 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 (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
31 July 2019