

**LONDON BOROUGH OF MERTON
PENSION FUND**



**Annual Report
2020-21**

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The Chairperson Statement



I am pleased to present the 2020/21 Annual Report of the London Borough of Merton Pension Fund and my first statement as the chair of the Pension Fund. As we all know the past year was a challenging one for all of us as for the Pension Fund also. May I take this opportunity to reach out to you and share how the Pension Fund and the team continued to deliver services to its members during the pandemic and some of the challenges we had.

Last March when the whole world was first impacted by the Covid-19 pandemic, the investment and financial markets experienced a big shock and investment values dropped significantly. However, from April 2020 the markets and our investments adapted to the new risk posed by Covid19 and started to recover partly due to support from governments and the central banks.

The 2020/21 year was an extraordinary year for the Merton Pension Fund as it was for other pension funds. After the huge drop in value in March 2020, investments started to pick up from April 2020. Favorable market conditions together with the diversified nature of the Merton Pension Fund helped the Fund to record a £211m increase in its net asset value, from £689m as at March 2020 to £900m as at 31 March 2021.

The pandemic changed the way we administrate the fund's investments, administration and our governance arrangements. By moving to virtual meetings the Pension Fund Advisory Panel (PFAP) and the Board were able to continue to have quarterly investment meetings. This also helped the fund officers to continue to have regular meetings with our investment managers and the London Collective Investment Vehicle (LCIV) Pool together with other stakeholders as usual.

Activities in the year

The Fund continued to deliver its key responsibilities throughout the pandemic by adapting to new ways of working. The PFAP approved the revised investment strategy in September 2020 following the March 2019 triennial valuation. In the new strategy, the Fund made an allocation to exclusively Social impact investment as its next stage in the journey to become a fully sustainable investor. Also increased its allocation in infrastructure for diversification and income generation.

In December 2020, the fund appointed Northern Trust as its first Global custodian. This will help the Fund to improve its record keeping, reporting and with our external auditors. In April 2021, the fund appointed Hymans Robertson as its new investment consultant following a procurement process. The new consultant will work with officers and implement the investment strategy approved in Sept 2020 in the coming months.

Merton Council is the administrative body and the largest employer of the Fund. The Fund provides pension benefits to another twenty employers who have joined the pension fund for their employees' benefits. We are pleased to say that all our employers were able to continue to deliver their services as usual /or received support from the government during the government lockdowns. No employer stopped paying their contributions or asked for a contribution holiday.

The Fund closed its accounts and completed the 2020–21 Pension Fund audit virtually. The accounts and the annual report were signed off by the statutory deadline 30 September 2021 with a clean audit report from the Auditors.

Investment performance

Despite the impact of the global pandemic and the market crash we had early in the year, the Fund grew and delivered a £211m increase in its NAS as at 31 March 2021. Since the transition into the new diversified Strategy from 2018 the Fund has increased in value by £238m even after the drop in March 2020. The Fund saw a steady income from its listed investments and new income started to accrue from its

private credit investments. Currently the Fund reinvests the majority of its investment income into the respective portfolios for growth.

As the current strategy is still new and yet to fully deliver its full benefits, there was no need to make significant changes in the 2019 investment strategy review. However, we used this opportunity to make an allocation to social impact investment allocation and increased the infrastructure allocation. The Fund strongly believes these investments will make a positive impact to society while producing the required returns. As the Fund is becoming more and more mature, as part of the investment review we considered allocation to income generating assets. We aim to implement this in 2022.

This is the first year the new contribution rates came into effect following the 2019 valuation where the Fund was 103% funded. As at 31 March 2021, the Fund was showing a 104% funding level. In the year, the Fund received £26.5m in pension contributions and paid out £31.7m in benefits. To bridge this funding gap the Fund used some of its investment proceeds to meet these payments. In total, the Fund received income of £35.7m and the total expenses were £33.8m. With the market-moving positive, the fund recorded a 31.7% increase in its asset value during the year.

The Fund is committed to its ESG strategy and ensures ESG criteria have a significant weight when making investment decisions. The new Investment strategy statement details this including our investment beliefs. This can be found in our pension fund website.

As at 31 March 2021, the fund had allocation of 20% – 25% in low carbon and sustainable investments. The Fund carry out its annual carbon foot print analysis to asses it progress in reducing it carbon footprint. As of June 2021 our measurable carbon footprint was 30% lower than it was the year before. The Fund's weighted average carbon intensity has reduced by 60% from 219 to 87 between 2018 and 2021. This is 115 lower than the composite Fund benchmark 202.

Looking ahead

While we as a nation adapt to working/living in the new Covid environment the Fund is determined to build on the good work done and continue to deliver its responsibilities in the best ways possible. In 2021/22, we will focus on:

1. Implementing the social impact investments
2. Reviewing solutions to address the fund's long-term cashflow needs
3. Continuing to organise and deliver training for the Panel, Board and the officers
4. Continuing to review and update the Fund's governance arrangements.
5. Implementing and improving online member self-services
6. Ensuring the team's mental and physical health in the new working environment.

Finally, my sincere thanks to Cllr Owen Pritchard, the previous Chair, and Cllr Mark Allison, panel member, for their significant contributions during their term to make sure the Fund's investments are both effective and sustainable to meet the Merton Pension Fund's future needs.

I would also like to thank my current panel Cllr Tobin Byers, Cllr Adam Bush, Tina Pickard, Gwyn Issac and the officers for their continued support. The Fund will continue to deliver its services in the most effective and efficient ways.

Thank you!

Cllr. Laxmi Attawar

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

The scheme has to be fully funded or have a plan to become so. Hence, employer contributions are adjusted based on a triennial actuarial valuation, to ensure that 100% of existing and prospective pension liabilities are met through the various funding sources over a reasonable period. At the 2019 Triennial valuation the Fund was 103% fund with £20m surplus.

Employee contribution rates are set by statutory regulations based on employee's pensionable pay. These rates are reviewed every April. The employer contribution is determined, triennially, by an actuarial review that takes into account the funds current funding level and the expected future investment return. Thus, the amount and performance of Pension Fund investment is significant to the level of the employer contribution, and supports the need for effective management of the Fund.

The London Borough of Merton is the administrating body and the main employer of the Merton Pension Fund, owning 93% of the Fund.

The Fund also has other employers who provide services to the Council and/or to the Borough. There are 29 employers in total and out of which only 17 of them have contributing active members as at 31 March 2021. The employers are made up of academies, housing associations and community admission bodies. The Full list of the participating employers is shown on page 36.

In March 2021, the Fund had 14,395 total members. Being 4,359 active members; 5,949 deferred and 4,087 pensioners.

As at 31 March 2021 the Fund net asset value was £900m. This showed an increase of £211m from the previous year. The fund shown a steady recovery since pandemic impact in March 2020. The Fund's Investments are managed by external Fund managers who have been appointed through a rigorous selection process and the LCIV Pool. Each quarter the Fund managers' performance is measured against the set benchmark to which they are held accountable. In the financial year 2020/21. In 2020- 21 the fund delivered an annual return of the Fund had a total income of £36m and total expenditure of £34m.

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

Statement of Responsibilities of the Pension Fund

The Council's Responsibilities

The Council is required to:

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

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

The Responsibilities of the Director of Corporate Services.

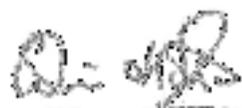
The Director of Corporate Services is responsible for the preparation of the Pension Fund's accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code of Practice').

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

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

The Director of Corporate Services has also:

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



CAROLINE HOLLAND

Director of Corporate Services

Management and Advisors of the Fund

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

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

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

2. Investment Managers

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

3. Custodians

J.P. Morgan Custody Services (Pre Dec 2020)
Northern Trust (Post Dec 2020)
BNP Paribas.

4. AVC Providers

Prudential PLC

5. Investment Adviser

- Mercer Ltd (till March 2021)
- Hymans Robertson -from April 2021

6. Fund Actuary

Barnett Waddingham LLP,

7. Legal Advisers

London Borough of Merton –Shared Legal Services

8. Bankers

Lloyds Bank Plc

9. Auditor

Ernst & Young LLP

10. Scheme Administration

Pensions Shared Service, London Borough of Wandsworth

11. Performance Monitoring and Analysis.

- Mercer Ltd (till March 2021)
- Hymans Robertson -from April 2021
- Pensions & Investment Research Consultants Limited (PIRC Limited)

Risk Management

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

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

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

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

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

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

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

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

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

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 £26.5m in contributions and transfers in and paid out £31.7m in benefits and payments to leavers. This showed a net withdrawal of £5.2m from dealing with members. The fund accounted for £9.4m investment income in year.

Analytical Review

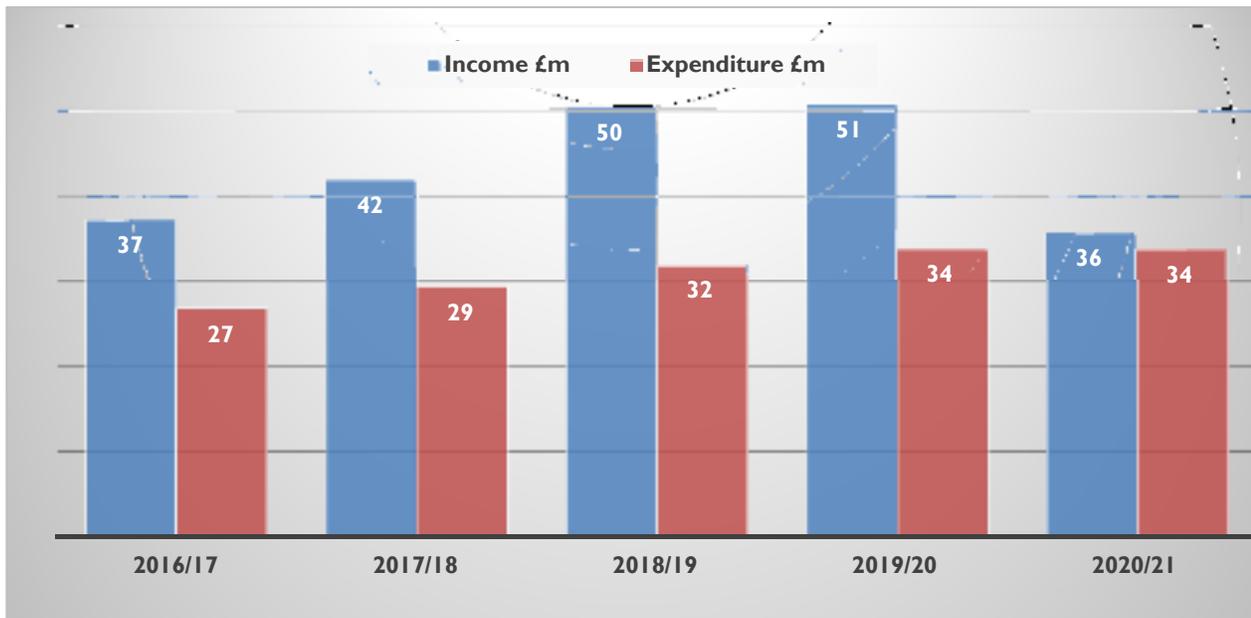
| Fund Account | 15/16 £000 | 16/17 £000 | 17/18 £000 | 18/19 £000 | 19/20 £000 | 20/21 £000 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Contributions Income | -24,139 | -25,923 | -29,493 | -42,386 | -37,738 | -26,545 |
| Benefits paid | 26,530 | 24,903 | 27,441 | 31,058 | 32,169 | 31,710 |
| Net Dealings with Members | 2,391 | -1,020 | -2,052 | -11,328 | -5,569 | 5,165 |
| Management Expenses | 1,230 | 1,854 | 1,869 | 1,133 | 1,701 | 2,141 |
| Returns on Investments | -11,064 | -11,326 | -12,457 | -8,014 | -13,011 | -9,361 |
| Change in Market Value | 19,211 | -109,202 | 4 | -39,893 | 48,680 | -208,776 |
| Net (Increase)/Decrease in Fund | 11,768 | -119,694 | -12,636 | -58,102 | 31,801 | -210,831 |

Contributions income has fluctuated over the past 5yrs. This is due to the variability of both bulk and individual transfers into the Fund. Over the same period, individual member contributions have increased from £5.7m to £7.1m, being an increase of 23%. This is due to a natural increase and auto enrolment. The employers' contributions were reviewed and agreed as a part of the Fund's triennial valuation in 2019.

Over the past five years the fund's assets grew by £250m. This increase is primarily due to the change in market valuations and moving to a well-diversified investment strategy in 2018.

The table below summaries the Fund's income and expenditure for the past five years to 2020/21. The reduction in contribution income and in transfer value in the primary main reason for the drop in income in the year.

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



Code of Transparency

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

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

Investment Policy and Performance

Introduction to Investment Policy

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

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

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

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

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

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

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

Performance summary – Period ending 31 March 2021

| Mandate | Valuation (£m) | | Allocation | | Relative |
|---------------------------|----------------|--------------|---------------|---------------|----------|
| | Mar-20 | Mar-21 | Mar-21 (%) | Benchmark | |
| Global Equities | 328.2 | 450.3 | 50.2% | 40.0% | 10.2% |
| Emerging Market Equities | 67.1 | 100.1 | 11.2% | 10.0% | 1.2% |
| Diversified Growth | 62.9 | 72.8 | 8.1% | 10.0% | -1.9% |
| Property | 24.4 | 24.4 | 2.7% | 5.0% | -2.3% |
| Infrastructure | 37.7 | 37.5 | 4.2% | 7.5% | -3.3% |
| Private Credit | 15.9 | 31.4 | 3.5% | 7.5% | -4.0% |
| Risk Management Framework | 88.9 | 104.9 | 11.7% | 10.0% | 1.7% |
| Multi Asset Credit | 59.8 | 74.8 | 8.3% | 10.0% | -1.7% |
| Cash | 3.6 | 1.2 | 0.1% | 0.0% | 0.1% |
| Total Fund | 688.5 | 897.4 | 100.0% | 100.0% | |

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 campaign 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.

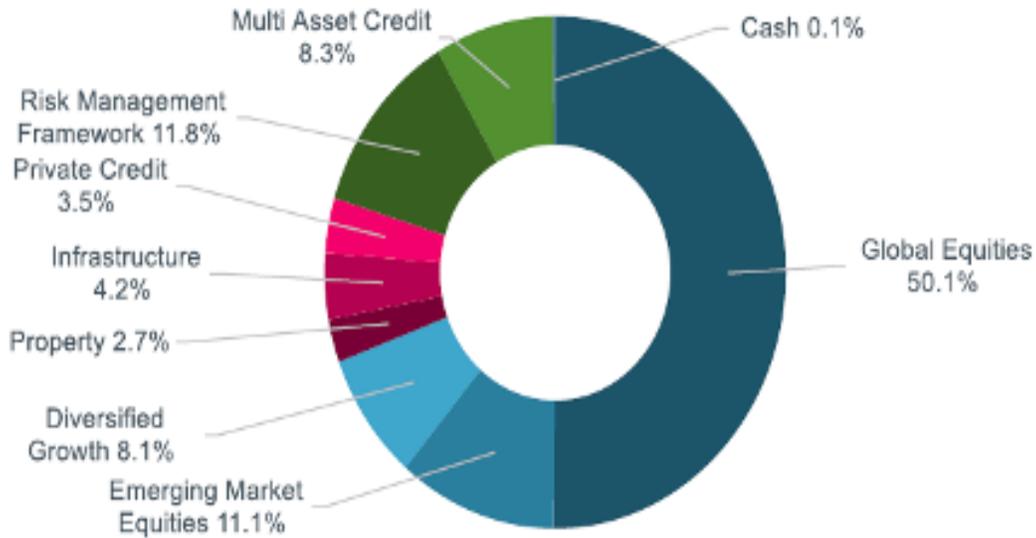
Fund Valuation

As at 31 March 2021, the value of the Fund was £900m an increase of £211m on the value of the Fund from the previous year.

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

| Net Asset Value | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--------------------------------|------------|------------|------------|------------|------------|
| | £m | £m | £m | £m | £m |
| Fixed Interest Securities | 153 | 152 | 88 | 70 | 72 |
| Equities | 237 | 244 | 451 | 395 | 550 |
| Pooled Investment Vehicles | 233 | 236 | 136 | 123 | 148 |
| Property Investments | 21 | 23 | 24 | 24 | 24 |
| Private Debt | 0 | 0 | 3 | 16 | 31 |
| Infrastructure | 0 | 0 | 6 | 38 | 37 |
| Derivatives | 0 | 0 | 0 | -7 | 0 |
| Other | 7 | 7 | 15 | 30 | 37 |
| Total Investment Assets | 651 | 663 | 721 | 689 | 900 |

Asset class exposure 2020–21



Fund Managers Performance

The Fund’s investments are managed by external fund managers in eight different asset classes. The fund now have 55% of its strategic allocation invested via the LCIV and the rest of the investment are invested outside of the LCIV in different mandates. The Fund is invested in active and 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.

As continues monitoring in addition to the financial performance the Fund is looking at the individual portfolios and the fund managers approach to Environmental, social and governance factors. This is no longer a one off exercise which is looked at the point of investment.

LCIV have mechanism in place to report the ESG score/impact on the investments they manage quarterly. The fund officers and the performance consultant are working with the fund managers to measure the ESG impact on the investments which are managed outside of the LCIV pool.

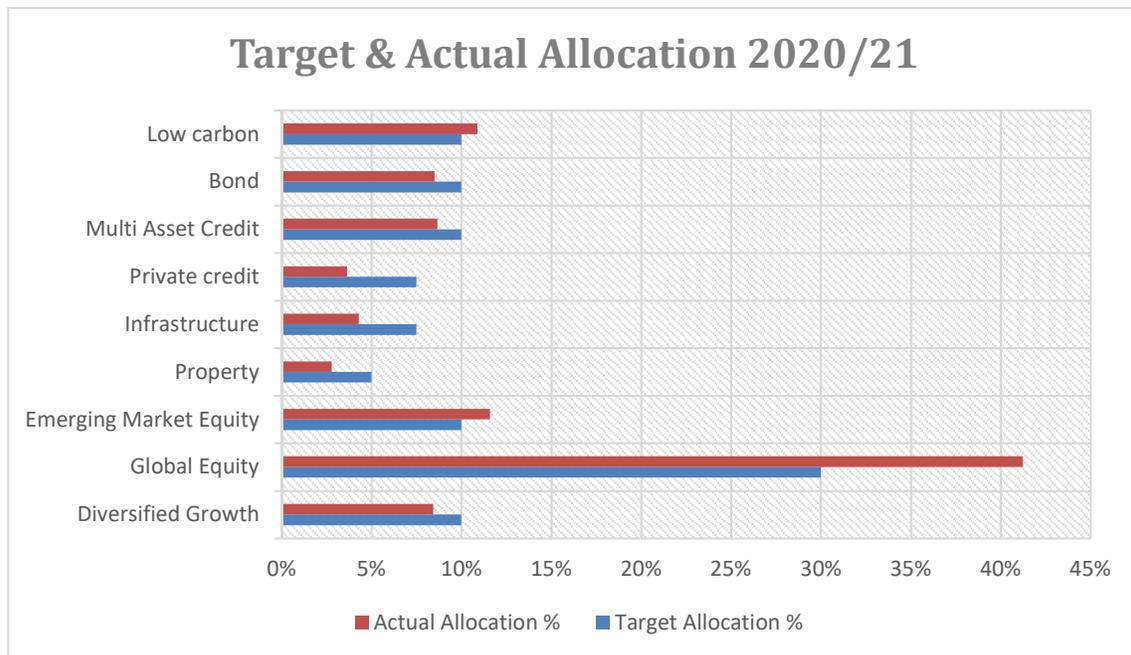
On this basis the Fund has started to measure and report its carbon foot prints on its investments. All new investments are arrived after analysing the carbon emission on the new investments and any investment falls under a red/Amber category are not proceeded. Also with the existing portfolios steps are taken to reduce the carbon emission in a structured way while maintaining the expected return from the investments.

Over the 12 months to 31 March 2021, total Fund assets returned 30.8% compared to the target of 4.8%. This equates to an over performance of 26%. The Fund's total market value increased £211m over the year, from £689m to £900m.

PERFORMANCE SUMMARY 31 MARCH 2021

Asset Allocation

The Merton Pension Fund investment portfolio is a well-diversified portfolio. It is important to note that 55% 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 2021.



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

Actual Asset Allocation by Manager

| 2019/20 | | | 2020/21 | |
|---|-------------|---------------------------|----------------|-------------|
| £000 | % | Fund Manager | £000 | % |
| Investments managed by LCIV regional asset pool | | | | |
| 68,529 | 10% | Blackrock | 94,195 | 11% |
| 25,753 | 4% | JPM Emerging Markets | 39,506 | 4% |
| 100,180 | 14% | Baillie Gifford | 145,056 | 16% |
| 32,909 | 5% | Pyrford | 0 | 0% |
| - | 0% | Ruffer | 37,389 | 4% |
| 71,358 | 10% | RBC | 104,412 | 12% |
| 59,756 | 9% | CQS | 74,847 | 8% |
| Investments managed outside the LCIV regional asset pool | | | | |
| 176,181 | 26% | UBS Asset Management | 219,363 | 24% |
| 11,277 | 2% | Macquarie | 8,353 | 1% |
| 7,339 | 1% | Quinbrook | 11,834 | 1% |
| 19,445 | 2% | JPM Infrastructure | 17,799 | 2% |
| 11,233 | 2% | Churchill | 16,353 | 2% |
| 4,474 | 1% | Permira | 15,043 | 2% |
| 88,961 | 13% | Wells Fargo | 104,906 | 12% |
| 7,578 | 1% | Blackrock property | 7,612 | 1% |
| 150 | 0% | LCIV Subscription | 150 | 0% |
| 7 | 0% | Aberdeen Asset Management | 0 | 0% |
| 685,130 | 100% | Total | 896,818 | 100% |

Pension Administration Report

The Council's pension benefits administrator is the Pension Shared Service (hosted by the London Borough of Wandsworth) this is a shared service partnership between five London Boroughs: Merton, Camden, Richmond, Wandsworth and Waltham Forest.

The key responsibilities for the Pension Shared Service are to:

- administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members);
- communicate and engage with scheme members and employers on LGPS matters;
- provide Annual Benefit Statements;
- maintain and develop an effective web presence for the benefit of members and employers.

Since March 2020, responding to the Government's guidance regarding the coronavirus pandemic, the Pension Shared Service adapted its processes and closed its office to visitors. The majority of staff work remotely ensuring that the Pensions Shared Service remains fully operational and undertakes a significant majority of the tasks that it usually would. This includes critical processes including the payment of member benefits, retirement processing and bereavement services.

The safety and wellbeing of staff and everyone who accesses its services remains the priority and the Pension Shared Service will follow Government advice on re-opening their offices.

Looking beyond the coronavirus pandemic, the past twelve months have been a very busy time for the Pensions Shared Service as it has used the time to develop a stronger service for the future.

Development of the Pensions Shared Service

i-Connect

The key to delivering efficiencies in our pensions administration is the full implementation of i-Connect which allows for the automation of transfer of member data from employers' payroll systems to the pensions administration system on a monthly basis, thus reducing the need for manual inputting; reducing the workload of end-of-year reconciliation and ensuring the maintenance of a stable and accurate membership database.

i-Connect brings many benefits for employers including maintaining data in line with statutory rules and a beneficial impact on employer pension contribution rates.

Accurate member records mean a better service for members.

We are pleased to report that from 1 April 2021 all Merton Pension Fund scheme members will have their records updated monthly through i-Connect.

Member Self Service

The Pensions Shared Service is promoting its secure on-line portal which allows members, (active, deferred or pensioner) to view pension records and scheme documents.

The expectation is that this online portal will become the default method of Pensions Shared Service communication with members and improvement in customer service and information exchange is expected.

Member Self Service is the simple and secure way for scheme members to:

- view their pension records;
- make changes to their personal information such as address, email and phone details, etc.
- make a death grant nomination;
- run calculations including retirement estimates;

MERTON PENSION FUND ANNUAL REPORT 2020/21

- view documents such as their latest annual benefit statement;
- contact the Pensions Shared Service with any questions.

At the time of writing this report, there has been a positive reaction from scheme members to the launch of Member Self Service as 40% of active members in the Merton Pension Fund have already registered for Member Self Service. More activation keys will be sent out later in the summer 2021.

Please find below the performance statistics for 2020–21

Management Performance – Membership

| 5 Year Membership Data | Mar-17 | Mar-18 | Mar-19 | Mar-20 | Mar-21 | % Change 17 to 21 |
|------------------------|--------|--------|--------|--------|--------|-------------------|
| Active Members | 4,019 | 3,933 | 4,150 | 4,341 | 4,359 | 8% |
| Deferred Members | 4,570 | 4,691 | 4,738 | 4,899 | 4,882 | 7% |
| Pensioner Members | 3,725 | 3,849 | 3,926 | 4,017 | 4,087 | 10% |
| Frozen Refunds | 669 | 803 | 854 | 1,061 | 1,067 | 59% |

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

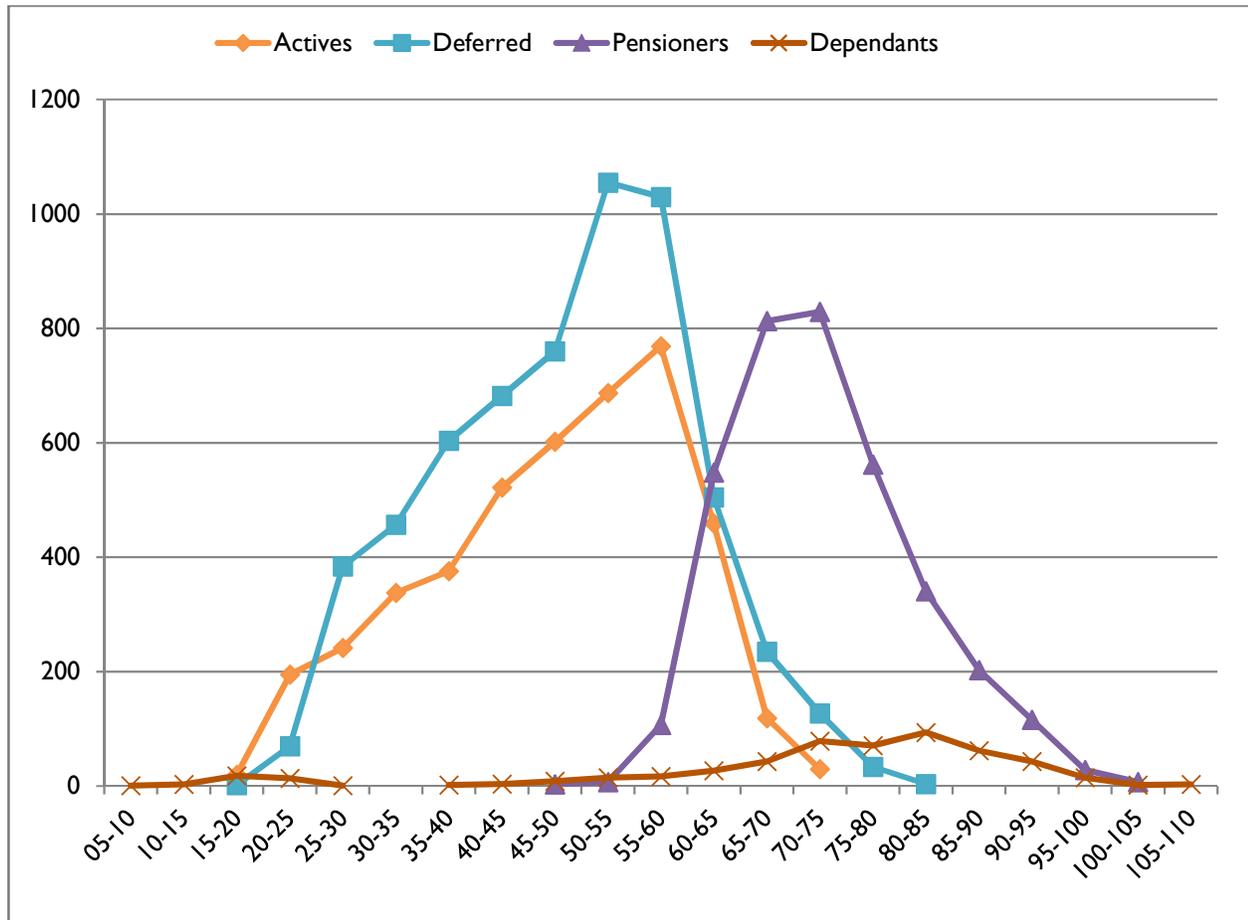
Key Management Performance Indicators

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

| Performance indicator | Target Response Time | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 |
|---------------------------------|----------------------|-------|-------|-------|-------|-------|
| | | % | % | % | % | % |
| Payment of Retirement Allowance | 10 Days | 89.42 | 97.69 | 96.92 | 99.74 | 99.57 |
| Benefit Estimates | 8 Days | 96.82 | 99.72 | 97.05 | 97.87 | 98.70 |
| Death Cases – First Letter | 5 Days | 81.16 | 79.37 | 91.45 | 85.44 | 94.07 |
| Death Benefit Letters | 5 Days | 85.00 | 89.23 | 88.31 | 86.52 | 81.16 |
| Onward Transfer Quotes | 10 Days | 80.00 | 80.77 | 85.27 | 90.86 | 94.74 |
| Inward Transfer Quotes | 10 Days | 71.43 | 83.06 | 70.29 | 82.30 | 98.70 |

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 | 47 years 4 months |
| Deferred Members | 48 years 7 month |
| Pensioners | 72 years 10 months |
| Widows/Dependants | 73 years 0 months |

The Fund actuary Barnett Waddingham have reported in the IAS26 disclosures that as at 31st March 2021 the assumed life expectancy from age 65 was as follows:

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| Life expectancy from age 65 (years) | 31 Mar 2021 | 31 Mar 2020 |
|-------------------------------------|-------------|-------------|
| Retiring today | | |
| Males | 21.5 | 21.4 |
| Females | 24.1 | 24.0 |
| Retiring in 20 years | | |
| Males | 22.9 | 22.8 |
| Females | 25.6 | 25.5 |

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

Pension Scheme Case Load

| 5 Year Case Type Analysis | March | March | March | March | March |
|---------------------------|-------|-------|-------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Active members | 4020 | 3933 | 4149 | 4341 | 4359 |
| Retirements | 68 | 87 | 71 | 60 | 57 |
| Deaths | 83 | 75 | 91 | 99 | 117 |
| Transfers Received | 26 | 92 | 73 | 79 | 15 |
| Deferred Benefits | 350 | 238 | 279 | 632 | 319 |
| Transfers Paid | 20 | 57 | 99 | 100 | 106 |
| New Starters | 664 | 614 | 544 | 902 | 484 |
| Widows Benefits | 30 | 18 | 36 | 29 | 32 |
| Benefit Estimates | 440 | 360 | 474 | 470 | 468 |
| Redundancy Estimates | 182 | 147 | 102 | 151 | 96 |
| Transfer In Estimates | 56 | 183 | 138 | 113 | 77 |
| Transfer Out Estimates | 60 | 104 | 129 | 186 | 152 |

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

Pension Scheme Case Load Trends

| 5 Year Analysis | March | March | March | March | March |
|--|--------|--------|--------|--------|--------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| % Retirement of active members (includes actual redundancies) | 1.69 | 2.21 | 1.71 | 1.38 | 1.31 |
| % Redundancy estimates of active members (not including bulk transfer) | 4.53 | 3.74 | 2.46 | 3.48 | 2.20 |
| % Change in Deferred Benefits | 50.86 | -32.00 | 17.23 | 126.52 | -92.72 |
| % Change in Redundancy Benefits (not including bulk transfers) | -31.58 | -19.23 | -30.61 | -0.84 | 1.31 |

Asset Pools

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

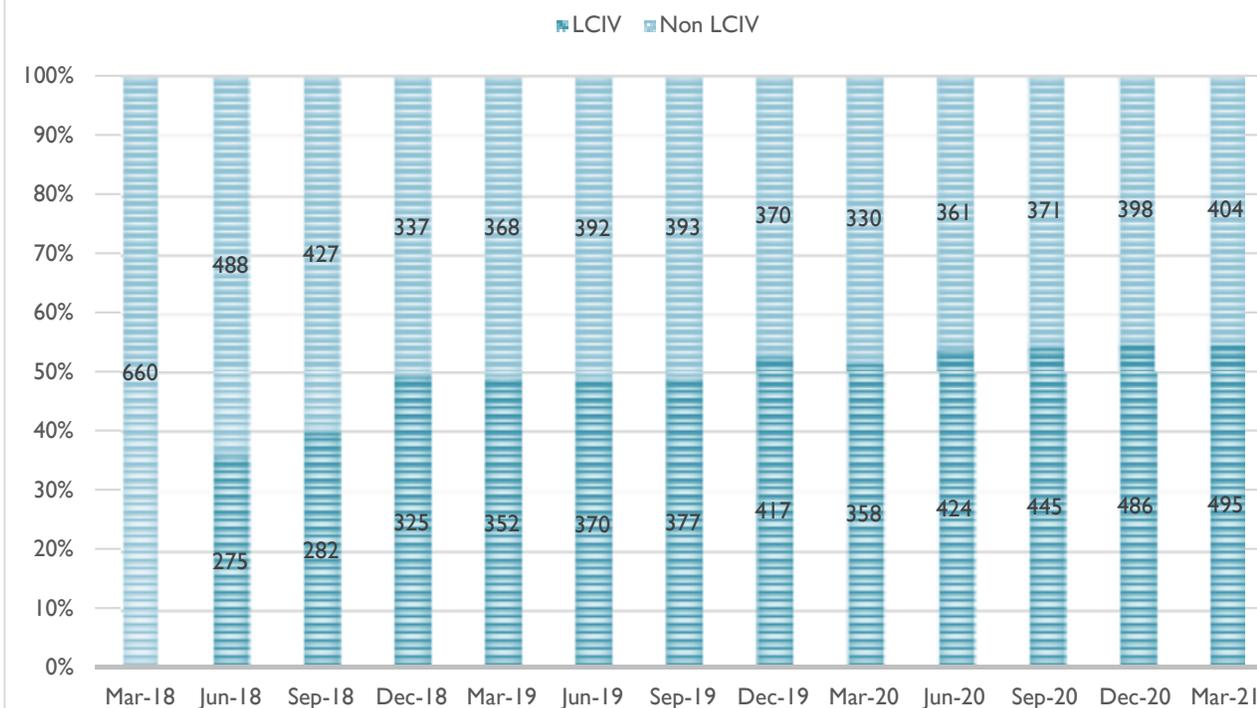
- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

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

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

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

The Fund had total LCIV holdings of £495m at 31 March 2021 accounting for 55% of total assets of the Pension Fund.

**PROPORTION OF FUND ALLOCATED VIA LCIV
(% & £M)**


The below table shows the Merton's investments in LCIV sub funds and their respective values as at 31 March 2021.

LCIV Valuation 31 March 2021

| FUND | 31 March 2021 £m |
|--|---------------------|
| LCIV RBC Sustainable Equity Fund | 104.41 |
| LCIV Global Alpha Growth Fund | 109.65 |
| LCIV Emerging Markets | 39.51 |
| LCIV Global Absolute Return Fund | 37.39 |
| LCIV Diversified Growth Fund | 35.41 |
| LCIV MAC Fund | 74.85 |
| Blackrock World Low Carbon Equity Tracker Fund | 94.20 |
| Total | 495.42 |

Actuary's Statement as at 31 March 2021

Introduction

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

2019 valuation results

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

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

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

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

Contribution rates

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

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

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

Asset value and funding level

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

Assumptions

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

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

Updated position since the 2019 valuation

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that, from 31 March 2021, we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

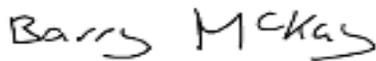
Overall position

On balance, we estimate that the funding position is likely to be slightly higher than the 2019 valuation position when compared on a consistent basis to 31 March 2019 (allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate.

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

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



Barry McKay FFA
Partner, Barnett Waddingham LLP

Merton Pension Fund Accounts**Fund Account**

| 2019/20 £000 | Fund Account | Notes | 2020/21 £000 |
|------------------|---|-------|------------------|
| | Dealings with members, employers and others directly involved in the scheme | | |
| (24,910) | Contributions | 7 | (24,227) |
| (12,828) | Transfers in | 8 | (2,318) |
| (37,738) | Total Income | | (26,545) |
| 26,575 | Benefits | 9 | 26,933 |
| 5,594 | Payments to and on account of leavers | 10 | 4,777 |
| 32,169 | Total Expenditure | | 31,710 |
| (5,569) | Net (additions)/withdrawals from dealings with members | | 5,165 |
| 1,701 | Management expenses | 11 | 2,141 |
| (3,868) | Net (additions)/withdrawals including Fund management expenses | | 7,306 |
| | Returns on investments | | |
| (13,011) | Investment income | 12 | (9,361) |
| 48,680 | (Profit) and losses on disposal of investments and changes in the market value of investments | 14.3 | (208,776) |
| 35,669 | Net returns on investments | | (218,137) |
| 31,801 | Net (increase)/decrease in the net assets available for benefits during the year | | (210,831) |
| (721,254) | Opening net assets of the scheme | | (689,453) |
| (689,453) | Closing net assets of the scheme | | (900,284) |

Net Assets Statement

| 2019/20 £000 | | Notes | 2020/21 £000 |
|-----------------|--|-------|-----------------|
| 685,130 | Investment assets | 14 | 896,818 |
| 685,130 | Total Investments | | 896,818 |
| 5,662 | Current assets | 20 | 4,373 |
| (1,339) | Current liabilities | 21 | (907) |
| 689,453 | Net assets of the Fund available to Fund benefits at period end | | 900,284 |

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

Merton Pension Fund (the fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Merton.

a) General

The scheme 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 Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by London Borough of Merton to provide pensions and other benefits for pensionable employees of Merton Council, and a range of other scheduled and admitted bodies within the borough. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Merton Pension Fund Advisory Panel, which is a committee of Merton Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Merton Pension Fund include the following:

- scheduled bodies, which are automatically entitled to be members of the fund;
- admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Membership details are set out below:

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

The following table summarises the membership numbers of the scheme.

| 2019/20 | | 2020/21 |
|--------------|----------------------------|--------------|
| | Active Members | |
| 3,880 | London Borough of Merton | 3,871 |
| 415 | Scheduled bodies | 443 |
| 46 | Admitted bodies | 45 |
| 4,341 | | 4,359 |
| | Pensioners | |
| 3,715 | London Borough of Merton | 3,780 |
| 171 | Scheduled bodies | 174 |
| 131 | Admitted bodies | 133 |
| 4,017 | | 4,087 |
| | Deferred Pensioners | |
| 5,451 | London Borough of Merton | 5,421 |
| 390 | Scheduled bodies | 410 |
| 119 | Admitted bodies | 118 |
| 5,960 | | 5,949 |

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 2021. The employee contributions

are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March 2019 (came into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Some employers pay a monetary contribution towards past service costs.

d) Benefits

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

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

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

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its financial position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2020/21', which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The Fund was 103% funded at the 31 March 2019 valuation and remained essentially the same (104%) as at 31 March 2021. The Fund cash flow is marginally negative since the new contribution rate came into place from April 2020.

However, the majority of the investment income is being reinvested into the respective investment for added growth.

The Fund is in a position to draw on its investments in the most appropriate order, should short term liquidity be required.

2.1 Going Concern

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

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

performance has improved significantly and is performing better than the target level of return throughout 2020/21. This has resulted in an increase in the net asset of £210m from March 2020 to March 2021.

The latest actuarial funding update shows the Fund remains 104% funded at 31 March 2021. The vast majority of employers in the Fund are scheduled bodies and have secure public sector funding and as a result are more able to continue to make their pension contributions. To date the Fund has received no requests from scheduled and admitted bodies to defer pension contributions as a result of the pandemic.

Although the Fund is currently operating a relatively small operating cash flow shortfall it can disinvest to ensure that it is able to remain liquid for a period of at least 12 months from the date the financial statements are authorised for issue.

The Fund remains in a position to draw on its investments in the most appropriate order should short term liquidity be required with the vast majority of investment assets held being readily convertible to cash within a period of one month.

Recognising the mature nature of the Fund, with the increasing number of retired and deferred Fund members relative to active Fund members, the investment strategy of the Fund is now to reinvest in cash generating investment assets to address the current operating cash flow shortfall over time.

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

1. 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 if applies.

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)*.

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 managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

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

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

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.

3.11 Derivatives

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

3.12 Cash and cash equivalents

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, custodian and within the Funds' bank account.

3.13 Financial Liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

3.14 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).

3.15 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 with Prudential. 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.

3.16 Contingent Assets and Contingent Liabilities

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

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

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

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

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

Actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the Pension Fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.

*Please see Notes 18 and 19 for more detail.

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

The main item in the Fund's Net Asset Statement at 31 March 2021 for which there is a significant possibility of material adjustment in the forthcoming financial year is the actuarial present value of promised retirement benefits.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|--|---|--|
| Actuarial present value of promised retirement benefits. | Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age. | The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £22.4m and a -0.1% reduction would increase the obligation by £22.8m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £51.8m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation. |
| Unquoted Investments | The Pension Fund contains investments in unitised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 15). These funds are valued according to non-exchange based market valuations. | As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts. |

6. Events After The Reporting Date

A number of current legal issues affecting pension entitlements, such as the McCloud and Goodwin test cases and guaranteed minimum pensions remedies, are unlikely to have been fully resolved by the year-end. Where relevant the fund will make additional disclosure under this note.

7. Contributions Receivable

| 2019/20 £000 | By Category | 2020/21 £000 |
|-----------------|--------------|-----------------|
| 18,364 | Employers | 17,127 |
| 6,546 | Members | 7,100 |
| 24,910 | Total | 24,227 |

| 2019/20 £000 | By Type | 2020/21 £000 |
|-----------------|---------------|-----------------|
| 22,680 | Administering | 21,238 |
| 1,829 | Scheduled | 2,558 |
| 401 | Admitted | 431 |
| 24,910 | Total | 24,227 |

| 2019/20 £000 | By Type | 2020/21 £000 |
|-----------------|----------------------|-----------------|
| 14,415 | Employers normal | 16,922 |
| 6,546 | Employees normal | 7,100 |
| 3,709 | Deficit Funding | 16 |
| 240 | Employers additional | 189 |
| 24,910 | Total | 24,227 |

8. Transfers In From Other Pension Funds

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|----------------------|-----------------|
| 3,165 | Individual Transfers | 2,318 |
| 9,663 | Group Transfer | 0 |
| 12,828 | Total | 2,318 |

9. Benefits Payable

| 2019/20 £000 | By Category | 2020/21 £000 |
|-----------------|---|-----------------|
| 22,534 | Pensions | 23,286 |
| 3,640 | Commutations and lump sum retirement benefits | 3,582 |
| 401 | Lump sum death benefits | 65 |
| 26,575 | Total | 26,933 |

| 2019/20 £000 | By Authority | 2020/21 £000 |
|-----------------|---------------|-----------------|
| 24,182 | Administering | 24,929 |
| 836 | Scheduled | 1,216 |
| 1,557 | Admitted | 788 |
| 26,575 | Total | 26,933 |

10. Payments to and on Account of Leavers

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|-------------------------|-----------------|
| 5,461 | Individual transfers | 4,679 |
| 134 | Refunds of contribution | 100 |
| (1) | State scheme premiums | (2) |
| 5,594 | Total | 4,777 |

11. Management Expenses

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|--------------------------------|-----------------|
| 632 | Administrative costs | 550 |
| 654 | Investment management expenses | 1,294 |
| 415 | Oversight and governance costs | 297 |
| 1,701 | Total | 2,141 |

11a. Investment Management Expenses

| 2020/21 | Total £000 | Management Fees £000 | Performance Costs £000 | Transaction Fees £000 |
|--------------------------------|---------------|-------------------------|---------------------------|--------------------------|
| Bonds | (4) | (4) | 0 | 0.30 |
| Pooled Investments | 115 | 115 | 0 | 0 |
| Pooled Property Investments | 524 | 524 | 0 | 0 |
| Private Debt | 224 | 224 | 0 | 0 |
| Infrastructure | 448 | 448 | 0 | 0 |
| Custody Fees | (13) | - | - | - |
| | 1,294 | 1,307 | 0 | 0.30 |
| Pooled Fees deducted at source | 1,883 | 1,873 | 10 | 0 |
| Total | 3,177 | - | - | - |

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

| 2019/20 | Total £000 | Management Fees £000 | Performance Costs £000 | Transaction Fees £000 |
|--------------------------------|---------------|-------------------------|---------------------------|--------------------------|
| Bonds | 174 | 174 | 0 | 0 |
| Pooled Investments | (465) | (465) | 0 | 0 |
| Pooled Property Investments | 295 | 295 | 0 | 0 |
| Private Debt | 379 | 379 | 0 | 0 |
| Infrastructure | 279 | 279 | 0 | 0 |
| Custody Fees | (8) | - | - | - |
| | 654 | 662 | 0 | 0 |
| Pooled Fees deducted at source | 1,663 | 1,652 | 11 | 0 |
| Total | 2,317 | - | - | - |

12. Investment Income

| 2019/20 £000 | | 2020/21 £000 |
|-----------------|-----------------------------|-----------------|
| 629 | Bonds | 174 |
| 3,536 | Pooled equity investments | 2,951 |
| 1,691 | Pooled investments (Other) | 3,993 |
| 890 | Pooled property investments | 851 |
| 4,246 | Infrastructure | (872) |
| 1,936 | Private Debt | 1,544 |
| 83 | Other | 507 |
| 13,011 | Total | 9,361 |

Note: Infrastructure credit due to Macquarie rebalance amounts in 19/20 being wrongly accounted for as dividend income.

13. External Audit Cost

| | 2019/20 £000 | 2020/21 £000 |
|--------------------------------------|-----------------|-----------------|
| Payable in respect of external audit | 16 | 16 |
| Payable in respect of other services | 17 | 11 |
| Total | 33 | 27 |

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 2021.

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| 2019/20 | | Fund Manager | 2020/21 | |
|----------------|------------|---|----------------|------------|
| £000 | % | | £000 | % |
| | | Investments managed by LCIV regional asset pool | | |
| 68,529 | 10 | Blackrock | 94,195 | 10.5 |
| 25,753 | 3.8 | JPM Emerging Markets | 39,506 | 4.4 |
| 100,180 | 14.6 | Baillie Gifford | 145,056 | 16.2 |
| 32,909 | 4.8 | Pyrford | 0 | 0.0 |
| 0 | 0 | Ruffer | 37,389 | 4.2 |
| 71,358 | 10.4 | RBC | 104,412 | 11.6 |
| 59,756 | 8.7 | CQS | 74,847 | 8.3 |
| | | Investments managed outside the LCIV regional asset pool | | |
| 176,181 | 25.7 | UBS Asset Management | 219,363 | 24.5 |
| 11,277 | 1.7 | Macquarie | 8,353 | 0.9 |
| 7,339 | 1.1 | Quinbrook | 11,834 | 1.2 |
| 19,445 | 2.8 | JPM Infrastructure | 17,799 | 2.0 |
| 11,233 | 1.6 | Churchill | 16,353 | 1.8 |
| 4,474 | 0.7 | Permira | 15,043 | 1.7 |
| 88,961 | 13 | Wells Fargo | 104,906 | 11.7 |
| 7,578 | 1.1 | Blackrock property | 7,612 | 0.9 |
| 7 | 0 | Aberdeen Asset Management | 0 | 0.0 |
| 150 | 0 | LCIV Subscription | 150 | 0.0 |
| 685,130 | 100 | Total | 896,818 | 100 |

14.2 Analysis of investment assets and income

An analysis of investment assets at 31 March 2021 is shown in the following table.

| Market Value 31 March 2020 £000 | | Market Value 31 March 2021 £000 |
|---------------------------------------|--------------------------------|---------------------------------------|
| | Investment Assets | |
| 69,819 | Bonds | 71,973 |
| 395,323 | Pooled equity investments | 550,305 |
| 122,684 | Pooled investments (other) | 147,647 |
| 24,212 | Pooled property investments | 24,080 |
| 15,707 | Private Debt | 31,396 |
| 37,687 | Infrastructure | 37,506 |
| (6,702) | Derivatives | 246 |
| 25,851 | Cash held with fund managers | 33,035 |
| 399 | Investment income due | 480 |
| 684,980 | Total Investment Assets | 896,256 |
| 0 | Investment Liabilities | 0 |
| 150 | LCIV Subscription | 150 |
| 685,130 | Net investment assets | 896,818 |

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 2020/2021. 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 2020 £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 2021 £000 |
|---|---|---|---|--|---|
| Bonds | 69,819 | 103,118 | (98,101) | (2,863) | 71,973 |
| Pooled Equity Investments | 395,323 | 2,951 | (16,500) | 168,531 | 550,305 |
| Pooled Investments Other | 122,684 | 38,891 | (34,898) | 20,970 | 147,647 |
| Private Debt | 15,707 | 16,178 | (4,263) | 3,774 | 31,396 |
| Infrastructure | 37,687 | 3,249 | 0 | (3,430) | 37,506 |
| Pooled Property | 24,212 | 0 | 0 | (132) | 24,080 |
| | 665,432 | 164,387 | (153,762) | 186,850 | 862,907 |
| Derivative Contracts | | | | | |
| Forward Currency Contracts | (6,702) | 0 | 0 | 6,948 | 246 |
| | 658,730 | 0 | 0 | 193,798 | 863,153 |
| Other Investment Balances | | | | | |
| Cash with Fund Managers | 25,851 | (103,118) | 98,101 | 12,201 | 33,035 |
| Cash income/mgt expenses | 0 | | | 100 | 0 |
| Infrastructure Adjustment * | 0 | | | 2,677 | 0 |
| Investment Income Due | 399 | | | 0 | 480 |
| | 26,250 | | | 14,978 | 33,515 |
| External investments at Market Value | 684,980 | | | | 896,668 |
| LCIV Subscription | 150 | | | | 150 |
| Investment Assets | 685,130 | | | 208,776 | 896,818 |

*Note:

Infrastructure adjustment of £2,677 - Correction of Macquarie Capital rebalancing coded as dividend income in 2019/20.

Reconciliation of movements in investments and derivatives

The table below shows the movement in the market value of investments held during the financial year 2019/2020.

| | Market Value 1 April 2019 £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 2020 £000 |
|---|---|---|---|--|---|
| Bonds | 87,451 | 95,192 | (87,451) | (25,373) | 69,819 |
| Pooled Equity Investments | 0 | 33,225 | 0 | 362,098 | 395,323 |
| Pooled Investments Other | 587,322 | 1,691 | (67,050) | (399,279) | 122,684 |
| Private Debt | 8,080 | 13,388 | 0 | (5,761) | 15,707 |
| Infrastructure | 0 | 36,669 | 0 | 1,018 | 37,687 |
| Pooled Property | 23,749 | 1,000 | 0 | (537) | 24,212 |
| | 706,602 | 181,165 | (154,501) | (67,834) | 665,432 |
| Derivative Contracts | | | | | |
| Forward Currency Contracts | 0 | 0 | 0 | (6,702) | (6,702) |
| | 706,602 | 181,165 | (154,501) | (74,536) | 658,730 |
| Other Investment Balances | | | | | |
| Cash with Fund Managers | 991 | | | 25,857 | 25,851 |
| Investment Income Due | 129 | | | 0 | 399 |
| | | | | | |
| External Investments at Market Value | 707,722 | | | | 684,980 |
| LCIV Subscription | 150 | | | | 150 |
| Investment Assets | 707,872 | | | (48,679) | 685,130 |

14.4 Stock lending

There were no stock lending arrangements in place during the financial year ended 31 March 2021.

15. Fair Value – Basis of Valuation

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

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

15a Fair Value Hierarchy

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

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

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

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

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

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| 31 March 2020 | | | | 31 March 2021 | | |
|----------------------------------|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|----------------------------------|
| 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 |
| 588,827 | 16,659 | 53,394 | Financial assets at fair value through profit and loss | 777,933 | 16,468 | 68,902 |
| 26,250 | 0 | 0 | Loans and Receivables | 33,515 | | |
| 0 | 0 | 0 | Financial liabilities at fair value through profit and loss | | | |
| 615,077 | 16,659 | 53,394 | Total | 811,448 | 16,468 | 68,902 |

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 2020 | | | | 31 March 2021 | | |
|--|--------------------------|--|-------------------------------|--|--------------------------|--|
| Designated at fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised costs | | Designated at fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised costs |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| | | | Financial Assets | | | |
| 69,819 | 0 | 0 | Bonds | 71,973 | 0 | 0 |
| 518,007 | 0 | 0 | Pooled Investments | 697,952 | 0 | 0 |
| 24,212 | 0 | 0 | Pooled Property Investments | 24,080 | 0 | 0 |
| 53,394 | 0 | 0 | Private Debt & Infrastructure | 68,902 | 0 | 0 |
| 0 | 150 | 0 | LCIV Subscription | 0 | 150 | 0 |
| (6,702) | 0 | 0 | Derivatives | 246 | 0 | 0 |
| 0 | 25,851 | 0 | Cash With Fund Managers | 0 | 33,035 | 0 |
| 399 | 0 | 0 | Other Investment Balances | 480 | 0 | 0 |
| 0 | 865 | 0 | Sundry Debtors | 0 | 1,172 | 0 |
| 0 | 3,106 | 0 | Cash | 0 | 1,248 | 0 |
| 659,129 | 29,972 | 0 | | 863,633 | 35,605 | 0 |
| | | | Financial Liabilities | | | |
| 0 | 0 | (1,339) | Sundry Creditors | 0 | 0 | (907) |
| 659,129 | 29,972 | (1,339) | | 863,633 | 35,605 | (907) |

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 2020 £000 | Financial Assets | 31 March 2021 £000 |
|-----------------------|------------------------------------|-----------------------|
| (48,680) | Fair Value through profit and loss | 208,776 |
| (48,680) | Total | 208,776 |

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, Mercer, 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 2021 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|-------------------------------|--------------------------------------|-------------|------------------------------|------------------------------|
| Bonds | 71,973 | 7.5 | 77,371 | 66,575 |
| Equities & Emerging Markets | 550,305 | 14.3 | 628,999 | 471,611 |
| Diversified Growth | 72,800 | 6.4 | 77,459 | 68,141 |
| Multi Asset Credit | 74,847 | 7.5 | 80,461 | 69,233 |
| Pooled Property | 24,080 | 2.2 | 24,610 | 23,550 |
| Private Debt & Infrastructure | 68,902 | 4.8 | 72,209 | 65,595 |
| Cash | 33,035 | 0.9 | 33,332 | 32,738 |
| Derivatives | 246 | 0 | 246 | 246 |
| Income Due | 480 | 0 | 480 | 480 |
| LCIV Subscription | 150 | 0 | 150 | 150 |
| Total Assets | 896,818 | 9.6 | 995,317 | 798,319 |

| Asset Type | Value at 31 March 2020 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|-------------------------------|--------------------------------------|-------------|------------------------------|------------------------------|
| Bonds | 69,819 | 7.6 | 75,125 | 64,513 |
| Equities & Emerging Markets | 395,323 | 11.8 | 441,971 | 348,675 |
| Diversified Growth | 62,928 | 5.9 | 66,641 | 59,215 |
| Multi Asset Credit | 59,756 | 7.6 | 64,297 | 55,215 |
| Pooled Property | 24,212 | 3.6 | 25,084 | 23,340 |
| Private Debt & Infrastructure | 53,394 | 4.2 | 55,637 | 51,151 |
| Cash | 25,851 | 0.9 | 26,084 | 25,618 |
| Derivatives | (6,702) | 0.0 | (6,702) | (6,702) |
| Income Due | 399 | 0.0 | 399 | 399 |
| LCIV Subscription | 150 | 0.0 | 150 | 150 |
| Total Assets | 685,130 | 8.3 | 748,686 | 621,574 |

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 2021 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

| Asset Type | Potential market movements (+/-) % |
|---------------------------------|---------------------------------------|
| Bonds and Index Linked | 7.5 |
| Equities | 14.3 |
| Diversified Growth | 6.4 |
| Multi Asset Credit | 7.5 |
| Property | 2.2 |
| Private Debt and Infrastructure | 4.8 |
| Cash | 0.9 |

17.5 Interest rate risk

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

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

17.6 Currency risk

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

The table below shows the currency exposure by asset type as at 31 March 2021.

| Asset Type | Value at 31 March 2021 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|-------------------------------|--------------------------------|----------|---------------------------|---------------------------|
| Overseas Bonds | 21,363 | 8.4 | 23,157 | 19,569 |
| Private Debt & Infrastructure | 53,447 | 8.4 | 57,937 | 48,957 |
| Total Overseas Assets | 74,810 | | 81,094 | 68,526 |

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

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

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The following table calculates the aggregate currency exposure within the Fund as at 31 March 2021. In doing this we have applied the single outcome to all non-UK assets where the manager has not priced the security in GBP and multiplied the weight of each currency by the change in its exchange rate (relative to GBP) and sum to create the aggregate change.

| Assets exposed to currency risk | Value at 31 March 2021 £000 | % Change | Value on Increase £000 | Value on Decrease £000 |
|---|-----------------------------|----------|------------------------|------------------------|
| Overseas Bonds (US Dollar) | 21,363 | 8.5 | 23,179 | 19,547 |
| Private Debt & Infrastructure (US Dollar) | 53,447 | 8.5 | 57,990 | 48,904 |
| Total | 74,810 | | 81,169 | 68,451 |

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

17.7 Credit risk

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

The average long-term credit rating in the bond portfolio is AA as at 31 March 2021. The investment manager reports on the credit quality of the portfolio on a quarterly basis.

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

| Value at 31 March 2020 £000 | | Value at 31 March 2021 £000 |
|-----------------------------|--------------|-----------------------------|
| 25,851 | AAA | 32,687 |
| 0 | AA | 71,973 |
| 69,819 | AA- | 0 |
| 95,670 | Total | 104,660 |

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 2021 was £1.2m (31 March 2020: £3.1m).

17.9 Refinancing risk

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

18. Funding Arrangements

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

The key elements of the Funding policy are:

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

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

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

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

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

The assessed value of assets held by the Fund at 31 March 2019 was £718.m (2016 valuation: £526m), whilst the liabilities accrued in respect of pensionable service were £698m (2016 valuation: £558m).

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

Financial Assumptions

| Financial Assumption | | 31-Mar-19 | 31-Mar-16 |
|---|--------------------|---|---|
| Discount rate | Long Term | 4.8% | 5.5% |
| Pay increase | | 3.6% | 3.9% |
| | Short Term | N/A | Consumer Price Inflation (CPI) for period from 31 March 2016 to 31 March 2020 |
| Consumer price inflation (CPI) | | 2.6% | 2.4% |
| Pension increases | | 2.6% | 2.4% |
| Pension increases on Guaranteed Minimum Pension (GMP) | | Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increase. | For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases. |
| Demographic Assumptions | | | |
| Male | Current Pensioners | 21.4 | 24.3 |
| | Retiring in 20 yrs | 22.7 | 26.5 |
| Female | Current Pensioners | 24.0 | 25.9 |
| | Retiring in 20 yrs | 25.4 | 28.2 |

19. Actuarial Present Value of Promised Retirement Benefits

The accounting standard IAS26 sets out the measurement and disclosure principles for reporting retirement benefit plans. For this purpose, the Code of Practice requires that actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for Funding purposes. In order to meet this requirement, the Fund's actuary has carried out an additional assessment of the Fund as at 31 March 2021, using a valuation methodology that is consistent with IAS19.

MERTON PENSION FUND ANNUAL REPORT 2020/21

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

| Financial Assumptions | Assumptions as at 31 March 2020 % |
|---------------------------------|---|
| Inflation/Pension Increase Rate | 2.8 |
| Salary Rate Increase | 3.8 |
| Discount Rate | 2.0 |

The value of the Fund's promised retirement benefits as at 31 March 2021 was:

| 31 March 2020 £m | | 31 March 2021 £m |
|---------------------|---|---------------------|
| 975 | Present value of promised retirement benefits | 1,266 |

20. Current Assets

| 31 March 2020 £000 | Current Assets | 31 March 2021 £000 |
|-----------------------|-------------------|-----------------------|
| 1,691 | Contributions Due | 1,953 |
| 865 | Sundry Debtors | 1,172 |
| 3,106 | Cash | 1,248 |
| 5,662 | Total | 4,373 |

Analysis of Debtors

| 31 March 2020 £000 | Current Debtors | 31 March 2021 £000 |
|-----------------------|-------------------------------|-----------------------|
| 1,530 | Administering Body | 1,676 |
| 161 | Admitted and Scheduled Bodies | 277 |
| 865 | Sundry Debtors | 1,172 |
| 2,556 | Total | 3,125 |

21. Current Liabilities

| 31 March 2020 £000 | Creditors | 31 March 2021 £000 |
|-----------------------|--------------------|-----------------------|
| (83) | Fund Managers Fees | (4) |
| (928) | Sundry | (524) |
| (328) | Payroll | (379) |
| (1,339) | Total | (907) |

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts

but are paid over by the Authority’s shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

The amount of additional voluntary contributions paid by members during 2020/21 to AVC schemes outside the Authority’s responsibility was £0.396m (£0.439m at 31 March 2020). The total value of accumulated AVC’s at 31 March 2021 is £2.69m (£2.72m at 31 March 2020).

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.36m (2019/20 £0.37m) 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 2020 £ | 31 March 2021 £ |
|---------------------------|--------------------|--------------------|
| Short-term benefits | 80,412 | 87,186 |
| Total remuneration | 80,412 | 87,186 |

24. Contingent Liabilities & Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2021 were £29.06m (31 March 2020 £46.7m).

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.

The external auditor remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In the auditors’ view, the scale fee for the Merton PF audit should be increased by £28,290.

Governance Arrangements

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

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

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

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

Delegation of functions

Merton Council has delegated its Pension Fund management to PFAP.

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

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

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

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

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

The terms of reference for the PFAP are:

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

The frequency of meetings

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

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

Representatives

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

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

- Staff Side Representative,
- Pensioner Representative

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

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

Pensions Board

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

The frequency of meetings

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

Representatives

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

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

The terms of reference for the Pension Board are:

(a) To secure compliance with:

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

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

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

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

Governance Compliance Statement

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

The statement includes:

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

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

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

Funding Strategy Statement

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

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

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

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

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

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

Investment Strategy Statement

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

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

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

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

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

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

Communications Policy

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

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

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

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

Enquiries

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

E-mail: pensions@richmondandwandsworth.gov.uk

Telephone: 020 8871 8036

Address:

Pensions Shared Service

Camden, Merton and Wandsworth & Richmond

PO Box 72351

London

SW18 9LQ

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

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

Independent Auditors Statement & Report

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 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 2020/21.

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 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

In auditing the financial statements, we have concluded that the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the London Borough of Merton Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Director of Corporate Services is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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 Director of Corporate Services Responsibilities set out on page 191, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 goingconcern 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how the London Borough of Merton Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of minutes, review of policies and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of investment income and valuation to be our fraud risk.

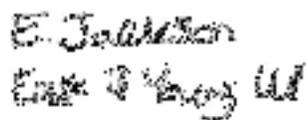
To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements. We also undertook a review of reconciliations to the fund manager and custodian reports and assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk. We also assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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

Use of our report

This report is made solely to the members of the London Borough of Merton, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



*Elizabeth Jackson (Key Audit Partner) Ernst &
Young LLP (Local Auditor) Luton
4 February 2022*

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

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2021, 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 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Respective responsibilities of the Director of Corporate Services and the auditor

As explained more fully in the Statement of the Director of Corporate Services' Responsibilities, the Director of Corporate Services is responsible for the preparation of the pension fund's 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 2020/21.

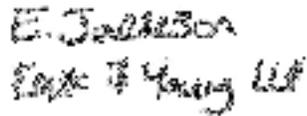
Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

- The Chairperson Statement
- Merton Pension Fund Introduction
- Statement of Responsibilities of the Pension Fund
- Management and Advisors of the Fund
- Risk Management
- Financial Performance
- Investment Policy and Performance
- Pension Administration Report
- Asset Pools
- Actuary's Statement as at 31 March 2021
- Merton Pension Fund Accounts
- Governance Arrangements

- Governance Compliance Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy.

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

Handwritten signature of Elizabeth Jackson in black ink, appearing as 'E. Jackson' on the first line and 'Ernst & Young LLP' on the second line.

*Elizabeth Jackson (Key Audit Partner) Ernst &
Young LLP (Local Auditor) Luton
4 February 2022*