

Waltham Forest Council  
**Pension Fund Annual Report**  
**2012/13**





Cllr Nick Buckmaster

Chair of the Pension Fund Committee



In association with



**Investment Awards 2012**

**HIGHLY  
COMMENDED**

# LONDON BOROUGH OF WALTHAM FOREST PENSION FUND

## PENSION FUND ANNUAL REPORT 2012/13

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## INTRODUCTION

This Annual Report covers the management and performance of the London Borough of Waltham Forest Pension Fund (the Fund) for the financial year 2012/13

The first part of this Annual Report deals with the investment management structure of the Pension Fund and the fund managers appointed by the Council to manage the various portfolios. Investment performance for the year is also covered in the context of the economic conditions prevailing, and a report is also provided on the administration performance, that is on the benefits administration service provided over the year.

The second part of the report is concerned with the governance arrangements put in place for the oversight of the Pension Fund and its management, and also on the approach taken to ethical investment issues.

### Investment Review

#### Market Background

The first quarter of 2012-13 (April to June 2012), saw increases in borrowing costs in stressed Eurozone countries, such that they threatened the sustainability of public finances and the future of the Euro, despite the significant progress that had been made during 2011-12 to mitigate the turmoil in the zone. Equity markets across the world fell particularly in Europe.

From the second quarter however, sentiment improved and the year 1 April 2012 to 31 March 2013 was one where concerns about the world financial situation receded and Global Equity prices increased by approximately 14% (based on the FTSE All World Index). Overall, the influence of Central Banks appeared paramount and it was their intervention rather than a major improvement in the world economy, that dominated markets during 2012-13.

July 2012 saw the Bank of England announce a further £50 billion of quantitative easing, the European Central Bank reducing its refinancing rate to a record low of 0.75% and the Bank of China announcing further cuts in interest rates.

September 2012 saw the US Federal Reserve announcing an injection of \$40 billion into the US economy each month through the purchase of mortgage backed securities. In December 2012 the Federal Reserve announced that from the beginning of 2013 it would also purchase \$45 billion per month of longer dated Treasury Bonds, thereby undertaking \$85 billion worth of Quantitative Easing per month. The extremely loose monetary policy of the United States Federal Reserve, fundamentally influenced not only the value of US Treasury Bonds, but also the upward trend in equity prices, particularly US equity prices. The US economy showed limited but clear signs of recovery during 2012-13. For example the unemployment rate fell from 8.2% in March 2012 to 7.6% in March 2013. The housing sector showed improvement with the Case Shiller House Price indices indicating an increase in prices of approximately 10%.

In July 2012 Mario Draghi, President of the European Central Bank (ECB), effectively replaced continuing fear of a euro collapse with the promise of intervention when he stated he would do “whatever it takes” to preserve the Euro. This was followed in September by the announcement of the details of a scheme entitled “outright monetary transactions” (OMT), whereby the ECB would purchase shorter dated government bonds of a country whose government requested assistance and agreed to the ECB’s conditions in relation to its domestic economy. These announcements hugely reduced anxiety surrounding both the possible break-up of the Euro and a sovereign debt crisis in an individual state.

Following Mr Draghi’s announcements and without the ECB buying a single bond, the market borrowing costs of stressed Eurozone countries fell significantly. The yield on Spanish 10 year debt fell from 6.9% on 26 June 2012 to 5.1% by 28 March, the last working day of the financial year. During the same period Italian 10 year bond yields fell from 6.2% to 4.8%. For countries subject to official bailout programmes the decline was dramatic. Greek 10 year yields fell from over 26% to under 13% while those of Portugal fell from 9.7% to 6.4%. Even the February 2013 Italian General Election which saw the anti establishment Five Star Movement take over 25% of votes and the necessity to bail-out Cyprus in March 2013, did not result in significant market volatility.

Mr Draghi’s commitment and the creation of the OMT does not however absolutely guarantee a solution should a future crisis arise in a Eurozone state. This is because the OMT cannot be automatically deployed by the ECB. It can only be utilised at the request of a country which accepts such changes to its economy as determined by the ECB.

The year 2012-13 saw a significant increase in interest in riskier assets. Equity prices reached their highest levels since the crisis of 2007. This is partly explained by the fact that potential disasters such as a crisis in the Eurozone and in the United States over the “fiscal cliff” were avoided. Additionally substantial post 2007 adjustment has now occurred above all in the United States where house prices have been rebalanced and private debt returned to 2003 levels relative to gross domestic product.

Above all however central banks used ultra loose and expansionist monetary policy. During 2012-13 markets reacted positively to expectations of expansionist monetary activity and negatively when they perceived a potential lack of central bank activity. This demonstrated a clear desire for central bank support in the context of an uncertain economic outlook. For example the week ending 7 September 2012, saw a 2.2% increase in both the S&P 500 Index in the US and the FTSE Eurofirst 300 index in the light of details of the European Central Bank’s “outright monetary transactions” scheme and heightened speculation of further economic stimulus from the Federal Reserve. (Which was indeed announced on 13 September 2012).

However, a strong economic recovery eluded both advanced economies and the major emerging markets. Although the year saw a limited but clear improvement in the US and German economies, those of France, Japan, the UK and Italy continued to demonstrate weakness. The major Emerging Markets of Brazil, Russia, India and China, though achieving economic growth, also all experienced clear continuing economic difficulties compared to the pre 2007

years. The buoyancy of financial markets appeared based more on the support provided to economies than genuine economic strength. This led Sir Mervyn King, the Governor of the Bank of England, to caution in February 2013 that Central Banks' ultra loose monetary policy could be fuelling over-optimism in financial markets.

Equity performance across the world was clearly much improved in 2012-13 compared to 2011-12. In 2011-12 Global equity market returns were close to zero with only North America experiencing clearly positive returns with both Europe and Emerging markets seeing returns close to minus10%. In contrast in 2012-13 the FTSE All-World Index was up by 14%. North America, Japan, the UK and perhaps most significantly Europe all saw returns in excess of 10%. Emerging markets lagged behind but still returned plus 4%.

Despite the increase in Equity prices "safe haven" bond prices reached new highs. The German 10 year benchmark fell from 1.8% to 1.3% while those of the UK fell from 2.2% to 1.8% and those of the US from 2.2% to 1.9%. These rates demonstrated both the continuing effect of central bank intervention and perhaps continued uncertainty regarding longer term economic prospects.

John Raisin  
Independent Advisor

### **Pension Fund Awards and Nomination during 2012/13**

During the 2012/13 year the Fund was highly commended in the LGC (Local Government Chronicle) Investment Award for Fund of the Year (under £750 million).

### **Fund Investment Strategy**

During the year the fund completed transition to its approved investment strategy by funding its new fund managers as selected in the March 2012. This consisted of dis-investment from equity manager BankInvest and global tactical asset allocation manager Nordea (the GTAA dis-investment was agreed at the Committee meeting in November after a period of having this investment under review). With new investments in global equities with JO Hambro Capital Managements Global Select Fund, hedge funds with Bluecrests AllBlue Fund. The drawdowns into the two infrastructure funds Capital Dynamics Clean Energy and Infrastructure Fund (CEI) and Global Infrastructure Partners II Fund (GIPII) during the year were funded from the UK equity investment and the dis-investment from GTAA was invested with the funds global bond manager Wellington as an interim holding until new fund manager have been selected.

Table 1 below shows the current and target strategic benchmarks.

Further detail of the benchmark composition, benchmark indices and

performance targets for the managers are contained in the Statement of Investment Principles, (Appendix 2), which was updated in September 2013.

**Table 1 –Current and Proposed Strategic Benchmark**

<b>Manager</b>	<b>Benchmark Weightings Current (%)</b>	<b>Target Benchmark Weightings (%)</b>
UK Equities	42.0	35.4
Global Equities	22.4	23.6
Fixed Income	22.9	15.0
Property	4.1	8.0
Hedge Funds	4.5	5.0
Infrastructure	3.9	10.0
Other Alternative	0	3.0
Cash	0.2	0.0
	100	100

A summary of the resulting distribution of fund assets as at 31 March 2013, is shown in Table 2 below. It should be noted that a further manager for UK property investments is shown in the Accounts (“RREEF Limited”). These investments remain from the former Aberdeen portfolio and are in process of being liquidated, but being a property portfolio this is a long process that is still unwinding.

**Table 2 - Summary of Fund Investment Assets as at 31 March 2013 and 2012**

<b>Manager</b>	<b>Asset Class</b>	<b>Market Value 31 March 2013 £M</b>	<b>Total Fund 31 March 2013 (%)</b>	<b>Market Value 31 March 2012 £M</b>	<b>Total Fund 31 March 2012 (%)</b>
AXA Framlington	UK Equities	252.1	42	240.9	44.7
BankInvest	Global Equities	0	0	175.3	32.5
JO Hambro	Global Equities	134.4	22.4	0	0
Wellington Management	Global Fixed Income	137.3	22.9	72.4	13.4
Nordea	GTAA	0	0	15.1	2.8
BlueCrest	Hedge Funds	27.1	4.5	0	0
Global Infrastructure Partners	Infrastructure	7.2	1.2	0	0
Capital Dynamics	Infrastructure	16.5	2.7	0	0
DTZ	European Property	15.3	2.6	15.7	2.9
UBS	UK Property	9	1.5	10.7	2.0
RREEF	UK Property	0.5	0.1	0.6	0.1
<b>SUB-TOTAL PROPERTY</b>		<b>24.8</b>	<b>4.2</b>	<b>27.1</b>	<b>5.0</b>
State Street	Transitional Management	0	0	0.1	0.0
Cash		1.1	0.1	8.5	1.6
<b>TOTAL</b>		<b>600.5</b>	<b>100.0</b>	<b>539.3</b>	<b>100</b>



Table 2 reflects the movement between asset classes throughout 2012/13. Thus the change in asset allocation over the year reflects the relative performance between the different asset classes and the managers' own relative performance against their own specific benchmarks. £0.625m was drawn down into the DTZ Aurora property Fund leaving an undrawn commitment of £1.369m. £23.7m was drawn down to between the two infrastructure funds leaving an undrawn commitment of £34.3m.

Although £23.7m was dis-invested from the UK equity allocation (into the two infrastructure funds) the value of this investment still increased as a result of the assets increase in value of 14.6%.

Pension Fund Committee consider whether to transfer investments between managers at each meeting, in line with its agreed rebalancing policy. Although the UK equity allocation is not yet in line with the target allocation this is due to the undrawn amount of £34.3m for infrastructure funds which will be dis-invested as draw downs are called over time. The global bond allocation is also out of line with the target allocation due to the dis-investment from the funds global tactical asset allocation investment being invested with Wellington as an interim basis until a new investment is selected.

### **Pension Fund Accounts 2012/13**

The 2012/13 Accounts are attached as Appendix 1. The Accounts show that overall there was a net increase in the investment assets of the scheme from £540.7m at 31 March 2012, to £599.8m at 31 March 2013.

From dealings with members, employers and others directly involved in the scheme, there was a net decrease of £5.9m this was mostly the effect of a 9.4% increase pension payments into the fund, a 37.5% decrease in transfers into of the fund and a 160% decrease in employer additional contributions , (employer normal contributions decreased by 3.4% year on year, employee normal contributions decreased by 4.3%).

Pension benefits and lump sums payable increased by £1m (2.8%) from 2011/12.

Taking investment income net of management expenses, plus this addition to the Fund from dealings with members provided £1.5m less funds for investment. The net increase in the value of the fund investments, (realised and unrealised), was £60.6m. The investment performance for the year is set out in the next section.



## Pension Fund Performance 2012/13

### Fund Returns 2012/13

Table 3 below sets out the quarter by quarter results for the Fund in 2012/13. Over the year as a whole the Fund return was 11.8%, against the benchmark return of 10.3%, the Fund thus showed relative out performance of 1.3%.

**Table 3 – Quarterly Fund Returns 2012/13**

<b>LBWF 2011/12</b>	<b>First Quarter April to June 2012</b>	<b>Second Quarter July to September 2012</b>	<b>Third Quarter October to December 2012</b>	<b>Fourth Quarter January to March 2013</b>	<b>Total Annual Performance 2012/13</b>
	%	%	%	%	%
<b>Fund Return</b>	-3.2	+3.9	+1.5	+9.5	+11.8
<b>Benchmark Return</b>	-2.0	+2.9	+2.1	+7.1	+10.3
<b>Relative Return</b>	-1.3	+0.9	-0.6	+2.2	+1.3

All figures WM Performance Services

Table 4 provides a breakdown of the results for the fund managers for the last two years.

**Table 4 – Fund Manager Returns vs Benchmark 2011/12 and 2012/13**

<b>Manager</b>	<b>Asset Class</b>	<b>Portfolio Return for 2011/12 %</b>	<b>Benchmark return for 2011/12 %</b>	<b>Relative Performance 2011/12 %</b>	<b>Portfolio Return for 2012/13 %</b>	<b>Benchmark return for 2012/13 %</b>	<b>Relative Performance 2012/13 %</b>
AXA Framlington	UK Equities	+9.0	+1.4	+7.6	+14.8	+16.8	-1.9
BankInvest	Global Equities	-1.3	+0.1	-1.4	+13.0	+17.0	-3.4
Wellington	Global Fixed Income	+0.7	+0.1	+0.6	+3.3	+0.3	+3.0
Nordea	(GTAA)	-4.4	+0.7	-5.1	+15.9	+0.6	+15.3
DTZ	European Property (Aurora Fund)	-0.5	+6.6	-6.7	-7.1	+2.5	-9.4
UBS	UK Property (Triton Fund)	+6.3	+6.6	-0.2	-10.2	+2.5	-12.4

All figures WM Performance Services

## Investment Performance

### April 2012 to March 2013

The Fund returned +4.3% over the year as a whole, against a benchmark return of +3.6%. Relative return was +0.7%. The overall positive return for the year was principally due to out performance of the global bonds and portfolio's.

Results from the WM Local Authority Universe showed that the average local authority returned 13.8% in 2012/13. Against the universe the LBWF fund (11.8%) was ranked 86th out of 100. Our UK equity portfolio manager Axa Framlington ranked 97<sup>th</sup>, property portfolio's (ranked 95th), overseas equity (ranked 94th), bonds ranked 100th and Alternative investment performance (the GTAA portfolio and infrastructure) ranked 8th.

(Figures from WM Performance Services).

#### LB Waltham Forest Pension Fund returns vs Local Authority Universe

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Total Fund Return %</b>	-1.1	-20.1	23.4	11.7	24.4	7.0	-5.7	-24.1	43.1	10.4	4.3	11.8
<b>Ranking in Local Authority Universe</b>	53	47	60	36	60	50	85	85	6	3	24	86

figures: WM Performance Services

## Longer Term Performance

### Over 3, 5 and 10 years

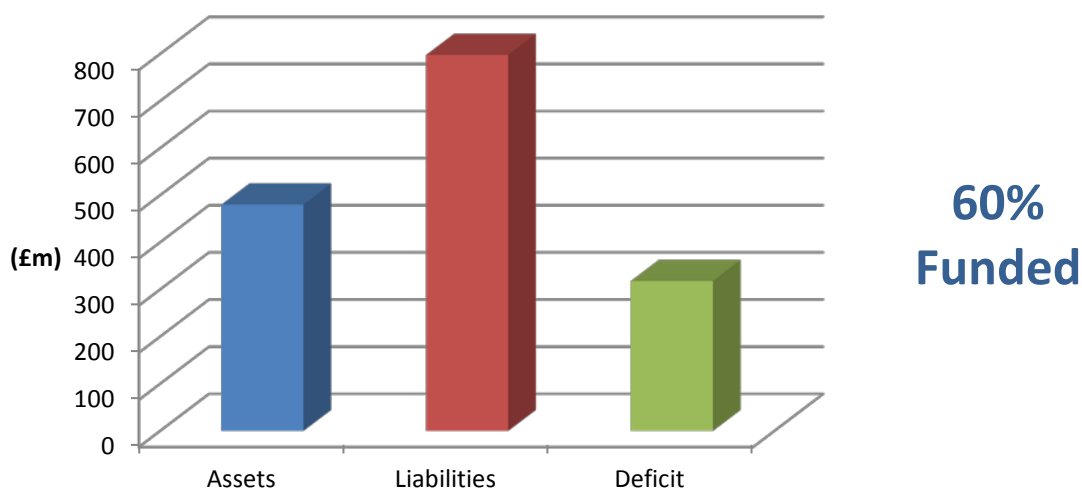
	3 years	5 years	10 years
<b>Fund</b>	8.8%	7.0%	9.3%
<b>Benchmark</b>	7.4%	6.4%	9.1%
<b>Relative return</b>	1.3%	0.6%	0.1%
<b>WM ranking</b>	28	36	48

## Accounts for the year ended 31 March 2013 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the London Borough of Waltham Forest Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £480 million represented 60% of the Fund's past service liabilities of £798 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 11.3% of pensionable pay per annum was required from employers. The common 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 12.5% of pensionable pay for 25 years. This would imply an average employer contribution rate of 23.8% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (including ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £947 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£115 million. Adding interest over the year increases the liabilities by a further c£46 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£14 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £1,094 million.

**Ian Kirk**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**June 2013**

## **Administration and Benefits**

### ***Scheme rules and benefits***

#### ***Scheme membership and income***

(a) All employees of the London Borough of Waltham Forest are eligible for membership of the LGPS. Full and part-time employees, whether permanent or temporary (Contract must be for 3 months or longer), become members automatically with the right to opt out (back-dated to the start of membership if made within three months).

(b) Members' contributions depend on how much they are paid but it will be between 5.5 and 7.5% of their pensionable pay. Part-time workers should note that the rate will be based on the whole time pay rate for their job, although they will only pay contributions on the pay they actually earn. The pay band ranges that apply from April 2011 are as follows:

Whole Time Rate of Pay (per annum):	Contribution Rate of:
Up to £12,900	5.5%
£12,901 - £15,100	5.8%
£15,101 - £19,400	5.9%
£19,401 - £32,400	6.5%
£32,401 - £43,300	6.8%
£43,301 - £81,100	7.2%
More than £81,100	7.5%

Members of the LGPS will attract tax relief at the time contributions are deducted from their salary and will also be contracted out of the State Second Pension scheme (S2P).

(c) Membership accrual for service up to 31 March 2008, the pension is based on 1/80<sup>th</sup> of the member's final year's pensionable pay. For service after 1 April

2008, the pension is based on 1/60<sup>th</sup> of the member's final year's pensionable pay.

### **Benefits available**

*(Three month's membership or more or a transfer value has been received):*

a) Retirement pension and lump sum awarded:

- Payable immediately on cessation of employment:
  - (i) Voluntarily from age 55 (with the Employer consent if under age 60);
  - (ii) Through permanent incapacity at any age;
  - (iii) As a result of redundancy or efficiency after age 55.
- Preserved and payable from retirement age in any other circumstances.

b) Spouses' and children's pensions and a tax-free lump sum death grant following death:

- In employment;
- In receipt of retirement pension (a lump sum may **not** always be payable);
- Before preserved benefits become payable.

Full details of scheme benefits under the new arrangements can be found in the Scheme members' booklet which is available on the Council's website. [lbwf.capita-eb.co.uk/web.chi/lbwf.html](http://lbwf.capita-eb.co.uk/web.chi/lbwf.html). Link details are included in the section on Communications below.

### **Scheme Movement Analysis – 1 April 2011 to 31 March 2012**

The following statistics summarise administration activity during the financial year:

Number of retirees / preserved pensions put into payment:	268
Number of new dependant's pension paid:	64
Number of leavers (not entitled to immediate benefits):	288
Number of refund of contributions paid:	7
Number of transfer out payments made:	64
Number of deaths on pension/in service:	187
Number of new members into the scheme:	269

## ***Pensions increases***

Pensions in payment and deferred benefits are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order 2012 required increase (2011: 3.1%) of 5.2% to be awarded, based on CPI.

## ***Communications***

To ensure all members kept aware of any changes to the scheme, a number of communications have been issued:

### Pensions News - LifeTimes

2011 Issue – Active members were issued with a copy of the newsletter with their annual benefit statement. This issue explained the following:

- LGPS Update
- Great Reasons to be a Member of the LGPS
- LGPS Consultations
- Removal of the Default Retirement Age
- Pensions News – Annual Allowance & Lifetime Allowance
- Update of the Review of Public Sector Pensions
- The Pensions Bill

### Pensioner Newsletter - LaterLife

In March 2102 in conjunction with our Pensions Administrators, Capita Hartshead, we produced the fourth annual pensioner newsletter. The newsletter looked at the following topics:

- Benefits Breakdown
- Fund News
- Back in the Day...
- Into the Future...
- Let's talk about...
- Take Five
- Pensioner Forum
- Know your Rights

Pension surgeries continue to be held for all active members to attend at different locations across the borough. These are held as and when required for half-day sessions. It gives active members the opportunity to speak to the pension's team face-to-face and on a one-to-one basis. The feedback received continues to be positive and therefore these surgeries will continue to take place.

A pre-retirement course is held four times a year. These courses provide members who are approaching retirement with useful information from State benefits to spare time activities. The pension's team also attends and provides all attendees with a personal estimate and the opportunity to discuss any aspect of their Local Government Pension.



Enquiries concerning the Local Government Pension Scheme with the London Borough of Waltham Forest or entitlement to benefits should be addressed to:

LBWF Pensions Team  
Capita Hartshead  
PO Box 195  
Mowden Hall  
Darlington  
DL1 9FS

Tel: 01737 366 093/094/043

Fax: 01737 366 100

Email: [lbwf.pensions@capita.co.uk](mailto:lbwf.pensions@capita.co.uk)

Website: [lbwf.capita-eb.co.uk/web.chi/lbwf.html](http://lbwf.capita-eb.co.uk/web.chi/lbwf.html)

## GOVERNANCE REPORT

### Pensions Fund Committee

On 25 September 2008, the Council's Audit Committee considered a report on the governance, monitoring and administration of the Council's Pension Fund, where revisions to the decision making process were considered, in particular that the Pension Fund Members Panel had no delegated powers as then constituted, and that this was not compliant with best practice.

In March 2009, the Council agreed to the establishment of a new Pensions Fund Committee with effect from the 2009/10 Municipal Year, with new terms of reference and delegated powers, and recommending that sufficient members be appointed to the Committee to ensure cover and in recognition of the importance of the decisions being taken. At the Annual Council meeting it was decided that 7 Members would be appointed, and that Members with relevant experience and background be encouraged to serve on the new Committee. When the Committee was re constituted in May 2009 due to the election it was decided that only 5 members would be appointed to the Pension Fund Committee. During the 2012/13 Committee cycle we had one change on the Pension Fund Committee membership.

#### Members and Observers of the Committee

Chair: Councillor Nicholas Buckmaster  
Vice Chair: Councillor Terry Wheeler  
Councillors: Masood Ahmad, Andy Hemsted and Geraldine Reardon

Observers: Union (Unison) Representative Ray Bellas  
Pensioner Representative M.L. Cordell  
Employer Representatives Alan Leak and Jo Moore  
Independent Advisor John Raisin  
Officer Representatives John Turnbull – Director of Finance,

Debbie Drew – Pensions and Treasury Manager, Vince Yeboah – Principal Accountant, Tracey Wolstenholme – Senior Accountant and Pat Rodgers – Senior Finance Officer

The following table lists the voting rights of each member and their attendance at each Committee meeting for 2012/13:-

Name	Voting Rights	June	Sept	Nov	March
Nick Buckmaster	yes	√	√	√	√
Terry Wheeler	yes	√	√	√	√
Masood Ahmad	yes	√	√	√	√
Andy Hemsted	yes	√	√	√	√
Geraldine Reardon	yes	√	√	√	√
John Turnbull	no	√	√	√	√
Debbie Drew	no	√	√	√	√
John Raisin	no	√	√	√	√
Ray Bellas	no	x	x	x	x
M.L. Cordell	no	x	x	x	x
Alan Leek	no	√	√	√	√
Jo Moore/Derek Young	no	x	x	√	√

*\*the union and pensioner representatives have been unable to attend due to ill health.*

## Governance Compliance Statement

The Council as administering authority to the Fund must publish a statement to demonstrate its compliance with good practice on governance issues. This is required under the LGPS Administration Regulations 2008. The statement must set out the degree of compliance with nine principles set out in a statutory guidance document issued by the Department of Communities and Local Government.

The final version of the Statutory Guidance on LGPS Governance Compliance Statements was issued by CLG in November 2008 and the Fund statement takes into account this version of the statutory guidance.

The statutory guidance accepts that there are many models for the administration and management of Local Government Pension Funds and seeks to set out best practice principles for their governance. As such they may be used by the Council to develop its policies for the management of the Fund in the immediate future, in particular where the statement shows the Fund is not fully compliant with the suggested best practice model.

The Council's Compliance Statement has been amended to take into account the establishment of the new Pensions Fund Committee following the recommendations made during 2008/09 and outlined above and other minor changes in 2009/10, 2011/12 and 2012/13.

The Governance Compliance Statement for the Fund is attached as Appendix 4.

### **Ethical Investment Policy**

The Panel has recognised the need to consider the long term impact on the Fund of the approach taken by companies on governance compliance, responsible investment and sustainable investment issues. This is a complex issue requiring careful analysis and due regard to the legal responsibilities of the Council.

Taking this into account, the Council's approach is to work with other LGPS Funds and gain from the experience and approaches of other local authority funds through membership of the Local Authority Pension Fund Forum.

### **Local Authority Pension Fund Forum (LAPFF)**

The Fund joined the LAPFF in January 2008. The Forum exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst companies in which they invest. With more than half of all local authority funds as members, the Forum can negotiate with companies with a single authoritative voice, impossible for smaller funds acting alone. The Forum is developing policy and carrying out research and engagement with companies on many issues, including environmental issues such as the climate change impact of the transport sector, and the impact of oil extraction from tar sands. Other initiatives include engagement with fund managers to try to improve transparency of proxy voting policies by the managers, and on corporate governance issues.

### **Statement of Compliance with the CIPFA Skills & Knowledge Framework**

As the administering authority of the Local Government Pension Scheme, London Borough of Waltham Forest recognises the importance of ensuring all staff and members charged with the financial management and decision making with regards to the pension scheme are fully equipped with the knowledge and skills to discharge duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Over the course of 2012/13 staff and members of the Pensions Committee have attended external training and had training delivered by external fund advisors and other pensions experts at the normal Pensions Committee. External Training events were attended by:- Councillor Nick Buckmaster (various), Councillor Geraldine Reardon (Trustee Training Fundamentals" course run by the Local Government Employer's organisation and UBS first steps training) and 2 staff members (Trustee Training Fundamentals" course run by the Local Government Employer's organisation) other staff members (various). Training covered by normal Committee meetings cover the following topics:

Environmental social and governance issues  
2013 Valuation  
LGPS 2014  
CIPFA code of practice – public sector finance knowledge and skills  
Various alternative investment ideas and strategies  
Auto-enrolment

### **Independent auditor's report to the members of Waltham Forest Council Pension Fund**

We have audited the financial statements of the local government pension fund administered by Waltham Forest Council for the year ended 31 March 2013 on pages 22 to 46. 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 2012/13.

This report is made solely to the members of the Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Corporate Director of Finance and Procurement and the auditor**

The Corporate Director of Finance and Procurement is responsible for the preparation of the pension fund financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and for being satisfied that they give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement ; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Matters on which we are required to report by exception**

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

Andrew J. Sayers  
**for and on behalf of KPMG LLP, Appointed Auditor**  
*Chartered Accountants*  
KPMG LLP (UK)  
15 Canada Square  
London  
E14 5GL  
27 September 2013

### **Pension Fund Advisers and Other Service Providers 2012/13**

During 2012/13, the following provided services to the Pension Fund:

#### **Custodial Services**

All assets and cash allocated for investment purposes are held by the Council's custodian bank - State Street:

State Street Bank and Trust Company  
20 Churchill Place  
Canary Wharf  
London E14 5HJ

## **Actuarial Services**

Actuarial services were provided during the year by Mercer:

Mercer Limited,  
Mercury Court,  
Tithebarn Street,  
Liverpool,  
L2 2QH

## **Investment Consultancy and Advice Services**

Investment consultancy advice was provided by Mercer:

Mercer Limited,  
Mercury Court,  
Tithebarn Street,  
Liverpool,  
L2 2QH

## **Pension Fund Performance Measurement**

Statistics provided were by WM Performance Services (A State Street Company):

State Street Investment Analytics,  
525 Ferry Road,  
Edinburgh,  
EH5 2AW

## **Legal services**

Legal services were provided in-house by the Director of Governance and Law and externally By Sackers, 20 Gresham Street, London, EC2V 7JE.

**Independent Advice is provided by:**

John Raisin, John Raisin Financial Services Limited

## PENSION FUND ACCOUNT

2011/12 £'000		2012/13 £'000	Notes
	<b>Dealings with members, employers and others directly involved in the scheme</b>		
	<b>Contributions receivable:</b>		
	Employers:		
11,683	Normal contributions	11,212	
11,491	Deficit contributions	12,424	
3,511	Additional contributions (early retirement)	3,960	
1,304	Additional contributions (termination)	(778)	
	From members:		
6,875	Normal contributions	6,598	
148	Additional contributions	118	
35,012		33,534	7
	<b>Transfers in:</b>		
2,454	Transfers from individuals	1,571	8
0	Transfers from groups	0	8
37,466		35,105	
	<b>Benefits payable:</b>		
(26,409)	Pensions	(28,899)	9
(9,092)	Lump sum retirement benefits	(6,815)	9
(368)	Lump sum death benefits	(1,163)	9
	<b>Payments to and on account of leavers:</b>		
(2)	Refund of contributions	(7)	10
(3,958)	Individual transfers out to other schemes	(3,233)	10
(7,886)	Group transfers	0	10
(912)	Administrative and other expenses borne by the scheme	(976)	11
(48,627)		(41,093)	
(11,161)	<b>Net (withdrawals)/additions from dealings with members</b>	(5,988)	
	<b>Return on investments</b>		
12,098	Investment income	9,194	12
10,305	Profit and losses on disposal of investments and changes in value of investments	60,586	15
(2,548)	Investment management expenses	(4,740)	14
19,855	<b>Net return on investments</b>	65,040	
	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>	59,052	
8,694			
532,041	<b>Opening net assets of the scheme</b>	540,735	
540,735	<b>Closing net assets of the scheme</b>	599,787	



## PENSION FUND ACCOUNT (continued)

<b>NET ASSETS STATEMENT</b>			
<b>2011/12</b>		<b>2012/13</b>	<b>Notes</b>
<b>£'000</b>		<b>£'000</b>	
	<b>Investment assets</b>		
	Pooled investment vehicles:-		
15,061	Managed Funds GTAA	0	
0	Hedge Funds	27,128	
0	Infrastructure	23,668	
72,439	Fixed interest securities	137,278	<b>15 b</b>
416,270	Equities	386,465	<b>15 c</b>
26,998	Unit trusts - Property	24,857	<b>15 e</b>
8,497	Cash and money market instruments	1,085	<b>17</b>
<u>539,265</u>	<b>Total Investment assets</b>	<u>600,481</u>	
	<b>Investment assets and liabilities</b>		
760	Debtor	383	<b>23</b>
(166)	Creditor	(907)	<b>24</b>
	<b>Net current assets and liabilities</b>		
925	Debtors	938	<b>23</b>
(1,192)	Creditors	(1,624)	<b>24</b>
1,143	Cash in hand/(overdrawn)	516	<b>17</b>
<u>540,735</u>	<b>Net assets of the scheme available to fund benefits at the period end</b>	<u>599,787</u>	

The Pension Fund accounts do not account for liabilities to pay future pensions to current and prospective beneficiaries.

<b>RECONCILIATION OF MOVEMENT IN NET ASSETS</b>		
<b>2011/12</b>		<b>2012/13</b>
<b>£'000</b>		<b>£'000</b>
532,041	Fund balance at beginning of year	540,735
(1,611)	Excess income over expenditure	(1,534)
(8,776)	Net profit/(loss) on realisation of investments	48,316
19,081	Unrealised profit/(loss) on investments	12,270
<u>540,735</u>	Fund balance at 31 March	<u>599,787</u>

## **1. INTRODUCTION**

The London Borough of Waltham Forest Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by London Borough of Waltham Forest. The London Borough is the reporting entity for this Pension Fund.

The following description of the fund is a summary only. For more detail reference should be made to the London Borough of Waltham Forest Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The Director of Finance is responsible for the scheme in accordance with standing authority given by the Council. Recommendations to change the constitutional arrangements for the decision making for the Pension Fund were approved by Council on 26 March 2009. The result of these recommendations was that the Pension Fund Members Panel was given delegated powers and became the Pension Fund Committee. The first committee meeting took place on 17 June 2009. The terms of reference for the Pension Fund Committee can be found within the Statement of Investment Principles, as an appendix to the Pension Fund Annual Report 2012/13.

### **a) General**

The Fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009
- the LGPS (Miscellaneous) Regulation 2012

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

The fund is overseen by the London Borough of Waltham Forest Pension Fund Committee.

### **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. This will change in 2017, the Council's deferred staging date, when the Government's Legislation and auto-enrolment applies.

## 1. INTRODUCTION continued

Organisations participating in the London Borough of Waltham Forest Pension Fund include:

**Scheduled bodies**, which are the Arms Length Management Organisation (ALMO), colleges and academies whose staff are automatically entitled to be members of the fund.

**Admitted bodies**, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 33 employer organisations within the London Borough of Waltham Forest Pension Fund, as at 31 March two admitted bodies joined the Scheme and two left the scheme, under scheduled bodies there were 11 new academies as detailed below:

<b>31 March 2012</b>		<b>31 March 2013</b>
21	Number of employers with active members	33
	Number of employees in scheme:	
5,612	London Borough of Waltham Forest	5,425
790	Other employers	956
<u>6,402</u>	Total	<u>6,381</u>
	Number of pensioners:	
5,798	London Borough of Waltham Forest	5,940
339	Other employers	357
<u>6,137</u>	Total	<u>6,297</u>
	Deferred pensioners:	
3,397	London Borough of Waltham Forest	3,449
531	Other employers	613
<u>3,928</u>	Total	<u>4,062</u>

The Pension Fund had the following scheduled and admitted bodies at 31 March 2013:

### **Scheduled bodies**

Ascham Homes  
 Leyton VI Form College  
 Sir George Monoux College  
 Waltham Forest College  
 Walthamstow Academy  
 Hillyfields Academy  
 Roger Ascham Academy  
 Yardley Academy  
 Highams Park Academy  
 Barclays Primary Academy  
 Brookfield House Academy  
 Chingford Academy  
 Chingford Hall Academy  
 Connaught Girls Academy  
 Emmanuel Community School  
 Rushcroft School Academy  
 Whittingham Academy  
 William Morris Academy  
 Willow Brook Academy  
 Woodside Academy

### **Admitted bodies**

Kier Facilities Services Ltd (formerly Caxton FM)  
 CT Plus Ltd  
 Kier Support Services Ltd  
 London and Quadrant Housing Trust  
 Orient Regeneration Trust  
 Capita IT (formerly Ramesys E-Business Services Ltd)  
 J.B.Riney  
 Outlook Care (formerly Canopy Care)  
 Family Mosaic  
 May Gurney Street Lighting  
 Harrison Catering Ltd (Frederick Bremer)  
 Ruskin Private hire Ltd  
 Kier Waste

## 1. INTRODUCTION continued

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010.

### d) Benefits

Pension Benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

#### **Service Pre 1 April 2008**

**Pension** Each year worked is worth  $1/80$  x final pensionable salary.

**Lump Sum** Automatic lump sum of 3 x salary. In addition part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

#### **Service Post 31 March 2008**

**Pension** Each year worked is worth  $1/60$  x final pensionable salary.

**Lump Sum** No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pension and death benefits. For more details, please refer to the London Borough of Waltham Forest Pension Fund scheme handbook available via [www.capitahartshead.co.uk/lbwf/](http://www.capitahartshead.co.uk/lbwf/). Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

### e) Fund Activity

During the year the fund completed investments in a new global equities fund JO Hambro Capital Managements Global Select Fund, Hedge Fund BlueCrests AllBlue Fund and started draw downs into two infrastructure funds, Global Infrastructure II Fund and Capital Dynamics Clean Energy and Infrastructure Fund. The fund also terminated its investment in Nordea's Alpha 15 GTAA (Global Tactical Asset Allocation) fund.

The fund has substantially completed its transition to its new asset allocation strategy with the expectation of full investment into the infrastructure funds within the next two years. In the interim undrawn money is being held with the fund's UK equity manager and the cash from the disinvestment of the GTAA investment being held by the fund's global bond manager until new fund managers are appointed.

## **2. BASIS OF PREPARATION**

The Statement of Accounts summarises the Pension Fund's transactions for the 2012/13 financial year and its position at year end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued using the International Accounting Standard IAS19 basis, is disclosed at note 22 of these notes.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account - revenue recognition**

#### **a) Contribution income**

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

Employers' augmentation contributions and pension strain contributions are accounted for when paid.

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to make additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **c) Investment income**

##### **(i) Interest income**

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **(ii) Dividend income**

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

#### **(iii) Distributions from pooled funds**

These are recognised at the date of issue. Any amounts not received by the end of the reporting period are disclosed in the net assets statement as a current financial asset.

#### **(iv) Movement in the net market value of investments**

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.

### **Fund account - expense items**

#### **d) Benefits payable**

Pension and lump sum benefits include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### **e) Taxation**

The fund is a regulated public services scheme under section 1(1) of schedule 36 of the Finance Act 2004. It 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.

#### **f) Administration expenses**

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

#### **g) Investment income expenses**

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the fund also pays an element of their fee as performance related with the following managers:

- Nordea Investment Management - Global Tactical Asset Allocation
- BankInvest - Global Equities
- JO Hambro Capital Management - Global Equities
- Wellington - Fixed Income
- Capital Dynamics - Infrastructure
- Global Infrastructure Partners - Infrastructure
- BlueCrest - Hedge Funds

Performance related fees were paid in 2012/13 in relation to some of the above funds. No performance related fees were paid in 2011/12.

The cost to the Council, representing management time spent by officers on investment management is also charged to the fund.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **Net Assets Statement**

##### **h) Financial assets**

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

The values of investments as shown in the net assets statement have been determined as follows:

##### **i) Market quoted investments**

The value of an investment for which there is a readily available market price is determined by the bid market ruling on the final day of the accounting period.

##### **ii) Unquoted investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting.
- Investments in unquoted property and pooled funds are valued at the net asset value or a single price advised by the manager.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property. The valuation of these pools is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

##### **iii) Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price, if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value includes income which is reinvested in the fund, net of applicable withholding tax.

##### **i) Foreign currency transactions**

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the accounting period.

##### **j) Cash and cash equivalents**

Cash comprises of cash in hand and demand deposits.

Cash equivalents are short-term, high liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

#### **k) Financial liabilities**

The fund recognised financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

#### **l) 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 IAS 19 and relevant actuarial standards [Code 6.5.2.8].

#### **m) Additional voluntary contributions**

The London Borough of Waltham Forest 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. The fund has appointed Clerical Medical as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 25).

### **4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

#### **Pension Fund liability**

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes in the underlying assumptions.

### **5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## 6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events post balance sheet date.

## 7. CONTRIBUTIONS RECEIVABLE

2011/12			2012/13	
£'000			£'000	
27,989	Employers		26,818	
7,023	Members		6,716	
<u>35,012</u>	Total contributions receivable		<u>33,534</u>	

2011/12			2012/13	
£'000			£'000	
30,138	LBWF		28,929	
2,611	Scheduled bodies		3,839	
2,263	Admitted bodies		766	
<u>35,012</u>	Total contributions receivable		<u>33,534</u>	

## 8. TRANSFERS IN FROM OTHER PENSION FUNDS

2011/12			2012/13	
£'000			£'000	
0	Group transfers		0	
2,454	Individual transfers		1,571	
<u>2,454</u>	Total		<u>1,571</u>	

## 9. BENEFITS PAYABLE

2011/12			2012/13	
£'000			£'000	
26,409	Pensions		28,899	
9,092	Commutation and lump sum retirement benefits		6,815	
368	Lump sum death benefits		1,163	
<u>35,869</u>	Total		<u>36,877</u>	

## 9 BENEFITS PAYABLE continued

2011/12 £'000		2012/13 £'000
34,035	LBWF	33,550
1,279	Scheduled bodies	1,795
555	Admitted bodies	1,532
<u>35,869</u>	Total	<u>36,877</u>

## 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2011/12 £'000		2012/13 £'000
2	Refunds to members leaving service	7
7,886	Group transfers	0
3,958	Individual transfers	3,233
<u>11,846</u>	Total	<u>3,240</u>

Individual transfers are members/leavers who have elected to transfer their future pension benefits/contribution to a different pensions provider. The gross amount transferred for the year was 3.2 million (3.9 million 2012). There were no group transfers (7.9 million 2012).

## 11. ADMINISTRATION EXPENSES

Regulations permit the Council to charge administration costs to the scheme. A proportion of relevant council officers' salaries, including on-costs, have been charged to the fund on the basis of actual time spent on scheme administration and investment related business.

Administration expenses during the year were as follows:

2011/12 £'000		2012/13 £'000
714	Administration - LBWF	714
140	Actuary expenses	151
58	Investment management - central administration/other	111
<u>912</u>	Total administration expenses	<u>976</u>

## 11. ADMINISTRATION EXPENSES continued

Benefit administration of the fund was outsourced to Capita Hartshead Ltd with effect from 1 September 2005 and a new contract awarded through tender procedures to Capita Hartshead with effect from 1 September 2009.

## 12. INVESTMENT INCOME

Interest and dividends receivable in 2012/13 have been accounted for on an accruals basis. The accrual in the 2012/13 accounts amounted to £382,000 (£700,000 in 2011/12). The total investment income received during the year was £9.2 million analysed as follows:

2011/12 £'000		2012/13 £'000
11,123	Dividends equities	7,841
	Income from pooled investment vehicles:-	
264	Managed Funds GTAA	229
0	Hedge Funds	221
0	Infrastructure	391
0	Fixed interest securities	0
713	Property	878
(2)	Interest on cash deposits	(366)
<u>12,098</u>	Total	<u>9,194</u>

Investment income has been grossed up to include fees of £2.955 million for 2012/13 and £2.046 million for 2011/12.

## 13. TAXES ON INCOME

2011/12 £'000		2012/13 £'000
(396)	Withholding tax - equities	(358)

## 14. INVESTMENT EXPENSES

2011/12 £'000		2012/13 £'000
17	Performance measurement expenses	19
58	Custody fees	40
158	Investment consultancy fees	159
2,315	Investment management expenses	4,522
<u>2,548</u>	Total investment management expenses	<u>4,740</u>

## 15. INVESTMENTS

Movements in Investment Assets	Change in market value					
	2010/11 £'000	Purchases £'000	Sales £'000	value £'000	Cash movement £'000	2011/12 £'000
Pooled vehicle - Managed funds other	15,754	38	0	(729)	0	15,063
Pooled vehicle - Fixed interest securities	69,219	73,522	(72,394)	2,091	0	72,438
Equities	409,571	55,145	(58,915)	10,468	0	416,269
Unit trusts - Property	27,564	999	(40)	(1,525)	0	26,998
Cash and money market instruments	6,087	18,798	(16,965)	0	577	8,497
<b>Total</b>	<b>528,195</b>	<b>148,502</b>	<b>(148,314)</b>	<b>10,305</b>	<b>577</b>	<b>539,265</b>

Movements in Investment Assets	Change in market value					
	2011/12 £'000	Purchases £'000	Sales £'000	value £'000	Cash movement £'000	2012/13 £'000
Pooled vehicle - Managed funds other	15,063	38	(17,457)	2,356	0	0
Hedge Funds	0	26,900	0	228	0	27,128
Infrastructure	0	22,313	(445)	1,800	0	23,668
Pooled vehicle - Fixed interest securities	72,438	62,900	0	1,940	0	137,278
Equities	416,269	504,609	(591,442)	57,029	0	386,465
Unit trusts - Property	26,998	631	0	(2,772)	0	24,857
Cash and money market instruments	8,497	7,660	(13,661)	4	(1,415)	1,085
<b>Total Investment Assets</b>	<b>539,265</b>	<b>625,051</b>	<b>(623,005)</b>	<b>60,585</b>	<b>(1,415)</b>	<b>600,481</b>

Transaction costs are included in the cost of purchases and in sales proceeds. These costs are charged directly to the fund, such as fees, commissions, stamp duty and other fees. Transactions incurred during the year total £223,000 (£260,000 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments. Also included in these costs are the cost of transition to four new investments in 2012/13 of £218,000.

## 15. INVESTMENTS continued

Listed investments are stated at bid-market values, as quoted at the close of business of the relevant stock exchange. Unlisted investments are stated at fair value as advised by the investment managers. Exchange Traded Funds are stated at mid-price as quoted on the relevant stock exchange.

Valuation bases for the portfolios are as follows:

	Description	
AXA Framlington Investment Management	UK (Pooled) Equities	Bid market value
Wellington Management	Global bonds	Fair value
JO Hambro Capital Management	Equities	Fair value
Capital Dynamics	Infrastructure	Fair value
Global Infrastructure Partners	Infrastructure	Fair value
UBS	UK property	Fair value
DTZ Investment Management	Overseas property	Fair value
RREEF Limited	UK property	Fair value
BlueCrest	Hedge Funds	Fair value

INVESTMENTS		
2011/12		2012/13
£'000		£'000
	<b>Equities</b>	
13,311	UK quoted	0
162,021	Overseas quoted	0
	<b>Pooled investment vehicles</b>	
	<b>Unit trusts</b>	
240,938	Equities UK quoted	265,169
0	Global Equities quoted	121,296
11,255	Property	9,565
	<b>Other managed funds</b>	
15,743	Property	15,292
72,439	Fixed interest securities	137,278
15,061	Other - GTAA	0
0	Hedge Funds	27,128
0	Infrastructure	23,668
8,497	<b>Cash and money market instruments</b>	1,085
<u>539,265</u>	<b>Total Investment assets</b>	<u>600,481</u>

### Analysis of pooled funds with underlying derivatives

These strategies are implemented through portfolios of highly liquid derivative instruments made up of a subset of asset classes: equity, fixed income, commodity and currency.

## 15. INVESTMENTS continued

Long and short currency derivatives have also been purchased to mitigate foreign exchange risks.

Wellington Global Total Return Fund - the Global Total Return Portfolio seeks to generate total returns in excess of a cash index through investments in a diversified portfolio of global fixed income, currency and credit strategies. The Portfolio uses derivatives, primarily liquid government bond futures and currency forwards for the purpose of risk management and alpha generation.

The investment process is opportunistic in nature and therefore can have long and short exposure of varying size to global interest rates, currencies and credit securities. If the process identifies attractive investment opportunities, risk level and position sizes can increase rapidly and significantly. The Portfolio will generally be diversified by country, currency, issuer and investment strategy, but may hold concentrated positions from time to time.

The Portfolio includes positions based on both long-term and short-term investment ideas. The time horizon for macro thematic ideas often have long-term investment horizons, while tactical ideas often have much shorter-term investment horizons. This is a high turnover approach as the investment process employs various relative value investment strategies that are often tactical in nature.

### a) Investments analysed by Fund Manager

2011/12		Description	2012/13	
Market value £'000	%		Market value £'000	%
10,656	1.98	UBS Global Asset Management	9,023	1.50
50	0.01	State Street	0	0.00
599	0.11	RREEF Limited	542	0.09
15,744	2.92	DTZ Investment Management	15,292	2.55
240,938	44.68	AXA Framlington IM	252,095	41.98
15,061	2.79	Nordea Investment Management	0	0.00
175,281	32.50	BankInvest Asset Management	0	0.00
0	0.00	JO Hambro	134,370	22.38
72,439	13.43	Wellington Management	137,278	22.86
0	0.00	Capital Dynamics	16,462	2.74
0	0.00	Blue Crest	27,128	4.52
0	0.00	Global Infrastructure Partners II	7,206	1.20
8,497	1.58	Cash	1,085	0.18
<b>539,265</b>	<b>100.00</b>	<b>Total Fund Value</b>	<b>600,481</b>	<b>100.00</b>

## 15. INVESTMENTS continued

b) Analysis of fixed interest securities by sector using market values as at 31 March 2013:

2011/12 £'000		2012/13 £'000
72,439	Overseas private sector	137,278
<u>72,439</u>	Total	<u>137,278</u>

There were no index-linked bond investments held as at 31 March 2013 or during the year.

c) Analysis of equities and convertibles by region using market value as at 31 March 2013:

2011/12 £'000		2012/13 £'000
254,249	United Kingdom - listed	265,169
	<b>Overseas Equities</b>	
101,621	United States and Canada	58,827
26,805	Europe	25,719
8,490	Japan	10,628
25,105	Other	26,122
<u>416,270</u>	Total	<u>386,465</u>

d) Analysis of equities and convertibles by type using market values at 31 March 2013:

2011/12 £'000		2012/13 £'000
6,255	Basic materials	28,395
14,616	Consumer goods industry	25,285
20,307	Consumer services industry	59,712
17,551	Health care	23,626
32,715	Financials	39,198
26,747	Industrials	80,066
8,501	Telecommunications	11,566
23,075	Technology	63,204
20,369	Oil and gas	46,239
240,938	Unit trusts	0
5,157	Utilities	0
39	Other	9,174
<u>416,270</u>	Total	<u>386,465</u>



## 15. INVESTMENTS continued

e) Analysis of property unit trusts by type using market values at 31 March 2013:

2011/12 £'000		2012/13 £'000
10,656	United Kingdom - listed	9,023
599	United Kingdom - unlisted	542
15,743	Overseas - unlisted	15,292
<u>26,998</u>	Total	<u>24,857</u>

## 16. PURCHASES AND SALES OF INVESTMENTS

During the year, the fund purchased investment assets totalling £625.1 million (£148.5 million in 2011/12) and sold investment assets at a value of £623.0 million (£148.3 million in 2011/12). These purchases and sales included purchases and sales on investment due to the transition of investments from the incumbent global equities manager to a new global equities fund, a hedge fund and the balance to fixed income. Also some purchases were due to the draw down into two new infrastructure managers.

The Pension Fund dis-invested its holding in BankInvest Global Equities (£195.9 million) and invested in JO Hambro Capital Managements Global Select Fund (Global Equities), to the value of £131.1 million, and BlueCrest AllBlue Fund to the value of £26.9 million with the residual £45.5 million in Wellington Global Return Fund. The additional £7.9 million invested was due to market movements during the transition period. All other purchases and sales relate to transactions made by the Investment Managers within the portfolios under their management. During the year £22.3 million was drawn down as part of commitments to the Global Infrastructure Partners II and Capital Dynamics Clean Energy and Infrastructure Fund (Infrastructure). The fund also dis-invested from Nordea Global Tactical Asset Allocation (GTAA) Alpha 15 fund £17.4 million and as an interim measure invested in Wellington Global Total Return Fund £17.4 million.

## 17. CASH HOLDINGS

2011/12 £'000		2012/13 £'000
8,497	Cash held by investment managers	1,085
1,143	Cash in hand/(Overdrawn)	516
<u>9,640</u>	Total	<u>1,601</u>

## 18. PROPERTY

Interest on property development is not applicable.

## 19. FINANCIAL INSTRUMENTS

Accounting policies describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during this accounting period.

## 19. FINANCIAL INSTRUMENTS continued

The income, expense, gains and losses arising from investing activities which are included in the Pension Fund Account are as follows:

2011/12 £'000		2012/13 £'000
	<b>Financial asset at fair value through profit and loss</b>	
0	Dividend and interest expense	0
(19,545)	Losses on derecognition	(16,573)
<u>(19,545)</u>	Total expense in Pension Fund account	<u>(16,573)</u>
12,098	Dividend and interest income	9,194
10,769	Gains on derecognition	64,889
<u>22,867</u>	Total income in Pension Fund account	<u>74,083</u>
22,705	Gains on revaluation	66,282
(3,625)	Losses on revaluation	(54,013)
<u>19,080</u>	Surplus/(deficit) arising on revaluation of financial assets in the Pension Fund account	<u>12,269</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

2011/12			2012/13	
Carrying value £'000	Fair value £'000	Financial assets	Carrying value £'000	Fair value £'000
530,768	530,768	Fair value through profit and loss	599,396	599,396
11,324	11,324	Loans and receivables	2,922	2,922
<u>542,092</u>	<u>542,092</u>		<u>602,318</u>	<u>602,318</u>
Carrying value £'000	Fair value £'000	Financial liabilities	Carrying value £'000	Fair value £'000
(1,358)	(1,358)	Financial liabilities at amortised cost	(2,531)	(2,531)
<u>(1,358)</u>	<u>(1,358)</u>		<u>(2,531)</u>	<u>(2,531)</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES continued

### Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

**Level 1** Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2** Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3** Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity instruments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable Inputs	With significant unobservable Inputs	Fair value
Values at 31 March 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	574,538	0	24,858	599,396
Loans and receivables	2,922	0	0	2,922
<b>Total financial assets</b>	<u>577,460</u>	<u>0</u>	<u>24,858</u>	<u>602,318</u>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(2,531)	0	0	(2,531)
<b>Total financial liabilities</b>	<u>(2,531)</u>	<u>0</u>	<u>0</u>	<u>(2,531)</u>
<b>Net financial assets</b>	<u>574,929</u>	<u>0</u>	<u>24,858</u>	<u>599,787</u>

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

	Quoted market Price	Using observable Inputs	With significant unobservable Inputs	Fair value
Values at 31 March 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	504,084	0	26,684	530,768
Loans and receivables	11,325	0	0	11,325
<b>Total financial assets</b>	<u>515,409</u>	<u>0</u>	<u>26,684</u>	<u>542,093</u>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(1,331)	0	0	(1,331)
<b>Total financial liabilities</b>	<u>(1,331)</u>	<u>0</u>	<u>0</u>	<u>(1,331)</u>
<b>Net financial assets</b>	<u>514,078</u>	<u>0</u>	<u>26,684</u>	<u>540,762</u>

## 21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### 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 the opportunity for gains across the whole fund 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 Council manages these investment risks as part of its overall Pension Fund investment strategy. Responsibility for the fund's risk management strategy rests with the Pension Fund committee. Risk is dealt with as part of the Pension Fund's overall policies and strategies. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. 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 investment strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

## 21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

### Market risk continued

The Pension Fund manages these risks in three ways:

- (i) the exposure of the fund to market risk is monitored through a factor analysis to ensure that risk remains within tolerable levels.
- (ii) specific risk exposure is limited by applying risk weighted maximum exposures to individual assets.
- (iii) the investment managers have their own risk parameters within each investment held with them.

### 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 the individual instrument or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments; this is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

### Other price risk - sensitivity analysis

In consultation with the fund's performance advisers, following analysis of historical data and expected investment return movement during the financial year, the Council has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period:

<b>Asset Type</b>	<b>Potential market movements (+/-) %</b>
UK equities	14.1
Overseas equities	13.0
Global bonds	1.7
Cash	0.0
Property	6.4
Alternatives	14.8

## 21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

The potential volatilities are consistent with a one deviation movement in the change of value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

<b>Asset type</b>	<b>Value as at 31 March 2013 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK equities	252,095	14.1	287,540	216,650
Overseas equities	134,370	13.0	151,892	116,848
Global bonds	137,278	1.7	139,571	134,985
Cash	1,085	0.0	1,085	1,085
Property	24,857	6.4	26,436	23,280
Alternatives	50,796	14.8	58,299	43,293
<b>Total assets available to pay benefits</b>	<u>600,481</u>		<u>664,854</u>	<u>536,110</u>

<b>Asset type</b>	<b>Value as at 31 March 2012 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK equities	240,988	14.6	276,172	205,804
Overseas equities	190,342	17.0	222,700	157,984
Global bonds	72,439	7.9	78,162	66,716
Cash	8,497	0.1	8,505	8,489
Property	26,999	8.0	29,159	24,839
<b>Total assets available to pay benefits</b>	<u>539,265</u>		<u>614,698</u>	<u>463,832</u>

### 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 risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

### 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 sterling. The fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the fund's investment strategy.

## **21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued**

### **Credit risk**

This is the risk that other parties may fail to pay amounts due to the Pension Fund. For example an interest payment or coupon due may not be paid, or a loan (bond) may not be repaid. The fund allows its investment managers a low level of risk when undertaking investments to reduce the likelihood of a default occurring on an investment. The fund also employs a custodian to ensure that all transactions are settled in an appropriate fashion.

### **Liquidity risk**

This is the risk that the Pension Fund might not have the monies available to meet payments due from the fund. Contributions have tended to be greater than benefits paid over the last few years (although not in 2011/12) ensuring that enough cash is available to meet payments. The fund currently utilises two bank accounts and one money market fund. The money market fund is held with the custodians and holds cash relating to investment activities. The other accounts are held with the Pension Fund benefits administrator (Capita) and with the Council. This is a separate account from the Council's main bank account. If the fund did not have the monies available to meet its immediate commitments, it is able to borrow for up to 90 days. If there was a longer term shortfall, then assets could be sold to provide additional cash. The fund has a mix of liquid assets such as equities and bonds, alongside small amounts in less liquid assets like property.

### **Refinancing risk**

This is the risk that an investor cannot borrow to repay existing debt. To minimise exposure to this risk, the fund places limits on the amount of leverage investment managers can deploy within portfolios to ensure that all transactions are settled in an appropriate fashion.

## **22. Statement by the Consulting Actuary. Please see Annual Report page 8-11**

### 23. CURRENT ASSETS

Analysis of debtors outstanding at 31 March 2013:

2011/12 £'000		2012/13 £'000
	Other local authorities:-	
0	London Borough of Waltham Forest General Fund	0
	Other entities and individuals:-	
0	Investments	0
925	Pension contributions	938
760	Investment income	383
0	Other	0
<u>1,685</u>		<u>1,321</u>

### 24. CURRENT LIABILITIES

Analysis of creditors outstanding at 31 March 2013:

2011/12 £'000		2012/13 £'000
	Other local authorities:-	
419	London Borough of Waltham Forest General Fund	990
	Central government bodies	
249	HMRC - PAYE	284
	Other entities and individuals:	
0	Pensions	0
509	Accrued benefits	350
166	Investments	907
15	Other	0
<u>1,358</u>		<u>2,531</u>



## **25. ADDITIONAL VOLUNTARY CONTRIBUTIONS**

During 2012/13, members paid £24,635 contributions to their personal AVCs (£48,115 in 2011/12) and the value of their investments was £606,938 at 31 March 2013 (£591,145 at 31 March 2012).

## **26. ADDITIONAL CONTRIBUTIONS FOR EARLY RETIREMENT**

Additional contributions have been made to the Pension Fund on the basis of recovering the additional costs of early retirement, ill-health retirements and corporate redundancies over a period of three years. The additional contribution made in 2012/13 was £3.960 million (£3.511 million in 2011/12).

## **27. RELATED PARTY TRANSACTIONS**

There is a strong relationship between the Council and the Pension Fund. The Pension Fund is administered by the Council for which it charged £0.714 million in 2012/13 (£0.714 million in 2011/12). The Council is also the single largest employer of members of the Pension Fund and contributed £23.6 million to the fund in 2012/13 (£23.2 million in 2011/12).

Key management personnel, members of the Pension Fund committee cannot be apportioned on a reasonable basis and are therefore disclosed in full in the Council's accounts, please refer to Notes 17, 19 and 20 of the Council's accounts. The Director of Finance holds a key position in the financial management of the Fund, the financial value of this relationship (in accordance with IAS24) is, short term benefits £19,000 in 2012/13 (£17,000 in 2011/12), long term benefits £ 5,000 in 2012/13 (£4,000 in 2011/12).

## **28. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

### **(i) Infrastructure funds**

The fund has commitments in relation to its two infrastructure funds and one European property fund. These commitments are drawn down in tranches over time as and when the managers request them. The fund had £1.369 million of European property commitments outstanding as at 31 March 2013 (£1.994 million as at 31 March 2012) and £34.246 million of infrastructure commitments outstanding as at 31 March 2013. These are not required to be included in the Pension Fund accounts.

## **29. EXTERNAL AUDIT FEES**

Included within the administration expenses in the Pension Fund Account are KPMG's external audit costs of £21,000 for 2012/13 (£32,000 in 2011/12 - Audit Commission). KPMG took over the external audit contract from the Audit Commission for the audit of the 2012/13 accounts.

## **30. FURTHER INFORMATION**

Copies of the Pension Fund Annual Accounts, Annual Report, Statement of Investment Principles, Funding Strategy Statement, Myner's Compliance Document and Pension Fund Valuation 2010 are published on the Council's website:

## **WALTHAM FOREST PENSION FUND**

### **STATEMENT OF INVESTMENT PRINCIPLES 2013**

#### **Introduction**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, this instrument is primarily a consolidation of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 with numerous instruments which have amended them since they were made, require administering authorities to prepare, maintain and publish after consultation with such persons as it considers appropriate, a written statement of the principles governing its decisions about the investment of fund money. The Regulations required the publication of the revised Statement of Investment Principles by 1st July 2010.

The Statement must cover the policy on:

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if any) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- (g) the exercise of the rights (including voting rights) attached to investments, if the authority has any such policy and
- (h) Stock lending.

Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance. This is included 1 (*the revised Myners Principles*)

#### **1. The Scheme**

- 1.2. The London Borough of Waltham Forest Local Government Pension Scheme ("the Fund") was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Fund is a final salary

defined benefit scheme, with benefits determined by a range of statutory provisions. Employee contribution rates set at variable rates against pensionable pay and employer rates vary depending on the funding level assessed every three years by the Fund actuary. Benefits are defined in law and inflation proofed in line with increases in the CPI (Consumer Price Index) for September. Prior to 2011 pensions were increased in line with RPI. This change was set down in legislation and historically, CPI has been around 0.5%p.a. lower than RPI.

- 1.3. At a meeting of The Council on 26<sup>th</sup> March 2009 it was approved that a Pension Fund Committee be formed to replace the previous Pension Fund Members Panel. The new Pension Fund Committee has full delegated powers to take all decisions in connection with the exercise of the functions outline in the Pension Fund Committee Terms of Reference. A revised terms of reference was agreed at Pension fund Committee on 6<sup>th</sup> March 2013.
- 1.4. The Pension Fund Committee has obtained and considered verbal and written advice from the Director of Finance, the Chartered Institute of Public Finance and Accountancy, investment consultants and World Markets Company and has consulted the Investment Managers, representatives of members of the Fund, admitted bodies, the Scheme's actuary and the funds independent advisor.
- 1.5. This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Pension Fund Committee has delegated the management of the pension fund's investments to professional investment managers, whose activities are regulated by detailed Investment Management Agreements.
- 1.6. The Pension Fund Committee approved the principles outlined in thee previously published document on 22nd November 2012. This current 2013 revised document is to be submitted to the Pension Fund Committee on 7th October 2013 for approval before publishing.

## 2. **RESPONSIBILITIES**

### 2.1 **Pension Fund Committee terms of reference as at the date of the publication are as follows:**

#### **Membership and Meeting Arrangements**

The Committee will comprise 5 Councillors, including a Chair and Vice-Chair appointed by the Council

The Committee may appoint observers to attend and participate in meetings to represent employing authorities and scheme members.

(Note: Observer status is currently available to:  
(Unison), (TGWU), (staff representative – active contributor), (Waltham Forest College), (Ascham Homes), (Leyton 6<sup>th</sup> Form College), (Sir George Monoux College) and (Pensioner Representative)

Meetings will be scheduled on a quarterly basis. The Head of Legal and Democratic Services after consultation with the Director of Financial Services, and the Chair or Vice-Chair of the committee, may cancel, re-schedule or call additional meetings as required.

The quorum of the Committee shall be two-thirds of the committee's membership (i.e. not including observers), or the nearest whole number below two-thirds.

Members of the Pensions Fund Committee will be offered appropriate training, in accordance with a training policy agreed by the Committee, in order to ensure they have or quickly develop sufficient expertise in investment matters to be able to conduct their Pensions Fund Committee responsibilities and interpret the advice, which they receive.

Minutes of meetings will be kept by the Head of Legal and Democratic Services.

## **Functions**

**The Pensions Fund Committee is responsible for the following, and has full delegated powers to take all decisions in connection with the exercise of these functions:**

- 1.1 determining overall investment strategy and strategic asset allocation for the Pension Fund, taking account of the overall profile of Fund liabilities and considering the approach to tolerance of risk.
- 1.2 to be consulted on the appointment and termination of investment managers and changes to the terms of the mandates of existing managers.
- 1.3 policy with regard to socially responsible investment, corporate governance and shareholder activism. These tasks may be delegated to the Fund's investment managers, who conduct the delegated tasks in line with the Pensions Fund Committee's policies.
- 1.4 to be consulted on the appointment and termination of Additional Voluntary Contribution (AVC) providers.
- 1.5 to be consulted on the appointment and termination of investment advice consultants, the fund actuary, custodian for Pension Fund assets, and other contracts related to the management of the Pension Fund
- 1.6 maintenance of statutory compliance statements, including the Statement of Investment Principles (SIP), the Funding Strategy Statement (FSS) and the document setting out the Fund's Myners disclosures.
- 1.7 obtaining regular professional advice from the fund managers, officers, investment advisers and the fund actuary as appropriate.
- 1.8 recommending broad policy guidelines for the investment managers.
- 1.9 monitoring the fund and the performance of the investment management arrangements and

recommend any changes as are considered appropriate.

- 1.10 receiving details of the annual accounts and agree an Annual Report for submission to the Audit Committee and Full Council .
- 1.11 determining matters related to pensions benefits administration for the Local Government Pension Scheme receiving monitoring reports for performance of the contract for pensions benefits administration
- 1.12 considering issues associated with the membership and marketing of the Fund.
- 1.13 the Director of Finance (section 151 Officer) has delegated authority from the Pension Fund Committee to made investment decision concerning investments with manages and appointments of new managers in consultation with the Chair of the Pension Fund Committee, Pension Fund officers and advisors to the Fund.

### 2.3.1 Investment Managers

Day to day management of the Fund's investment portfolios and related activities (see Section 6) has been delegated to the Fund's eight investment managers. These managers have been given the following mandates:;

<b>Name of Investment Manager</b>		<b>Mandate Type</b>
AXA Framlington	UK Opportunities Fund	UK Equity Mandate
JO Hambro Capital Management	Global Select Fund	Global Equity Mandate
Wellington Management Company LLP	Global Total Return Fund	Global Fixed Income
Nordea*	Alpha 15 Fund	Global Tactical Asset Allocation
DTZ	Aurora Property Fund	European (inc UK) Property
UBS	Triton Property Fund	UK Property
Capital Dynamics	Clean Energy and	Infrastructure

	Infrastructure Fund	
Global Infrastructure Partners	GIPII Fund	Infrastructure
BlueCrest	AIIBLue Fund	Hedge Funds

\*the fund dis-invested from Nordea Alpha 15 fund in February 2013

The managers' roles include:

- a. the investment of the pension fund assets in compliance with prevailing legislation, the constraints imposed by the SIP and the detailed Investment Management Agreement
- b. security selection within each asset class
- c. preparation of quarterly report including a review of investment performance, quarterly valuations of the Scheme's assets and details of all transactions during the quarter
- d. attending meetings of the Pension Fund Committee as requested
- e. voting shares in accordance with the policy set out in sections 6 and 7 of the SIP, providing details in a timely manner to State Street Investment Analytics (previously WM) and State Street Custodians for monitoring purposes and accounting.
- f. providing Fund accounting data concerning the investment portfolio and transactions in a timely manner

## 2.4 Custodian

The custodian, State Street Bank and Trust Company is responsible for the settlement of all investment transactions, collection of income, tax reclaims, exercising corporate administration, cash management and accounting information and reconciliation with the Pension Fund Managers valuation.

## 2.5 Performance Management

The State Street Investment Analytics (previously WM) is responsible for assisting the Pension Fund Committee in their regular monitoring of the investment managers' performance.

## 2.6 Investment Consultants

The Investment Consultant, Mercer, are responsible for assisting the Pension Fund Committee in monitoring, selection and appointment of investment managers and custodians and for providing advice on investment strategy and structure as requested.

## 2.7 Scheme Actuary

The Funds Actuary, Mercer, are responsible for:

- a. undertaking a triennial valuation of the Fund's assets and liabilities
- b. setting the contribution rates for the Council and the admitted and scheduled bodies in the Fund
- c. providing the advice required by the Regulations as to the maturity of the Scheme and its funding level in order to aid the Pension Fund

- Committee in balancing the short term and long term objectives of the pension fund
- d. assisting the Pension Fund Committee in the review of the SIP and FSS

## 2.8 **Officers**

The Director of Finance is responsible for:

- a. preparation of annual budgets, annual report and accounts and the business plan for the Fund
- b. ensuring compliance with the SIP and bringing breaches thereof to the attention of the Pension Fund Committee and ensuring the SIP and Myners compliance documents are regularly reviewed and updated in accordance with the Regulations
- c. the negotiation of formal agreements with managers, custodians and other investment service providers.

## 2.9 **In house staffing support**

In house staffing support is proposed to consist of part duties from the Pensions and Treasury Manager, Principal Accountant, Principal Finance Officer and the Senior Finance Officer. There is a suitably qualified officer to oversee the day to day running of the Pension Fund, but the post is not full time on this task.

## 2.9 **Council Constitution and Financial Procedure Rules**

Appropriate revisions will be made to the Council's Constitution and Financial Procedure Rules.

## 3. **FUNDING POSITION**

- 3.1. The Pension Fund is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Scheme's assets. Full details of Scheme benefits are set out in the LGPS Regulations. All active members of the Scheme are required to make pension contributions, which are based upon a fixed percentage of their pensionable pay as defined in the LGPS Regulations. From 1<sup>st</sup> April 2008, this percentage is related to their pensionable pay in the previous financial year according to a table of contributions specified in the Regulations.
- 3.2. The Administering Authority is responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme. Employers' contributions are determined triennially based on the advice and certificate of the Scheme's actuary. The Administering Authority therefore has a direct responsibility for the investment return achieved on the Scheme's assets.



- 3.3. The liabilities of the Pension Fund are the pension due to be paid to current pensioners and their dependents, deferred members of the scheme and the future benefits that will be paid to active members of the scheme. The assets held to meet those liabilities are the investments held by the Pension Fund. The Funds Actuary undertakes an actuarial valuation once every three years in accordance with the regulations. This reviews the projected liabilities of the Fund at the valuation date and the assets held by the Fund to meet those liabilities. Arrangements have been put in place for the funding position of the Fund to be monitored each year in consultation with the employers and the Scheme Actuary in connection with the preparation of the FRS 17 statement.
- 3.4. The last actuarial valuation was conducted as at 31<sup>st</sup> March 2010. The key statistics relating to reviews of the funding position of the Waltham Forest Fund are as follows:

	Actuarial Valuation Mar 2001 £m	Actuarial Valuation Mar 2004 £m	Actuarial Valuation Mar 2007 £m	Actuarial Valuation Mar 2010 £m
Active members	148.6	183.9	287.9	323.7
Deferred pensioners	55.8	72.6	88.7	133.3
Current pensioners	<u>149.1</u>	<u>200.5</u>	<u>295.9</u>	<u>340.8</u>
Total liabilities	353.5	457.0	672.5	797.8
Market value of assets	<u>331.8</u>	<u>318.3</u>	<u>472.3</u>	<u>480.2</u>
Deficit	<u>21.7</u>	<u>138.7</u>	<u>200.2</u>	<u>317.6</u>
Solvency of Fund	94%	70%	70%	60%

- 3.5 Under the Local Government Pension Scheme (Administration) 2008 Regulations, the Fund is required to publish a Funding Strategy Statement in an actuarial valuation year. This is to set out how the Fund intends to meet its liabilities and where there is a deficit to set out how it intends to recover that deficit. The latest Funding Strategy Statement can be found on the Council website as appendix 2 to Pension Fund Annual Report 2012/13 as the following address: <http://www.walthamforest.gov.uk/pension-fund-annual-report-2012-13.pdf>

#### 4. INVESTMENT POLICY

- 4.1 The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/ or benefits on death, before or after retirement for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.
- 4.2 The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers (Waltham Forest Council and the admitted and scheduled bodies), to meet the cost of future benefits accruing. For employee members, benefits

will be based on service completed but will take account of future salary increases.

4.3 The following main aims and objectives have been defined in relation to an ongoing value for money study and for the purpose of meeting the primary objectives above:

- a. Ensure that the arrangements for pension fund investments and accounts comply with the relevant legislation and CIPFA recommended practice and both the practice and system documents adopted by the Council from time to time
- b. Improve the funding position of the Pension Fund and reduce the Employer's Contribution rate
- c. Achieve the levels of performance ahead of benchmark agreed with each investment manager and returns required by the actuarial valuation.
- d. Reduce investment costs as a percentage of the Fund Value and as an amount per fund member whilst aiming to meet the return and risk requirements of the scheme.
- e. Improve communication with members and beneficiaries of the Fund on investments and accounts
- f. Continue to develop corporate governance, socially responsible investment and venture capital investment policies.

4.4 The investment approach is to appoint professional fund managers with clear performance benchmarks and to place accountability on the fund managers for performance against their specific benchmarks. The investment managers discuss the performance of the portfolios under their management with the Pension Fund Committee/Officers on a regular basis. The authority has adopted a 100% active (specialist) manager approach for the Fund with eight fund managers (from 2012/13).

## 5 INVESTMENTS

5.1 The investment strategy will be reviewed annually, with a potential major review following the triennial actuarial review if this is deemed necessary.

5.3 At its meeting on 10<sup>th</sup> February 2011 having considered the Investment Strategy Review report from Mercer Investment Consultants the Pension Fund Committee agreed to:

1. To adopt the following Strategic Asset Allocation of the Fund's investments: equities 59%, fixed income (bonds) 15%, and alternatives (property, global tactical asset allocation, infrastructure and hedge funds) 26%.
2. That within this strategic allocation to equities, the allocation to both UK and Overseas equities be in the range of 40% to 60% with up to 15% in emerging markets. Initially 60% will be allocated to UK equities and 40% to Overseas equities.

3. The retention of AXA Framlington as the Fund's UK equities manager was agreed.
  - (a) That a formal review of BankInvest (the overseas equity fund managers) be undertaken and a report be presented to the Pension Fund Committee at its November 2011 meeting.
4. That fixed income investment be positively utilised in future as a potential source of return. The existing strategic allocation to property is maintained but worldwide geographic investment is now authorised.
5. The Fund continues its investment in global tactical asset allocation with Nordea at 3% of the Fund.
6. The Fund make a strategic allocation of 10% to infrastructure investment and 5% to hedge fund investment, to be increased to 8% if the fund were subsequently to disinvest from global tactical asset allocation.

Following further review it was agreed by Committee to divest of the funds investments in BankInvest and Nordea (GTAA) and replace with new managers.

#### 5.4 The current and new strategic benchmark

Asset	Weightings %		Benchmark
	Previous	New	
UK Equities	43	35.5	FTSE A All Share
Global Equities	31	23.6	MSCI all Countries World
Fixed Income	15	15	Merrill Lynch 3 month T-Bill*
Property	8	8	IPD Property
GTAA/other alternatives	3	3	1 month £ LIBOR
Hedge Funds	0	5	3 Month £ Libor**
Infrastructure	0	10	CPI**
	100	100	

\* managers have no formal benchmark but the Committee will monitor against the indicative benchmarks stated

#### 5.5 Information on current Investment Managers given below

- (a) **UK Equities** – Axa Framlington has a fundamental growth approach to investing using bottom-up stock selection.
- (b) **Global Equities** – J O Hambro Capital Management – have a concentrated portfolio of 50 stocks all of broadly equal weights. They aim for returns by looking where traditional growth investors do not look. They look for stock returns that are idiosyncratic but recognise that most stocks have varying degrees of beta or correlation to their sector or country, so they also research sectors and countries. (replace BankInvest)

- (c) **Bonds** – Wellington Management Global Total Return is a scalable approach designed to meet client-specified risk and return objectives. It seeks to generate excess returns over a cash benchmark using diversified alpha sources, specialization, and integrated risk management.
- (d) **Property** – UBS manage the funds UK property exposure on an active basis through the Triton property Fund. DTZ manage the funds European property exposure on an active basis through the Aurora property Fund.
- (e) **Global Tactical Asset Allocation** – Nordea is an active GTAA manager with the Pension Fund invested through a pooled investment vehicle.
- (f) **Infrastructure** – GIP invest in large complex assets, with a recent purchase being Edinburgh Airport. The fund in which the Fund invests will be looking to invest in c.12 assets. The return target is high, at 14-16%p.a. and this is expected through operational improvements in the assets purchased.  
Capital Dynamics – The Clean Energy and Infrastructure Fund seeks to capture returns from investing in the generation of clean and renewable energy and the supply of that energy into energy markets that the Manager believes will become increasingly 'short' relative to mandated targets for more renewables and which may in the near term, become compelled to significantly reduce their carbon intensity. Investments will also be targeted at larger scale energy efficiency projects using asset-based solutions to enhance efficiency and reduce emissions.
- (g) **Hedge Funds** – BlueCrest AllBlue is BlueCrest's multi-strategy flagship fund, which is a diversified portfolio of internally managed funds. The investment objective of AllBlue is to provide an annual return of 10-15% net of fees with a volatility of 6-8%.

## 6 EXPERT ADVICE

- 6.1 Mercer is the Fund's actuarial adviser having been appointed from 1<sup>st</sup> November 2011 following a competitive tendering process.
- 6.2 Mercer is the Fund's investment advisers having been appointed from 1<sup>st</sup> November 2011 following a competitive tendering process.
- 6.3 The Pension Fund Committee also receives advice from the Section 151 Officer and the Performance Management consultant State Street Investment Analytics (previously named WM).
- 6.4 The Fund's independent advisor John Raisin (John Raisin Financial Services Limited) was appointed by the Pension Fund Committee in November 2011.

## 7. PERFORMANCE MONITORING

- 7.1 The investment managers provide summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. The Pension Fund Committee receives independent measurement of returns from the State Street Investment Analytics (previously WM Company) quarterly basis and Mercer Investment Consultants when it is deemed necessary .
- 7.2 The Pension Fund Committee monitors the relative and absolute performance of its investment managers on a quarterly basis. The monitoring will consider not only the investment returns, but also an assessment of the investment managers' adherence to their mandate requirements. The Pension Fund Committee will also consider the investment managers' investment processes, stability of key personnel and market positions.
- 7.3 The investment manager's report on performance, their active asset allocation positions relative to the benchmark on a quarterly basis.
- 7.4 The individual managers' current activity is monitored by the Section 151 Officer and reported to the Pension Fund Committee on a quarterly basis.

## 8. **Risk**

- 8.1 There are a number of risks to which the Pension Fund is exposed and the policy of the Pension Fund Committee on these risks is briefly described here. A fuller statement of risk considerations is included in the FSS and the Pension Fund Accounts.
- 8.2 The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. This is a yield based on market returns on UK Government gilt stocks and other investments which reflects a market consistent discount rate for the profile and duration of the scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.0% p.a. for the period pre-retirement and 1.0% p.a. post-retirement. The Pension Fund Committee recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.
- 8.3 The Committee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields, as well as producing more short-term volatility in the funding position. The Committee has taken advice on the matter and (in light of the objectives) considered carefully the implications of adopting different levels of risk.
- 8.4 While the risk introduced through investing a significant proportion of the Fund's assets in equities could lead to volatility in the funding level disclosed at a subsequent actuarial valuation, it is felt that this risk is

acceptable in view of the potential benefits of the expected extra returns. Should there be a material change in the Fund's circumstances, the Committee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk profile remains appropriate.

- 8.5 Risk is also controlled by (at least) quarterly reviews of past performance and future plans of each fund manager, and obtaining the advice of the investment consultant. The Committee also determines the degree of risk taken by the investment fund managers by setting performance targets and monitoring the risk levels taken by each manager in order to achieve that target.
- 8.6 The Pension Fund Committee recognises that the use of active managers introduces a risk of underperformance. However, they believe that this risk is outweighed by the potential gains from successful active management. In addition to provide an additional measure of control of this risk the Pension Fund Committee also imposes various limitations and restrictions on the investment managers as detailed in section 9 below.
- 8.7 Investment Managers will seek to achieve a balance of income and capital growth and manage the Portfolio in such a way as to achieve maximum total return consistent with the avoidance of undue risk. The Council will agree particular performance targets with each of the Investment Managers from time to time.

## **9. INVESTMENT RANGES AND TARGET WEIGHTINGS**

Except as stated below, investments may be made in any market, without restriction as to weighting. Investment ranges or target weightings will be agreed between the Council and the Investment Managers individually on a periodic basis, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

### **9.1 Investments Permitted in Specific Circumstances**

The Council wishes to minimise its exposure to the following investment vehicles but Nordea Investment Management and Wellington Management are permitted to use these investment vehicles for its Global Tactical Asset Allocation mandate (Alpha 15 Fund) and Global Total Return Fund:

- a. Exchange-Traded Contingent Liability Transactions
- b. Other Exchange-Traded Derivative Transactions
- c. Off-Exchange Traded Contingent Liability Transactions
- d. Other Off-Exchange Traded Derivative Transactions
- e. Short Sales

## 9.2 Prohibited Investments

There is to be no lending of Portfolio Securities to a third party at this present time and the Fund Managers are to observe any restrictions specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 9.3 Borrowing

The Investment Manager may not commit the Council to supplement the Portfolio either by borrowing on the Council's behalf or by committing the Council to a contract, the performance of which may require the Council to supplement the Portfolio. The Investment Manager may, however, incur a temporary overdraft for settlement purposes of up to 2% of the market value of the Portfolio that they hold.

## 9.4 Market and Sector Restrictions

There are no restrictions.

## 9.5 Diversification

At an overall Fund level, the Committee believes that an appropriate degree of diversification is achieved, whilst still maintaining the required level of expected return. Diversification is obtained via investments in alternative asset classes, but we note also that diversification within equities is achieved by allocating across the globe rather than solely the home market. In addition, the maximum holding in any single equity investment shall be limited to the greater of:

- a. 5% of the market value of the fund; or
- b. the stock's weighting in the relevant index plus 3%
- c. subject to a maximum of 10% of the market value of the Fund at the time of purchase.

## 9.6 Investments which are not readily realisable

In general, the investments of the Fund are liquid, but the Investment Manager may invest the Portfolio in investments, which are not readily realisable, subject to any limitations specified by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 9.7 Management Arrangements

The investment management arrangements are summarised in the table below:

Investment Manager	Appointed	Brief	%
AXA Framlington	July 2007	Active UK equity	35.5

<b>Investment Manager</b>	<b>Appointed</b>	<b>Brief</b>	<b>%</b>
JO Hambro Capital Management	February 2013	Active Global Equity	23.6
Wellington Management	December/January 2011/12	Active Global Fixed income	15
DTZ Investment Management	September 2007	European (inc UK) Property	5.6
UBS Global Asset Management	December 2002	UK Property	2.4
BlueCrest	March 2013	Hedge Fund	5
Capital Dynamics	2012	Infrastructure	5
Global Infrastructure Partners	2012	Infrastructure	5
Other Alternatives	TBC	TBC	3

\*dis-invested from Nordea in February 2013 being interimly held with Wellington.

## Benchmarks for Fund Managers

9.8 The following benchmarks apply from February 2011.

<b>Asset Class</b>	<b>Weighting %</b>	<b>Range %</b>	<b>Index</b>
UK Equities	35.4	+/-5	FTSE A All Share
Global Equities	23.6	+/-5	MSCI All Countries World
UK Fixed Interest	15	+/-5	Merrill Lynch 3 month T-Bill*
Property	8	+/-3	IPD Property
GTAA	3	+/-3	1 month £ LIBOR
Hedge Funds	5	tbc	3 Month £ Libor
Infrastructure	10	tbc	CPI
Total	100		

This strategy was be implement during 2012/13.

9.9 The following outperformance targets will apply For 2011/12.

<b>Manager</b>	<b>Mandate</b>	<b>Index</b>	<b>Target *</b>
AXA Framlington	UK Equities	FTSE A All Share	+4.0% p.a.
JO Hambro	Global Equities	MSCI All Countries World	+3.0% p.a.
Wellington Management	Global Fixed Income	Ucits- BofA ML 3 month us libor hedged to GBP Non Ucits – BofA ML 3 month T-Bill hedged to GBP	UCITS +2.0 – 4.0% p.a. Non UCITS +4.0 – 6.0% p.a.
DTZ	European (inc UK) Property	IPD Property	n/a**



<b>Manager</b>	<b>Mandate</b>	<b>Index</b>	<b>Target *</b>
UBS Global AM	UK Property	IPD Property	+1.0% p.a.
BlueCrest	Hedge Funds	3 Month £ Libor	10-15% net
Capital Dynamics	Infrastructure	CPI	14-16% gross IRR
Global Infrastructure Partners	Infrastructure	CPI	15-20% gross IRR

\*\* The Aurora Property Fund has no formal benchmark. It targets an absolute return of 8-10% per annum.

## 10. CORPORATE GOVERNANCE

Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the authority's corporate governance policy as set out below. Where necessary the fund managers can use their discretion in the interpretation of the policy, without reference back to the Council and the action taken will be reviewed between the Council officers and the fund managers and by the Pension Fund Committee as required.

The Pension Fund reserves the right to instruct the Fund Manager to vote in a particular way in connection with its holdings if it feels that this is a necessary step to be taken.

The objective of these policies is to preserve and enhance long-term shareholder value.

### 10.1 Concentration of Executive Authority

The roles of Company Chairman and Chief Executive should be kept separate to avoid a concentration of executive power, unless:

- a. There is a strong independent element on the board of directors in the form of a sufficient quorum of fully independent directors, one of whom is designated deputy chairman or senior non executive director or
- b. A temporary arrangement is required whilst one of the positions is vacant or
- c. The company has openly and publicly justified the arrangement and the reasons are sound.

### 10.2 Nomination Committees and Election of Company Directors

- a. Appointments to the board of directors should be made open through a Nominations Committee comprising a majority of the independent non-executive directors.

- b. A third of the board should stand down each year and no director should serve more than three years at a time and there should be published criteria for selection of directors.
- c. Fund Managers can also vote against any director whom they feel has not performed his role effectively and in particular against the chair of the audit or remuneration committee if they feel the committees are not effective and the chair is not effective.
- d. Fund Managers can vote against executive directors being elected to these committees.

### **10.3 Independence of Non-Executive Directors**

- a. One third of the board or at least three directors should be non-executive and the majority of these should be independent in being free of business relationships and blood relationships and not receiving a significant remuneration.

### **10.4 Service Contracts**

- a. There should be short-term contracts for directors. Rolling contracts of one year, two-year rolling contracts where these are justified by the remuneration committee and fixed contracts up to two years with subsequent terms on a one year rolling period are acceptable.

### **10.5 Remuneration**

- a. There needs to be adequate disclosure of the details, challenging targets to be met and remuneration in line with comparable benchmarks.
- b. Director's pay should be linked to the results of the company
- c. There should be a properly constituted remuneration committee made up of independent non-executive directors.

### **10.6 Incentive Schemes**

- a. Long term incentive plans should directly align the interests of directors with shareholders, establish challenging performance criteria, which measure performance by total shareholder return in relation to the market or comparable companies, are at least of three years duration and encourage long term ownership of shares. If fund managers are not satisfied they should try to secure changes by dialogue with the company rather than simply voting against the proposals.

### **10.7 Auditors**

- a. Companies must appoint auditors annually and fix their remuneration in accordance with legal requirements.
- b. The company needs to comment in its annual report on its compliance with the Combined Code on Corporate Governance and on its system of internal control and risk management.

- c. There should be an independent audit committee, with a majority of independent non-executive directors, within the company's structure.

#### **10.8 Political Donations**

- a. The Council does not support political donations on the grounds that they are an inappropriate use of shareholders' funds. Where companies do not put forward specific resolutions, the Council's views should be conveyed to the Board of Directors.

#### **10.9 Changes to Memorandum or Articles of Association**

- a. Fund managers should consider each proposal on its merits and oppose attempts to withdraw pre-emption rights for any share issue exceeding 5% of the existing shares issued.

#### **10.10 Dividend Policy**

- a. Offers of enhanced scrip dividends, scrip dividend proposals or dividend reinvestment schemes should be considered on their merits and fund managers should vote according to what they think is in the long term interests of Waltham Forest as shareholder.

#### **10.11 Take Over Bids**

- a. Fund managers should make a decision based on whether the proposal and price offered for shares is in the client's best long-term interest.

#### **10.12 Annual Report and Accounts**

- a. Companies must comply with best practice and the Corporate Governance codes in making full disclosure of their policies. If this is not the case fund managers should vote against the adoption of the annual report and accounts.

### **11. SOCIALLY RESPONSIBLE INVESTMENT**

11.1 With regard to socially responsible investment the Authority is mindful of the following legal principles, which are based on recent decisions in the courts and which apply to all pension schemes

- a. Administering authorities are free to adopt a policy of socially responsible investment, provided that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.
- b. Administering authorities are free to avoid certain kinds of prudent investment, which they consider scheme members would regard as objectionable as long as they make equally financial advantageous and

prudent investments elsewhere. They may also make “ethical” investments provided these are otherwise justifiable on investment grounds.

- c. Administering authorities are not entitled to subordinate the interests of members to ethical or social concerns. The financial performance of the fund consistent with proper diversification and prudence is paramount.
- 11.2 The Waltham Forest Pension Fund does not propose to invest any part of the Fund exclusively in Socially Responsible Investments at the current time. Nor is it proposed that positive or negative screening should be adopted by the Fund on socially responsible issues.
- 11.3 The Waltham Forest Pension Fund wish to promote a policy of dialogue on socially responsible investment issues, through the Fund Managers, with company management. In the first instance the trustees would like environmental issues, human rights and employment standards to be raised with company management. Environmental issues could include issues such as conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources. Human rights could involve child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes. Employment standards could relate to equal opportunities, health and safety, trade union recognition and employee participation.
- 11.4 The trustees are prepared to give fund managers full discretion on the interpretation of this policy. Fund managers may proceed in this area by encouraging companies to formulate codes of conduct and monitoring compliance and employee participation or by raising specific issues with company management as appropriate. Fund Managers may raise other issues not included in the definition above if they feel that this appropriate and in keeping with Waltham Forest Pension Fund policy.
- 11.5 In circumstances when the Fund is invested in the fund managers’ pooled funds it is recognised that the above policies may not be implemented and in these cases it will be the manager’s SRI policy which will be followed.
- 11.6 It is proposed to monitor action by fund managers on a quarterly basis and further develop this policy on an annual basis on the basis of experience.
- 11.7 The London Borough of Waltham Forest has joined the Local Authority Pension Fund Forum to promote best practice on corporate governance and SRI issues amongst the companies in which it invests, through cooperative action with other local authority funds.

## 12. COMPLIANCE

- 12.1 In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulation 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with

guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

12.2 The current guidance relates to that issued by the CIPFA Pension Panel – Principles for Investment Decision Making and disclosure in the Local Government Pension Scheme in the United Kingdom – A guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds. The principles revolve around Pension Fund investment, scheme governance, disclosure and consultation and have been set at a relatively high level to six principles giving flexibility whilst at the same time ensuring that Local Authority Funds have a common set of principles and guidance on which to operate. These principles have replaced the 10 Myners Principles published in 2001.

12.3 The set of six Myners Principles as they apply to Local Authority Pension Funds are:

Effective Decision Making

Clear Objectives

Risk and Liabilities

Performance Assessment

Responsible Ownership

Transparency and Reporting

12.4 The Principles and the requirements are set out in Appendix 1 to this report. Compliance against these principles is also detailed in the appendix.

## APPENDIX 2

### PRINCIPLES FOR INVESTMENT DECISION MAKING AND DISCLOSURE IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINGDOM 2009 – APPLICATION OF MYNERS PRINCIPLES 2008 TO THE MANAGEMENT OF THE LGPS FUNDS

The LGPS (Management and Investment of Funds) Regulation 2009, regulation 12(3) requires Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State and give reasons for non-compliance.

#### Principles

##### Effective Decision Making

Administering Authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### Compliance Statement

##### Partially Compliant

The Pension Fund Committee is the body responsible for the management of the Pension Fund.

The committee meeting regularly, receives training as required that is determined by a training programme. Papers are circulated in advance of meetings. The Committee recognise their fiduciary responsibilities for managing the Pension Fund.

The CIPFA “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010) is adopted as the basis for its training and development programme.

The fund appointed of an Independent Advisor to the Pension Fund in November 2011.

The Pension Fund has a 3 year business plan which is Reviewed yearly approved in June 2012. The fund has an approve Pensions Administration strategy which will be sent out for Consultation during 2013/14.

#### Clear Objectives

- An overall investment Objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisers and investment managers.

#### Compliant

- The committees investment objectives are as follows:-
  - enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.
  - manage employers' liabilities effectively
  - ensure that sufficient resources are available to meet all liabilities as they fall due, and
  - maximise the returns from investments within reasonable risk parameters.
- The Committee regularly reviews the asset/liability position of the Fund and seeks advice from its advisers including Fund

## APPENDIX 2

Actuary when determining investment policy. The Fund has its own objective for performance.

The Fund lays down in detail its investment strategy in its Funding Strategy Statement and its Statement of Investment Principles. These can be found on the Councils web site with the Pension Fund Annual Report for 2012/13.

### Risk and liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

### Partially Compliant

The Fund Actuary undertakes a triennial valuation of the measuring the gap between the Fund's assets and liabilities. The Committee receives regular updates on the funding position of the Fund, performance and review of asset allocation a benchmarks.

The funds risk register which is reviewed on a regular basis Will be approved at the Pensions Committee on 7<sup>th</sup> October 2013, it will also be attached as an appendix to the Pension Fund Annual Report.

The Committee is aware of their responsibility to all stakeholders In the Fund including local tax payers. We communicate regularly with employers in the Fund and hold Seminars to update them on the valuation process, giving them An opportunity to ask any question.

An investment strategy Review was undertaken in February 2011 and proposals agreed by Committee on 10th February 2011. This strategy is reviewed on a regular basis

All External Audit reports are taken to Committee following their production.

### Performance assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

### Partially Compliant

Formal arrangements are in place for monitoring both quarterly and longer term performance of the Fund's investment and investment managers with the use of the Funds investment consultants and external performance measurement service.

The Pension Fund produces and Annual Report in relation to the Fund's activities, performance, accounts and governance arrangements. Members are also involved in a dedicated training programme which is underway of development in line the requirements of the CIPFA Knowledge and Skills Framework.

The Committee's performance can be reviewed against the Pension Fund Business Plan that is reviewed and updated on a yearly basis.

It has been noted as part of CIPFA's Governance Review of the Fund that it does not have performance targets for or report on its advisors. Also that it does not report on the pension fund administration service. These issues will be added to the business plan for the Fund.

## APPENDIX 2

### Responsible ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,
- include a statement of their policy on responsible ownership in the Statement of Investment Principles; and
- report periodically to scheme members on the discharge of such responsibilities.

### Transparency and reporting

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and
- provide regular communication to scheme members in the form they consider most appropriate.

### Partially Compliant

The Funds Statement of Investment Principles (SIP) contains a statement on the Funds policy towards socially responsible investment.

Fund managers have delegated authority to exercise shareholder's voting rights in accordance with the Pension Funds corporate governance policy as set out in its SIP. action taken will be reviewed at the quarterly meetings between the Council officers and the fund managers and by the Pension Fund Committee twice a year.

The London of Waltham Forest Pension Fund is a member of Local Authority Pension Fund Forum (LAPFF), which comprise of 52 local authority pension funds. The forum promotes the investment interests of its members, and it maximises their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

As part of the development of a business plan for the fund the process for review and reporting on Fund Managers voting activity will be considered along with the adoption of the ISC's Or the code adopted by UNPRI.

### Partially Compliant

The Fund's Governance Policy, Compliance Statement and Fund's Communication Policy Statement setting out the Fund's policies in respect of governance and communicating with stakeholders can be found along with the Funds Annual Report and Accounts, risk register, business plan and draft pension administration strategy on the Council's website.

The Fund aims to hold at least one employer seminar per year to update and make employers aware of any issues or just to refresh information allowing for employers to feed back idea's and ask questions.

Employers seminar were held in April 2010 in respect of the 2010 valuation and September 2010 to update employers proposals.

The Fund sends out and bi-annual newsletters to active members of the Pension Fund and an annual newsletter to pensioners. In addition active and deferred members of the scheme are sent an Annual Benefit Statement. Additional news letters are also sent as required. We also have a website for members of the Fund were they can find out much more information. A review of the Fund Communications Strategy under taken as part of the development of a business plan for the Fund.



# London Borough of Waltham Forest Pension Fund

## Funding Strategy Statement (FSS)

This Statement has been prepared by London Borough of Waltham Forest (the Administering Authority) to set out the funding strategy for the London Borough of Waltham Forest Pension Fund (“the LBWFPPF”), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

### 1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (the “Administration Regulations”) replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the LBWFPPF the administering authority will prepare and publish their funding strategy;
- In preparing the FSS, the administering authority must have regard to:-
  - a. the guidance issued by CIPFA for this purpose; and
  - b. the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the LBWFPPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The LBWFPPF is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), “the BMC Regulations”). The required levels of employee contributions are also specified in the BMC Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the LBWFPPF should be set so as to “secure its solvency”, whilst the actuary must also have regard

to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must also have regard to the FSS in carrying out the valuation.

## 2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

**The purpose of this Funding Strategy Statement is:**

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**
- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the LBWFPP as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

## 3. Aims and purpose of the LBWFPP

**The aims of the LBWFPP are to:**

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- support the employers so that they can manage their liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

**The purpose of the LBWFPP is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## 4. Responsibilities of the key parties

### **The Administering Authority** should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the LBWFPP's actuary
- review the investment strategy of the LBWFPP
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- prepare the annual report and accounts for the LBWFPP and arrange for the actuary to provide FRS17 statements for the separate employers in the LBWFPP
- monitor all aspects of the LBWFPP's performance and funding and amend the FSS/SIP as and when appropriate
- appoint, terminate and monitor the performance of investment managers and the providers for additional voluntary contributions, and
- manage the appointment and relationships with the administrators in a manner consistent to support the above.

### **The Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, ill health retirement, and
- notify the Administering Authority promptly of all changes to membership which affect future funding, before the event.

### **The Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to their FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP, and

- prepare annual FRS17 solvency statements for the employers in the LBWFPP, where required.

## 5. Solvency Issues and Target Funding Levels

### The funding objective

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is for the LBWFPP to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing basis including allowance for projected final pay.

### Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the **funding target** are set out in the Appendix.

Underlying these assumptions are the following two tenets:

- that the LBWFPP is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the distinct employers in the LBWFPP. In attributing the overall investment performance obtained on the assets of the LBWFPP to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the LBWFPP as a whole.

All costs in relation to early retirements (including those due to ill health) will be funded as they occur over a maximum period of 3 years. These costs will be assessed on the basis of the actuary's advice, as required.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, the Fund will operate a default deficit recovery period of 17 years at the 2010 valuation. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in the overall contributions would be allowed.
- Subject to the agreement of the Administering Authority, a maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish.
- A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- With effect from April 2011, employer contributions will be calculated on the basis that the payroll of each organisation is expected to reduce in the short term (see Deficit Recovery Plan below). For employers where it is agreed with the Administering Authority that this is not appropriate, an alternative basis of calculation will apply [specific to their own plans and circumstances].
- Employers can elect to have their contributions expressed and certified as two separate elements should they wish:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2011/14 in respect of the past service deficit subject to the review from April 2014 based on the results of the 2013 actuarial valuation.
- Where increases in the rates of contribution are required, subject to sufficient demonstration of financial strength to the Administering Authority's satisfaction, these may be implemented in steps over period of up to 6 years.
- On the cessation of an employer's participation in the LBWFPPF, the actuary will be asked to make a termination assessment. Any deficit in the LBWFPPF in respect of the employer will be due to the LBWFPPF as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the LBWFPPF to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission Bodies Policy document.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

## Deficit recovery plan

If the assets of the LBWFPPF relating to an employer are less than the **funding target** at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Unless any specific arrangements are made in relation to a particular employer, additional deficit contributions will be expressed as a % of pensionable pay, but calculated on the basis that the employer's payroll is expected to fall during the 2011/14 period due to reductions in headcount. In addition, for the purposes of determining the rates of deficit contribution as a percentage of payroll, it is assumed that members will receive a set level of pay rise. The expected reductions in payroll due to headcount and annual increases built into the calculations will be:

	Reduction in payroll / headcount	Pay award assumed
2011/12	10%	1%
2012/13	7%	1%
2013/14	7%	2%

For employers where it is agreed with the Administering Authority that this is not an appropriate assumption, an alternative basis of calculation can apply specific to their own plans and circumstances.

Employers can elect to have their deficit contributions expressed as annual monetary lump sums, should they wish.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer and the expected period of participation in the Fund;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the LBWFPPF or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

In certain instances, and in particular for LBWFPPF employers which are considered by the Administering Authority to provide a high level of covenant, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the **funding target**. This higher level of return assumed will, in particular reflect the actual investment strategy of the LBWFPPF, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in the Appendix.

The normal cost of the LBWFPPF (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the **funding target**, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in the Appendix.

## 6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 60% covered by the current assets, with the funding deficit of 40% being covered by future deficit contributions due from employers.

In assessing the value of the LBWFPPF’s liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the LBWFPPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liabilities. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the LBWFPPF's assets in line with the least risk portfolio would minimise fluctuations in the LBWFPPF's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the LBWFPPF had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the LBWFPPF investments. On this basis of assessment, the assessed value of the LBWFPPF's liabilities at the 2010 valuation would have been significantly higher, and the declared funding level would be correspondingly reduced.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

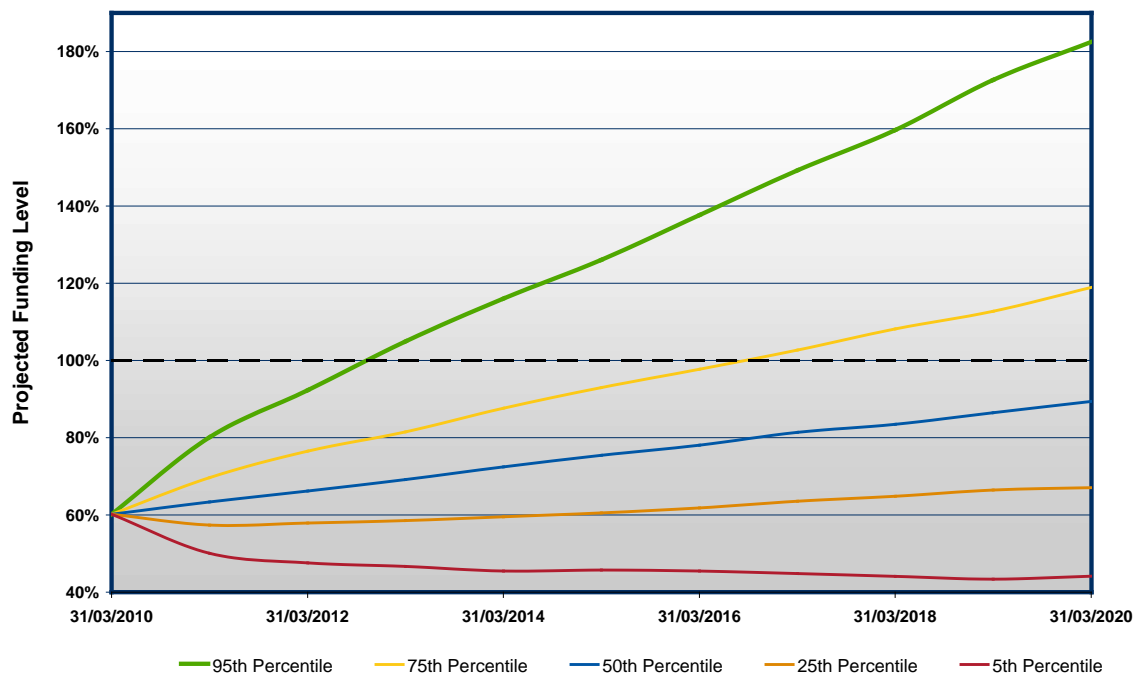
A new investment strategy was approved by the Pension Fund Committee in November 2009. It has however only been appropriate to implement a small part of this strategy. Due to various factors the implementation of the further elements of the new investment strategy were delayed and a further review is now being undertaken. This review is looking to be completed early in 2011.

## 7. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the LBWFPPF is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the LBWFPPF's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2010 valuation assumptions.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower.)



The Administering Authority’s overall policy on risk is to identify all risks to the LBWFPF, and take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the LBWFPF are:

**Financial**

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer’s contribution rate on service delivery and admitted/scheduled bodies

**Demographic**

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

**Regulatory**

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules



## **Governance**

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of those items identified above.

## **8. Monitoring and Review**

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the LBWFPP membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy, e.g. closure to new entrants.
- if there have been any significant special contributions paid into the LBWFPP.

# Appendix

## Actuarial Valuation as at 31 March 2010

### Method and assumptions used in calculating the funding target

#### Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the LBWFPP on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

#### Financial assumptions

##### **Investment return (discount rate)**

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the LBWFPP's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.0% p.a. for the period pre-retirement and 1.0% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the LBWFPP relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the LBWFPP, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the LBWFPP as the liability profile of the membership matures over time.

##### **Individual Employers**

Having determined the AOAs as above for the LBWFPP overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the LBWFPP will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the LBWFPP practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption has been calculated which, for the LBWFPP as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

## **Inflation**

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an allowance for retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June 2010. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to the market's expectation for long term RPI inflation at the valuation date is 0.8% per annum.

## **Salary increases**

The assumption for real salary increases (salary increases in excess of inflation) will be determined by an allowance of 1.5% p.a. over the adjusted inflation assumption as described above. This includes allowance for promotional increases. This assumption has been modified from that at the previous valuation of 1.5% p.a. over RPI. This change reasonably incorporates the effect of the recent announcements on pay restraint in the public sector.

## **Pension increases**

The adjusted inflation assumption discussed above will be adopted as the pension increase assumption. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

## **Mortality**

The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the characteristics of the scheme. The mortality tables used are set out below, with an adjustment reflecting the specific characteristics of the LBWFPP membership. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in longevity 'improvements' year on year in the future in line with the CMI projections, allowing for longer term improvements to be 1% per annum.

## **Proportions Married**

Following an analysis of Fund experience carried out by the Actuary, the proportions married assumption has been modified from the 2007 valuation. All other demographic assumptions are as per the 2007 valuation.

## Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of consumer price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

By adopting this approach, the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

Long-term gilt yields	
Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Inflation adjustment	0.8% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	6.5 % p.a.
Investment return post-retirement	5.5 % p.a.
CPI price inflation	3.0% p.a.
Salary increases	4.5 % p.a.
Pension increases	3.0% p.a.
Future service accrual financial assumptions	
Investment return	6.75% p.a.
CPI price inflation	3.0% p.a.
Salary increases	4.5% p.a.
Pension increases	3.0% p.a.

### **Demographic assumptions**

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Males normal health pensioners	S1PMA CMI_2009_M [1%]	107%
Female normal health pensioners	S1PFA CMI_2009_F [1%]	98%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	129%
Female dependants	S1DFA CMI_2009_F [1%]	107%
Male future dependants	S1PMA CMI_2009_M [1%]	113%
Female future dependants	S1DFA CMI_2009_F [1%]	103%

Other demographic assumptions are noted below:

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Withdrawal	As for 2007 valuation
Other demographics	Based on LG scheme specific experience.

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## Assumptions used in calculating contributions payable under the recovery plan

### Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 7.0% p.a. (i.e. a total return of 2.5% p.a. in excess of gilts) reflecting the underlying investment strategy of the LBWFPP and, in particular, including the assets of the LBWFPP that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

The above variation to assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the 2010 valuation will be no less than the current level of contributions payable by the employer or the Future Service Contribution Rate.

## **LONDON BOROUGH OF WALTHAM FOREST PENSION FUND GOVERNANCE COMPLIANCE STATEMENT 2013**

On 30 June 2007 the LGPS regulations 1997 (as amended) (73A(1)(c) requires LGPS administering authorities to measure their governance arrangements against the standards set out in this statutory guidance. Where compliance does not meet the published standard, there is a requirement under regulation 31(3) (c) LGPS Administration Regulations 2008 to give, in their governance compliance statement, the reason for not complying.

### **Principle A - Structure**

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Non Compliant			Fully Compliant		
a)					√
b)				√	
c)			n/a		
d)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item b) LBWF has no deferred member representation.

Comments on ratings given above:



**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle B - Representation**

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- i) employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members),
- iii) where appropriate, independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Non Compliant			Fully Compliant	
a)				√	
b)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item a) ii) LBWF does not have direct representation for deferred ex-members , because of difficulty of identifying candidates and communicating with this constituency.

Comments on ratings given above:

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle C - Selection and role of lay members**

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Non Compliant				Fully Compliant	
a)						√
b)						√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)
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Comments on ratings given above:
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**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle D – Voting**

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Non Compliant				Fully Compliant	
a)				√	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

**Comments on ratings given above:**

The Pensions Fund Committee received a report at its first meeting concerning the appointment of observers. This report was clear that observer posts carried no voting rights and the reason for taking this approach. The Committee's approach to voting rights will be considered as part of the development of a Fund business plan.

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle E – Training/Facility time/Expenses**

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken

	Non Compliant			Fully Compliant		
a)						√
b)						√
c)				√		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Item c) Pensions Fund Committee needs to formally implement the new policy once the training analysis has been completed and a training plan approved.

Comments on ratings given above:

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle F – Meetings (frequency/quorum)**

a) That an administering authority’s main committee or committees meet at least quarterly.

b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	Non Compliant			Fully Compliant	
a)					√
b)			n/a		
c)			n/a		

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

Item b) There is no secondary committee or panel.

Item c) Lay members are included as observers to the Pensions Fund Committee (the main committee)

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle G - Access**

a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Non Compliant			Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Comments on ratings given above:

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle H – Scope**

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

Non Compliant				Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

**Comments on ratings given above:**

The Council's Pension Fund Committee has been established for Municipal Year 2009/10 with terms of reference covering the broader range of policy issues envisaged. Training will be emphasised in the early stages of the Committee to enable key scheme issues to be considered and decisions taken as experience builds.

**LONDON BOROUGH OF WALTHAM FOREST PENSION FUND  
 GOVERNANCE COMPLIANCE STATEMENT 2012**

**Principle I – Publicity**

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Non Compliant				Fully Compliant	
a)					√

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

**Comments on ratings given above:**

Item a) Newsletters are circulated to scheme members and pensioners on scheme issues. These have been used to advertise representative vacancies as they arise. This Governance Compliance Statement will be published as part of the Pension Fund Annual Report as required by the Regulations and will thus be available to stakeholders on the Council's website.



**London Borough of Waltham Forest Pension Fund  
Communications Policy Statement**

1. The principal objectives of this Communications Policy shall be as follows:
  - to communicate the provisions and requirements of the Local Government Pension Scheme accurately to all stakeholders;
  - to identify and meet all regulatory requirements regarding provision of information;
  - to promote appropriately membership of the Scheme to employees of participating employers;
  - to communicate clearly to all stakeholders their own responsibility for communications and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications as needed;
  - to ensure communications are made in a timely manner;
  - to use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.
  
2. The major stakeholders for the purpose of this policy are as follows:
  - Members
  - Representatives of members
  - Prospective members
  - Employers
  
3. Day-to-day responsibility for the operation of the policy shall be delegated to Capita Hartshead Ltd, the administrators of the Fund. Their functions shall include the following:
  - Arranging for the publication of booklets describing the Scheme in Waltham Forest, ensuring these are given to all new members on joining and any other members on request
  - Producing and sending annual benefit statements to all active members
  - Giving prompt and accurate replies to all correspondence and enquiries received
  - Arranging for appropriate and accurate information to be published on the LBWF website
  - Providing a separate e-mail address for members to contact
  - Providing access to the LGPS website
  - Ensuring prospective new members are advised of the benefits of the Scheme as part of the induction process
  
4. This statement shall be revised by the Pensions and Treasury Manager if there is any material change in the Administering Authority's Communications Policy.

## London Borough of Waltham Forest Pension Fund Risk Register

Risk Ref	Business Unit	Rating/Risk	Type	Nature of Risk	Details [Description of Risk]	Details 2 [Triggers]	Details 3 [Consequences]
PEN0001	Pensions	2 Low	Data And Information For Decision Making	Failure of key supplier	WM (a State Street Company) provide performance measurement figures for the Pension Fund. These are a check on those supplied by the Fund Managers themselves and incorporate comparisons with other local authorities and the markets in general. Failure to provide contracted services does not constitute a material risk.	Failure of WM internal control and quality assurance processes	Lack of comparative performance information to populate reports to Pension Fund Committee.
PEN0002	Pensions	2 Low	Financial	Failure of key supplier	Mercer provide actuarial services to the Pension Fund. Failure to provide contracted services including actuarial assessment/triennial valuation of the Pension Fund, provision of materially incorrect conclusions, failure to provide FRS17 disclosures for Statement of Accounts.	Failure of Mercer internal control and quality assurance processes.	Incorrect employer contributions levied, failure to meet deadlines to notify employers in the Fund of employer contributions or FRS17 accounting data..
PEN0003	Pensions	2 Low	Contracts & Partnerships	Failure of key supplier	State Street provide custodial services to the Pension Fund and are responsible for safekeeping of pension fund assets. Risks include failure to provide contracted services impacting security of the assets or achievement of transaction objectives of the fund managers.	Market events, internal system / quality assurance failures	Unless remedy obtained from custodian, material loss is possible. Security of assets is the core business objective of custodial services.
PEN0004	Pensions	2 Low	Professional judgement &	Professional Errors and Omissions	There is a legal requirement to maintain and update statutory compliance statements including the Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement, Communications Policy Statement, and to publish an Annual Report with up to date versions of the Statements attached. Risk involves failure to comply with these legal requirements.	Failure to produce and publish statements / reports to statutory deadlines due to staffing shortages, logistics issues around internal decision making processes, e.g. difficulties revising docs in time where major strategy changes require significant revision.	Possible reputational risk, censure or legal action from central government. Threat to achievement of closure of accounts and reporting objectives.
PEN0005	Pensions	9 Medium/High	Financial	Failure of key supplier	Investment under performance on Fund Management Contracts for the London Borough of Waltham Forest Pension Fund (6 contracts - UBS; DTZ; State Street; Nordea; AXA Framlington; BankInvest)	Adverse market conditions, ineffective risk controls by fund managers, manager under performance	Failure to meet Funding Strategy Statement objectives, resulting in significant increases in employer contributions required from the General Fund to meet Pension Fund shortfalls. Budget set aside in the MTFS.
PEN0006	Pensions	9 Medium/High	Competition & Markets	Economic climate	Economic turbulence affecting the pension fund	Economic recession, market turbulence, company failures	Threat to success of Pension Fund reorganisation and new investment strategy, increased Pension Fund deficit

**THE LONDON BOROUGH OF WALTHAM FOREST  
PENSION FUND**

**DRAFT  
PENSION ADMINISTRATION STRATEGY**

**JUNE 2013**

## **INTRODUCTION**

This is the Pension Administration Strategy of the London Borough of Waltham Forest Pension Fund, administered by the London Borough of Waltham Forest (the Administering Authority). It has been prepared in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. The strategy has been developed following consultation with employers who participate in the London Borough of Waltham Forest Pension Fund, schools who employ their own payroll providers and CAPITA who undertake pensions benefit administration on behalf of the Fund.

The aim of the Pension Administration Strategy is to set out the responsibilities, quality and performance standards expected of the London Borough of Waltham Forest in its role as Administering Authority and scheme employer, as well as all other employers within the Fund (including for example Academies and private sector bodies) and CAPITA in its pensions benefits administration role. The strategy seeks to promote positive working relationships, improve efficiency, quality and governance of the Fund.

The introduction of a new Local Government Pension Scheme from 2014 provides a further and important reason for the introduction of a Pension Administration Strategy as under a Career Average Scheme administration for the Administering Authority and employers will become significantly more complex. A Career Average scheme will require that the annual salaries of Active members are accurately provided in a timely manner by employers to the Administering Authority / its outsourced Benefits Administrator. This will be fundamental to the accurate calculation of benefits.

This Pension Administration Strategy also sets out the circumstances and procedures the Fund will apply, in accordance with Regulation 43 of the Local Government Pension Scheme (Administration) Regulations 2008, for recovering costs from an Employer where costs have been incurred by the Fund because of an Employers' levels of performance in carrying out its functions under the Local Government Pension Scheme Regulations.

## **IMPLEMENTATION**

This Pension Administration Strategy has been subject to consultation with employing authorities in accordance with Regulation 65(4) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended. This document has been considered and approved by the Pensions Committee of the London Borough of Waltham Forest at its meeting held on 19<sup>th</sup> June 2013. Therefore this Pension Administration Strategy applies to the London Borough of Waltham Forest as both the Administering Authority and a scheme employer and to all other existing and future employers within Fund from provisionally December 2013.

## **REGULATORY FRAMEWORK**

Under Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended issues that can be covered in a Pension Administration Strategy include:

- Procedures for liaison and communication with Employing Authorities.

- Establishing levels of performance which the Administering Authority and Employing Authorities are expected to achieve through performance targets or agreements about levels of performance.
- Procedures for improving communication.
- Circumstances in which the Administering Authority may consider giving written notice under Regulation 43 of the Administration Regulations of its intention to recover additional costs it has incurred as a result of unsatisfactory performance by an Employing Authority in carrying out its functions.
- The publication by the Administering Authority of Annual Reports in respect of performance achieved.
- Such other matters as, after due consultation, it considers to be suitable for inclusion in the Strategy

Once an Administration Strategy is approved it must be kept under review and revised if there are major changes to any matter covered in the strategy.

The Administering Authority must consult the Employing Authorities in preparing and revising the Pension Administration Strategy.

The Administering Authority must publish its Pension Administration Strategy and send a copy to each Employing Authority and the Secretary of State. Revisions must also be sent to Employers and the Secretary of State.

### **LIAISON AND COMMUNICATION BETWEEN THE FUND AND EMPLOYERS**

The London Borough of Waltham Forest Pension Fund has published a number of documents in respect of statements of policy and procedures including the following

- Communication Policy
- Governance Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Annual Report

The delivery of an effective service by the Fund to scheme members and other stakeholders is not solely the responsibility of the London Borough of Waltham Forest in its role as Administering Authority. The Council in its role as Administering Authority and Employing Bodies have a joint role and responsibility to ensure a high quality cost effective administrative service is provided. Effective liaison and communication between the Administering Authority, Employing Bodies and CAPITA in its pensions benefit administration role is therefore crucial. Examples of the requirements of both the Administering Authority and Employers in respect of liaison and communication are set out below:

#### **Designated Named Individual**

Each Employing Body will designate a named individual to act as the main point of contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS). The name of the designated individual, plus a deputy to act in their absence, will be communicated to the

Administering Authority and CAPITA in its role as pension benefits administrator. Each Employer will immediately inform both the Administering Authority and CAPITA of any change in respect of the main or deputy point of contact.

The key responsibility of the individual main point of contact will be to:

- Act as a link for communications to appropriate staff within the Employer – for example Human Resources, Payroll, the Director of Finance
- To ensure that standards and levels of service are maintained
- To ensure that details of all nominated representatives and authorised signatures are correct and to notify the Fund and CAPITA of any changes immediately
- To arrange distribution of communications literature as and when required
- To assure data quality and ensure the timely submission of data to the Fund and any of its agents including CAPITA and the Fund Actuary.
- To attend, if at all possible, seminars held by the Administering Authority

### Employer Seminars and Training

The Fund holds periodic Employer Seminars and Training events. At these sessions the Fund Officers, the Fund Actuary and CAPITA provide information, advice and training on a range of issues including Administrative matters, the Actuarial Valuation process & Fund Finances and Investment approaches & performance. Attendance by each Employers main contact and Senior Management is strongly recommended.

### Policy Discretions

Each employer must produce, publish and maintain a statement of policy regarding the exercise of discretions available to them under the LGPS Regulations. This policy statement must be kept under review and where revisions are made the revised policy statement must be sent immediately following its approval to the Fund, CAPITA, and made readily available to all employees within the Employing Body.

### Internal Disputes Resolution Procedure

Each Employing Body is required to nominate and name the person to whom applications under Stage 1 of the Internal Dispute Resolution Procedure (IDRP) should be made. The name, job title and contact details of this nominated person must be communicated to both the Fund and CAPITA. Any changes in relation to the nominated person should be communicated to the Fund and CAPITA immediately.

## **PERFORMANCE STANDARDS**

Certain actions and decisions must be taken by either the Fund (Administering Authority) or the relevant employer, in relation to the rights and entitlements of individual scheme members. To meet these obligations the Fund (after consultation) has agreed Levels of Performance between itself and employers which are set out below and which take into account the requirements of overriding legislation, internal standards and timeliness.:

### Overriding legislation

The Administering Authority and employers will, as a minimum, comply with overriding legislation including:

- Local Government Pension Scheme Regulations
- Public Service Pensions Act 2013
- Pensions Act 1995
- Pensions Act 2004
- Freedom of Information Act 2000
- Data Protection Act 1988
- Finance Act 2004
- Health and Safety legislation
- Any other legislation that may apply at the current time

and any future amendments to the above legislation.

Where specified in this Pension Administration Strategy, the Fund and Employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation.

Internal standards

The Fund and employers will ensure that all functions and tasks are carried out in accordance with the following quality standards:

- Compliance with all requirements set out in the Employers’ Guide
- Information to be legible and accurate
- Communications to be in a plain language style
- Information provided to be checked for accuracy by an appropriate member of staff
- Information provided to be approved by an authorised member of staff
- Actions carried out, or information provided, within the timescales set out in this Pension Administration Strategy

Timeliness

Overriding legislation and regulations set minimum standards that Administering Authorities and Employers within the LGPS must meet in providing certain information to the various parties associated with the Scheme. Local performance indicators, for the London Borough of Waltham Forest Scheme, have been determined, where appropriate going beyond the overriding legislative and regulatory requirements.

Levels of Performance

Xxxxxxxxxxxxxx  
 Xxxxxxxxxxxxxx  
 Xxxxxxxxxxxxxx

**RECOVERY BY THE ADMINISTERING AUTHORITY OF ADDITIONAL COSTS**

Regulation 43 of the Local Government Pension Scheme (Administration) Regulations 2008 permits an Administering Authority to recover from an Employer any additional costs incurred as a result of the poor level of performance of that employer. Where an Administering Authority wishes to recover such costs they must give notice in writing setting out the reasons for considering that additional costs should be recovered, the amount of the additional costs, the

basis on which the additional cost has been calculated and the provisions of the Pension Administration Policy which are relevant to the decision to levy additional costs.

The London Borough of Waltham Forest in its role as Administering Authority will seek to work with an employer to identify areas of poor performance, set out in writing areas of poor performance, meet with the employer, provide any necessary training and put in place an improvement plan.

Where however, after the provision of advice and assistance from the Administering Authority, poor performance continues then the additional costs incurred will be recovered from the Employer.

Circumstances where additional costs will be recovered from an Employer are:

- Ongoing failure to provide relevant information to the Administering Authority, CAPITA, the Fund Actuary, a scheme member or other interested party in accordance with specified performance targets either through failures in quality of information or timeliness of delivery.
- Failure to pass relevant information to scheme members or potential members either due to poor quality or failure to adhere to timescales in the performance targets of this strategy.
- Failure to deduct and pay over correct employee and employer contributions to the London Borough of Waltham Forest Pension Fund within the stated timescales.
- Where the performance of the scheme employer results in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman or any other regulatory body.

## **REVIEW OF THE PENSION ADMINISTRATION STRATEGY**

The London Borough of Waltham Forest in its role as Administering Authority will keep this strategy under review. At least every three years the Fund will undertake a formal review of the strategy in consultation with Employers.

A current version of the Pension Administration Strategy will be provided to the Secretary of State, Employers and will be available on the Fund website.

Draft 5 June 2013