London Borough of Harrow Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2020

(subject to audit)

CONTENTS

INTRODUCTION

The main purpose of the Pension Fund Annual Report is to account for the income, expenditure and net assets of the London Borough of Harrow Pension Fund (‘the Fund’) for the financial year to 31 March 2020. This Report also explains the administration and management of the Fund and its investment and funding policy objectives and asset allocation, as well as highlighting market and Fund performance.

Information about the economic resources controlled by the Fund is provided by the Net Assets Statement. The actuarial funding level is reported in Note 20 and in the Statement of the Consulting Actuary on page 50/51.

The Pension Fund Committee is responsible for overseeing the management, administration and strategic direction of the Fund. The Committee regularly reviews the Fund’s investment strategy seeking to achieve appropriate returns within acceptable risk parameters. This in turn minimises the amount the Council and other employers will need to make in contributions to the Fund to meet future liabilities.

The Fund is a shareholder of the London LGPS Collective Investment Vehicle Ltd (LCIV) (the organisation set up to run pooled LGPS investments in London in 2015) and holds £150,000 of regulatory capital in the company in the form of unlisted UK equity shares The Pension Fund Committee has committed to investing in LCIV as and when suitable pool investment solutions in become available through The Pension Fund Committee has been active in the required transfer of assets under management to LCIV to gain efficiencies and fee reductions.

During 2019-20, the Pension Fund Committee’s decision to reallocate funds from Diversified Growth Funds to alternative assets and infrastructure as part of a risk diversification strategy was implemented. The Fund divested from Aberdeen Standard Investments (GARS Fund) and invested 10% of fund assets in the LCIV Multi Asset Credit Fund. The Committee has approved investing 7.5% of fund assets in the LCIV Infrastructure Fund, and the first investment of £700,000 was made when the sub-fund is opened. Further investments will be made in 2020-21.

In line with the provisions of the Public Service Pensions Act 2013, the Council set up a Local Pension Board in 2015 to oversee the governance of the Pension Fund. During 2019-20, Pension Board met three times and considered reports on pension administration performance and pension fund governance arrangements.

Pension Board and Pension Fund Committee have attended training courses and seminars during the year to meet the knowledge and skills requirements of their respective roles.

Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) with effect from 3 January 2018, the Pension Fund Committee elected to opt up to professional client status with all its fund managers. This status has been maintained in 2019-20.

The net assets of the Fund as at 31 March 2020 were £777.8m compared to £851.3m as at 31 March 2019. The Fund’s overall investment return for the year was -8.1%, reflecting market turbulence in the final quarter arising from the Covid-19 pandemic.

D. Calvert

Dawn Calvert - CPFA
Director of Finance
30 June 2020

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HARROW ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED WITHIN THE LONDON BOROUGH OF HARROW PENSION FUND ANNUAL REPORT

SCHEME MANAGEMENT AND ADVISORS

Administering Authority	London Borough of Harrow
Pension Fund Committee	Councillor Keith Ferry (Chair) Councillor Bharat Thakker (Vice Chair) Councillor Dean Gilligan Councillor Norman Stevenson
Independent Advisers	Colin Robertson Richard Romain
Co-optee	Howard Bluston
Trade Union Observers	John Royle - UNISON Pamela Belgrave - GMB
Officer	Dawn Calvert, Director of Finance
Actuary	Hymans Robertson LLP
Investment Consultant	Aon
Investment Managers	LaSalle Global Partner Solutions BlackRock Investment Management (UK) Limited GMO LLC Insight Investment Oldfield Partners Pantheon Ventures Record Currency Management Limited London LGPS CIV Ltd
AVC Providers	Clerical Medical Equitable Life Assurance Society Prudential Assurance
Custodian	JP Morgan
Auditor	Mazars
Performance Measurement	Pensions and Investment Research Consultants
Bankers	The Royal Bank of Scotland

GOVERNANCE ARRANGEMENTS

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund. The Committee met three times during the year. It comprises four Councillors with full voting rights and a non-voting co-optee. Representatives from the trade unions are able to participate as observers of the Committee but do not have voting rights.

The Pension Fund Committee has the following terms of reference:

1) to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the Fund), save for those matters delegated to other Committees of the Council or to an Officer;

2) the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;

3) to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

4) to establish a strategy for the disposition of the pension investment portfolio;

5) to appoint and determine the investment managers' delegation of powers of management of the fund;

6) to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997 (as amended), and to exercise discretion under Regulation 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

7) to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups;

The Committee is advised by two independent advisers and an investment consultant.

The dates of the Pension Fund Committee meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1297

In line with the provisions of the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. In particular it oversees:

a) the effectiveness of the decision making process
b) the direction of the Fund and its overall objectives
c) the level of transparency in the conduct of the Fund's activities
d) the administration of benefits and contributions

The dates of the Pension Board meetings, along with meeting agendas, reports and minutes are available on the Harrow Council website:
http://www.harrow.gov.uk/www2/mgCommitteeDetails.aspx?ID=1336

PENSION SCHEME ADMINISTRATION AND PERFORMANCE

Pension Section overview

The Pensions Team acts as the main point of contact for any membership enquiries. The team is responsible for all aspects of Local Government Pension Scheme administration; setting up new members, monitoring and maintenance of pension member records, employer contributions payment of benefits, transfer payments and Additional Voluntary Contributions. The team is also responsible for monitoring and cleansing members' data to ensure it is fit for purpose and meets the requirements imposed on the Fund by the regulators, the Fund Actuary and HMRC. The team produces annual benefits statements, newsletters and maintains the pension's website.

https://www.harrowpensionfund.org

The team of seven staff (6.15 full time equivalents) ensures delivery of a value for money service by managing a caseload with no backlog and meeting performance targets. In 2019-20 all Annual Benefit Statements were issued on time.

Performance Monitoring 2019/20

Service	National Benchmarking Target	Harrow Actual Performance %
Issue letter notifying of dependent's benefit in 5 days	**5 days**	**60**
Calculation and notification of ill health estimate within 7 days	**10 days**	**100**
Calculation and notification of retirement benefits estimate in 7 days	**10 days**	**99.22**
Issue letter to new pension provider detailing transfer-out quote in 9 days	**10 days**	**89.47**
Calculation and notification of deferred benefits in 8 days	**10 days**	**98.16**
Calculation and notification of retirement benefits in 3 days	**5 days**	**65.96**
Process refund and issue payment within 5 days	**5 days**	**99**
Calculation and notification of actual ill health benefits within 3 days	**5 days**	**75**
Issue statutory notification on receipt of transfer funds in 8 days	**10 days**	**100**

Pension Board monitors pension administration performance quarterly. There were no reported breaches of law and annual benefits statements were issued on time.

The Internal Dispute Resolution Procedure which deals with complaint over the administration of pension benefits by the administering authority. There were no new complaints referred through the internal procedure during the year.

The costs of running the Pension Fund are shown below:

Process	2017/18	2018/19	2019/20
Investment management expenses			
Total Cost (£000)	4,267	4,509	4,050
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	231	248	220
Administration costs			
Total Cost (£000)	646	656	721
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	35	36	39
Oversight & governance costs			
Total Cost (£000)	612	566	634
Total Membership (No.)	18,432	18,161	18,451
Sub Cost per member (£)	33	31	34
Total cost per member (£)	**300**	**316**	**293**

Investment management costs include fund manager fees and the additional costs of fund transition on restructuring and fund re-balancing. The reduction in total management expenses reflects the benefit of fee reductions negotiated by the London Collective Investment Vehicle, as more of the Fund is now invested in the CIV.

Administration costs cover the administration of pensions and are mainly staff salaries and business overheads including pension payroll and pension system administration costs

Oversight and governance costs include staff salaries for pension fund manager performance monitoring and committee support and external costs for investment advisers, actuarial review and external audit. The increase in these costs in 2019/20 reflects the fact that the work required for the triennial valuation as at 31 March 2019 was largely carried out in 2019/20.

INVESTMENT POLICY AND PERFORMANCE

Investment Market Commentary (provided by Aon, April 20)

The MSCI AC World Index fell by 9.5% in local currency terms over the past twelve months. Global equities performed well in the first three quarters of the period, recording the best annual equity market gain in a decade in 2019 as trade war concerns faded with the eventual agreement of a “phase one” US-China trade deal. However, Covid-19 bought an end to the decade-long bull market in Q1 2020, as the virus outbreak in China escalated into a global pandemic. Whilst unprecedented fiscal and monetary stimulus provided support to markets, the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020. With much of the global economy shuttered going into Q2 2020, a deep global recession appears to be inevitable. Sterling depreciation limited global equity losses for unhedged UK investors. The MSCI AC World Index returned -6.2% in sterling terms.

On a sector level, Information Technology (7.5%) and Health Care (1.6%) were the best performers in local currency terms. These sectors were relatively unhindered by coronavirus-driven lockdowns. Energy (-41.6%) was the worst-performing sector as oil prices collapsed in Q1 2020.

Sterling ended a highly volatile twelve-month period 1.7% lower on a trade-weighted basis. Sterling was driven by Brexit developments for most of 2019. Whilst fears of an acrimonious “No Deal” Brexit kept pressure on sterling over 2019, sterling rallied after Prime Minister Boris Johnson agreed a Withdrawal Agreement with the European Union and his Conservative Party won a sizeable majority in the UK general election, paving the way for the Brexit Withdrawal Agreement to be ratified. Sterling fell sharply in Q1 2020, briefly hitting a 30-year low of $1.15/£ against the US dollar amidst safe haven dollar inflows and a deteriorating UK coronavirus situation.

The US Federal Reserve (Fed) implemented three 25bps rate cuts over the second half of 2019, bringing the Federal Funds Rate target down to 1.50%-1.75%. The Fed then announced two emergency rate cuts in Q1 2020 in a bid to mitigate the severe economic impacts of Covid-19, lowering the Fed Funds Rate target by a total of 150bps to 0.00%-0.25%. The Fed also relaunched quantitative easing, pledging to buy potentially unlimited amounts of treasuries, corporate bonds, and other credit assets.

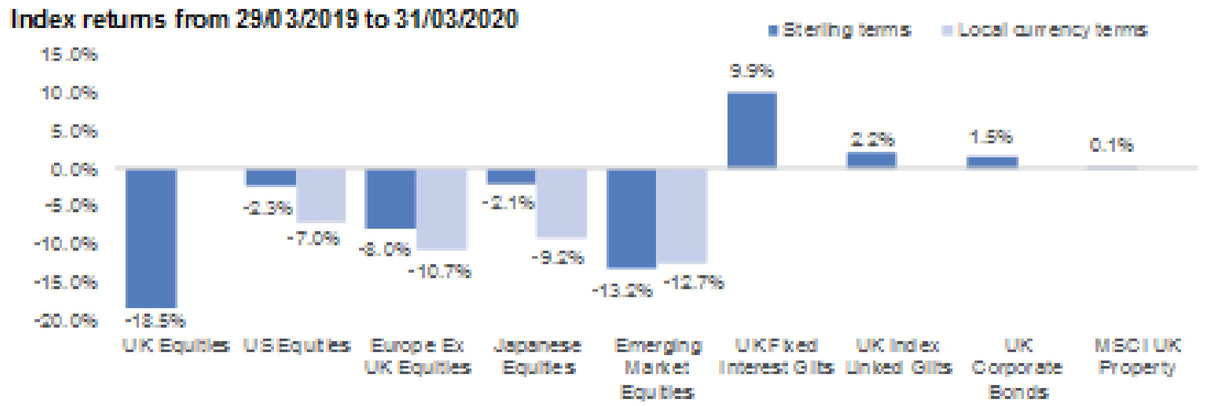
Following the Fed’s lead, the Bank of England (BoE) cut its base rate by 65bps to an all-time low of 0.10% in Q1 2020. Meanwhile, the European Central Bank (ECB) cut its deposit rate by 10bps to -0.5% in September 2019 but, with limited room to cut rates further, kept interest rates unchanged in Q1 2020 amidst the coronavirus outbreak. The BoE joined the ECB in launching new asset purchase programme in Q1 2020.

Brent Crude oil prices fell sharply by 66.7% to US$23/BBL over the last twelve months. Weakening global economic growth and heightened trade tensions kept a lid on crude oil prices over 2019 but almost all of the decline occurred in Q1 2020. Over that quarter, oil prices fell by 65.5% in USD terms as demand for fuel fell due to social distancing measures to reduce the spread of Covid-19 whilst Saudi Arabia ramped up production after it failed to agree a plan with Russia to cut oil supply.

UK gilt yields fell in tandem with global government bond yields as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking “safe haven” assets amidst an equity market sell-off and from central banks implementing quantitative easing measures also drove prices up and yields down further. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 9.9% whilst index-linked gilts returned 2.2%.

Investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 75bps higher at 217bps, their highest level since 2012. Credit spreads widened by 94bps just in Q1 2020, a reflection of the risk asset sell-off which tormented equity markets over the quarter, as concerns over future corporate earnings and existing corporate leverage resurfaced.

UK commercial property returned 0.1%, supported by a steady income return of 5.4% which offset the 5.0% fall in capital values. The coronavirus outbreak intensified pressure on the already struggling retail sector, delivering a total return of -9.7% over the period.



Source: FactSet, FTSE, MSCI

Investment Policy

The 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. The sums required to fund these benefits and the amounts actually held (i.e. the funding position) are reviewed at each triennial actuarial valuation, or more frequently as required.

The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective, subject to an appropriate level of risk and liquidity. Over the long-term it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks

The Committee aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the Fund and the projected asset class returns and volatility. Diversifying investments reduces the risk of a sharp fall in one particular market having a substantial impact on the whole Fund.

The Fund's Investment Strategy Statement states that the Fund will invest its assets through the London CIV as and when suitable pooled investments become available in accordance with the Local Government Investment Regulations 2016. Following the disinvestment from the diversified growth fund managed by Aberdeen (GARS) and the transition of these funds to the LCIV Multi Asset Credit mandate, Harrow had 45% of fund assets managed through the London CIV and its preferred providers at 31 March 2020. The commitment of 7.5% to the LCIV infrastructure will increase this further in 2020-21. The committed strategic allocation through the London CIV is currently up to 55% of fund assets.

The cumulative cost of pooling for the Pension Fund to 31 March 2020 is £0.347m paid to the London CIV for annual service charges and development funding

The following table compares the actual asset allocation as at 31 March 2020 to the agreed allocation

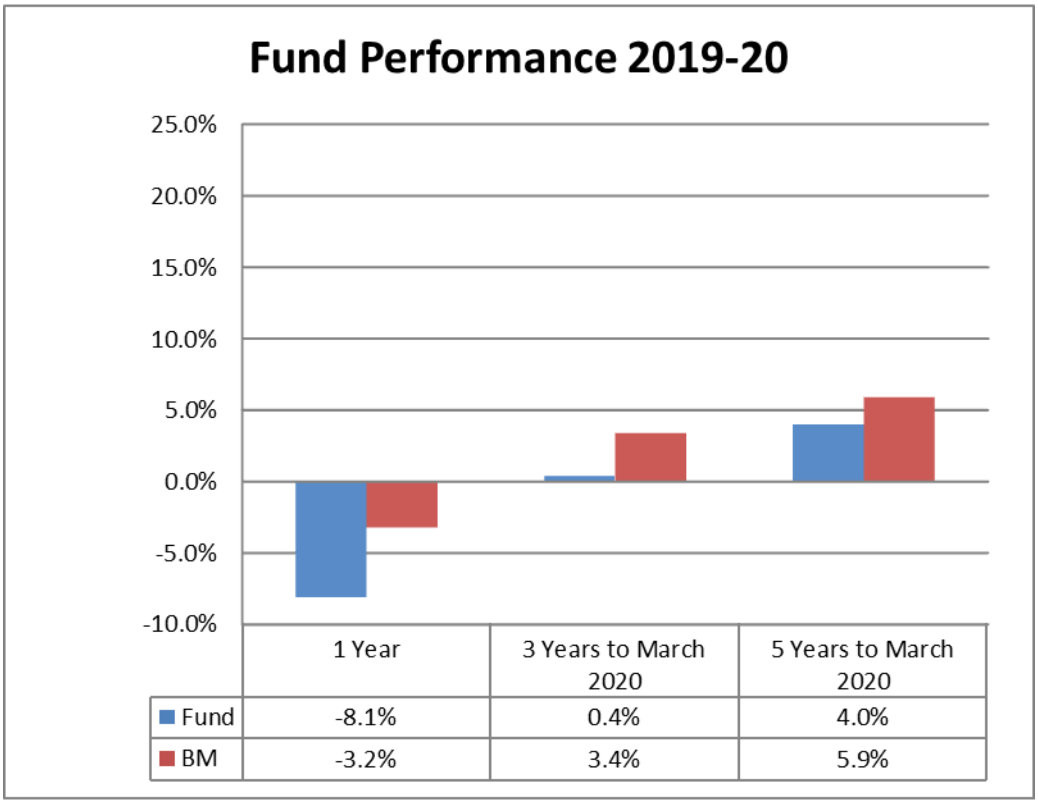
Investment assets	Actual Percentage of Fund	Agreed Allocation
	%	%
Global equities-passive	23	24
Developed world equities-active	19	18
Emerging markets equities-active	9	8
Fixed interest securities	11	10
Index linked securities	3	3
Private equity	2	2
Cash	3	0
Forward currency contracts	(1)	0
Diversified growth funds	12	6.5
Multi Asset Credit	10	11
Pooled property	8	10
Infrastructure	0	7.5
Total	**100**	**100**

The investment style is to appoint fund managers with appropriate performance benchmarks and place maximum accountability for performance against that benchmark with them. The Fund's managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and through performance related fees.

Fund performance

The Fund uses Pensions and Investment Research Consultants (PIRC) as its independent investment performance measurement consultant.

Investment returns over 1, 3, and 5 years at 31st March 2020 are shown below.



The Fund's return of -8.1% during 2019-20 was due to the significant fall in asset prices experienced during the 4th quarter as the Covid-19 pandemic impacted across all asset classes. There has been a partial recovery in asset values since 31 March 2020.

Although the Fund, in common with all other LGPS funds, has its own unique benchmark and investment strategy, over the medium term it is reasonable to compare performance with other funds.

STATEMENTS AND PUBLICATIONS

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013, Regulation 55 requires all administering authorities to produce a Governance Compliance Statement. This Statement must set out whether the Administering Authority delegates its function and, if so, what the terms, structure and operation of the delegation are. The Administering Authority must also state the extent to which a delegation complies with guidance given by the Secretary of State. The current Statement was agreed by the Pension Fund Committee on 7 March 2018 and can be found as Appendix 1.
https://www.harrowpensionfund.org/media/4434/governance-compliance-statement-march-2018.pdf

Communications Policy Statement

The Local Government Pension Scheme Regulations 2013, Regulation 61 requires all administering authorities to produce a Communications Policy Statement. This statement sets out the Fund's strategy for communicating with members, members' representatives, prospective members and employing authorities, together with the promotion of the Scheme to prospective members and their employing authorities. The current Statement was agreed by the Pension Fund Committee on 7 March 2018 and can be found as Appendix 2.
https://www.harrowpensionfund.org/media/4435/communication-policy-march-2018.pdf

Funding Strategy Statement

Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 requires all administering authorities to produce a Funding Strategy Statement. The purpose of the Funding Strategy Statement is to explain the funding objectives of the Fund, in particular:

- How the costs of the benefits provided under the LGPS are met through the Fund;
- The objectives in setting employer contribution rates; and
- The funding strategy that is adopted to meet these objectives.

The Funding Strategy Statement is reviewed every three years at the same time as the triennial actuarial valuation of the Fund. An interim review of the Statement may be carried out and a revised Statement published if there has been a material change in the policy matters set out in the Statement or there has been a material change to the Investment Strategy Statement. The current Statement as approved by the Pension Fund Committee on 18 December 2019 can be found as Appendix 3.
https://www.harrowpensionfund.org/media/4635/appendix-3-funding-strategy-statement-march-2019.pdf

Investment Strategy Statement

Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

This Statement provides details of the Fund's investment policies including:

- The suitability of particular investments;
- The choice of asset classes, and
- Approach to risk.

The Statement also details the Fund's compliance with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of LGPS Funds'.

The current Statement as amended by the Pension Fund Committee on 12 March 2019 can be found as Appendix 4.

https://www.harrowpensionfund.org/media/4636/appendix-4-investment-strategy-statemement-march-2019.pdf

Following the 2019 Actuarial Valuation, the Fund is currently reviewing its Investment Strategy. The Investment Strategy Statement will be updated as part of that work.

Local Government Pension Scheme Guide
A brief guide to the Local Government Pension Scheme can be found as Appendix 5

RISK MANAGEMENT

The Fund's primary long term risk is that the assets will fall short of its liabilities (i.e. promised benefits payable to members). The Pension Fund Committee is responsible for managing and monitoring risks and ensuring that appropriate risk management processes are in place and are operating effectively. The aim of risk management is to limit risks to those that are expected to provide opportunities to add value.

The most significant risks faced by the Fund and the procedures in place to manage these risks are described below:

Governance and Regulatory Risk

The failure to exercise good governance and operate in line with regulations can lead to financial as well as reputation risk. These risks are managed through:

- Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Advisers and Investment Consultant and from officers;
- Regular reviews of the Investment Strategy Statement and Funding Strategy Statement that set out the high level objectives of the Fund and how these will be achieved;
- Tailored training for members;
- Reviews of the Pension Fund Committee agenda and papers by Harrow's Legal Department; and.
- Establishment of the Pension Board.

Sponsor Risk

The Fund is currently in deficit and achieving a fully funded status may require the continued payment of deficit contributions. The Actuary reviews the required level of contributions every three years. To protect the Fund and the Administering Employer, bonds and other forms of security are required from some of the Admitted employers.

Investment Risk

The Fund is invested in a range of asset classes as detailed in Note 14 to the accounts. This is done in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require pension funds to invest any monies not immediately required to pay benefits. These Regulations require the formulation of an Investment Strategy Statement which sets out the Fund's approach to investment including the management of risk. The largest asset class is listed equities, which has both a greater expected return and volatility than the other main asset classes. Potential risks affecting investments include:

<u>Pricing Risk</u>

The valuation of investments is constantly changing, impacting on the potential realisation proceeds and income. For example, the value of the Fund's investments decreased in value by 8.1% in 2019-

20, largely due to the Covid-19 pandemic in the last quarter of the year, having increased by 6.0% in 2018-19. Changes of a similar magnitude are possible in future.

Procedures in place to manage the volatility of investments include:

- Diversification of the investments between asset classes and geographical areas to include fixed interest and index linked bonds, property, multi assets mandates and private equity. The investment strategy is reviewed by the Pension Fund Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required;
- Global equities are managed by three active managers and one passive manager to reduce the risk of underperformance against benchmarks. The Investment Adviser provides quarterly reports on the performance and skills of each manager to the Pension Fund Committee; and
- The benefit liabilities are all Sterling based and to reduce the currency risk from non- Sterling investments, 50% of the overseas currency exposures are hedged to Sterling.

<u>Liquidity Risk</u>

Investments in some asset classes e.g. private equity, property and infrastructure, can be illiquid in that they cannot be realised at short notice. Around 9% of Harrow's Funds are in illiquid assets. This is deemed appropriate for a fund that continues to have a positive Cashflow. All cash balances are managed in accordance with the Council's Treasury Management Strategy Statement and are all currently on overnight deposit and readily accessible.

<u>Counterparty Risk</u>

The failure by a counterparty, including an investee company, can lead to an investment loss. This risk is mainly managed through wide diversification of counterparties and also through detailed selection of counterparties by external fund managers.

Actuarial Risk

The value of the liability for future benefits is affected by changes in inflation, salary levels, life expectancy and expected future investment returns. Although there are opportunities to use financial market instruments to manage some of these risks, the Pension Fund Committee does not currently believe these to be appropriate. Changes to the benefits structure in 2014 had reduced some of these risks, although the recent "McLeod Judgement" is likely to have an adverse impact. These risks are all monitored through the actuarial valuation process and additional contributions required from employers should deficits arise.

Operational Risk

Operational risk relates to losses (including error and fraud) from failures in internal controls relating to investment managers and internally e.g. administration systems.

Controls at external fund managers are monitored through the receipt of audited annual accounts for each manager together with annual assessments of the control environment including reviews of internal controls reports certified by reporting auditors.

Controls within the Administering Authority are reviewed by Harrow's Internal Audit Team.

INTERNAL CONTROLS

To mitigate the risks regarding investment management, the Council obtains independent internal controls assurance reports from the reporting accountants of the relevant Investment manager.

These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported to the Pension Committee.

The results of the latest reviews are summarised below.

Fund Manager	Type of report	Assurance obtained	Reporting Accountant
Blackrock Inv Man UK Ltd	ISAE 3402	Reasonable assurance	Deloitte LLP
GMO LLC	AT-C 320 (SOC)	Reasonable assurance	PWC LLP
Oldfield Partners	AAF 01/06	Reasonable assurance	Deloitte LLP
Pantheon Ventures	ISAE 3402	Reasonable assurance	KPMG LLP
LaSalle Global Partner Sols	ISAE 3402/AAF 01/06	Reasonable assurance	PWC LLP
Insight Investments	ISAE 3402/SSAE 18	Reasonable assurance	KPMG LLP
Record Currency Man Ltd	ISAE 3402/AT-C 320	Reasonable assurance	RSM Risk Assurance Services LLP
LCIV MAC Fund	Internal Controls Report	Reasonable assurance	Deloitte LLP
LCIV Global Equity Focus Fund	Internal Controls Report	Reasonable assurance	EY
LCIV Infrastructure	Internal Controls Report	Reasonable assurance	EY

CONTACTS

Registered Address	Pensions Team London Borough of Harrow 3rd Floor South Wing, Civic Centre, Station road, Harrow, HA1 2XF
Administration Enquiries	Email address: Pension@harrow.gov.uk Telephone Number: 020 8416 8087 Website: www.harrowpensionfund.org
Complaints and Advice	The Pensions Advisory Service 11 Belgrave Road London SW1V 1RB Pensions Help line: 0800 011 3797 Website: www.pensionsadvisoryservice.org.uk The Pensions Regulator Napier House Trafalgar Place Brighton BN1 4DW Telephone Number: 0345 600 1011 Website: www.thepensionsregulator.gov.uk The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU Telephone Number: 0800 917 4487 Email: enquiries@pensions-ombudsman.org.uk Website: www.pensions-ombudsman.org.uk
Tracing Service	The Pension Tracing Service The Pension Service 9 Mail Handling Site A Wolverhampton WV98 1LU Telephone Number: 0800 731 0193 Website: www.gov.uk/find-lost-pension

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Director of Finance;

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- To approve the Financial Statements.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these Financial Statements present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2020 and its income and expenditure for the year then ended.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
30 June 2020

Harrow Pension Fund Account as at 31 March 2020

2018/19 £'000		Notes	2019/20 £'000
	Dealings with members, employers and others directly involved in the fund		
(31,757)	Contributions	7	(34,229)
(3,247)	Transfers in from other pension funds	8	(1,366)
(44)	Other income		(70)
(35,048)			**(35,665)**
33,527	Benefits	9	35,905
3,097	Payments to and on account of leavers	10	2,470
0	Other Expenditure		0
36,624			**38,375**
1,576	**Net (additions)/withdrawals from dealings with members**		**2,710**
5,731	Management expenses	11	5,405
7,307	**Net (additions)/withdrawals including fund management expenses**		**8,115**
	Return on investments		
(8,907)	Investment income	12	(9,059)
(33,601)	(Profit)/losses on disposal of investments and changes in the market value of investments	14A	74,518
(42,508)	**Net return on investments**		**65,459**
(35,201)	**Net (increase)/decrease in the net assets available for benefits during the year**		73,574
(816,131)	**Opening net assets of the scheme**		(851,332)
(851,332)	**Closing net assets of the scheme**		**(777,758)**

Net Assets Statement as at 31 March 2020

31 March 2019		Notes	31 March 2020
£'000			**£'000**
	Investment assets		
846,294	Investments	14	749,955
3,156	Derivative contracts	14	1,092
45	Cash with investment managers	14	28,153
849,495			**779,200**
3,068	Cash deposits	14	2,641
852,563			**781,841**
	Investment liabilities		
(2,400)	Derivative contracts	14	(5,852)
850,163			**775,989**
1,579	Current assets	21	2,005
(410)	Current liabilities	22	(236)
851,332	**Net assets of fund available to fund benefits at the period end**		**777,758**

The accounts summarise the transactions of the Fund and deal with the net assets. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial present value of promised retirement benefits is disclosed at note 20.

D. Calvert

Dawn Calvert – CPFA
Director of Finance
30 June 2020

Notes to the Harrow Pension Fund Accounts for the year ended 31 March 2020

NOTE 1: DESCRIPTION OF FUND

The Harrow Pension Fund (‘the Fund’) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Harrow. The Council is the reporting entity for the Fund.

a) General

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

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

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

The Fund is overseen by the Harrow Pension Fund Committee, which is a committee of the Council.

b) Membership

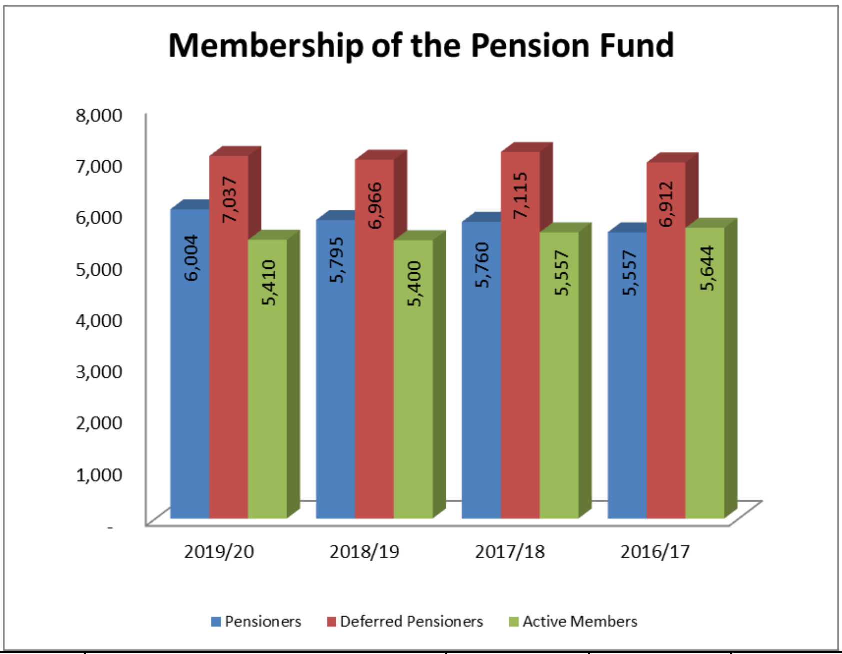
Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Fund include the following:

- **Scheduled bodies:** These are the local authority and similar bodies whose staff, are automatically entitled to be members of the Fund.

- **Admitted bodies:** These are other organisations that participate in the Fund under an admission agreement. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing.

There are 39 employer organisations within the Harrow Pension Fund including the Council itself, as detailed below.



Employer	Status	Pensioners	Deferred	Actives	Total	%
Harrow Council	Scheduled Body	5675	5880	3655	15,210	82.43
Stanmore College	Scheduled Body	86	154	79	319	1.73
Nower Hill High School	Scheduled Body	22	145	143	310	1.68
Heathland and Whitefriars	Scheduled Body	7	74	172	253	1.37
Hatch End High School	Scheduled Body	28	133	71	232	1.26
Rooks Heath College	Scheduled Body	19	90	109	218	1.18
Park High School	Scheduled Body	12	77	109	198	1.07
Canons High School	Scheduled Body	15	73	105	193	1.05
Bentley Wood School	Scheduled Body	8	89	55	152	0.82
NLCS	Community Admission Body	35	48	54	137	0.74
Harrow High School	Scheduled Body	11	57	63	131	0.71
St Dominics College	Scheduled Body	40	37	53	130	0.70
Aylward Primary School	Scheduled Body	7	25	65	97	0.53
Salvatorian Academy	Scheduled Body	20	54	15	89	0.48
Priestmead School	Scheduled Body	1	0	80	81	0.44
St Georges Primary	Scheduled Body	2	1	62	65	0.35
Pinner High Academy	Scheduled Body	0	4	57	61	0.33
St John Fisher	Scheduled Body	0	3	56	59	0.32
St Josephs Primary	Scheduled Body	0	3	53	56	0.30
Earlsmead Academy	Scheduled Body	1	9	43	53	0.29
Welldon Park School	Scheduled Body	0	2	42	44	0.24
Alexandra School	Scheduled Body	2	16	22	40	0.22
St Bernadettes	Scheduled Body	3	3	34	40	0.22
Sacred Heart High School	Scheduled Body	2	3	30	35	0.19
Krishna Avanti Primary	Scheduled Body	0	14	20	34	0.18
Avanti House Primary School	Scheduled Body	1	12	20	33	0.18
Jubilee Academy	Scheduled Body	0	15	18	33	0.18
Avanti House Secondary Sch	Scheduled Body	0	3	30	33	0.18
St Jerome	Scheduled Body	1	1	27	29	0.16
Moriah Jewish School	Scheduled Body	1	0	20	21	0.11
Chartwells	Admitted Body	1	4	12	17	0.09
Sopria Steria	Admitted Body	3	4	5	12	0.07
Avanti School Trust	Scheduled Body	0	0	10	10	0.05
Wates (Linbrook)	Admitted Body	1	0	4	5	0.03
Govindas	Admitted Body	0	3	2	5	0.03
Evergreen Harrow High	Admitted Body	0	0	5	5	0.03
ISS Catering	Admitted Body	0	1	3	4	0.02
Evergreen Aylward	Admitted Body	0	0	4	4	0.02
Evergreen LBH	Admitted Body	0	0	3	3	0.02
Total		6,004	7,037	5,410	18,451	100

c) Funding

Full-time, part-time and casual employees, where there is a mutuality of obligation and who have a contract of more than three months, are brought into the Fund automatically but have the right to “opt out” if they so wish. Casual employees with no mutuality of obligation are not eligible for membership.

Employee contribution rates are set by regulations and are dependent upon each member’s full time equivalent salary. Employee contributions attract tax relief at the time they are deducted from pay.

Employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund. Employer contribution rates are reviewed as part of the triennial actuarial valuation. The last valuation took place as at 31 March 2019 and showed that the Fund was 94% funded. The deficit is to be recovered by additional employer contributions over the course of 20 years.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employee contributions are matched by employers’ contributions which are set based on triennial actuarial funding valuations. Currently almost all, employer contribution rates fall within the range 18.0% to 26.5% of pensionable pay with the largest employers paying between 19.3% and 19.9%.

d) Benefits

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

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 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	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

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

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, refer to the ‘Brief Guide to the Local Government Pension Scheme’ attached as Appendix 5.

NOTE 2: BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The Accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2019/20' issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based on International Financial Reporting Standards 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.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – Revenue Recognition

a) Contributions income

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years, if significant, are classed as long term financial assets.

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 2013 (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8).

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

ii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

iii) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised gains/losses during the year.

Fund account – Expense items

a) Benefits payable

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

b) Taxation

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

c) Management expenses

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

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the Pension's Administration Team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs relating to the oversight and governance of the Fund's investments are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

Investment management 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 values of these investments change

Where an investment manager's fee invoice or fee information has not been received by the balance sheet date an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund account in 2019/20.

Net Assets Statement

a) 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 an asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (See note 16). For the purposes of disclosing levels of fair value hierarchy, the fund had adopted the classification guidelines recommended in ‘*Practical Guidance on Investment Disclosures (PRAG/Investment association, 2016)’*

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

b) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. (See note 15)

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund’s external managers and custodians.

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

d) Financial liabilities

The Fund recognises 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.

e) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

f) Additional Voluntary Contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance, Clerical Medical and Equitable Life Assurance Society as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically intended 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 (1)(b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

Accounting Standards Issued but not yet fully adopted

The following accounting policy changes are not yet reflected in the 2019-20 Code of Practice. They are not therefore reflected in the Pension Fund Statement of Accounts:

- IFRS 16 Leases (replaces IAS 17);
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net 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.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in notes 19 and 20.

These actuarial revaluations are used to set the future contributions rates and underpin the Fund's most significant management policies.

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £93m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £7m • a 0.5% increase in Pension benefits would increase the liability by approximately £86m
Private equity (Note 16C)	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines (2012)* .These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity investments are valued at £8.0m in the financial statements. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue that provide new information about conditions that did not exist as of the balance sheet date. There were no material events after the reporting date for 2019-20.

NOTE 7: CONTRIBUTIONS RECEIVABLE

By category

2018/19 £'000		2019/20 £'000
(6,875)	**Employees' contributions**	**(7,162)**
	Employers' contributions:	
(17,551)	Normal contributions	(18,643)
(7,085)	Deficit recovery contributions	(8,211)
(246)	Pension strain contributions	(213)
(24,882)	**Total employers' contributions**	**(27,067)**
(31,757)	**Total contributions receivable**	**(34,229)**

By type of employer

2018/19 £'000		2019/20 £'000
(25,346)	Administering Authority	(26,159)
(5,403)	Scheduled bodies	(7,131)
(784)	Community admission body	(777)
(224)	Transferee admission bodies	(162)
(31,757)		**(34,229)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19 £'000		2019/20 £'000
0	Group transfers	0
(3,247)	Individual transfers	(1,366)
(3,247)		**(1,366)**

NOTE 9: BENEFITS PAYABLE

By category

2018/19 £'000		2019/20 £'000
28,765	Pensions	29,973
4,343	Commutation and lump sum retirement benefits	4,999
419	Lump sum death benefits	933
33,527		**35,905**

By type of employer

2018/19 £'000		2019/20 £'000
32,012	Administering Authority	33,753
1,236	Scheduled bodies	1,906
190	Community admission body	202
89	Transferee admission bodies	44
33,527		**35,905**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19 £'000		2019/20 £'000
95	Refunds to members leaving service	125
0	Group transfers	0
3,002	Individual transfers	2,345
3,097		**2,470**

NOTE 11: MANAGEMENT EXPENSES

2018/19 £'000		2019/20 £'000
656	Administrative costs	721
4,509	Investment management expenses	4,050
566	Oversight and governance costs	634
5,731		**5,405**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

2018/19 £'000		2019/20 £'000
3,478	Management fees	3,457
90	Custody fees	134
941	Transaction costs	459
4,509		**4,050**

NOTE 12: INVESTMENT INCOME

2018/19 £'000		2019/20 £'000
(4,156)	Private equity investments	(3,882)
(1,845)	Pooled property investments	(2,026)
(2,906)	Pooled investments - units trusts and other managed funds	(3,151)
(8,907)		**(9,059)**

NOTE 13: EXTERNAL AUDIT COSTS

2018/19 £'000		2019/20 £'000
(16)	Payable in respect of external audit	(16)
(16)		**(16)**

NOTE 14: INVESTMENTS

Market value 31 March 2019 £'000		Market value 31 March 2020 £'000
	Investment assets	
467,263	Pooled equities investments	394,247
108,159	Pooled bonds investments	111,463
191,029	Pooled alternative investments	171,230
0	Pooled infrastructure	700
68,171	Pooled property investments	64,140
150	Equity in London CIV	150
11,522	Private equity	8,025
3,156	Derivative contracts: forward currency	1,092
45	Cash with investment managers	28,153
849,495		**779,200**
3,068	Cash deposits	2,641
852,563	**Total investment assets**	**781,841**
	Investment liabilities	
(2,400)	Derivative contracts: forward currency	(5,852)
(2,400)	**Total investment liabilities**	**(5,852)**
850,163	**Net investment assets**	**775,989**

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	467,263	0	(33,102)	(39,914)	**394,247**
Pooled bonds investments	108,159	3,062	(39)	281	**111,463**
Pooled alternative investments	191,029	95,000	(96,850)	(17,949)	**171,230**
Pooled property investments	68,171		(426)	(3,605)	**64,140**
Pooled infrastructure	0	700			**700**
Equity in London CIV	150				**150**
Private equity	11,522		(249)	(3,248)	**8,025**
Derivative contracts: forward currency	756	7,932	(3,365)	(10,083)	**(4,760)**
	847,050	**106,694**	**(134,031)**	**(74,518)**	**745,195**
Cash with investment managers	45				**28,153**
Cash deposits	3,068				**2,641**
	3,113				**30,794**
Net investment assets	**850,163**				**775,989**

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Net change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Investment assets					
Pooled equities investments	430,168	218,594	(220,722)	39,223	**467,263**
Pooled bonds investments	102,445	2,916	(41)	2,839	**108,159**
Pooled alternative investments	189,579		(1,263)	2,714	**191,029**
Pooled property investments	67,656		(303)	818	**68,171**
Equity in London CIV	150				**150**
Private equity	13,844		(598)	(1,724)	**11,522**
Derivative contracts: forward currency	5,865	8,880	(3,720)	(10,269)	**756**
	809,707	**230,390**	**(226,647)**	**33,601**	**847,050**
Cash with investment managers	53				**45**
Cash deposits	4,643				**3,068**
	4,696				**3,113**
Net investment assets	**814,403**				**850,163**

NOTE 14B: ANALYSIS OF INVESTMENTS

31 March 2019 £'000			31 March 2020 £'000
	Pooled Funds		
	UK		
86,080	Fixed Interest Securities	Corporate	87,635
22,079	Index Linked Securities	Public Sector	23,828
108,159			**111,463**
68,171	Managed Funds - Property	Unit Trusts	64,140
68,171			**64,140**
	Global		
217,821	Managed Funds - Equities	Unitised Insurance Policy	177,589
249,442	Managed Funds - Equities	Other	216,658
467,263			**394,247**
95,229	Managed Funds - Alternatives	Unit Trusts	0
95,800	Managed Funds - Alternatives	Other	171,230
0	Managed Funds - Infrastructure	Other	700
191,029			**171,930**
11,522	Managed Funds - Private Equity	Other	8,025
	Other Funds		
3,156	Derivatives		1,092
150	Equity in London CIV		150
45	Cash with investment managers		28,153
3,068	Cash Deposits		2,641
852,563	**Total Investment Assets**		**781,841**
	Investment Liabilities		
(2,400)	Derivatives		(5,852)
(2,400)	**Total Investment Liabilities**		**(5,852)**
850,163	**Net Investment Assets**		**775,989**

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31 March 2019	Percentage of Fund	Manager	Investment assets	Market value 31 March 2020	Percentage of Fund
£'000	%			£'000	%
Investments managed by London CIV					
105,031	12	LCIV - Longview	Developed world equities-active	91,705	12
0	0	LCIV - CQS	Multi Asset Credit	80,816	10
0	0	LCIV	Infrastructure	700	0
217,821	26	BlackRock	Global equities-passive	177,589	23
322,852	38		Total LCIV	350,810	45
Investments managed outside of the London CIV					
68,171	8	LaSalle	Pooled property	64,140	8
44	0	BlackRock	Cash with investment managers	25,128	3
86,080	10	BlackRock	Fixed interest securities	87,635	11
22,079	3	BlackRock	Index-linked securities	23,828	3
3,068	0	Cash Deposits		2,641	0
73,784	9	GMO	Emerging markets equities-active	67,577	9
95,800	11	Insight	Diversified growth fund	90,414	12
1	0	JP Morgan	Cash with investment managers	3,025	0
150	0	LCIV	UK equities-passive	150	0
70,627	8	Oldfields	Developed world equities-active	57,376	7
11,522	1	Pantheon	Private equity	8,025	2
756	0	Record	Forward currency contracts	(4,760)	(1)
95,229	11	Aberdeen Std	Diversified growth fund	0	0
527,311	62		Total - Managers	425,179	55
850,163	**100**		**Total Investments**	**775,989**	**100**

The following investments represent more than 5% of the net assets of the Fund:

Market value 31 March 2019	% of total fund	Investment assets	Market value 31 March 2020	% of total fund
£'000			£'000	
95,229	11	SLI Global Absolute Return Strategies Fund	0	0
95,800	11	Insight Broad Opportunities Fund	90,414	12
105,031	12	LCIV LV Global Equity Fund (Longview)	91,705	12
0	0	LCIV Multi Asset Credit (CQS)	80,816	10
86,080	10	BlackRock Institutional Bond Fund - Corp Bond 10 yrs	87,635	11
73,784	9	GMO Emerging Domestic Opportunities Equity Fund	67,577	9
68,171	8	LaSalle Investors UK Real Estate Fund of Funds	64,140	8
70,627	8	Overstone Global Equity CCF (USD Class A1 Units)	57,376	7
217,821	26	Blackrock Equity Beta Portfolio	177,589	23
812,543	**95**	**Total over 5% holdings**	**717,252**	**92**

NOTE 14D: STOCK LENDING

Within the Investment Strategy Statement stock lending is permitted within pooled funds. At present, use of this facility is restricted to the Blackrock Portfolio.

The Blackrock lending programme covers equity and fixed income assets around the world and is designed to generate incremental returns for investors with appropriate risk controls.

The programme benefits from a counterparty default indemnity from Blackrock pursuant to its Securities Lending Authorisation Agreement

Value of Stock on Loan as at 31 March 2020 £23.8m (8.24%) compared to £40.3m (13.3%) as at 31 March 2019.

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund’s equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place managed by Record Currency Management Limited. The Fund hedges 50% of the exposure in various developed world currencies within the equities portfolio.

Analysis of Open forward currency contracts:-

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	liability value
		000		000	£'000	£'000
Up to one month	NOK	2,337	GBP	(178)	2	
Up to one month	SEK	10,339	GBP	(838)	4	
Up to one month	SGD	708	GBP	(401)	0	
Up to one month	USD	78,064	GBP	(62,904)	61	
One to six months	CHF	1,098	GBP	(865)	51	
One to six months	EUR	427	GBP	(364)	14	
One to six months	GBP	4,122	AUD	(8,006)	171	
One to six months	GBP	8,563	CAD	(14,854)	146	
One to six months	GBP	3,744	CHF	(4,426)	39	
One to six months	GBP	4,741	HKD	(45,608)	2	
One to six months	GBP	203	NOK	(2,356)	22	
One to six months	GBP	159	NZD	(320)	6	
One to six months	GBP	768	SEK	(9,386)	3	
Over six months	EUR	427	GBP	(365)	13	
Over six months	GBP	27,940	EUR	(31,192)	266	
Over six months	GBP	15,657	JPY	(2,071,200)	136	
Over six months	GBP	60,496	USD	(74,810)	155	
Up to one month	AUD	4,003	GBP	(1,992)		(15)
Up to one month	CAD	7,427	GBP	(4,239)		(30)
Up to one month	CHF	4,426	GBP	(3,733)		(41)
Up to one month	EUR	15,134	GBP	(13,513)		(115)
Up to one month	HKD	45,608	GBP	(4,751)		(5)
Up to one month	JPY	1,080,000	GBP	(8,090)		(18)
Up to one month	NZD	160	GBP	(78)		(1)
One to six months	GBP	4,349	CHF	(5,524)		(259)
One to six months	GBP	4,450	HKD	(45,608)		(297)
One to six months	GBP	674	JPY	(95,700)		(41)
One to six months	GBP	178	NOK	(2,337)		(2)
One to six months	GBP	916	SEK	(11,292)		(5)
One to six months	GBP	801	SGD	(1,416)		(2)
One to six months	GBP	5,535	USD	(7,297)		(351)
One to six months	NOK	19	GBP	(2)		(0)
Over six months	EUR	497	GBP	(446)		(6)
Over six months	GBP	13,372	EUR	(15,561)		(434)
Over six months	GBP	7,590	JPY	(1,080,000)		(501)
Over six months	GBP	122,013	USD	(156,128)		(3,720)
Over six months	JPY	6,900	GBP	(53)		(1)
Over six months	USD	4,043	GBP	(3,271)		(10)
Open forward currency contracts at 31 March 2020					**1,092**	**(5,852)**
Net forward currency contracts at 31 March 2020						**(4,760)**
<u>Prior year comparative</u>						
Open forward currency contracts at 31 March 2019					**3,156**	**(2,400)**
Net forward currency contracts at 31 March 2019						**756**

NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments including pooled funds for global equities, corporate and UK index linked bonds and diversified growth funds	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Market quoted investments including pooled funds for global equities and diversified growth funds	Level 1	Published market price or other value ruling on the final day of the accounting period	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year end.	Exchange rate risk	Not required
Pooled Investment - Multi asset credit	Level 2	Fixed income securities are priced based on evaluated prices provided by Independent pricing services	Not required	Not required
Pooled investments - property funds	Level 3	Closing bid price where bid and offer prices are published	Net Asset Value-based pricing set on a forward pricing basis	Not required
Pooled investments - Infrastructure	Level 3	Valued by Fund Managers	Manager valuation statements are prepared in accordance with ECVA guidelines	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation (2012)*	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at Level 3

The Fund has determined that the sensitivity of the level 3 investments should be at the level determined by independent advisers for equity investments generally. Set out below is the consequent potential impact on the closing value of investments held at 31 March 2020 using data provided by PIRC.

	Assessed valuation range (+/-)	Valuation at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Private Equity	9.10%	8,025	8,755	7,295
Pooled investments - property funds	1.90%	64,140	65,359	62,921
		72,165	74,114	70,216

NOTE 16A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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.

Level 2

Assets and liabilities 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.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the 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	
Values at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit and loss	596,124	81,908	72,165	**750,197**
Financial liabilities at fair value through profit and loss	0	(5,852)	0	**(5,852)**
Net Investment asset	**596,124**	**76,056**	**72,165**	**744,345**

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial assets at fair value through profit and loss	766,451	3,156	79,693	**849,300**
Financial liabilities at fair value through profit and loss	0	(2,400)	0	**(2,400)**
Net Investment asset	**766,451**	**756**	**79,693**	**846,900**

The following assets have been carried at cost

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Investment in London CIV			150	**150**
LCIV Infrastructure			700	**700**

NOTE 16B: TRANSFERS BETWEEN LEVELS 1 AND 2

None

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2019/20	**Market Value 31 March 2019**	**Transfers into level 3**	**Transfers out of level 3**	**Purchases during the year and derivative payments**	**Sales during the year and derivative receipts**	**Unrealised gains/(losses)**	**Realised gains/(losses)**	**Market Value 31 March 2020**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Private Equity	11,522	0	0	0	(249)	0	(3,248)	**8,025**
Pooled - property	68,171	0	0	0	(426)	(3,605)	0	**64,140**
	79,693	0	0	0	(675)	(3,605)	(3,248)	**72,165**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

31 March 2019				31 March 2020		
Fair value through profit and loss	**Assets at amortised cost**	**Liabilities at amortised cost**		**Fair value through profit and loss**	**Assets at amortised cost**	**Liabilities at amortised cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
467,263	0	0	Pooled equities investments	394,247	0	0
108,159	0	0	Pooled bonds investments	111,463	0	0
191,029	0	0	Pooled alternative investments	171,230	0	0
0	0	0	Pooled Infrastructure	700	0	0
68,171	0	0	Pooled property investments	64,140	0	0
150	0	0	Equity in London CIV	150	0	0
11,522	0	0	Private equity	8,025	0	0
3,156	0	0	Derivative contracts	1,092	0	0
0	4,103	0	Cash	0	32,083	0
0	589	0	Debtors	0	716	0
849,450	**4,692**	**0**		**751,047**	**32,799**	**0**
			Financial liabilities			
(2,400)	0	0	Derivative contracts	(5,852)	0	0
0	0	(410)	Creditors	0	0	(236)
(2,400)	**0**	**(410)**		**(5,852)**	**0**	**(236)**
847,050	**4,692**	**(410)**		**745,195**	**32,799**	**(236)**
	851,332		**Grand Total**		**777,758**	

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2019		31 March 2020
£'000		**£'000**
	Financial assets	
43,870	Fair value through profit and loss	(64,435)
0	Loans and receivables	0
	Financial liabilities	
(10,269)	Fair value through profit and loss	(10,083)
0	Financial Liabilities at amortised cost	0
33,601	**Total**	**(74,518)**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that its 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 its forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Committee reviews the Fund's risk register on an annual basis.

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 equities holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters.

In general, excessive volatility in market risk is managed through the 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.

Price risk

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's investment managers mitigate this price risk through diversification.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Council has determined that the following movements in price risk are reasonably possible.

Assets type	Potential market movements (+/-) %
Total equities	12.00
Fixed interest & index linked securities	6.90
Alternative investments	6.30
Pooled property investments	1.90
Private Equity	9.10

Had the market price of the Fund investments increased/decreased in line with the above the change in the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2020	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	389,487	12.00	436,225	342,749
Fixed interest & index linked securities	111,463	6.90	119,154	103,772
Alternative investments	171,230	6.30	182,017	160,443
Pooled property investments	64,140	1.90	65,359	62,921
Private Equity	8,025	9.10	8,755	7,295
Infrastructure	700	0.00	700	700
Equity - London CIV	150	0.00	150	150
Total	**745,195**		**812,361**	**678,030**

Asset type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Total equities (inc Hedging)	468,019	9.20	511,077	424,961
Fixed interest & index linked securities	108,159	7.30	116,055	100,263
Alternative investments	191,029	3.30	197,333	184,725
Pooled property investments	68,171	1.90	69,466	66,876
Private Equity	11,522	10.00	12,674	10,370
Equity - London CIV	150	0.00	150	150
Total	**847,050**		**906,755**	**787,345**

Interest rate risk

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

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 and the impact of a 1% movement in interest rates are as follows:

Assets exposed to interest rate risk	Carrying amount as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	30,794	0	30,794	30,794
Fixed interest securities	87,635	876	88,511	86,759
Total change in assets available	**118,429**	**876**	**119,305**	**117,553**

Assets exposed to interest rate risk	Carrying amount as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000		£'000	£'000
Cash and cash equivalents	3,113	0	3,113	3,113
Fixed interest securities	86,080	861	86,941	85,219
Total change in assets available	**89,193**	**861**	**90,054**	**88,332**

This analysis demonstrates that changes in interest rates do not impact on the value of cash and cash equivalents balances but do affect the fair value on fixed interest securities.

Changes in interest rates affect interest income received on cash balances but have no effect on income from fixed income securities.

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 its global equities pooled fund investments, some of which are denominated in currencies other than Sterling. To mitigate this risk, the Fund uses derivatives and hedges 50% of the overseas equity portfolio arising from the developed market currencies.

Following analysis of historical data in consultation with the Fund's advisers the Council considers the likely volatility associated with foreign exchange rate movements to be 7.4%

A 7.4% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available as follows.

Currency Exposure - asset type	Asset Value as at 31 March 2020	Change to net assets	
		+7.4%	-7.4%
	£'000	£'000	£'000
Overseas Pooled Equities	367,462	394,655	340,270

Currency Exposure - asset type	Asset Value as at 31 March 2019	Change to net assets	
		+8.8%	-8.8%
	£'000	£'000	£'000
Overseas Pooled Equities	426,328	463,845	388,811

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions. However the selection of high quality counterparties, brokers and financial institutions by Fund managers should minimise the credit risk that may occur.

Cash deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's Treasury Management investment criteria.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five years.

The Fund's cash holding at 31 March 2020 was £30.8m (31 March 2018: £3.1m). This was held with the following institutions.

Summary	Balances at 31 March 2019	Balances at 31 March 2020
	£'000	£'000
Bank accounts		
Royal Bank of Scotland	3,068	2,641
JP Morgan	1	3,025
BlackRock	44	25,128
	3,113	**30,794**

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund considers liquid assets to be those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2020 the value of illiquid assets was £72.9m. This represented 9% of the total Fund assets (31 March 2019: £79.7m).

All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The Pension Fund does not have any financial instruments that have a refinancing risk.

NOTE 19: FUNDING ARRANGEMENTS

In line with The Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation takes place as at 31 March 2022.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the Fund was assessed as 94% funded (74% at the March 2016 valuation). This corresponded to a deficit of £52m (2016 valuation: £228m).

Contribution increases are being phased in over the 3 years' period ending 31 March 2023.

Individual employers' rates vary depending on the demographic and actuarial factors particular to each employer.

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

Financial assumptions

Other financial assumptions	**2016 %**	**2019 %**
Price inflation (CPI)	2.1	2.3
Salary increases	2.4	3.0
Pension increases	2.1	2.3
Funded basis discount rate	3.8	4.3

Demographic assumptions

The life expectancy assumptions are based on the Fund's Hymans Robertson's Vita Curves in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.25% p.a. for women and men.

Future life expectancy based on the Actuary's Fund-specific mortality review is as follows:

	Male	Female
Current pensioners	22.0 years	24.3 years
Future pensioners (assumed to be aged 45)	23.1 years	26.3 years

Commutation assumption

It is assumed that 50% of future retirees will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2019		31 March 2020
£m		£m
(1,213)	Present value of promised retirement benefits	(1,104)
807	Fair value of scheme assets	697
(406)	**Net Liability**	**(407)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

IAS19 Assumptions used

	2018/19	2019/20
	% pa	% pa
Inflation/pensions increase rate assumption	2.5	1.9
Salary increase rate	2.8	2.6
Discount rate	2.4	2.3

NOTE 21: CURRENT ASSETS

31 March 2019 £'000		31 March 2020 £'000
	Debtors:	
526	Contributions due - employers	661
63	Sundry debtors	55
990	Cash owed to Fund	1,289
1,579		**2,005**

Analysis of Debtors:

31 March 2019 £'000		31 March 2020 £'000
0	Central Government bodies	0
990	Other local authorities	1,289
4	NHS bodies	4
526	Scheduled/Admitted bodies	661
59	Other entities and individuals	51
1,579		**2,005**

NOTE 21A: LONG TERM DEBTORS

There are currently no long term debtors

NOTE 22: CURRENT LIABILITIES

31 March 2019 £'000		31 March 2020 £'000
(344)	Sundry creditors	(156)
(66)	Benefits payable	(80)
(410)		**(236)**

Analysis of Creditors:

31 March 2019 £'000		31 March 2020 £'000
(5)	Central government bodies	(4)
(10)	Scheduled/Admitted bodies	0
(395)	Other entities and individuals	(232)
(410)		**(236)**

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

AVC contributions of £0.50m were paid directly to the providers during the year (2018/19: £0.51m)

Market value 31 March 2019		Market value 31 March 2020
£'000		**£'000**
2,011	Prudential Assurance	2,268
599	Clerical Medical	553
219	Equitable Life Assurance Society	224
2,829		**3,045**

NOTE 24: AGENCY SERVICES

There were no payments of this type

NOTE 25: RELATED PARTY TRANSACTIONS

Harrow Council

The Fund is required under IAS24 to disclose details of material transactions with related parties. The Council is a related party to the Pension Fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out below.

The Pension Fund has operated a separate bank account since April 2011. However to avoid any undue cost to the Fund some minor transactions continue to be processed through the Council's bank account. These are reconciled on a monthly basis and settlement of any outstanding balance is adjusted when the Council pays its contributions to the fund.

31 March 2019		31 March 2020
£'000		**£'000**
(19,770)	Employer's Pension Contributions to the Fund	(20,634)
846	Administration expenses paid to the Council	906
990	Cash held by the Council	1,289

Governance

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

NOTE 25A: KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Councils' Director of Finance (S151 Officer) and the Treasury & Pension Fund Manager.

Total remuneration payable from the Pension Fund to these key management personnel is set out below:

31 March 2019		31 March 2020
£'000		**£'000**
86	Short-term benefits	91
0	Termination benefits	0

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2020 totalled £65.8m (31 March 2019: £2.7m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held by Pantheon Ventures and LCIV Infrastructure Fund.

NOTE 27: CONTINGENT ASSETS

One admitted body employer in the Fund holds an insurance bond/guarantee to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

London Borough of Harrow Pension Fund ("the Fund") Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still at least a 72% likelihood that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £851 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £52 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.3%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.3 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Laura McInroy FFA

5 May 2020

For and on behalf of Hymans Robertson LLP