



**Annual Report  
for the City of London Corporation  
Pension Fund**

*Year ended 31 March 2014*

Scheme Registration No. PSTR00330366RQ

**City of London Corporation Annual Report  
for the Pension Fund**

*Year ended 31 March 2014*

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For further copies or for more information please contact:

The Chamberlain  
City of London Corporation  
Guildhall, PO Box 270  
London EC2P 2EJ

**MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**  
**for the year ended 31 March 2014**

**Scheme Registration Number:** PSTR00330366RQ

**Administering Authority:** City of London Corporation  
Guildhall, P.O. Box 270  
London EC2P 2EJ

**Financial Investment Board Members: (Responsible for investment matters)**

Deputy Robert Picton Seymour Howard, (Chairman)  
Deputy Kenneth Edwin Ayers MBE, (Deputy Chairman)  
Roger Arthur Holden Chadwick  
Henry Nicholas Almroth Colthurst  
Simon D'Olier Duckworth DL  
Tom Hoffman  
Clare James MA  
Andrew Stratton McMurtrie  
Deputy James Henry George Pollard  
John George Stewart Scott JP BA (Hons)  
Ian Christopher Norman Seaton  
Philip Woodhouse

**Secretary to the Committee:** Philippa Sewell

**Establishment Committee (Responsible for personnel and establishment matters)**

Deputy John Alfred Barker OBE (Chairman)  
Deputy the Reverend Stephen Decatur Haines MA (Deputy Chairman)  
Nigel Kenneth Challis MA FCA FCSI (Hons)  
Deputy William Harry Dove MBE JP  
Kevin Malcolm Everett DSc  
Jamie Ingham Clark  
Jeremy Paul Mayhew MA MBA  
Wendy Mead  
Sylvia Doreen Moys  
Deputy Joyce Carruthers Nash OBE  
Barbara Patricia Newman CBE  
Dhruv Patel  
Deputy Richard David Regan OBE  
Elizabeth Rogula  
Angela Mary Starling  
Alderman Alan Colin Drake Yarrow

**Secretary to the Committee:** Chris Braithwaite

**Scheme Administrator:** Peter Kane MA, MSc, CPFA  
Chamberlain of London  
Guildhall, P.O. Box 270  
London EC2P 2EJ

**Actuary:** Barnett Waddingham LLP  
163 West George Street  
Glasgow G2 2JJ

**Investment Managers:**

Artemis Investment Management Ltd  
Cassini House, 57 St James's Street, London SW1A 1LD

Carnegie Fund Services SA  
PO Box 1141 L-1011, Luxembourg

GMO UK Ltd  
1 London Bridge, London SE1 9BG

LSV Asset Management (Until February 2014)  
One North Wacker Drive, 40<sup>th</sup> Floor, Chicago, Illinois 60606, USA

Southeastern Asset Management  
6410 Poplar Avenue, Suite 906, Memphis, TN 38119, USA

Veritas Asset Management LLP  
90 Long Acre, London WC2E 9RA

Wellington Management International  
80 Victoria Street, London SW1

Pyrford International Plc  
79 Grosvenor Street, London W1K 3JU

Standard Life Investments Ltd  
1 George Street, Edinburgh EH2 2LL

NCM Management (UK) Ltd (Barings English Growth Fund)  
Schomberg House, 80-82 Pall Mall, London SW1Y 5HF

Standard Life Investments Private Equity Ltd  
1 George Street, Edinburgh EH2 2LL

Yorkshire Fund Managers Venture Finance Ltd  
Brookmount House, 62-65 Chandos Place, Covent Garden, London WC2N 4LP

Environmental Technologies Fund Manager LLP (Private Equity)  
20 Berkeley Square, London W1J 6EQ

**Custodian:**

Bank of New York Mellon  
The Bank of New York Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

**Investment Consultant:**

Aon Hewitt Limited  
8 Devonshire Square, London EC2M 4PL

**Performance Measurement:**

State Street Investment Analytics (formerly WM Performance Services)  
525 Ferry Road, Edinburgh EH5 2AW

**Bankers:**

Lloyds TSB Bank  
City Office, P.O. Box 72, Bailey Drive, Gillingham Business Park,  
Kent ME8 0LS

**Legal Advisor:**

Comptroller and City Solicitor  
City of London Corporation, Guildhall, P.O. Box 270, London EC2P 2EJ

**AVC Providers:**

Prudential  
Laurence Pountney Hill, London, EC4R 0HH

**Standard Life**

Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH

**Independent Auditor:**

Deloitte LLP  
St. Albans, United Kingdom

## **Financial Performance**

### **Introduction**

The Fund account includes details of the contributions receivable by the Scheme and benefits payable. During 2013/14 there was a net outflow from Members of £8.8m (2013: Net Outflow £6.3m). Net returns on investments amounted to an increase of £45.8m (2013: increase of £101.0m) due mainly to a positive change in the market value of investments, both realised and unrealised.

The net assets of the Fund as at 31 March 2014 amounted to £746.3m (2013: £709.3m). Further details are shown in the Fund Account and Net Assets Statement on pages 25 and 26.

The City of London Corporation invests the Fund in compliance with the Local Government Pension Scheme (Management and Investment of Funds (Amended) Regulations 1999). The Fund's Investment Consultant is Aon Hewitt Limited, with the contract commencing on 1 April 2010.

During 2013/14 the composition of equity fund managers was reviewed, one fund manager was removed and a further three added, bringing the total number of equity fund managers to six. The funds held by the equity fund managers were moved from segregated mandates to pooled mandates. As at 31 March 2014, twelve external Managers managed the Fund's investments:

- Artemis Investment Management Ltd (UK Equity)
- GMO UK Ltd (UK Equity)
- Carnegie Asset Management (Global Equity)
- Southeastern Asset Management (Global Equity)
- Veritas Asset Management (Global Equity)
- Wellington Management International (Global Equity)
- Pyrford International Plc (Multi Asset)
- Standard Life Investments (Multi Asset)
- Environmental Technologies Fund Manager LLP (Private Equity)
- NCM Management (UK) Ltd (Private Equity – Barings English Growth Fund)
- Standard Life Investments Private Equity Ltd (Private Equity)
- Yorkshire Fund Managers Venture Finance Ltd (Private Equity).

Any surplus cash holding within the Pension Fund is managed internally.

### **Tax Status**

The Scheme is a 'registered pension scheme' for tax purposes.

### **Financial Performance - 2013/14 Investment Results**

Over the twelve month period to 31 March 2014, the Fund's total return (as measured by WM Performance Services) was +5.9%. The Fund's performance is analysed relative to the WM All Funds benchmark on an ex-Property basis. This Universe is the largest available universe of UK Pension Funds and remains the most comprehensive representation of the UK Pension Fund industry; it currently accounts for over 66% of all UK Pension Fund assets. In the year ended 31 March 2014 the benchmark return was

+4.1%, therefore, the City's Pension Fund outperformed the benchmark by +1.8%. The outperformance was attributable to 'asset allocation' +1.3% and 'stock selection' +0.5%. Over the last three financial years the Fund's total return was +8.2% per annum which compared with the benchmark return of +7.9% per annum. Over the last five financial years the Fund's total return was +13.5% per annum which compared with the benchmark return of 12.2% per annum, an outperformance of 1.3% per annum.

### **Membership of Outside Bodies**

The City is a member of the National Association of Pension Funds, the Local Authority Pension Fund Forum and the Pension Fund Investment Forum, meetings and conferences of which are usually attended by Members and/or Officers.

### **Risk Management**

Risks in relation to the Pension Fund are included within the overall consideration of risk within the Chamberlain's Department in accordance with the City of London Corporation's risk management framework. The main risk applicable to the Pension Fund relates to potential reductions in investment income and investment valuations which could impact on funding levels and on employers' contributions to the Fund, which could affect the City Corporation's ability to set balanced budgets. The Chamberlain's departmental risk register is reviewed regularly by the Finance Committee, on a quarterly basis.

## SCHEME ADMINISTRATION REPORT

The City of London Pension Fund is part of the national Local Government Pension Scheme. The Fund is administered in-house by the City of London Corporation on behalf of the participating employers.

As at the end of March 2014 the City of London Pension Fund had:

- 9 active employers
- 3,574 pensioner members
- 3,984 active members
- 4,111 deferred members

The nine active employers include the City of London, the Museum of London, the Irish Society, the Guildhall Club and the City Academy. Six Transfer Admitted Bodies are part of the City of London fund following the TUPE transfer of City of London staff to a contractor, two of these no longer have any active members.

Teachers, Judges and Police Officers have their own pension schemes and are not included in the Fund.

### The Pensions Team

All aspects of the pensions administration service is contained within one team entirely focused on pensions matters. The team structure delivers benefits as experience and skills are widely shared within the team, extending resilience and breadth of knowledge.

During 2013/14, investment in the team has occurred in a variety of ways, including internal and external courses and qualifications, formal training, mentoring and support. The team's second Apprentice was successful in gaining a permanent position within the Pensions Payroll section of the team.

A standard appraisal process is operated across the team, linked into the Chamberlain's Department Business Plan.

The team produces its own regular newsletter.

Pensions Administration Manager: Charlie Partridge, Tel: 020 7332 1133

Pensions email: [pensions@cityoflondon.gov.uk](mailto:pensions@cityoflondon.gov.uk)

Pensions Payroll email: [pensionspayroll@cityoflondon.gov.uk](mailto:pensionspayroll@cityoflondon.gov.uk)

Website: <http://www.yourpension.org.uk/CityofLondon>

### Administration Key Performance Indicators - 2013/14

Task	Target	CoL Result 2013/14	CoL Result 2012/13
Payment of actual retirement benefit	5 days	95.05%	96.68%
Process refund and make payment	5 days	84.62%	72.73%
Statement notifying estimate of retirement benefit	10 days	95.07%	98.21%
Letter detailing transfer-in credit	20 days	90.34%	97.37%
Transfer-out payment	20 days	97.78%	98.41%
Answer general correspondence	10 days	87.11%	93.68%
Payment of Death Grant	5 days	3.47%	97.37%
Letter notifying amount of dependant's benefits	5 days	91.3%	97.53%

The performance indicators are derived from the in-house pensions system software, which has a work flow measurement facility included.



## **The Local Government Pension Scheme**

The Local Government Pension Scheme (or the LGPS) is a statutory pension scheme. This means that it is very secure as its benefits are defined and set out in law. The LGPS in brief:

- provides salary related defined benefits not dependent upon investment performance – ultimately the local authority, and local tax payers, are the final guarantors;
- is regulated by Parliament;
- is administered through 89 regional pension funds in England & Wales; and
- covers 3.5 million members nationally.

### **Scheme Benefits**

The main provisions of the LGPS scheme are as follows:

- The scheme provides a pension of 1/60th of final pay for each year of membership in the scheme after 31 March 2008 (membership to 31 March 2008 will still be calculated as 1/80th pension plus 3/80ths lump sum).
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate, i.e. for every £1 of pension given up the member gets £12 lump sum on retirement.
- Benefits are calculated on final pay, being the best one of the last three years' pay.
- Normal retirement age is age 65, but with the right to take pension from age 60 or, with employer consent, from age 55.
- Flexible retirement with employer consent is permitted from age 55.
- Immediate payment of pension benefits following redundancy / efficiency retirement on or after age 55.
- A three-tier ill health benefits system.
- A death grant of three times pay for death in service; five times pension if a deferred beneficiary dies; and 10 times pension less pension already paid if a pensioner dies before age 75.
- Spouses' pensions are based on a 1/160th accrual rate, civil partners and nominated co-habiting partners pension will also be based on a 1/160th accrual rate but on post 5 April 1988 membership only.
- Members can buy extra scheme pension in multiples of £250 up to a maximum of £5,000 or they can pay Additional Voluntary Contributions (AVC's).
- Employers can augment membership by up to 10 years; or grant extra pension of up to £5,000.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

The LGPS, along with other public sector pension scheme, has been under review. The scheme changed from 1<sup>st</sup> April 2014 and remains a defined benefit scheme and retains many of the elements of the scheme detailed above. However, the scheme will no longer be Final Salary based but will become a Career Average Revalued Earnings (CARE) scheme in respect of future benefits.

### **Membership**

Membership of the Scheme is voluntary and eligible employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal pension arrangements outside the Scheme. Employees must normally have a contract of employment for three months or more in order to be eligible for membership.

## Contributions

Employees and employers contribute to the scheme.

### Employees:

**From 1 April 2008:** - All existing and new members of the LGPS pay a contribution rate dependant on the salary band they fall in to.

The contribution rate employees pay depends on their salary. (Part time employees pay contributions based on the full-time equivalent of their salary). The bands and contribution rates for 2013/14 are set out in the table below.

### Band Range Contribution Rates (2013/14):

Band	Range	Contribution Rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,501 - £87,100	7.2%
7	£87,100+	7.5%

### Employers:

The contribution rates paid by employers are variable and are determined by the Pension Fund's Actuary.

### Communications During the Year.

- Annual Benefits Statements were issued to all active and deferred members.
- Newsletters
- Pre-retirement seminars were presented to all scheme members approaching retirement.
- Induction sessions were attended with the aim of providing new entrants with information about the LGPS.
- Insight lunches were run covering the LGPS, LGPS 2014 and the "top-up" options available.
- Information, forms and useful links to websites providing further information on the LGPS were maintained on the City of London intranet.
- Pensions Open Days with presentations and drop-in sessions covering LGPS 2014, tax regime changes and top-ups.

### Appeals

A problem or question about LGPS membership or benefits should initially be addressed to the Pensions Administration Manager at the address stated on page 3. The Pensions Administration team then seeks to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If an employee or ex-employee is still dissatisfied with any decision made in relation to the Scheme they have the right to have their complaint independently reviewed under the Internal Disputes Resolution Procedure.

### Internal Dispute Resolution Procedure

The dispute procedure is in two stages. Each stage must be completed before moving on to the next:

### **First Stage**

This involves referring the case to the specified person within six months of a decision. This is a person appointed by the employer - but he will have had no previous involvement in the case. If he feels the complaint is justified, he will issue a new decision, which will be binding on the scheme administrators. However, he can only overturn the original decision if in his opinion it was legally incorrect.

### **Second Stage**

If the individual is not satisfied with the specified person's decision, the second stage is to make a written appeal, within six months, to the administering authority. The address for the administering authority is Business Support Director, City of London, Guildhall, PO Box 270, London EC2P 2EJ. Like the specified person, the administering authority can only correct legal errors. The decision would normally be made within two months and once again it would be binding on the scheme.

In 2013/14 there were no new appeal cases.

If an appellant remains dissatisfied, they can refer their case to the Pensions Ombudsman, whose address is 11 Belgrave Road, London SW1V 1RB. The Ombudsman is less restricted in his powers and can consider wider issues than the strictly legal ones, such as whether a case has been handled fairly or reasonably. However, all stages of the IDRPs must be dealt with before he would consider a case.

### **Further Assistance**

**The Pensions Advisory Service (TPAS)** is a free and independent advisory service specifically designed to help people with their pension problems. TPAS may be contacted directly at 11 Belgrave Road, London SW1V 1RB, telephone 0845 601 2923. In cases where a complaint or dispute cannot be resolved after the intervention of TPAS, an application can be made, within three years of the event, to the Pensions Ombudsman for adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at the address above or telephone 0207 834 9144.

**The Pensions Regulator** is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. The Pensions Regulator can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW, telephone 0870 6063636.

**The Pension Tracing Service** holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. This tracing service can be contacted at: The Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA, telephone 0845 6002 537.

## **STATEMENT OF RESPONSIBILITIES for the STATEMENT OF ACCOUNTS**

### **The City of London's Responsibilities**

The City of London 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. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

### **The Chamberlain of London's Responsibilities**

The Chamberlain is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the SORP").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority code.

The Chamberlain has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Chamberlain's Certificate**

I certify that the Statement of Accounts present fairly the financial position of the Pension Fund of the City of London at 31 March 2014 and its income and expenditure for the year then ended.



Peter Kane  
Chamberlain of London  
Date: 3 September 2014

## ADOPTION OF THE CITY FUND AND PENSION FUNDS ACCOUNTS

The City Fund Accounts and Pension Fund Accounts were approved on behalf of the Finance Committee by:



Roger A.H. Chadwick  
Chairman of the Finance Committee



Jeremy Paul Mayhew MA MBA  
Deputy Chairman of the Finance  
Committee

Date: 3 September 2014

Date: 3 September 2014



**Adoption of the Pension Fund Accounts**

The Pension Fund Accounts were approved by the Finance Committee on 22 July 2014 and signed on its behalf by:



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**Roger Chadwick**  
Chairman of the Finance Committee



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**Jeremy Mayhew**  
Deputy Chairman of the  
Finance Committee

Date: 3 September 2014

Date: 3 September 2014





# **INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF CITY OF LONDON CORPORATION PENSION FUND ON THE PENSION FUND FINANCIAL STATEMENTS**

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20.

This report is made solely to the members of City of London Corporation Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Chamberlain and the auditor**

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

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of City of London Corporation Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

## **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of City of London Corporation Pension Fund for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.



Heather Bygrave (Engagement Lead)  
For and on behalf of Deloitte LLP  
Appointed Auditor  
St Albans, United Kingdom

3 September 2014



# City of London Corporation Pension Fund

**Actuary's Statement as at 31 March 2014**

**Barnett Waddingham**  
Public Sector Consulting

03 September 2014

## **1. Introduction**

1.1 The last full triennial valuation of the City of London Corporation Pension Fund was carried out by Barnett Waddingham as at 31 March 2013 in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). The results were published in our report dated March 2014.

## **2. 2013 Actuarial Valuation**

2.1 The results of the actuarial valuation of the Fund as at 31 March 2013 were as follows

- The funding level was calculated to be 85% i.e. the value of the accumulated assets represented 85% of the value of the accrued liabilities of Fund as at the valuation date.
- The common contribution rate was set at 17.0% of payroll assuming the funding level was to be restored over a 20 year period. This is the average contribution rate required from employers to restore the funding level to 100% over the next 20 years.

2.2 However each employing body pays their own contribution rate to reflect its own particular circumstances and funding position within the Fund.

2.3 Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## **3. Asset Value and Key Financial Assumptions**

3.1 The market value of the Fund's assets as at 31 March 2013 was £709m.

3.2 The contribution rates were calculated using the Projected Unit Method taking account of market conditions as that date as follows.

- Rate of return on investments                      6.0% per annum
- Rate of increase in pay                              1.0% per annum until 2016 then 4.2% per annum
- Rate of increase to pensions in payment      2.7% per annum

## **4. Post Valuation Events**

4.1 In the 12 months to 31 March 2014, investment returns have been broadly in line with expected and with no material changes in market conditions we anticipate that the financial position of the Fund will be largely unchanged compared to the position at the 2013 valuation.

## **POLICY AND GOVERNANCE COMPLIANCE STATEMENT**

### **The Scheme**

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The LGPS is a funded final-salary scheme, with employee contribution rates ranging from 5.5% to 7.5% and employer rates variable depending on the funding level assessed every three years by the fund actuary. Benefits are defined in law and inflation-protected in line with increases in the Retail Price Index for September. The scheme is operated by designated administering authorities - each maintains a fund and invests monies not needed immediately. The Court of Common Council is a designated administering authority.

### **The Financial Investment Board**

The Court of Common Council and the Investment Committee have delegated the investment management of the scheme to the Financial Investment Board which decides on the investment policy most suitable to meet the liabilities of the scheme and has ultimate responsibility for investment strategy. The Court of Common Council is responsible for appointing Members to serve on the Investment Committee, which in April of each year makes appointments to its Financial Investment Board. The Financial Investment Board comprises twelve to fourteen Members of the Investment Committee.

The Financial Investment Board operates under a framework of corporate governance and undertakes its responsibilities with reference to the Standing Orders and Financial Regulations adopted by the Court of Common Council which prescribe all activities relating to the conduct of its business.

The Board's responsibilities with regard to the Pension Fund are:

- to approve the appointment of and to monitor the performance of Investment Managers;
- to review the investment strategies for the securities investments;
- to authorise investments and approve the overall parameters within which the Investment Fund Managers will be authorised to operate;
- to invest all new monies;
- to invest such other sums as are from time to time allocated for this purpose; and
- to monitor the activities of the Chamberlain in connection with his treasury management role.

All meetings of the Board are open to the public, although they are excluded when confidential matters on the agenda are discussed. Currently, the Board meets five to six times a year. Additional special meetings of the Board can be held if the need arises. The minutes of the Financial Investment Board are presented to the following meeting of the Investment Committee, and are posted on the City of London Corporation's website.

The principal officers of the City of London Corporation have certain statutory and formal responsibilities. The Financial Investment Board obtains and considers advice from the Chamberlain and other Corporation Officers, and as necessary from the Fund actuary, the independent investment adviser and its Investment Managers. The Board has delegated the management of the Pension Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The composition of the Financial Investment Board does not include representatives of Scheduled bodies, Admitted Body employers, Unions or Employees, or Pensioners. Also, in view of the experience and expertise across the Board, its Members do not at present generally undertake 'Trustee Training'.

The Board reviews this policy statement annually, with a revised document being re-published following any material change in the above arrangements.

An assessment of the City of London Corporation's Compliance with best practice principles as set out by the Department for Communities and Local Government follows.

**CITY OF LONDON CORPORATION PENSION FUND  
ASSESSMENT OF COMPLIANCE WITH CLG BEST PRACTICE PRINCIPLES**

	<b>Principle</b>	<b>Narrative from Guidance Note</b>	<b>Full Compliance?</b>
A	Structure	<p>(a) <i>the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</i></p> <p>(b) <i>that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</i></p> <p>(c) <i>that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i></p> <p>(d) <i>that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i></p>	<p>Yes, although there is a split committee responsibility. Management and administration of benefits rests with Establishment Committee.</p> <p>Investment management is responsibility of the Financial Investment Board.</p> <p>No.</p> <p>Representatives of scheduled bodies, admitted body employers, unions, employees or pensioners are not included on either Establishment or Investment Sub Committee.</p> <p>Reports and decisions are communicated between Committees as appropriate.</p> <p>Not applicable as no secondary committee or panel exists.</p>

	Principle	Narrative from Guidance Note	Full Compliance?
B	Representation	<p>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>(i) employing authorities (including non-scheme employers, e.g. admitted bodies)</li> <li>(ii) scheme members (including deferred and pensioner scheme members)</li> <li>(iii) where appropriate, independent professional observers</li> <li>(iv) expert advisers</li> </ul>	<ul style="list-style-type: none"> <li>) Representatives of scheduled or admitted bodies, scheme members or pensioners are not included in committee structure.</li> <li>No ) Fund does not have independent professional observer.</li> <li>) The Fund has appointed Aon Hewitt as its investment consultant, who attend all meetings of the Financial Investment Board.</li> <li>Yes</li> </ul>
C	Selection and Role of Lay Members	<p>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. (It is the role of the administering authority to make places available for lay members (i.e. non-elected members representing other employers or stakeholders) and for the groups to nominate the representatives. The lay members are not there to represent their own local, political, or private interest but owe a duty of care to their beneficiaries and are required to act in their best interests at all times.)</p> <p>(b) that at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>No - not applicable as lay members are not currently included in the composition of either the Establishment Committee or the Financial Investment Board.</p> <p>Yes - this is standard practice at all Committee meetings.</p>



Principle	Narrative from Guidance Note	Full Compliance?
D Voting	<i>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</i>	Yes - Each member holds one vote on the respective committee. No other bodies or groups are represented.
E Training / Facility Time / Expenses	<p><i>(a) that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i></p> <p><i>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i></p> <p><i>(c) that the administering authority considers the adoption of annual training plans for Committee members and maintains a log of all such training undertaken.</i></p>	Yes - Members are generally well versed in investment matters and there is no formal training policy, although individual sessions are conducted on request.
F Meetings - Frequency	<p><i>(a) that an administering authority's main committee or committees meet at least quarterly.</i></p> <p><i>(b) that an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i></p> <p><i>(c) that an administering authority who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i></p>	<p>Yes</p> <p>Yes - We have two Committees responsible for Pensions Administration and Investments, not a single main Committee.</p> <p>Not applicable as no outside forum exists.</p>

	Principle	Narrative from Guidance Note	Full Compliance?
G	Access	<i>(a) that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.</i>	Yes - Agenda papers, etc, provided to the Establishment and Financial Investment Board are available to all Members.
H	Scope	<i>(a) that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	No - The Fund does not currently use an independent professional observer, although officers monitor and advise on governance issues as appropriate.
I	Publicity	<i>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.</i>	Partial - Governance Statements and Annual Accounts are posted on the City of London website and policy documents and information is circulated to scheme members on a regular basis.

## **FUND ACCOUNT AND NET ASSET STATEMENT**

### **for the year ended 31 March 2014**

The City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the Local Government Pension Scheme (LGPS).

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined by the City of London.

#### **Accounting Policies**

- i. The pension fund statements have been prepared in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended), the LGPS (Management and Investment of Funds) Regulations 2009, and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007).
- ii. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.
- iii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- iv. Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid-market price. Other quoted investments are also valued on the basis of the bid-market value quoted on the relevant stock market.
- v. Unquoted securities in the form of private equity holdings are valued by the individual investment managers at the year end in accordance with generally accepted guidelines. The ability to realise these private equity holdings is limited until they reach maturity, and thus their values are difficult to establish as they are not readily traded and have been included on an estimated basis.
- vi. The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end. This interest is included separately within accrued investment income.
- vii. Acquisition costs are included in the purchase costs of investments.
- viii. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.
- ix. The cost of administration is charged directly to the fund.
- x. Income due from equities is accounted for on the date stocks are quoted ex-dividend.
- xi. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

- xii. Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.
- xiii. Income from other investments is accounted for on an accruals basis.
- xiv. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.
- xv. When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.
- xvi. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.
- xvii. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.
- xviii. Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.
- xix. Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before year end, and where the amount of the transfer can be determined with reasonable certainty. There were no group transfers in respect of staff in 2013/14.
- xx. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.
- xxi. Receipts to meet the augmentation costs of early retirements are included as other income.

**Fund Account and Net Assets Statement  
for the year ended 31 March 2014**

**Fund Account for the year ended 31 March 2014**


2012/13 £m		Notes	2013/14 £m
	<b>Contributions and benefits</b>		
(26.8)	Contributions receivable	2	(27.2)
(3.5)	Transfers in		(3.2)
(0.3)	Other Income		(0.4)
(30.6)			(30.8)
35.4	Benefits Payable	3	36.7
1.0	Payments to and on account of leavers	4	2.1
0.5	Administrative Expenses	5	0.6
0.0	Other Expenses	6	0.2
36.9			39.6
6.3	Net deductions		8.8
	<b>Returns on investments</b>		
(20.3)	Income from Investments	7	(23.3)
(84.2)	Change in market value of investment (realised and unrealised)		(25.7)
3.5	Investment Management Expenses	8	3.2
(101.0)	Net Returns on Investment		(45.8)
(94.7)	<b>Net increase in the fund during the year</b>		(37.0)
(614.6)	Opening net assets of the scheme		(709.3)
(709.3)	<b>Closing net assets of the scheme</b>		(746.3)

**Net Assets Statement as at 31 March 2014**

2012/13 Restated £m		Notes	2013/14 £m
(719.7)	Investment assets	9-13	(729.0)
	Current Assets	15	
0.0	Cash and cash equivalents		(17.9)
(0.1)	Debtors		0.0
	Current liabilities	16	
9.5	Overdrawn cash balances		0.0
1.0	Creditors		0.6
(709.3)	<b>Net assets</b>		(746.3)

The Net Assets Statement for 2012/13 has been restated to disclose £1.0m of investment fees creditors as a current liability which had previously been included as part of investment assets. The overall position on the net assets statement as at the 31<sup>st</sup> March 2013 remains unchanged.

The Net Assets Statement does not take account of liabilities to pay pensions and other benefits after the period end.



.....  
Peter Kane, Chamberlain of London

Date: 3 September 2014

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future which are dealt with in the periodic actuarial valuation. The last actuarial valuation was carried out as at 31 March 2013 and should be read in conjunction with these financial statements. Statements arising from the valuation can be found on pages 15 to 16.

## Notes to the Pension Fund Account and Net Assets Statement

### 1. Membership of the Fund

	2013/14				2012/13		
	Current Contributors	Beneficiaries In Receipt of Pension	Deferred Benefits	Total	Financial Statements Total	Adjustments	Revised Total
	No.	No.	No.	No.	No.	No.	No.
CITY OF LONDON	3,671	3,330	3,457	10,458	9,945	124	10,069
SCHEDULED BODIES:							
Museum of London	206	199	540	945	913	3	916
Magistrates Court	0	21	18	39	39	0	39
Probation Committee	0	3	0	3	3	0	3
	206	223	558	987	955	3	958
ADMITTED BODIES:							
Irish Society	6	9	2	17	16	0	16
City Arts Trust	0	1	0	1	1	0	1
Parking Committee for London	0	3	9	12	12	0	12
Guildhall Club	5	4	3	12	11	1	12
City Academy - Southwark	58	1	76	135	109	19	128
Sir John Cass (Brookwood)	2	0	0	2	2	0	2
Enterprise	9	3	3	15	13	2	15
E & J	0	0	1	1	0	0	0
Agilysis	25	0	1	26	1	0	1
EDTE	2	0	0	2	2	0	2
Fusion	0	0	0	0	1	0	1
1SC	0	0	1	1	0	0	0
	107	21	96	224	168	22	190
<b>GRAND TOTAL</b>	<b>3,984</b>	<b>3,574</b>	<b>4,111</b>	<b>11,669</b>	<b>11,068</b>	<b>149</b>	<b>11,217</b>

## 2. Contributions

		2013/14	2012/13
		£m	£m
<b>Employers:</b>			
Scheduled bodies	City of London	(17.96)	(17.61)
	Museum of London	(0.83)	(0.96)
Admitted bodies	Irish Society	(0.03)	(0.03)
	Guildhall Club	(0.03)	(0.03)
	City Academy - Southwark	(0.23)	(0.19)
	Other	(0.20)	(0.07)
		(19.28)	(18.89)
<b>Employees of:</b>			
Scheduled bodies	City of London	(7.33)	(7.28)
	Museum of London	(0.43)	(0.46)
Admitted bodies	Irish Society	(0.01)	(0.01)
	Guildhall Club	(0.01)	(0.01)
	City Academy - Southwark	(0.08)	(0.12)
	Other	(0.06)	(0.01)
		(7.92)	(7.89)
<b>Total Contributions</b>		<b>(27.20)</b>	<b>(26.78)</b>

AVC's are Additional Voluntary Contributions and are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and are then paid directly to the Fund Managers – Prudential, Equitable and Standard Life Investments. AVC's of £0.47m were paid in 2013/14 (2012/13: £0.58m).

In accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, these AVCs are not included in the statements of the Pension Fund Accounts.



### 3. Benefits

	2013/14	2012/13
	£m	£m
<b>Total Benefits Paid</b>		
Retired Employees		
pensions	26.2	24.8
lump sums	6.7	7.2
Lump sum on death	0.9	0.6
Widows' or Widowers' pensions	2.8	2.7
Children's pensions	0.1	0.1
	<b>36.7</b>	<b>35.4</b>

	2013/14	2012/13
	£m	£m
<b>Benefits Paid Comprises</b>		
Scheduled Bodies	36.3	35.2
Admitted Bodies	0.4	0.2
	<b>36.7</b>	<b>35.4</b>

### 4. Payments to and on account of leavers

	2013/14	2012/13
	£m	£m
Individual Transfers Out	2.1	1.0

### 5. Administrative expenses

	2013/14	2012/13
	£m	£m
Central administration	0.5	0.4
Computer costs	0.1	0.1
	<b>0.6</b>	<b>0.5</b>

Audit fees of £22,900 have been charged to the Pension Fund (2012/13: £35,000). The Audit Commission made a rebate to the Pension Fund of £2,874 in respect of the 2012/13 audit at the start of 2014/15. An accrual was raised to reflect this in 2013/14.

### 6. Other Expenses

Other expenses of £0.2m relates to miscellaneous investment payables accruing to the Artemis segregated fund at the close of 2013/14.

## 7. Income from investments

	2013/14	2012/13
	£m	£m
Fixed Interest :		
UK	(4.3)	(3.5)
Overseas	(0.9)	(0.9)
UK pooled units	(0.1)	(0.1)
Overseas pooled units	0.0	0.0
UK equities	(9.5)	(6.3)
Overseas equities	(9.5)	(10.5)
Withholding tax on overseas equities	1.0	1.0
	<b>(23.3)</b>	<b>(20.3)</b>

## 8. Investment Management Expenses

In 2013/14 the City of London Pension Fund incurred investment management expenses of £3.22m (2012/13: £3.48m) and actuarial fees of £0.03m (2012/13: £0.02m).

## 9. Investment Assets

The table below shows the movement in Market Values by asset type between 1 April 2013 and 31 March 2014.

	Market Value at 01/04/2013	Purchases at Cost	Sales Proceeds	Net (gain)/loss	Market Value at 31/03/2014
	£m	£m	£m	£m	£m
<b>Managed Investments</b>					
Fixed interest securities:					
UK	(85.8)	(29.2)	29.6	4.4	(81.0)
North America	(29.0)	(22.9)	18.3	3.9	(29.7)
Europe	(6.6)	(7.8)	7.1	0.4	(6.9)
Pooled Units					
UK	(2.0)	(161.3)	9.4	2.8	(151.1)
Global	0.0	(378.0)	6.6	(7.2)	(378.6)
Listed Equities:					
UK	(160.5)	(220.6)	359.7	(11.2)	(32.6)
Europe	(115.6)	(135.2)	247.0	(9.2)	(13.0)
North America	(209.7)	(210.3)	426.5	(10.6)	(4.1)
Japan	(16.3)	(21.6)	35.6	0.8	(1.5)
Pacific (Ex-Japan)	(29.2)	(23.4)	37.2	2.9	(12.5)
Emerging Markets	(11.5)	(4.8)	13.0	0.5	(2.8)
Other	(9.6)	(1.0)	10.4	0.2	0.0
Derivatives	0.0	(0.1)	0.6	(0.5)	0.0
Private Equity	(9.8)	(2.0)	1.4	(0.2)	(10.6)
<b>Total Managed Investments</b>	<b>(685.6)</b>	<b>(1,218.2)</b>	<b>1,202.4</b>	<b>(23.0)</b>	<b>(724.4)</b>
Fund Managers Cash	(30.4)			(2.7)	(1.7)
Accrued Income	(3.7)				(3.1)
Investment Creditor	0.0				0.2
<b>Total Investment assets</b>	<b>(719.7)</b>				<b>(729.0)</b>

## 10. Fair Value of Financial Instruments

### a. Classification of Financial Instruments

	31 March 2014	31 March 2013
	£m	£m
<b>Financial Assets</b>		
Fixed Interest Securities	(117.6)	(121.4)
Equities	(66.5)	(552.4)
Pooled Investments	(529.7)	(2.0)
Private Equity/Infrastructure	(10.6)	(9.8)
Cash	(1.7)	(30.4)
Debtors	(3.1)	(3.7)
	(729.2)	(719.7)
<b>Financial Liabilities</b>		
Creditors	0.2	0.0
	0.2	0.0
	(729.0)	(719.7)

### b. Net (Gains) and Losses on Financial Instruments

	31 March 2014	31 March 2013
	£m	£m
<b>Financial Assets</b>		
Fair value through profit and loss	(25.7)	(84.2)
<b>Financial Liabilities</b>		
Fair value through profit and loss	0.0	0.0
	(25.7)	(84.2)

### c. Fair Value

	31 March 2014	31 March 2014	31 March 2013	31 March 2013
	£m	£m	£m	£m
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial Assets</b>				
Fair value through profit and loss	(726.1)	(726.1)	(685.6)	(685.6)
Loans and receivables	(3.1)	(3.1)	(34.1)	(34.1)
	(729.2)	(729.2)	(719.7)	(719.7)
<b>Financial Liabilities</b>				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.2	0.2	0.0	0.0
	0.2	0.2	0.0	0.0

#### d. Valuation of Financial Instruments Carried at Fair Value

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

##### Level 1

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

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

##### Level 2

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

##### Level 3

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

Such instruments would include unquoted equity investments and hedge funds which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which City of London Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

**Values as at 31 March 2014**

	<b>Quoted Market Price Level 1 £m</b>	<b>Using Observable Inputs Level 2 £m</b>	<b>With Significant Unobservable Inputs Level 3 £m</b>	<b>Total £m</b>
<b>Financial Assets</b>				
Fair value through profit and loss	(715.5)	0.0	(10.6)	(726.1)
Loans and receivables	(3.1)	0.0	0.0	(3.1)
	<b>(718.6)</b>	<b>0.0</b>	<b>(10.6)</b>	<b>(729.2)</b>
<b>Financial Liabilities</b>				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.2	0.0	0.0	0.2
	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Net Financial Assets</b>	<b>(718.4)</b>	<b>0.0</b>	<b>(10.6)</b>	<b>(729.0)</b>

**Values as at 31 March 2013**

	<b>Quoted Market Price Level 1 £m</b>	<b>Using Observable Inputs Level 2 £m</b>	<b>With Significant Unobservable Inputs Level 3 £m</b>	<b>Total £m</b>
<b>Financial Assets</b>				
Fair value through profit and loss	(675.8)	0.0	(9.8)	(685.6)
Loans and receivables	(34.1)	0.0	0.0	(34.1)
	<b>(709.9)</b>	<b>0.0</b>	<b>(9.8)</b>	<b>(719.7)</b>
<b>Financial Liabilities</b>				
Fair value through profit and loss	0.0	0.0	0.0	0.0
Loans and payables	0.0	0.0	0.0	0.0
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Financial Assets</b>	<b>(709.9)</b>	<b>0.0</b>	<b>(9.8)</b>	<b>(719.7)</b>

## 11. Movements in Investment Assets

	Value at 01/04/2013 £m	Purchases at Cost £m	Sales Proceeds £m	Net (gain)/loss £m	Value at 31/03/2014 £m
LSV Segregated	(68.3)	(6.4)	77.6	(2.9)	(0.0)
Pyrford Segregated	(185.4)	(60.8)	52.8	9.3	(184.1)
Southeastern Segregated	(170.9)	(4.3)	182.9	(7.7)	(0.0)
Wellington Segregated	(121.5)	(25.5)	150.4	(3.4)	0.0
Artemis Segregated	(129.5)	(42.7)	182.4	(10.2)	0.0
Transition Fund	(0.2)	(543.2)	547.7	(4.3)	(0.0)
Artemis Pooled	0.0	(77.7)	1.2	2.0	(74.5)
Southeastern Pooled	0.0	(78.7)	1.2	(2.4)	(79.9)
Wellington Pooled	0.0	(79.6)	1.2	(0.5)	(78.9)
Carnegie Pooled	0.0	(78.8)	1.2	(1.5)	(79.1)
GMO Pooled	0.0	(79.4)	1.2	1.5	(76.7)
Veritas Pooled	0.0	(79.2)	1.2	(0.7)	(78.7)
Standard Life Pooled	0.0	(60.0)	0.0	(2.1)	(62.1)
Environmental Technologies	(1.4)	(0.1)	0.0	0.4	(1.1)
Standard Life Private Equity	(6.8)	(1.5)	1.0	(0.4)	(7.7)
Yorkshire Fund Managers	(1.6)	(0.3)	0.4	(0.1)	(1.6)
<b>Total Investments</b>	<b>(685.6)</b>	<b>(1,218.2)</b>	<b>1,202.4</b>	<b>(23.0)</b>	<b>(724.4)</b>
Fund Managers Cash	(30.4)			(2.7)	(1.7)
Accrued Income	(3.7)				(3.1)
Investment Creditors	0.0				0.2
<b>Closing Balance</b>	<b>(719.7)</b>				<b>(729.0)</b>

## 12. Risk and Risk Management

The Pension Fund has as its main priority the security of its investments enabling it to meet its liabilities by paying any benefits due to its members. It is therefore important to manage the overall investment risk and in so doing to minimise the possibilities of a decreasing market value of its assets.

The fund's investments are actively managed by five main external fund managers who are charged with the responsibility to increase asset values, whilst maintaining market risk to acceptable levels. They achieve this mainly through diversification of stock portfolios across several geographical locations and various industrial sectors and asset classes. The managers' investing practices are controlled by pre-defined levels of tolerance.

Concentration risk is also controlled and monitored with a maximum proportion cap over the levels held in individual stocks as a set percentage of each manager's overall portfolio of stocks.

As part of each of the external fund managers' investing there is also a strict adherence to the principles of liquidity risk management in order to ensure cash flow requirements are met as and when they fall due.

All of the investing policies and practices are reviewed regularly after thorough consideration of economic and market conditions, and overall care is taken to identify, manage and control exposure to equity and bond price movements.

### 13. Sensitivity Analysis

By taking the data available from the past three financial years, and making considered predictions of expected returns, in consultation with State Street Analytics, which is the firm the City of London uses for performance measurement, the following movements in market price risk would have been reasonably possible as at 31 March 2014.

#### Potential Market Movements

Asset Type	% Change
Equities	
UK	9.79%
Overseas	12.46%
Bonds	
UK	1.27%
Overseas	5.43%
Multi-Asset	4.43%
Cash	0.02%

The potential percentage allowance for changes in asset values are within a one-standard deviation tolerance. Taking these changes, the potential increase/decrease in the market prices of the fund's assets are derived, and provide a range of possible net asset values which would be available to meet the fund's liabilities.

#### Price Risk 31 March 2014

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Equities				
UK	185.4	9.79	203.6	167.2
Overseas	421.4	12.46	473.9	368.9
	606.8			
Bonds				
UK	81.0	1.27	82.0	80.0
Overseas	36.6	5.43	38.6	34.6
Cash	1.7	0.02	1.7	1.7
<b>Total Assets</b>	<b>726.1</b>			

The percentage change for equities includes a grouping of listed and private equities and the equity funds categorised elsewhere as pooled unit trusts. The percentage change for bonds includes a grouping of government and corporate fixed interest securities. Separate consideration of the individual asset types is not available.



## Currency Risk

This represents the risk of foreign exchange rate movements affecting the value of the various asset classes held in non-sterling currencies. The following table summarises the position as at 31 March 2014.

Currency	Value £m	Change %	Value on Increase £m	Value on Decrease £m
North America Investments	219.6	7.6	236.3	202.9
Europe Ex UK Investments	111.8	6.0	118.5	105.1
Asia Pacific Investments	53.9	7.2	57.8	50.0
Emerging Investments	18.8	6.4	20.0	17.6
Global Ex UK Investments	404.1		432.6	375.6
<b>Overseas Total</b>	<b>404.1</b>		<b>432.6</b>	<b>375.6</b>
UK Investments & Cash	322.0	-		
<b>Overall</b>	<b>726.1</b>			

The following analyses show a comparison of the same sensitivities but for the year ending 31 March 2013.

## Potential Market Movements

Asset Type	% Change
Equities	
UK	10.00%
Overseas	12.70%
Bonds	2.50%
Cash	0.00%

## Price Risk 31 March 2013

Asset Type	Value £m	Change %	Value on Increase £m	Value on Decrease £m
Equities				
UK	176.9	10.00	194.6	159.2
Overseas	387.3	12.70	436.5	338.1
Bonds				
UK	85.8			
Overseas	35.6			
Total Bonds	121.4	2.50	124.5	118.4
Cash	30.4	-	30.4	30.4
<b>Total Assets</b>	<b>716.0</b>		<b>786.0</b>	<b>646.1</b>

## Currency Risk

Currency	Value £m	Change %	Value on Increase £m	Value on Decrease £m
North America Investments	238.1	8.3	257.9	218.4
Europe Ex UK Investments	127.7	7.2	136.9	118.5
Asia Pacific Investments	47.0	7.4	50.4	43.5
Emerging Investments	10.1	6.4	10.7	9.4
Global Ex UK Investments	422.9		455.9	389.8
<b>Overseas Total</b>	<b>422.9</b>		<b>455.9</b>	<b>389.8</b>
UK Investments & Cash	293.1	-		
<b>Overall</b>	<b>716.0</b>			

### **14. Independent Custodian**

The independent custodian, Bank of New York Mellon, is responsible for its own compliance with prevailing legislation, providing monthly accounting data summarising details of all investment transactions during the period, settlement of all investment transactions, collection of income and tax reclaims.

### **15. Current assets**

Current assets represent cash balances of £17.9m.

### **16. Current liabilities**

Current liabilities represent accruals for investment management expenses and custodian fees. Current liabilities for 2012/13 have been restated to include £1.0m of creditors for investment management fees that had previously been netted off against investment assets.

### **17. Statement of Investment Principles**

The City of London has prepared a Statement of Investment Principles, which governs decisions relating to investments and can be found on pages 51 to 61.

### **18. Funded Obligation of the Overall Pension Fund**

The actuarial present value of promised retirement benefits (the Funded Obligation) amounts to £1,147.7m as at 31 March 2014 (£1,072.1m as at 31 March 2013). The Funded Obligation consists of £1,053.3m in respect of Vested Obligation and £94.4m of Non-Vested Obligation. These figures have been prepared by the fund actuary (Barnett Waddingham LLP) in accordance with IAS26. In calculating the disclosed numbers, the actuary has adopted methods and assumptions that are consistent with IAS19.

### **19. Employer-related Investment**

During the period there were no employer-related investments within the meaning of Section 40(2) of the Pensions Act 1995 (2013: Nil).

### **20. Actuarial Liability**

Disclosures in relation to the overall scheme which satisfy the requirements of a defined benefit pension scheme are given below for information. The information is not used to determine the employer's pension contribution rate. This is calculated at the triennial valuation and updated by any subsequent interim valuations.

**Assets and Liabilities in Relation to Retirement Benefits**

a. Reconciliation of present value of the scheme liabilities

<b>To 31 March 2014</b>		
	<b>2013/14 £M</b>	<b>2012/13 £M</b>
1 April	(1,072.1)	(979.4)
Current service cost		
- Employers share	(27.1)	(24.8)
- Employees Share	(8.0)	(7.9)
Interest Cost	(47.6)	(44.5)
Change in Financial Assumptions	(13.4)	(47.4)
Change in Demographic Assumptions	(39.2)	-
Experience (Loss)/Gain on defined benefit obligations	24.5	-
Past service costs including curtailments	(0.6)	(0.3)
Estimated Benefits Paid Net of Transfers In	35.8	32.2
Unfunded pension payments	-	-
<b>31 March</b>	<b>(1,147.7)</b>	<b>(1,072.1)</b>

b. Reconciliation of fair value of the scheme assets

<b>To 31 March 2014</b>		
	<b>2013/14 £M</b>	<b>2012/13 £M</b>
1 April	698.5	598.4
Interest on Assets	31.2	27.4
Return on Assets less Interest	(6.1)	78.6
Other Actuarial Gains/(Losses)	11.0	-
Contributions by Scheme Participants	8.0	7.9
Est Benefits paid plus unfunded net of transfers in	(35.8)	(32.2)
Administration Expenses	(0.5)	(0.4)
Contributions by Employer including Unfunded	19.4	18.8
<b>31 March</b>	<b>725.7</b>	<b>698.5</b>

For accounting years beginning on or after 1 January 2013 the expected return and the interest cost will be replaced with a single interest cost which will effectively set the return equal to the discount rate.

The actual return on scheme assets in the year was +5.9% (2012/13: +17.4%).

*Basis for Estimating Assets and Liabilities*

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham) using the projected unit method, based upon the latest full valuation of the scheme as at 31 March 2013 and updated to the balance sheet date. The main assumptions used in the calculations are set out below.

	2013/14	2012/13
Mortality assumptions:		
Life expectancy in years from age 65		
Retiring today		
Men	22.9	19.2
Women	25.2	23.2
Retiring in 20 years		
Men	24.6	21.1
Women	27.1	25.1
Price Increases	2.8%	2.6%
Salary Increases	4.3%	4.8%
Pension Increases	2.8%	2.6%
Discount Rate	4.4%	4.5%
Take-up of option to convert annual pension into retirement lump sum	75.0%	50.0%

Scheme assets consist of the following categories, by proportion of the total assets held:

	31 March 2014	31 March 2013
	%	%
Equity investments	83	79
Gilts	11	16
Other Bonds	5	1
Cash	1	4
	<b>100</b>	<b>100</b>

## BENCHMARKING REPORT

### Pension Fund Investment Performance

The investment performance of the Pension Fund is subject to regular monitoring by City Officers, the independent investment adviser and the Investment Sub Finance Committee. In addition, an independent financial monitoring service is provided by WM Performance Services, a State Street business. The Pension Fund investment performance is benchmarked against the WM All Funds Universe on an ex-property basis. This universe is the largest available Universe of UK Pension Funds and is the most comprehensive representation of the UK Pension Fund industry. The WM All Funds Universe currently accounts for over 66% of all UK Pension Fund assets.

Similarly, individual Fund Manager performance is monitored in the same way with financial returns being analysed against the nearest comparable benchmark.

	2013/14 %	Last 3 Years % p.a.	Last 5 Years % p.a.
<b>Pension Fund Returns</b>			
Fund Return	+5.9	+8.2	+13.5
Benchmark	+4.1	+7.9	+12.2
Relative Return	+1.8	+0.3	+1.3
Percentile Ranking in WM Universe	40	45	35
<b>Outperformance attributable to:</b>			
Asset Allocation	+1.3	-0.4	+1.2
Stock Selection	+0.5	+0.7	+0.1

## Individual Fund Manager Performance

With effect from February 2014, the equity fund manager structure changed. One fund manager engagement was discontinued and three new fund managers were added. The funds were moved from segregated mandates to pooled mandates. Consequently there is no historic information to provide benchmarks for these new mandates. The table below shows performance under the previous structure for the year to 31 December 2013.

	2013 %	Last 3 Years % p.a.	Last 5 Years % p.a.
<b>Artemis</b>			
- Portfolio Return (Multi-Asset)	+24.2	+13.0	+14.0
- Benchmark (FTSE All Share)	+20.8	+9.4	+14.3
- Relative Return	+3.4	+3.6	-0.3
<b>LSV</b>			
- Portfolio Return (Global Equity)	+23.7	+7.7	+11.7
- Benchmark (MSCI World ex USA)	+19.3	+5.9	+9.9
- Relative Return	+4.4	+1.8	+1.8
<b>Southeastern</b>			
- Portfolio Return (Global Equity)	+30.7	+8.9	+13.3
- Benchmark (FTSE All World)	+21.0	+8.2	+12.4
- Relative Return	+9.7	+0.7	+0.9
<b>Wellington</b>			
- Portfolio Return (US Equity)	+27.0	+14.6	+13.6
- Benchmark (Russell 1000 Value)	+30.1	+13.9	+13.4
- Relative Return	-3.1	+0.7	+0.2

There has been no change to the multi asset fund manager and the performance data for the year ended 31 March 2014 is set out below.

	2013/14 %	Last 3 Years % p.a.	Last 5 Years % p.a.
<b>Pyrford</b>			
- Portfolio Return ((Multi-Asset)	+0.7	+4.2	+7.1
- Benchmark (WM All Funds ex Property)	+3.8	+6.8	+11.4
- Relative Return	-3.1	-2.6	-4.3

# FUNDING STRATEGY STATEMENT

## Introduction

This is the Funding Strategy Statement (FSS) of the Corporation of London Pension Fund ("the Pension Fund"), which is administered by the Corporation of London as the Administering Authority. It has been prepared in collaboration with the Fund's actuary and after consultation with the Fund's employers and investment adviser.

## Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:-

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant – see Annex 1);
- the Rates and Adjustments Certificate, which is appended to the Fund's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

## Purpose of the Funding Strategy Statement in policy terms

The Office of the Deputy Prime Minister (ODPM) has stated that the purpose of the FSS is:-

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

These objectives are desirable individually, but may be mutually conflicting. This statement, therefore, sets out how the Corporation has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

## Aims and purpose of the Pension Fund.

The aims of the Fund are to:-

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- manage employers' liabilities effectively;

- ensure that sufficient resources are available to meet all liabilities as they fall due; and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:-

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;

as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

### **Responsibilities of the key parties**

The sound management of the pension fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the fund, the following may be considered to be of particular relevance for inclusion as a specific reference:-

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

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- notify employers of the expected timing of key events and actions related to completion of the valuation process;
- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP.

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

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

#### **The Fund actuary should:-**

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS;
- agree a timetable for the valuation process with the administering authority to provide timely advice and results; and



- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

### Solvency issues and key funding levels

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the rate or volatility of variations in employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments.

As stated above, the purpose of the funding strategy is to draw these issues together to seek to achieve a funding level close to 100% over a reasonable period of time and within the prudential framework in which the Fund operates.

The Pension Fund, unlike many administering authorities in the LGPS, contains only ten active employers but nevertheless the Corporation is cognisant of the need to adopt a balanced approach to potential deficit recovery in order to ensure a smoothed and balanced approach. This approach recognises that individual employers need to consider carefully the impact of higher contribution rates against their ability to maintain current service levels and/or raise additional revenue to finance forecast deficits. Previously, a period equal to the remaining working lifetime of active members has been adopted, i.e., approximately twelve years. However, in view of the need to ensure a smoothed and stepped plan of recovery whilst providing a minimal impact on Corporation resources and those of the other admitted and scheduled bodies within the Pension Fund, the 2013 valuation has been based on deficit recovery of 20 years.

The balanced approach to recovery referred to above has been formulated after the outcome of the 2013 valuation was established. The underlying funding principles have been based on the following assumptions:-

### Financial Assumptions

	March 2013	
	% p.a.	Real % p.a.
Discount Rate	6.0	2.5
Retail Price Inflation	3.5	0.0
Pay Increases	4.2	0.7
Consumer Price Inflation	2.7	(0.8)
Pension Increases	3.0	0.5

### Staff Turnover and Requirements

Employers will manage early retirement costs to minimise extra costs falling on the Pension Fund.

The capitalised cost of early retirements, other than on ill-health terms, before age 60 or achievement of the extant *Rule of 85* if later, will be funded by the employer.

### Longevity

Life expectancy is based upon national tables adjusted to reflect local experience

## **Contribution Phasing**

The employer's contribution rate applicable to its employees is 17.5% for the financial years 2014/15, 2015/16 and 2016/17.

## **Deficit Recovery Period**

With effect from 1 April 2013 the deficit recovery period has been set at 20 years.

## **Links to investment policy**

Funding and investment strategy are inextricably linked. Investment strategy is set after taking investment advice, to reflect the liabilities of the fund and these may be set to achieve the funding strategy. Details of the Corporation's investment strategy are contained in its SIP.

The Corporation does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of each sub-fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions.

The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset resulting apportionment is capable of verification but not to audit standard.

The current investment strategy is set out in the published Statement of Investment Principles.

## **Key risks and controls**

The Corporation has an active risk management programme in place to control key financial, demographic, regulatory, and governance risks. This is summarised in Annex 2.

## **Monitoring and review**

The performance of the Fund is monitored regularly.

The key funding principles will be monitored on an annual basis by the Financial Investment Board and a statement of significant variance will be incorporated into the actuarial report as part of the Corporation's annual report and accounts.

As a policy statement, the FSS is reviewed in detail ahead of triennial valuations being carried out, with the next full review due to be started by 31 March 2016 in order to inform the valuation process due as at that date.

**EXTRACT FROM THE LGPS REGULATIONS****76A Funding strategy statement**

(1) Each Administering Authority shall, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement setting out their funding strategy.

(2) In preparing and maintaining the statement, the Administering Authority shall have regard to:

(a) the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement (Guidance note issue No. 6)"; and

(b) the statement of investment principles published by the Administering Authority under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

(3) The first such statement shall be published on or before 31st March 2005.

(4) The statement shall be revised and published by the Administering Authority following, and in accordance with, any

(a) material change in their policy on the matters set out in the statement; and

(b) material change to the statement of investment principles under regulation 9A(4) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

**77 Actuarial valuations and certificates**

(1) Each Administering Authority must obtain

(a) an actuarial valuation of the assets and liabilities of each of their pension funds as at 31st March in 1998 and in every third year afterwards,

(b) a report by an actuary, and

(c) a rates and adjustments certificate.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A rates and adjustments certificate is a certificate specifying

(a) the common rate of employer's contribution, and

(b) any individual adjustments, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(4) The common rate of employer's contribution is the amount which in the actuary's opinion should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who

are active members.

- (5) The actuary must have regard
  - (a) to the existing and prospective liabilities of the fund arising from circumstances common to all those bodies, and
  - (b) to the desirability of maintaining as nearly constant a rate as possible.
- (5A) The actuary must have regard to the administering authority's funding strategy statement published under regulation 76A.
- (6) An individual adjustment is any percentage or amount by which in the actuary's opinion contributions at the common rate should in the case of a particular body be increased or reduced by reason of any circumstances peculiar to that body.
- (7) A rates and adjustments certificate must contain a statement as to the assumptions on which the certificate is given as respects
  - (a) the number of members who will become entitled to payment of pensions under provisions of the Scheme, and
  - (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.
- (8) A report under paragraph (1)(b) must contain a statement as to the demographic assumptions used in making the valuation, showing how they relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.
- (9) The authority must provide the actuary preparing a valuation or a rates and adjustment certificate with the consolidated revenue account of the fund and such other information as he requests.
- (10) The authority must send copies of any valuation, report or certificate under this regulation or revision under regulation 78
  - (a) to the Secretary of State,
  - (b) to each body with employees who contribute to the fund in question, and
  - (c) to any other body which is or may become liable to make payments to that fund.
- (11) They must also send the Secretary of State
  - (a) a copy of the consolidated revenue account with which the actuary was provided under paragraph (9), and
  - (b) a summary of the assets of the fund at the valuation date (unless such a summary is contained in the report)

ANNEX 2

Risk Details	Gross Risk		Risk Owner/ Lead Officer	Existing Controls	Net Risk			Planned Action	Control Evaluation/O wner
	Likelihood	Impact			Likelihood	Impact	Risk Status & Direction		
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	3	4	Corporate Treasurer	Anticipate long-term return on a prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations and the consequent impact on employers. Inter-valuation roll-forward of liabilities between formal valuations, monitored on an annual basis against returns .	2	3	A ↓	Continued application of existing controls	G Corporate Treasurer
Active investment manager under-performance relative to mandate requirement over medium term	3	3	Corporate Treasurer	Regular investment monitoring. Analysis against assumptions underpinning the valuation.	2	2	G ↔	Continued application of existing controls	G Corporate Treasurer
Changing patterns in relation to early retirement.	4	3	Chamberlain	Employers are charged the extra capital cost of non ill health retirements on each decision. Employer ill health retirement experience is monitored between	1	3	G ↔	Continued application of existing controls	G Pensions Manager

Risk Details	Gross Risk		Risk Owner/ Lead Officer	Existing Controls	Net Risk			Planned Action	Control Evaluation/O wner
	Likelihood	Impact			Likelihood	Impact	Risk Status & Direction		
Uncertainty regarding regulations for scheme governance.	4	3	Business Support Director	valuations.  Key officers up to date with proposals/draft regulations.	2	2	Further discussion to review options for constitution of a Local Pensions Board.	<b>G</b> Head of Payments and Support Services	

KEY	1	2	3	4	5	Control Evaluation:
Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain	R: Existing controls are not satisfactory
Impact	Insignificant	Minor	Moderate	Major	Catastrophic	A: Existing controls require improvement/Mitigating controls identified but not yet implemented fully
	Direction relates to change in assessment since last review (up/down/no change)					G: Robust mitigating controls are in place with positive assurance as to their effectiveness

# **CITY OF LONDON PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES**

## **1. Introduction**

The purpose of the Statement of Investment Principles ('the Statement') is to document the principles, policies and beliefs by which the City of London Corporation's Investment Committee (working through the Financial Investment Board ('the Board')) manages the City of London Pension Fund's ('the Fund') assets. The document takes account of:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- The requirements of the Pensions Act 2004
- The requirements of the Occupational Pension Schemes (Investment) Regulations 2005
- The principles of the Myners Code
- CIPFA guidance

The Local Government Pension Scheme ('LGPS'), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

The City of London Corporation is the Administrating Authority for the Fund.

The Financial Investment Board consulted with and received advice from the Fund's investment consultant, Aon Hewitt, on this statement.

There are close links between this statement and two other statements. The Funding Strategy Statement ('FSS') sets out the main aims of the Fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund.

A copy of this Statement will be sent to each investment manager hired by the Fund, the auditor, the actuary and the investment consultant.

The Statement will be reviewed annually and when there is a significant change in the Fund's circumstances.

## **2. Governance**

The City of London Corporation's Court of Common Council and Finance Committee have delegated the investment management responsibility of the Fund to the Investment Committee which in turn has charged the detailed investment arrangements to the Financial Investment Board. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- on-going monitoring and evaluation of the investment arrangements.

The Financial Investment Board is made up of 12 – 14 Members of the Investment Committee, comprising elected councillors.

The Financial Investment Board is empowered to co-opt people with relevant expertise or experience, including non-Members of the Court of Common Council, to assist in its deliberations.

There is provision within Standing Orders to enable the Chairman of the Financial Investment Board to report on and speak on their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

Members of the Financial Investment Board recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), together with local Council Tax Payers.

## **2.1 Advice and Consultation**

Members of the Board receive independent investment advice from the following source:

- Aon Hewitt – analysis and advice of a technical nature in relation to all investment related aspects of the Fund including (but not limited to) portfolio construction, manager monitoring and appointment, and interpretation of performance measurement information.

The Chamberlain has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Board, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

## **2.2 Liabilities**

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary of members. The Fund is a contributory defined benefit arrangement, with active members and contributing employing authorities.

The value of the Fund's on-going liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund's investment policy are:

- the rate of return on assets;
- salary escalation for active members;
- price inflation for pensioners; and
- long-term interest rates.

## **2.3 Maturity and Cashflow**

The Fund remains open to new members and new accruals. Contributions are received from both active members and Employing authorities. Active members contribute on a tiered system. Employing authorities contributions are determined based on advice from the Fund's actuary based on the triennial valuation. The maturity profile of the Fund is broadly balanced between active members, current and deferred payment of pensions to former employees. Therefore, there is unlikely to be a substantial outflow of monies over the medium to long term.



### **3. Objectives**

The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

### **4. Risks**

The Financial Investment Board regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Financial Investment Board has considered the following key risks:

- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk; and
- custody risk.

In terms of magnitude, the Board considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Board will conduct an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Board considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Board to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions, etc), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds. Each investment manager appointed by the Board is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and/or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the on-going risk management for the Fund.

## **5. Strategic Asset Allocation**

The Board regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Board retains direct responsibility for this decision which is made on the advice of their investment adviser.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Board formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments; and
- the suitability of particular investment and types of investment.

The Board will consider a full range of investment opportunities including:

- quoted and unquoted private equity;
- government and non-government bonds;
- property; and
- hedge funds and other alternative investments.

The Board further considers the legality of all investments for compliance with the LGPS.

The Board determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund's actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund's objectives.

### **5.1 Expected return on investments**

The study takes into account the particular liabilities of the Fund.

In addition to a full specification of the fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (particularly index-linked gilts) is more closely linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for

each asset class are shown in the table below, and are based on Aon Hewitt's Capital Market Assumptions as at 31 March 2014

Asset class	10 Year Expected Return %	10 Year Volatility %
UK Equities	7.6	22.5
US Equities	6.8	21.0
Europe ex-UK Equities	6.9	22.5
Japan	6.5	22.5
Emerging Markets	8.6	31.5
UK Property	7.3	16.0
UK Gilts (15 year duration)	2.5	11.0
UK Investment Grade Corporate Bonds	3.2	9.0
UK Index-Linked Gilts (15 year duration)	1.5	9.0
Global Fund of Hedge Funds	5.3	8.0
Global Private Equity	9.6	29.0
Inflation (CPI)	2.5	-

## 5.2 Current Strategy

The investment style is to appoint expert fund managers with clear performance targets aligned to the Fund's requirements. In order to achieve this objective and to ensure diversification by asset class and style, the City of London Corporation has a number of investment managers. The aim is to invest assets prudently to ensure that the benefits promised are provided as far as can reasonably be expected. The asset allocation selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Fund's liabilities.

## 5.3 Currency hedging policy

The Board considers currency risk as an unrewarded risk – one that is expected to increase the volatility of the Fund, but not increase return. Certain fund managers have been granted authority to hedge the currency risks attached to their investment portfolios when they consider this to be desirable. The Fund's investment consultant, Aon Hewitt, will provide advice on the level and timing of any future currency hedging programme.

## 6. Implementation

The Board has appointed investment managers to manage the Fund's investments as set out in the Appendix.

The Board believe the use of active management within the Fund will increase the likelihood that its objectives will be met.

The Board does not use passive management because it believes the extra risk and costs of active management is beneficial for the Fund.

The activities of each manager are governed through written contracts such as policy documents or Investment Management Agreements. This includes details on the portfolio performance objectives and risk limits as well as information on permissible investments.

## **6.1 Selection and realisation of investment**

Each investment manager has full discretion in terms of stock selection within the constraints agreed with each manager. The majority of investments held within the Fund are pooled investments with daily liquidity. The City's Private Equity and Infrastructure investments are relatively illiquid and may take longer to realise, if required.

The current list (as at 31 March 2014) of investment managers and pooled funds used with a view to implementing the above strategy is set out in the Appendix A to this document. The Appendix is included for information only, and does not form part of the Statement of Investment Principles.

## **6.2 Security lending**

The Fund does not have a security lending policy in place.

## **6.3 Custody**

The Board regards the safekeeping of the Fund's assets as of paramount importance and has appointed BNY Mellon asset servicing company as global custodian and record-keeper of the Fund's asset.

## **7. Review and Control**

The Board are satisfied that they have adequate resources to monitor the investment arrangements.

### **7.1 Performance Measurement**

The Board monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the Fund and asset classes together with supporting analysis.
- The performance of the total Fund and the managers is also measured against the nearest comparator index.

### **7.2 Service Provider Monitoring**

The Board reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

## **8. Environmental, Social and Governance and Exercise of Rights**

The Fund has an overriding fiduciary duty to maximise investment returns for the benefit of the pension fund members and considers proactive engagement with the companies in which it invests to be the most effective means of understanding and influencing the social, environmental and business policies of those companies.

The Board expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance.

The Fund expects companies to:

- demonstrate a positive response to all matters of social responsibility;
- take environmental matters seriously and produce an environmental policy on how their impact can be minimised;
- monitor environmental impacts and take all reasonable and practical steps to reduce environmental damage;
- make regular and detailed reports of progress on environmental issues available to shareholders;
- openly discuss the environmental impacts of their business with shareholders;
- establish procedures that will incrementally reduce their environmental impact; and
- comply with all environmental and other relevant legislation and seek to anticipate future legislative requirements.

The Fund is also a member of the Local Authorities Pension Fund Forum (LAPFF) which seeks to combine like-minded bodies to promote the above issues. At present, 60 local authorities are members of this forum, with a combined asset value in excess £125b.

### **8.1 Myners Investment Principles**

Details to the extent to which the Board complies with the six Myners principles and the extent to which management and investment arrangements at the City comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply are set out in Appendix B.

## **9. Investment Manager and Adviser Fees**

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective written contracts.

## Appendix A

### Investment Managers

Fund assets are invested in portfolios managed by external investment managers shown in the table below. They are benchmarked against the indicated indices. The table shows whether portfolios are managed on a segregated or pooled basis, and their performance target. Based on expert advice, investment managers may be replaced at any time and this list may not always be current.

This appendix shows the position at 31 March 2014. It has been appended to the Statement of Investment Principles for information only, and does not form part of the Statement.

Active Portfolios				
Investment Manager	Asset Class	Comparator Index	Segregated or Pooled	Target
Artemis Investment Management Ltd	UK equity	FTSE All Share	Pooled	Income and growth based
Grantham, Mayo, Van Otterloo & Co. (GMO)	UK equity	FTSE All Share	Pooled	Income and growth based
Carnegie Asset Management	Global equities	MSCI AC World NDR	Pooled	Income and growth based
Southeastern Asset Management	Global equities	MSCI AC World	Pooled	Income and growth based
Veritas Asset Management	Global equities	MSCI World	Pooled	Income and growth based
Wellington Asset Management	Global equities	MSCI World	Pooled	Income and growth based
Pyrford International	Multi-asset	WM All Funds (ex property)	Segregated	Income and growth based
Standard Life Investments	Multi-asset	6 Month LIBOR	Pooled	Income and growth based
IFM Global Infrastructure (UK) LP #	Infrastructure	Net portfolio return of at least 10% p.a. long term	Pooled	Income and growth based
Environmental Technologies Fund Managers LLP	Private equity	Broad public equities index	Pooled	Absolute return
New Mountain Capital LLC #	Private equity	Broad public equities index	Pooled	Absolute return
NCM Management (UK) Ltd	Private equity	Broad public equities index	Pooled	Absolute return
Standard Life Investments Private Equity Ltd	Private equity	Broad public equities index	Pooled	Absolute return
Yorkshire Fund Managers Venture Finance Ltd	Private equity	Broad public equities index	Pooled	Absolute return

# As at 31 March 2014 commitments had been made to these Funds but no monies had been invested

Appendix B

Principle	Comply or explain	Comment/Examples	Development Needs
<p><b>1. Effective decision making</b>            Administrating authorities should ensure that:</p> <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.</li> </ul>	<p>Comply</p>	<p>Financial Investment Board takes decisions relating to setting investment objectives and strategic asset allocation, and the appointment of investment managers. Board members and officers participate in training, as appropriate, attend educational seminars and receive occasional papers and presentations at Committee meetings. The training requirements of new Board members are addressed and appropriate training programmes made available if necessary.</p>	
<p><b>2. Clear objectives</b></p> <ul style="list-style-type: none"> <li>• An overall investment objective should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</li> </ul>	<p>Comply</p>	<p>A Fund specific investment objective is set to maintain a funding level at, or close to, 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process.            Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.</p>	
<p><b>3. Risk and liabilities</b></p>	<p>Comply</p>	<p>Asset/Liability review is carried out every three years and</p>	

<ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>		<p>the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant.</p>	
<p><b>4. Performance assessment</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>	<p>Partial compliance – Fund needs to develop monitoring procedures for own effectiveness.</p>	<p>Target performance and risk are explicitly included in manager contracts and formal and rigorous performance appraisal procedures at both officer and member level are carried out on at least a quarterly basis.</p>	<p>Consideration to be given to developing monitoring procedures for advice of consultants and effectiveness of the Board.</p>



<p><b>5. Reasonable ownership</b> Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt or ensure their investment managers adopt the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents;</li> <li>• include a statement of their policy on responsible ownership in the statement of investment principles;</li> <li>• report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p>Partial compliance – Fund needs to develop reporting procedures for Members.</p>	<p>The Statement includes a statement on responsible ownership.</p> <p>Managers are required to engage with companies on socially responsible issues and voting at company meetings is effected through their instructions to the custodian.</p>	<p>Consideration to be given to develop reporting procedures on the discharge of this responsibility to Members of the Fund.</p>
<p><b>6. Transparency and reporting</b> Administering authorities should:</p> <ul style="list-style-type: none"> <li>• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;</li> <li>• provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p>Comply</p>	<p>A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communication Policy Statement and Annual report and accounts. These documents are available in full on the City Corporation's website.</p>	

THE LOCAL GOVERNMENT PENSION SCHEME  
CITY OF LONDON PENSION FUND COMMUNICATION POLICY

Effective communication between the City of London as the Administering Authority and its stakeholders is essential to the delivery of the pensions service. This document sets out the aims and the target audiences of the policy and the method of delivery (application) of the policy.

AIMS

Accuracy & Timeliness	Information needs to be compliant with legislation and supplied at an appropriate time.
Effective Information	Messages need to be clear and understood by target audience.
Accessible	Communication should be available to all and should meet the needs of a wide range of recipients.

AUDIENCES

- Scheme Members and Potential Members.
- Pensioners and Deferred Members.
- City of London Departmental Personnel and Administration.
- Other Employers Within the Fund
- Establishment Committee
- Staff

APPLICATION

Scheme Members and Potential Members.

Scheme Guides –	Available to all eligible employees via website, direct mail or email.
Forms and leaflets –	Available on our website and appropriate forms supplied to all new employees and leavers via personnel/ administration officers.
Newsletters –	Produced as appropriate and in particular as scheme changes occur.
Annual Benefit Statements –	Combined Pension Statements supplied to those scheme members who are active at year end (31 <sup>st</sup> March) as soon as possible after year end.
Presentations –	One-off seminars, regular pension “top-up” sessions, insight lunches and pre-retirement courses.
Induction –	Supply support to the Employers Induction courses as appropriate.
Intranet & Internet –	Provide news on scheme changes, develop and maintain internet with links to relevant sites.

### Pensioners and Deferred Pensioners.

Pensioners should be supplied with monthly payslips as appropriate, Newsletters and annual pensions increase letters. Deferred Pensions will be provided with an annual benefit statement. Both will be supplied with information on scheme changes as they affect the appropriate category of ex-scheme member.

### City of London Departmental Personnel and Administration.

Guides on general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures.

Presentations – Personnel Group meeting updates and individual departmental sessions as appropriate.

### Other Employers within the fund.

Guides on general day-to-day administration requirements and responsibilities issued as and when required and as scheme changes affect procedures.

Presentations for appropriate personnel staff, committees & groups of employees.

### Committee

Reports - Update Committee on scheme changes and developments and provide reports in a clear and accurate manner in order that appropriate responses and actions follow.

Presentations - Provide Committee with updates where appropriate.

### Staff

Provide updates and information on scheme and legislative changes.

Team Meetings – Maintain staff's awareness and knowledge via monthly meetings and one-off sessions as appropriate.

### General Communication

Letters, emails and phone calls answered clearly, accurately and timely.

If you wish to contact the City of London Pensions Office:  
Write: Pensions Manager, City Of London, Guildhall, London EC2P 2EJ  
Telephone: 020 7332 1133  
Email: [Pensions@cityoflondon.gov.uk](mailto:Pensions@cityoflondon.gov.uk)

**This Policy Statement Will Be Kept Under Review.**

## GLOSSARY OF TERMS

**Actuarial Valuation** - a review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long term.

**Actuarial gains and losses** - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

- a. events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b. the actuarial assumptions have changed.

**Actuary** - an independent qualified consultant who carries out the Actuarial Valuation and who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

**Administering Authority** - a local authority required to maintain a pension fund under LGPS regulations.

**Asset allocation** - the apportionment of a fund's assets between asset classes and/or markets.

**Benchmark** - a 'notional' fund or model portfolio which is developed to provide a standard against which a manager's performance is measured.

**Bond** - a certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

**Current asset** - an asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

**Current liability** - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**Current service cost (pensions)** - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Curtailment (pensions)** - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity; and

- b. termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Custodian** - safekeeping of securities by a financial institution. The custodian will keep a register of holdings and will collect income and distribute monies according to client instructions.

**Defined benefit scheme** - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme** - a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Equities** - ownership positions (shares) in companies that can be traded on public markets, often producing income that is paid in the form of dividends.

**Expected rate of return on pensions assets** - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fund Managers** - appointed by the Investment Sub Finance Committee to carry out day-to-day investment decisions for the Fund within the terms of their Investment Management Agreement.

**Index** - a benchmark for the performance of a group of shares or bonds.

**Interest cost (pensions)** - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Investment adviser** - a professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

**Investment properties** - interest in land or buildings that are held for investment potential.

**Mandate** - a set of instructions given to the Fund Manager by the client as to how a fund is to be managed (e.g. targets for performance or the Manager may be prohibited from investing in certain stocks or sectors).

**Outperformance / underperformance** - the difference in returns gained by a particular fund against the 'average' fund or an index or benchmark over a specified time period.

**Past service cost (pensions)** - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Performance** - a measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the benchmark.

**Portfolio** - term used to describe all investments held.

**Private equity** - investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

**Projected unit method** - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a. the benefits for pensions and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b. the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**Risk** - generally taken to mean the variability of returns.

**Scheme liabilities** - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Securities** - investment in company shares, fixed interest or index-linked stocks.

**Vested rights** - in relation to a defined benefit pension scheme, these are:

- a. for active members, benefits to which they would unconditionally be entitled to on leaving the scheme;

b. for deferred pensioners, their preserved benefits; and

c. for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

