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Merton Council

Pensions Committee Agenda

Membership

Cllr Laxmi Attawar (Chair)
Adam Bush (Vice-Chair)
Tobin Byers
Gwyn Isaac
Tina Pickard Pensioner Rep)

Caroline Holland (LBM)
Roger Kershaw (LBM)
Nemashe Sivayogan (LBM)

External:

Investment Consultants – Hymans Robertson
External Auditors – Ernst & Young
Investment Manager

Date: **Thursday 23 September 2021**

Time: **6.00 pm**

Venue: **Virtual Meeting via Zoom**

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact Merton.PensionFund@merton.gov.uk or telephone 020 8545 3458.

All Press contacts: communications@merton.gov.uk, 020 8545 3181

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Pensions Committee Agenda

23 September 2021

Note on declarations of interest

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Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that mater and must not participate in any vote on that matter. For further advice please speak with the Managing Director, South London Legal Partnership.

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Merton Pension Fund Advisory Panel

Minutes of the meeting held on 24 June 2021 (Virtual Meeting)

Councillor Laxmi Attawar (Chair)
Councillor Adam Bush (Vice Chair)
Councillor Tobin Byers
Tina Pickard (Pensioner Rep)
Gwyn Isaac (GMB Union Rep)
Caroline Holland (LBM)
Roger Kershaw (LBM)
Nemashe Sivayogan (LBM)

External

Nick Jellema – Hymans Robertson
Kameel Kapitan – Hymans Robertson

1.0 MEETING (Part 1)

1.1 Introductions made by Chair.

1.2 Members Declaration of Interest – None.

2. Minutes of Last Meeting Held (Part 1) – 10 March 2021 (Decision making)

2.1 Agreed as true record.

3. Quarterly Fund Performance Review (January – March 2021) (For Information)

3.1 Over the 3 months to 31 March 2021, total Fund assets returned 2.0% compared to the target of 2.3%. This equates to an underperformance of 0.3%.

3.2 The Fund's total market value increased by £12.6m over the quarter, from £886.2m to £898.8m. Over the last 12 months, the Fund performance was 30.8%, and 3 year annualised performance was 10.4%. The annual performance target is 4.8%.

3.3 PIRC the independent advisor put Merton 10th best performing fund out of 100 (12 months) and 7th over the past 3yrs.

4. Pension Fund Work Plan

4.1 NS talked through the planned activities, including a Members open day (virtual) in Qtr 2of 2021.

4.2 There will also be various online training sessions scheduled.

5. Pension Fund Training

5.1 NS presented the Merton Training Policy to members for approval.

6. AOB - None

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Committee: London Borough of Merton Pension Committee

Date: 23 September 2021

Wards: All

Subject: Merton Pension Fund – 2020/21 statement of accounts and the Annual Report

Lead officer: Caroline Holland - Director of Corporate Services
Lead member: Councillor- Tobin Byers.
Contact officer: Nemashe Sivayogan – Head of Treasury and Pensions

This is a Public Document

Recommendations:

A. Members are asked to note the content of this report and approve the attached.

(1) Merton Pension Fund Financial Statements and Annual Report 2020/21- Appendix 1.

(2) Note the External Auditor's Report as set out in Appendix 2.

(3) Note the Letter of Representation as set out in Appendix 3.

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report presents to Committee the Merton Pension Fund's Annual Report and the Auditor Report for the year-ended 31 March 2021.

2 DETAILS

2.1. The Council's external auditors Ernst & Young (EY) have completed the major part of their annual audit into the Pension Fund and are likely to provide an unqualified opinion dependent on the remaining testing being satisfactory.

2.2. The audit report was presented by EY at the Pension Committee on the 23 September 2021 with the objective to sign on or before the statutory deadline of 30 Sept 2021.

2.3. The Auditors attended and presented the Pension Fund Audit report along with the Council's audit report at the 21 Sept 2021 Standard and General Purpose Committee.

2.4. The Pension Fund Annual Report will be published on the Councils website following the audit sign off along with the audit opinion .The statuary deadline to publish the Annual Report is 01 December 2021.

2.5. The Statement of Accounts has been prepared in accordance with The 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and CIPFA guidance on Accounting for Local Government Pension Scheme.

2.6. The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance, and helps to demonstrate effective management of Fund assets.

2.7. The accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members, Employers and Others, which is essentially the Fund's revenue account

- The Net Assets Statement, which can be considered as the Fund's balance sheet

2.8. Due to the impact of the COVID-19 pandemic the Fund Net asset value dropped significantly in March 2020. However, the market and the investments adapted quickly and started to recover from April 2020. This recovery alongside with the Fund's diversified investment strategy helped to account for the £211m increase in the Net asset value in 2020/21 which showed a net asset value of £900.3m as at March 2021, (March 2020 £689m).

2.9. In 2020/21, the Fund recorded a total income of £35.9m. From which, £26.5m was from dealings with members and £9.4m from investment income. The Council is the administrating authority and the major employer (92%) of the Fund and in the year made a total employer and employee contribution of £21.2m.

2.10. In 2020/21 the Fund's total expenditure was £38m, with the major expenditure being benefit payments to the members of £31.7m.

2.11. Overall, Fund membership increased marginally. As at 31 March 2021, the Fund has 4,359 active members, 5,949 deferred and 4,087 pensioners.

3 ALTERNATIVE OPTIONS

3.1. None

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. Not Applicable

5 TIMETABLE

5.1. Audit timetable as published on the audit plan

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. The standard audit fee of £16,100.00 plus a maximum additional charge of £11,500.00 for going concern/Post balance sheet events assessments, disclosures including EY consultations and IAS19 work enhanced testing.

6.2. The Auditors remain in discussion with Public Sector Audit Appointments about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. In EY's view the scale fee for the Merton Pension Fund audit should be increased by £28,290.00

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. None

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. None

9 CRIME AND DISORDER IMPLICATIONS

9.1. None

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. None

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Draft Annual Report
- The Audit report from EY

12 BACKGROUND PAPERS

12.1. None

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Merton Pension Fund
Audit results report

Year ended 31 March 2021

15 September 2021

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Building a better working world

Private and Confidential

15 September 2021

London Borough of Merton
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members

2021 Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Standards and General Purposes Committee. This report summarises our audit conclusion in relation to the audit of Merton Pension Fund for 2020/21. We will issue our final report soon after the Committee meeting on 21 September 2021.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

This report is intended solely for the use of the Standards and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 21 September 2021.

Yours faithfully

E. Jackson.

Elizabeth Jackson
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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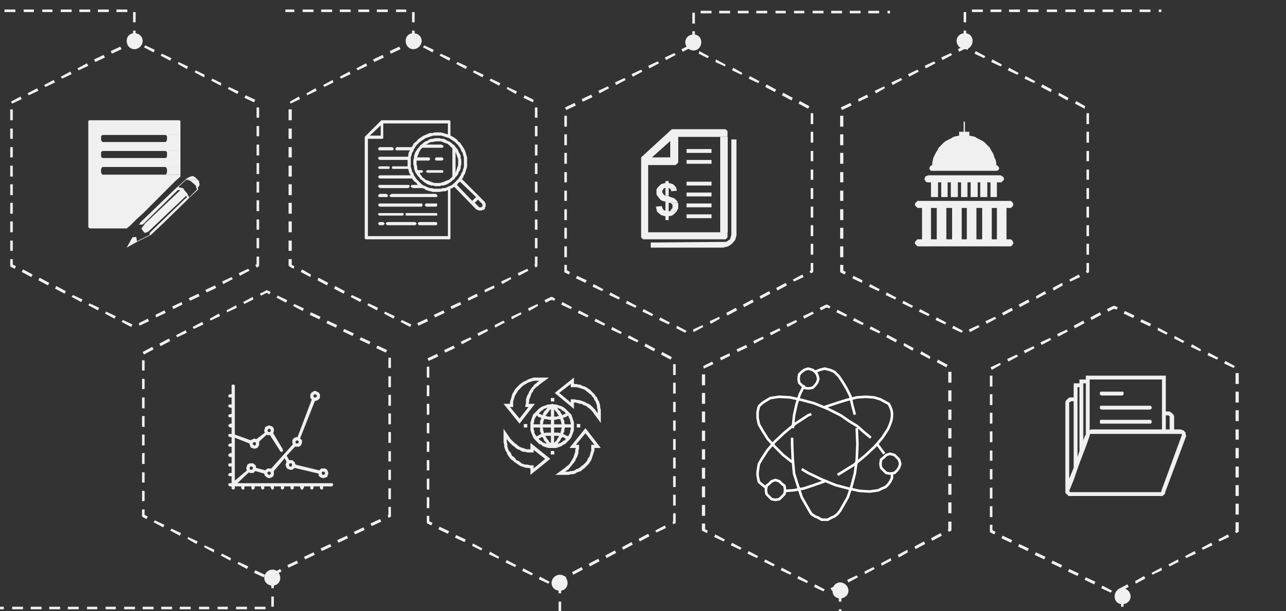

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Standards and General Purposes Committeeand management of the London Borough of Merton Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Standards and General Purposes Committee, and management of the London Borough of Merton Pension Fund those matters we are required to state to them in this 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 Standards and General Purposes Committee and management of the London Borough of Merton Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 11 March 2021 Standards and General Purposes Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates:

Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. In addition to the valuation of level 3 and directly owned property investments, which we have treated as areas of audit focus in our approach, we also consider IAS 26 disclosures as a higher inherent risk estimate. We do not consider this to be an area of audit focus as entries in the Fund’s financial statements are disclosure only and have no impact on the Fund’s primary statements of account.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 No. 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year’s net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£6.9m	£5.2m	£0.345m
Final	£9.0m	£6.8m	£0.450m

Executive Summary

Scope update (continued)

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impact on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Status of the audit

Our audit work in respect of the Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Unrecorded liabilities
- Testing of the actuary's IAS19 model
- Benefits Payable Testing
- Due to technical issues at the Prudential, the amount of additional voluntary contributions paid by members during 2020/21 and the total value of accumulated AVC's as at 31 March 2021 is yet to be disclosed. This is an issue across a number of Prudential clients and we will update when the information becomes available
- Pensions Administration walkthrough
- Agreement of all final amendments to the financial statements
- Update of our subsequent events procedures to the date of our opinion
- Receipt of a signed letter of management representation
- We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. The audit of the full annual statement of accounts of London Borough of Merton for the year ended 31 March 2021 is not yet complete.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Accounts which could influence our final audit opinion.

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, largely relating to updated valuation of investment assets. We include further details in Section 4.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error – Posting of investment journals	We have completed our testing and found no indications of management override of controls.
Other area of audit focus	**Findings & conclusions**
Going concern	We have completed our work, including review of the disclosure and challenge and testing of management's assessment and supporting cash flow forecast. We are satisfied that it is an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.
Valuation of private debt and infrastructure investments	We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's private debt and infrastructure investments which are disclosed as level 3 in the fair value hierarchy and therefore inherently more difficult to value. There was a late adjustment to the valuations of Level 3 investment assets resulting in a £1.481m understatement of the fund. Management have subsequently amended this.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of manipulation of Investment income and valuation

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

What did we do?

Tested journals at year-end to ensure there are no unexpected or unusual postings;

Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;

Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;

Sought to obtain further independent support for the valuation of pooled year-end investments where this can be obtained;

Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and

Reviewed accounting estimates for evidence of management bias.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund’s normal course of business.

Area of audit focus

Valuation of private debt and infrastructure investments

What is the risk?

We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year.

What judgements are we focused?

The Fund's private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments and the absence of a liquid market, meaning that the valuations are not based on observable inputs. As a result of this we undertook additional procedures to gain assurance over the carrying value of these investments disclosed in the financial statements. We set our detailed audit approach and findings on the following page.

What are our conclusions?

We have noted that management made a late adjustment to the financial statements to increase the value of Level 3 investments by £1.481m.

This was to ensure the financial statements agreed to updated information received from Private market investments.

No other issues noted.

Area of audit focus

Valuation of level 3 investments - further details on procedures/work performed

We:

- Triangulated the valuation reports from the fund managers and custodians to the entries in the financial statements.
- Obtained audited financial statements supporting the investments, controls assurance reports and bridging letters for the controls reports to year end.
- Considered the work performed by the fund managers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Challenged the key assumptions used by the fund managers in valuations and considered further whether specialist support is needed to support our work in this area. We concluded no such further support was necessary.
- Tested accounting entries had been correctly processed in the financial statements.

Audited financial statements supporting valuations were only available to 31 December 2020. We evaluated those financial statements to gain assurance that:

- The audit report was not qualified or otherwise modified.
- The audit report did not contained material uncertainties in respect of going concern and that there were no other matters emphasised that would impact valuation.
- The audit report was issued by a reputable auditor.

We also evaluated controls assurance reports to gain assurance they were not qualified and there were no specific control failures that could impact the valuation of investments.

To gain assurance over the valuation of level 3 investments at the Net Asset Statement date of 31 March 2021, we:

- Agreed the net asset value of private debt and infrastructure investments to underpinning audited financial statements as at 31 December. We then adjusted the 31 December 2020 valuation for known calls and puts in the final quarter of the year assuming they occurred at the start of the quarter.
- Used available quarter 3 to 4 indices relevant to the type of investment to create a high/low range of movements for quarter 4 and applied that to the valuation derived for each investment. We confirmed that the range established was not greater than our performance materiality.
- We compared the valuation in the financial statements to the range established to gain assurance investments values in the financial statements were not materially outside the expected range.

Area of audit focus

Going concern

What is the risk?

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do and what judgements did we focus on?

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewed the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

What are our conclusions?

We are satisfied with management's assessment that it is appropriate for the financial statements to be prepared on a going concern basis which is reasonable and supported by evidence, including a cashflow forecast, for the foreseeable future.

03 Audit Report

Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

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

- Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Services

As explained more fully in the Statement of the Director of Corporate Services Responsibilities set out on page 188, the Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

DRAFT INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

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

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

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

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

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

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

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

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

Audit Report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF MERTON

Our opinion on the financial statements

Use of our report

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

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and uncorrected differences

There were no misstatements greater than £6.8m which have been corrected by management or other specific misstatements identified during the course of our audit which we wish to draw to your attention.

Two lower value misstatements relating to amendments to valuation of investment assets, and a number of disclosure amendments were made as a result of our work.

There were no uncorrected misstatements.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

Our work in this area is ongoing.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in internal control.

07 Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Planned fee 20/21	Final Fee 2019/20
	£	£
Scale Fee – Code work (1)	16,170	16,170
Significant risk relating to US currency hedge	-	2,250
Going concern and PBSE assessments and disclosures including EY consultations (2)	2,000 – 6,000	5,500
IAS 19 work on the 2019 triennial valuation of the Fund (3)	5,500	9,000
Total	TBC	32,920

All fees exclude VAT

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

2. The 2019/20 additional fees have been agreed with management but are subject to PSAA approval.

3. IAS19 work is to provide assurance to the auditor of the LB Merton. These additional fees are not subject to approval from PSAA and for 2019/20 (where there was additional work on the triennial data) we have agreed fees with management.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

EY UK Transparency Report 2020 | EY UK

08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach, but we did undertake more granular procedures to gain assurance over the valuation of both level 3 investments and the IAS 26 disclosure of the actuarial present value of promised retirement benefits disclosed as a note to the accounts.

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and emails.	The Associate Partner and Senior Manager has been in regular contact with the Director of Corporate Services and the in respect of the Fund’s risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The Associate Partner has met the Director of Corporate Services on an ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.
All Standards and General Purposes Committee meetings held in the year	Committee attendance	The Associate Partner and/or Senior Manager have attended those meetings of the Standards and General Purposes Committee held throughout the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Standards and General Purposes Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Standards and General Purposes Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – dated February 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated February 2021
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – dated September 2021

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Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Merton Pension Fund's ability to continue for the 12 months from the date of our report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report – September 2021
Subsequent events	• Enquiry of the Standards and General Purposes Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial	Audit Results Report – September 2021 and up to date of our report.
Fraud	• Enquiries of the Standards and General Purposes Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Fund, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Standards and General Purposes Committee responsibility.	Audit Results Report – September 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Fund's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Pension Fund	Audit Results Report – September 2021
Independence Page 39	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – dated February 2021 and Audit Results Report – September 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and the Fund's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report – September 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit Results Report – September 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – September 2021
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – September 2021
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Plan – dated February 2021 and Audit Results Report – September 2021

Draft management representation letter

Management Rep Letter

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This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Merton Pension Fund ("the Fund") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2020 to 31 March 2021 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 20121, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

Draft management representation letter

Management Rep Letter

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held throughout 2020/21 to the most recent meeting.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Draft management representation letter

Management Rep Letter

10. From the date of our last management representation letter at 5 November 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 24 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 2.1 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Merton Pension Fund Annual Report 2020-21.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

Draft management representation letter

Management Rep Letter

J. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

K. Actuarial valuation

1. The latest report of the actuary Barnett Waddingham as at 31 March 2019 and dated 27 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Valuation of Fair Value Hierarchy Level 3 Investment Assets Estimate

1. We confirm that the significant judgments made in making the fair value hierarchy level 3 investment asset valuation estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the fair value hierarchy level 3 investment asset valuation estimate.

3. We confirm that the significant assumptions used in making the fair value hierarchy level 3 investment asset estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the valuation of fair value hierarchy level 3 investment assets, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of fair value hierarchy level 3 investment asset estimate.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

N. Estimation of IAS26 present value of promised retirement benefits

1. We confirm that the significant judgments made in making the IAS26 estimate have taken into account all relevant information and the effects of the COVID-19 pandemic on the present value of promised retirement benefits of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS26 estimate.

3. We confirm that the significant assumptions used in making the IAS 26 estimate appropriately reflect our intent and ability to carry out the valuation on behalf of the entity.

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Caroline Holland, Director of Corporate Services

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Councilor Peter McCabe, Chair of the Standards and General Purposes Committee

EY | Assurance | Tax | Transactions | Advisory

LONDON BOROUGH OF MERTON PENSION FUND

Annual Report

2020-21

The Chairperson Statement

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

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

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

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

Activities in the year

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

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

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

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

Investment performance

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

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

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

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

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

Looking ahead

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

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

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

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

Thank you!

Cllr. Laxmi Attawar

Chair- Merton Pension Fund Advisory Panel

Merton Pension Fund Introduction

The Merton Pension Fund is a Local Government Pension Scheme (LGPS) that provides defined benefit pensions to its members.

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

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

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

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

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

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

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

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

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

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

Statement of Responsibilities of the Pension Fund

The Council's Responsibilities

The Council is required to:

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

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

The Responsibilities of the Director of Corporate Services.

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

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

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

The Director of Corporate Services has also:

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

CAROLINE HOLLAND

Director of Corporate Services

Management and Advisors of the Fund

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

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

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

2. Investment Managers

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

3. Custodians

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

4. AVC Providers

   Prudential PLC

5. Investment Adviser

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

6. Fund Actuary

   Barnett Waddingham LLP,

7. Legal Advisers

London Borough of Merton –Shared Legal Services

8. Bankers

Lloyds Bank Plc

9. Auditor

Ernst & Young LLP

10. Scheme Administration

Pensions Shared Service, London Borough of Wandsworth

11. Performance Monitoring and Analysis.

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

Risk Management

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

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

1. Fund management risk considers the risk associated with investments, strategic risk and investment related regulations.

2. Administration risk includes the risk associated with Regulations and internal systems and processes.

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

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

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

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

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

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

Risk Register

The risk register is a tool used to effectively identify, prioritise, manage and monitor risks associated with the Merton Pension Fund.

It assists the Fund by:

- identifying managed and unmanaged risks
- providing a systematic approach for managing risks
- implementing effective and efficient control
- identifying responsibilities
- identifying risks at the planning stage and monitoring the risks
- helping the Fund to achieve its objectives

The Pension Fund Risks are identified and managed as part of the Corporate Risk Register. The risk listed on the registered are reviewed and updated every quarter.

Financial Performance

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

Analytical Review

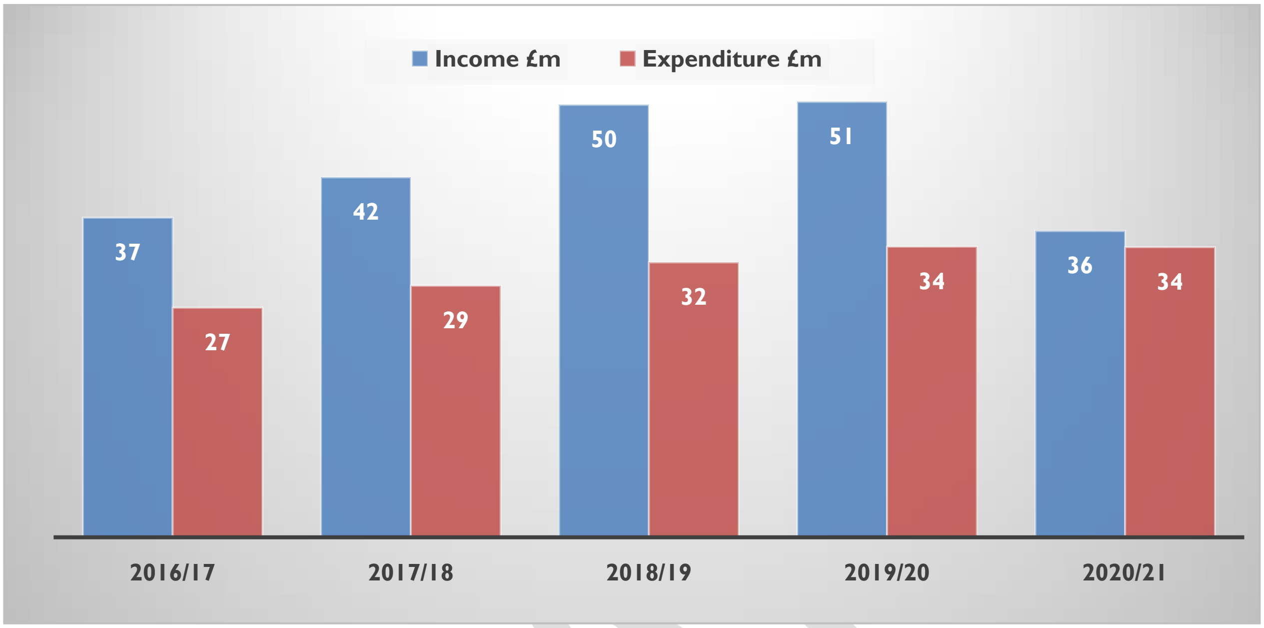
Fund Account	15/16 £000	16/17 £000	17/18 £000	18/19 £000	19/20 £000	20/21 £000
Contributions Income	-24,139	-25,923	-29,493	-42,386	-37,738	-26,545
Benefits paid	26,530	24,903	27,441	31,058	32,169	31,710
Net Dealings with Members	2,391	-1,020	-2,052	-11,328	-5,569	5,165
Management Expenses	1,230	1,854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

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

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

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

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



Code of Transparency

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

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

Investment Policy and Performance

Introduction to Investment Policy

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

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

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

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

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

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

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

Performance summary – Period ending 31 March 2021

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

Environmentally and Socially Responsible Investment and Governance

The Merton Pension Fund is committed to being a long-term responsible investor. The Fund complies with and follows the principles of both the UK Stewardship Code and to the UN-backed Principles of Responsible Investment.

The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material Environmental, Social and Governance (ESG) factors within its investment analysis and decision making.

The Fund policy regarding ESG considerations is set out in the Responsible Investment Policy and addressed within the Investment Strategy Statement, available via the following link:

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

Subscriptions to Supporting Organisations

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS Funds that campaign on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. The Fund uses this forum to put its views forward on ESG.

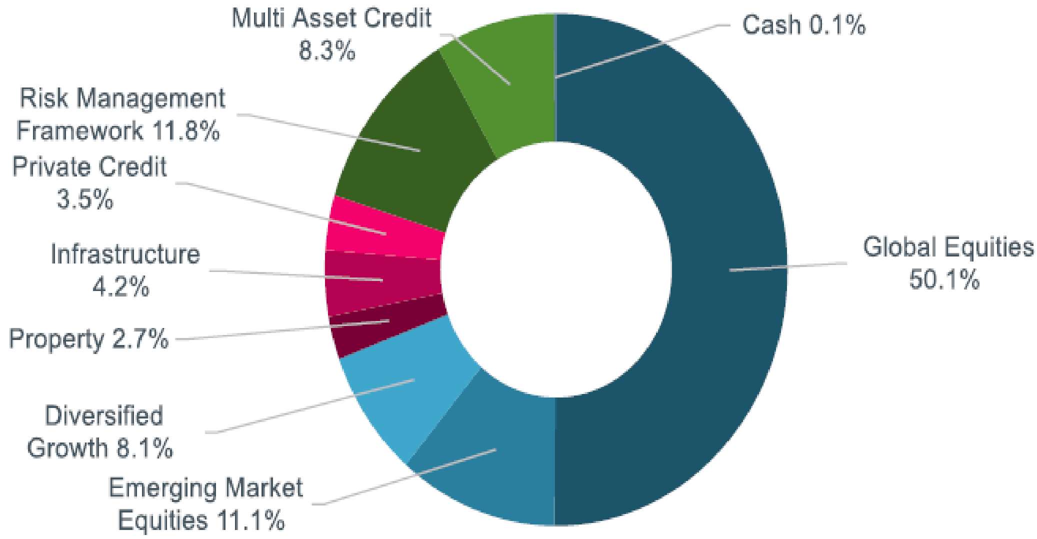
Fund Valuation

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

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

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

Asset class exposure 2020-21



Fund Managers Performance

The Fund's investments are managed by external fund managers in eight different asset classes. The fund now have 55% of its strategic allocation invested via the LCIV and the rest of the investment are invested outside of the LCIV in different mandates. The Fund is invested in active and passive mandates. In the case of active management, the manager will invest and realise investments based on their skill and knowledge to outperform the market. By contrast, passive managers will buy and hold investments to replicate a market index.

The managers have full discretion and operate within agreed deadlines specified in the Investment Management Agreement (IMA) and in accordance with the Fund's Investment Strategy Statement to make investment decisions without referral to the Authority; provided that the activity and action are in compliance with the IMA.

The Council holds fund managers accountable for decisions on asset allocation within the benchmark under which they operate. Managers are challenged robustly and formally about asset allocation proposals. Managers' performance is reviewed at each Panel meeting in discussion with the Investment Adviser and Officers, and they are called to a Panel meeting if there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangements and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the Investment Strategy Statement. The asset allocation of the Pension Fund at the start and end of the financial year is set out above.

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

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

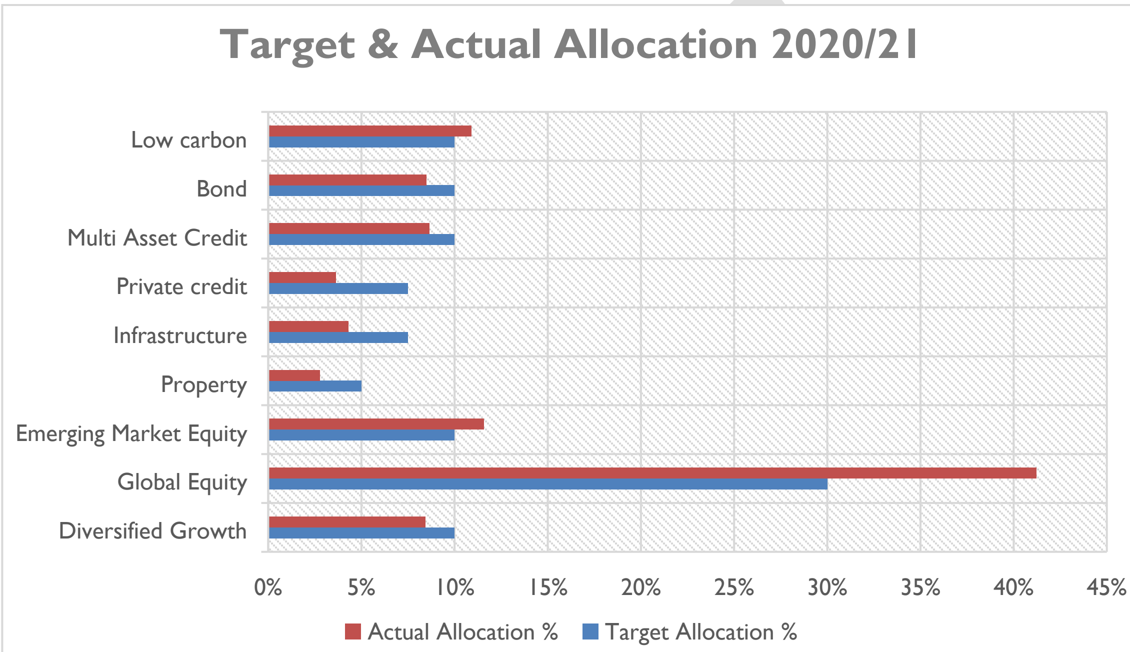
On this basis the Fund has started to measure and report its carbon foot prints on its investments. All new investments are arrived after analysing the carbon emission on the new investments and any investment falls under a red/Amber category are not proceeded. Also with the existing portfolios steps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

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

PERFORMANCE SUMMARY 31 MARCH 2021

Asset Allocation

The Merton Pension Fund investment portfolio is a well-diversified portfolio. It is important to note that 55% of the fund's assets were transited on the LCIV pool. The Chart below shows the fund asset classes and the current allocation as at March 2021.



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

Actual Asset Allocation by Manager

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

Pension Administration Report

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

The key responsibilities for the Pension Shared Service are to:

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

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

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

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

Development of the Pensions Shared Service

i-Connect

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

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

Accurate member records mean a better service for members.

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

Member Self Service

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

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

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

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

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

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

Please find below the performance statistics for 2020-21

Management Performance - Membership

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

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

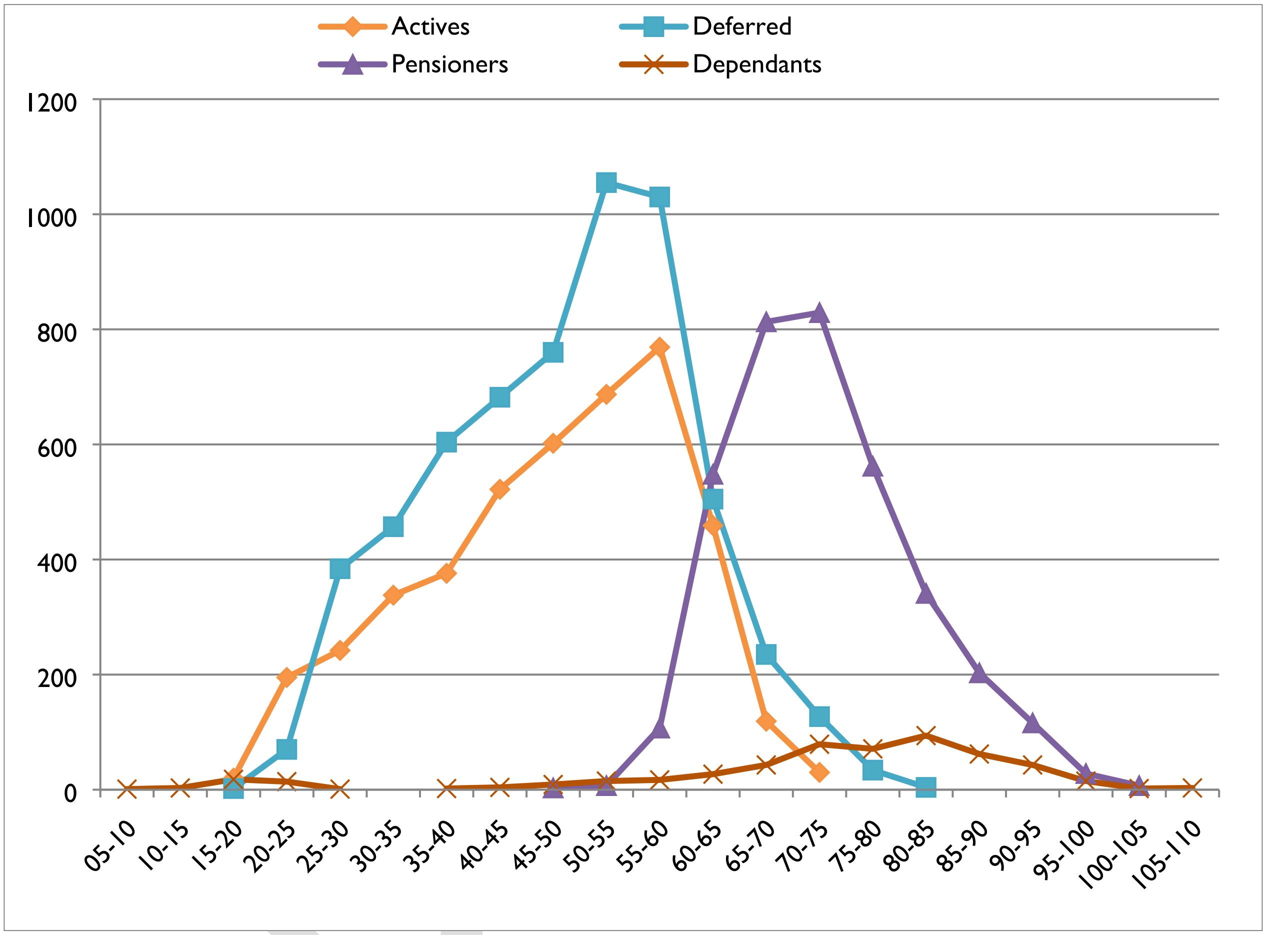
Key Management Performance Indicators

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

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

Age Profile /Longevity

The graph below provides an analysis in five-year bandings of active and deferred members, pensioners, widows and dependent's. The graph shows that the age profile of members is conventional with the number of normal pensioners peaking at around 70yrs.



The average age of each category is indicated in the table below.

Category	Average age for category
Active Members	47 years 4 months
Deferred Members	48 years 7 month
Pensioners	72 years 10 months
Widows/Dependants	73 years 0 months

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

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

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

Pension Scheme Case Load

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

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

Pension Scheme Case Load Trends

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

Asset Pools

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

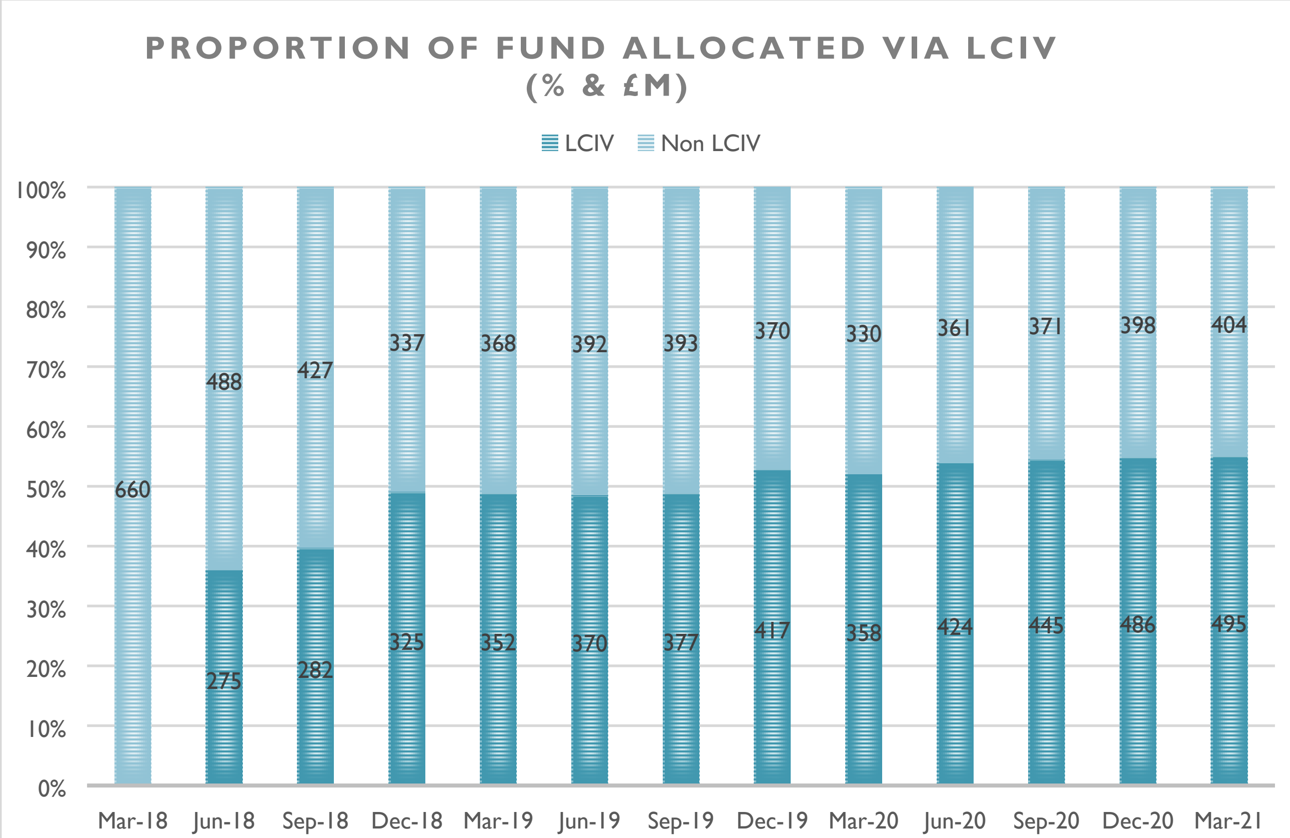
- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

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

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

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

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



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

LCIV Valuation 31 March 2021

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

Actuary's Statement as at 31 March 2021

Introduction

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

2019 valuation results

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

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

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

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

Contribution rates

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

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

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

Asset value and funding level

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

Assumptions

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

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

Updated position since the 2019 valuation

Assets

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

Liabilities

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

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

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

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

Overall position

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

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

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

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

Barry McKay

Barry McKay FFA
Partner, Barnett Waddingham LLP

Merton Pension Fund Accounts

Fund Account

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

Net Assets Statement

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

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Pension Fund Accounts

1. Description of Fund

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

a) General

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

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

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

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

b) Membership

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

Organisations participating in the Merton Pension Fund include the following:

- scheduled bodies, which are automatically entitled to be members of the fund;

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

Membership details are set out below:

Admitted Bodies	Scheduled Bodies
• Greenwich Leisure • Clarion Housing • CATCH 22	• Wimbledon and Putney Commons Conservators • Harris Academy Merton • Harris Academy Morden • Harris Academy Primary • Harris Wimbledon • St Mark's Academy • Benedict Academy • Park Community School • CHAS (Contractors Health and Safety Assessment Scheme) • Beecholme Academy • Aragon Academy • Stanford Primary Academy • Chapel Street

The following table summarises the membership numbers of the scheme.

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

c) Funding

The scheme is financed by contributions from employees and employers, together with income and proceeds from investment of the Pension Fund administered by the Authority in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2013.

Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2021. The employee contributions are matched by the employer contributions which are set based on triennial actuarial Funding valuations. The latest valuation occurred at 31 March 2019 (came into effect in 2020/21). Currently, employer contribution rates range from 12.0% to 26.4%. Some employers pay a monetary contribution towards past service costs.

d) Benefits

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

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

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

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

2. Basis of Preparation

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

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

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

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

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

2.1 Going Concern

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

The impact of the Coronavirus pandemic on investment markets did adversely affect the performance of investments up to 31 March 2020, however from April 2020 investment performance has improved significantly and is performing better than the target level of return throughout 2020/21. This has resulted in an increase in the net asset of £210m from March 2020 to March 2021.

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

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

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

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

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

1. Summary of Significant Accounting Policies

Fund account – revenue recognition

3.1 Contribution Income

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

Employer deficit Funding contributions are accounted for on the due date on which they are payable in accordance with the recovery plan under which they are paid. Employers' deficit Funding contributions are made on the advice of the Authority's actuary. Their purpose is to finance the recovery of past service deficiencies over an agreed period (currently twelve years).

Refund of contributions have been brought into the accounts on the basis of all valid claims paid during the year rather than the date of leaving or date of retirement.

Where members of the pension scheme have no choice but to receive a refund or single cash sum on retirement, these accounts have included any material amounts as accruals.

3.2 Transfers to and from other schemes

Transfer values are sums paid to or received from other pension schemes, relating to periods of previous pensionable employment. These are included on the basis of payments made or receipts received in the case of individual transfers and on an accruals basis for bulk transfers, which are considered material to the accounts.

3.3 Investment income

Investment income is reported gross of taxation, regardless of whether tax may be payable on a portion of that income. Tax paid is reported separately if applies.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
The figure shown as investment income is made up of different types of income (dividend income for equity, interest income for bond and distributions for pooled investments).

Revenue account – expense items

3.4 Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

3.5 Taxation

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

By virtue of LB Merton being the Administering Authority, VAT input tax is generally recoverable on all Fund activities.

3.6 Management Expenses

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

Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. They are deducted from Fund assets managed by the Fund Managers. Custodian fees are paid via the custodian cash account.

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

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

3.7 Administrative Expenses

All administrative expenses are accounted for on an accruals basis. Pension administration has been carried out by the London Borough of Wandsworth on a shared service basis since 1st December 2013.

Net Asset Statement

3.8 Investment Assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

3.9 Movement in the net market value of investment

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

3.10 Foreign currency

All foreign currency investment transactions are converted into sterling at spot rate. The year end balances are converted using the 31st March rate to show the fair value of the investment.

3.11 Derivatives

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

3.12 Cash and cash equivalents

Dividends, interest, purchases, and sales of investments are accounted for at the spot market rates at the date of transaction. End of year spot rate is used to calculate the closing cash balances held in foreign currency, overseas investments and purchases and sales outstanding at the end of the reporting period.

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

The cash balance includes cash held by the Fund managers , custodian and within the Funds' bank account.

3.13 Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

3.14 Additional Voluntary Contributions

Merton Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund with Prudential . AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 22.

3.15 Contingent Assets and Contingent Liabilities

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

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

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

4. Critical Judgements in Applying Accounting Policies

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

4.1 Pension Fund Liability

Actuarial valuation of the Fund is carried out every three years and there are annual updates in the intervening years. These valuations determine the Pension Fund liability at a given date. There are various assumptions used by the actuary that underpin the valuations, therefore the valuations are subject to significant variances dependent on the assumptions used.
*Please see Notes 18 and 19 for more detail.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions and the judgements used in these estimations are carried out by the actuary, Barnett Waddingham LLP. The significant judgements are in regard to the discount rate used, salary increase projections, and retirement age.	The impact of a small change in the discount rate of +0.1% would decrease the closing defined benefit obligation by £22.4m and a -0.1% reduction would increase the obligation by £22.8m. An adjustment to the mortality age rating assumption of -1 yr would decrease the obligation by £51.8m. McCloud- the actuary has included the impact of the McCloud as part of the 2019 Triennial valuation.
Unquoted Investments	The Pension Fund contains investments in unitised pooled property and private debt funds that are classified within the financial statements as level 3 investments (as detailed in note 14). These funds are valued according to non-exchange based market valuations.	As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts.

6. Events After The Reporting Date

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

7. Contributions Receivable

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

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

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

8. Transfers In From Other Pension Funds

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

9. Benefits Payable

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

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

10. Payments to and on Account of Leavers

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

11. Management Expenses

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

11a. Investment Management Expenses

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

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

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

12. Investment Income

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

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

13. External Audit Cost

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

14. Investment

14.1 Asset management arrangements

The management of Pension Fund assets is delegated to external investment managers who are authorised to conduct investment management business in the UK by the Financial Conduct Authority (FCA). The table below shows the market value of the assets (including accrued dividends) by Fund Manager and the proportion managed by each manager as at 31 March 2021.

2019/20		2020/21

£0	%	Fund Manager	£0	%
		Investments managed by LCIV regional asset pool		
68,529	10	Blackrock	94,195	10.5
25,753	3.8	JPM Emerging Markets	39,506	4.4
100,180	14.6	Baillie Gifford	145,056	16.2
32,909	4.8	Pyrford	0	0.0
0	0	Ruffer	37,389	4.2
71,358	10.4	RBC	104,412	11.6
59,756	8.7	CQS	74,847	8.3
		Investments managed outside the LCIV regional asset pool		
176,181	19.7	UBS Asset Management	219,363	24.4
11,277	1.7	Macquarie	7,941	0.9
7,339	1.1	Quinbrook	11,834	1.2
19,445	2.8	JPM Infrastructure	17,799	2.0
11,233	1.6	Churchill	16,353	1.8
4,474	0.7	Permira	15,043	1.7
88,961	13	Wells Fargo	106,355	11.9
7,578	1.1	Blackrock property	7,612	0.9
7	0	Aberdeen Asset Management	0	0.0
150	0	LCIV Subscription	150	0.0
685,130	**100**	**Total**	**897,855**	**100**

2019/20		Fund Manager	2020/21	
£0	%		£0	%
		Investments managed by LCIV regional asset pool		
68,529	10	Blackrock	94,195	10.5
25,753	3.8	JPM Emerging Markets	39,506	4.4
100,180	14.6	Baillie Gifford	145,056	16.2
32,909	4.8	Pyrford	0	0.0
0	0	Ruffer	37,389	4.2
71,358	10.4	RBC	104,412	11.6
59,756	8.7	CQS	74,847	8.3
		Investments managed outside the LCIV regional asset pool		
176,181	19.7	UBS Asset Management	219,363	24.4
11,277	1.7	Macquarie	7,941	0.9
7,339	1.1	Quinbrook	11,834	1.2
19,445	2.8	JPM Infrastructure	17,799	2.0
11,233	1.6	Churchill	16,353	1.8
4,474	0.7	Permira	15,043	1.7
88,961	13	Wells Fargo	106,355	11.9

7,578	1.1	Blackrock property	7,612	0.9
7	0	Aberdeen Asset Management	0	0.0
150	0	LCIV Subscription	150	0.0
685,130	**100**	**Total**	**897,855**	**100**

14.2 Analysis of investment assets and income

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

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

14.3 Reconciliation of movements in investments and derivatives

The following table shows the movement in the market value of investments held during the financial year 2020/2021. The reconciliation shows the opening and closing value of investments analysed into major class of assets. The amount of sales and purchases is also shown.

	Market Value 1 April 2020 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2021 £000
Bonds	**69,819**	103,118	(98,101)	(2,863)	**71,973**
Pooled Equity Investments	**395,323**	2,951	(16,500)	168,531	**550,305**
Pooled Investments Other	**122,684**	38,891	(34,898)	20,970	**147,647**
Private Debt	**15,707**	16,178	(4,263)	3,774	**31,396**
Infrastructure	**37,687**	3,249	0	(3,430)	**37,506**
Pooled Property	**24,212**	0	0	(132)	**24,080**
	665,432	**164,387**	(153,762)	**186,438**	**862,907**
Derivative Contracts					
Forward Currency Contracts	**(6,702)**	0	6,948	0	**246**
Bonds	0	0	0	11,767	**0**
	658,730	**0**	**0**	**198,205**	**863,153**
Other Investment Balances					
Cash with Fund Managers	**25,851**			7,191	**33,035**
Infrastructure Adjustment *	**0**			2,677	**0**
Gain on Currency	**0**			292	**0**
Investment Income Due	**399**			0	**480**
	26,250			**10,159**	**33,515**
External investments at Market Value	**684,980**				**896,668**
LCIV Subscription	**150**				**150**
Investment Assets	**685,130**			**208,365**	**896,818**

***Note:** The Infrastructure adjustment relates to Macquarie 19/20 call rebalance amounts that were incorrectly accounted for as contributions and dividend income. Being an unrealised loss in 19/20.

Reconciliation of movements in investments and derivatives

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

	Market Value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the Year £000	Market Value 31 March 2020 £000
Bonds	**87,451**	95,192	(87,451)	(25,373)	**69,819**
Pooled Equity Investments	**0**	33,225	0	362,098	**395,323**
Pooled Investments Other	**587,322**	1,691	(67,050)	(399,279)	**122,684**
Private Debt	**8,080**	13,388	0	(5,761)	**15,707**
Infrastructure	**0**	36,669	0	1,018	**37,687**
Pooled Property	**23,749**	1,000	0	(537)	**24,212**
	706,602	**181,165**	(154,501)	**(67,834)**	**665,432**
Derivative Contracts					
Forward Currency Contracts	**0**	**0**	**0**	**(6,702)**	**(6,702)**
	706,602	**181,165**	**(154,501)**	**(74,536)**	**658,730**
Other Investment Balances					
Cash with Fund Managers	**991**			25,857	**25,851**
Investment Income Due	**129**			0	**399**
External Investments at Market Value	**707,722**				**684,980**
LCIV Subscription	**150**				**150**
Investment Assets	**707,872**			**(48,679)**	**685,130**

14.4 Stock lending

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

15. Fair Value – Basis of Valuation

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

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

15a Fair Value Hierarchy

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

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

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

Level 3 – Where at least one input that could have a significant effect on the Instrument's valuation is not based on observable market data.
The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

31 March 2020				31 March 2021		
Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000		Quoted market price Level 1 £000	Quoted market price Level 2 £000	Quoted market price Level 3 £000
588,827	16,659	53,394	Financial assets at fair value through profit and loss	777,933	16,468	68,902
26,250	0	0	Loans and Receivables	33,515		
0	0	0	Financial liabilities at fair value through profit and loss			
615,077	**16,659**	**53,394**	**Total**	**811,448**	**16,468**	**68,902**

16. Financial Instruments

16.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Asset Statement heading.

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

16.2 Net gains and losses on financial instruments

The table below shows net gains on financial assets at fair value through profit and loss.

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

17. Nature and Extent of Risks Arising From Financial Instruments

17.1 Risk and risk management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. The Investment Strategy Statement and Risk Register are reviewed regularly to reflect changes in the Fund's strategy, activity and in market conditions. The Fund also ensures authorised investment managers are used through its rigorous Fund manager selection process. In addition, the Fund employs an adviser, Mercer, who provides advice on investment issues.

17.2 Market risk

The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

17.3 Price risk

Potential price changes are based on the observed historical volatility of asset class returns. Riskier assets in the Fund such as equities display greater potential price volatility than bonds and other asset classes. The Fund investment managers mitigate this price risk through diversification and the selection of securities. Other financial instruments are monitored by the Authority to ensure they are within limits specified in the Fund investment strategy.

Asset Type	Value at 31 March 2021 £000	% Change	Value on Increase £000	Value on Decrease £000
Bonds	71,973	7.5	77,371	66,575
Equities & Emerging Markets	550,305	14.3	628,999	471,611
Diversified Growth	72,800	6.4	77,459	68,141
Multi Asset Credit	74,847	7.5	80,461	69,233
Pooled Property	24,080	2.2	24,610	23,550
Private Debt & Infrastructure	68,902	4.8	72,209	65,595
Cash	33,035	0.9	33,332	32,738
Derivatives	246	0	246	246
Income Due	480	0	480	480
LCIV Subscription	150	0	150	150
Total Assets	**896,818**	**9.6**	**995,317**	**798,319**

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

Note: The % change for total assets includes the impact of correlation across asset classes

The potential volatilities are consistent with one standard deviation movement in the change in value of the assets over three years. This was applied to the 31 March 2021 asset mix as shown in the following table (Note 17.4):

17.4 Other price risk

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

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

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

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

17.5 Interest rate risk

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

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

17.6 Currency risk

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

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

Asset Type	Value at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Overseas Bonds	21,363	8.4	23,157	19,569
Private Debt & Infrastructure	53,447	8.4	57,937	48,957
Total Overseas Assets	**74,810**		**81,094**	**68,526**

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

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

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

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

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

17.7 Credit risk

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

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

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

17.8 Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it always has adequate cash balance to meet its commitments. The Fund's cash holding as at 31 March 2021 was £1.2m (31 March 2020: £3.1m).

17.9 Refinancing risk

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

18. Funding Arrangements

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

The key elements of the Funding policy are:

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

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

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

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

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

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

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

Financial Assumptions

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

19. Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

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

20. Current Assets

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

Analysis of Debtors

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

21. Current Liabilities

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

22. Additional Voluntary Contributions

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement, subject to HMRC limits. Under Regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No: 3093), AVCs are not included in the Pension Fund accounts but are paid over by the Authority's shared payroll service and invested by a specialist AVC provider, Prudential PLC, independently of the London Borough of Merton Pension Fund.

Due to technical issues at the Prudential, the amount of additional voluntary contributions paid by members during 2020/21 and the total value of accumulated AVC's as at 31 March 2021 is yet to be disclosed.

23. Related Parties

Merton Pension Fund is administered by London Borough of Merton. During the reporting period, the Council incurred costs of £0.36m (2019/20 £0.37m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the pension Fund. All monies owing to and due from the Fund were paid in year.

No members of the pension Fund committee are in receipt of pension benefits from the Merton Pension Fund. The three officers and the two staff pensioner reps of the committee are active members of the Fund.

In addition, the four local pension board members are active members of the pension Fund.

Each member of the pension Fund committee is required to declare their interests at each meeting. No other declarations were made during the year.

Key Management Personnel
The key management personnel of the Fund are the Director of Corporate Services, the Assistant Director of Resources and the Head of Treasury and Pensions. Total remuneration payable to key management personnel is shown below:

	31 March 2020 £	31 March 2021 £
Short-term benefits	80,412	87,186
Total remuneration	**80,412**	**87,186**

24. Contingent Liabilities & Contractual Commitments

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

These commitments relate to outstanding call payments due on private debt and infrastructure investments. The amounts 'called' by these investments are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

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

Governance Arrangements

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

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

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

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

Delegation of functions

Merton Council has delegated its Pension Fund management to PFAP.

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

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

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

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

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

The terms of reference for the PFAP are:

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

The frequency of meetings

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

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

Representatives

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

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

- Staff Side Representative,
- Pensioner Representative

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

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

Pensions Board

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

The frequency of meetings

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

Representatives

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

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

The terms of reference for the Pension Board are:

(a) To secure compliance with:

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

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

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

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

Governance Compliance Statement

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

The statement includes:

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

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

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

Funding Strategy Statement

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

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

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

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

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

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

Investment Strategy Statement

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

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

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

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

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

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

Communications Policy

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

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

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

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

Enquiries

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

E-mail: pensions@richmondandwandsworth.gov.uk

Telephone: 020 8871 8036

Address:

Pensions Shared Service

Camden, Merton and Wandsworth & Richmond

PO Box 72351

London

SW18 9LQ

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

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

Independent Auditors Statement & Report

Committee:

Merton Pension Committe **Date: 23 September 2021**

Merton Pension Board **Date: 27 September 2021**

Wards: All

Subject: Merton Pension Fund Performance – June 2021

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Tobin Byers

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

RECOMMENDATION
Members are asked to note the content of this report, in particular, the market values and performance of the total Fund and component portfolios for the quarters ending 30 June 2021, attribution of the results and the market environment during the period.

1.0 PURPOSE OF REPORT

1.1 To report the investment performance at total Fund level, and of the individual fund managers, for the quarter ending 30 June 2021. The report highlights the performance of the total Fund by asset class compared to the customised benchmark.

1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 June 2021. The report provides information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

2.0 FUND PERFORMANCE

2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by the Fund's investment and performance consultants Hymans provides useful analysis and insights of the Pension Fund activities and results for the quarters ending June 2021.

The table below shows the total fund valuation for the quarter ended June 2021.

VALUATION SUMMARY
PERIOD ENDING 30 JUNE 2021

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q1 21	Q2 21			
UBS World Equity Tracker Fund	54.1	36.5	3.9%	0.0%	3.9%
UBS Alternative Beta	88.0	95.2	10.3%	10.0%	0.3%
LCIV RBC Sustainable Equity Fund	104.4	113.7	12.3%	10.0%	2.3%
LCIV Baillie Gifford Global Alpha Growth Fund	109.6	117.4	12.7%	10.0%	2.7%
BlackRock World Low Carbon Equity Tracker	94.2	101.1	10.9%	10.0%	0.9%
Global Equities	**450.3**	**463.8**	**50.1%**	**40.0%**	**10.1%**
UBS GEM HALO	60.6	61.8	6.7%	5.0%	1.7%
LCIV JP Morgan Emerging Market Equity Fund	39.5	40.8	4.4%	5.0%	-0.6%
Emerging Market Equities	**100.1**	**102.6**	**11.1%**	**10.0%**	**1.1%**
LCIV Ruffer Absolute Return Fund	37.4	37.6	4.1%	5.0%	-0.9%
LCIV Baillie Gifford Diversified Growth Fund	35.4	37.1	4.0%	5.0%	-1.0%
Diversified Growth	**72.8**	**74.8**	**8.1%**	**10.0%**	**-1.9%**
UBS Triton Property Fund	16.8	16.6	1.8%	2.5%	-0.7%
BlackRock UK Property Fund	7.6	7.8	0.8%	2.5%	-1.7%
Property	**24.4**	**24.3**	**2.6%**	**5.0%**	**-2.4%**
MIRA Infrastructure Global Solutions II L.P Fund	7.6	8.2	0.9%	3.0%	-2.1%
Quinbrook Low Carbon Power LP Fund	11.8	11.7	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	18.0	17.0	1.8%	3.0%	-1.2%
Infrastructure	**37.5**	**36.9**	**4.0%**	**7.5%**	**-3.5%**
Permira Credit Solutions IV Fund	14.9	14.8	1.6%	4.5%	-2.9%
Churchill Middle Market Senior Loan II Fund	16.3	16.7	1.8%	3.0%	-1.2%
Private Credit	**31.3**	**31.5**	**3.4%**	**7.5%**	**-4.1%**
Wells Fargo RMF Fund	106.4	108.2	11.7%	10.0%	1.7%
Risk Management Framework	**106.4**	**108.2**	**11.7%**	**10.0%**	**1.7%**
LCIV CQS MAC Fund	74.8	76.3	8.2%	10.0%	-1.8%
Multi Asset Credit	**74.8**	**76.3**	**8.2%**	**10.0%**	**-1.8%**
Cash	1.2	7.5	0.8%	0.0%	0.8%
Total Fund	**898.8**	**926.1**	**100.0%**	**100.0%**	

2.2 The Fund's total market value increased by £27.3m over the quarter, from £898.8m to £926.1m. The increase in asset value was largely attributable to the increase in global equities, and cash. The other assets classes remained essentially stable over the quarter.

2.3 Over the 3 months to 30 June 2021, total Fund assets returned 4.8% compared to the benchmark of 4.3%. This equates to an overperformance of 0.5%. Over the last

12 months, the Fund performance was 20.1%, and 3 year annualised performance was 10.4%. The annual Actuarial performance targetis 4.8%.

PERFORMANCE SUMMARY
1 APRIL 2021 TO 30 JUNE 2021

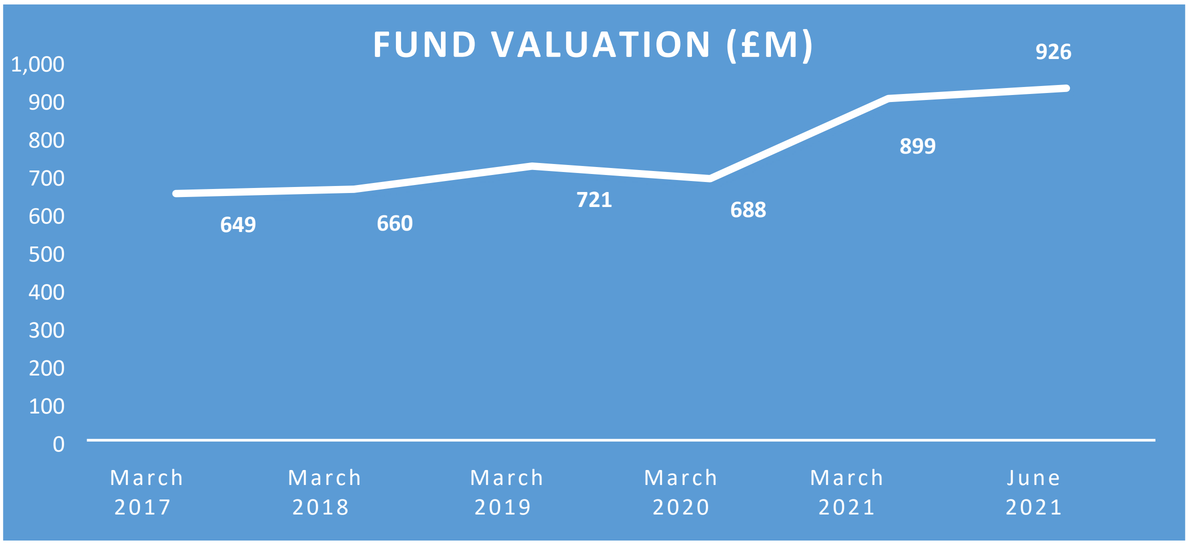
Mandate	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	7.5	7.5	0.0	25.0	25.0	-0.1	-	-	-
UBS Alternative Beta	7.1	7.0	0.1	22.0	22.0	0.0	-	-	-
LCIV RBC Sustainable Equity Fund	8.9	7.6	1.2	29.6	24.4	4.2	17.0	13.3	3.3
LCIV Baillie Gifford Global Alpha Growth Fund	7.1	7.5	-0.4	30.9	25.5	4.3	18.8	13.4	4.7
BlackRock World Low Carbon Equity Tracker	7.3	7.8	-0.5	24.7	25.3	-0.5	-	-	-
Global Equities									
UBS GEM HALO	1.8	4.9	-2.9	22.9	25.9	-2.4	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	3.2	4.9	-1.6	30.6	26.0	3.7	-	-	-
Emerging Market Equities									
LCIV Ruffer Absolute Return Fund	0.7	0.8	-0.1	5.5	1.4	4.0	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	4.9	0.9	4.0	14.3	3.6	10.3	4.6	4.0	0.5
Diversified Growth									
UBS Triton Property Fund	3.5	3.8	-0.3	10.0	8.5	1.3	4.1	3.0	1.0
BlackRock UK Property Fund	2.8	3.8	-1.0	8.2	8.5	-0.3	2.9	3.0	-0.2
Property									
MIRA Infrastructure Global Solutions II L.P Fund	-0.7	1.8	-2.5	8.2	7.4	0.7	-	-	-
Quinbrook Low Carbon Power LP Fund	4.5	1.8	2.6	5.2	7.4	-2.1	-	-	-
JP Morgan Infrastructure Fund	0.9	2.5	-1.6	6.1	10.4	-3.9	-	-	-
Infrastructure									
Permira Credit Solutions IV Fund	2.0	1.7	0.3	9.1	7.0	2.0	-	-	-
Churchill Middle Market Senior Loan II Fund	1.5	1.7	-0.2	4.4	7.0	-2.4	-	-	-
Private Credit									
Wells Fargo RMF Fund	1.6	1.6	0.0	25.5	25.5	0.0	-	-	-
Risk Management Framework									
LCIV CQS MAC Fund	2.0	1.1	0.9	13.4	4.3	8.7	4.0	4.7	-0.7
Multi Asset Credit									
Cash	-	-	-	-	-	-	-	-	-
Total Fund	4.8	4.3	0.5	20.1	14.5	5.0	10.4	7.8	2.4

2.4 The Fund is an open fund and long-term investment focused. The Fund will continue to work on this basis with the key focus to ESG and maintain a stable contribution rate.

2.5 The Strategic Asset Allocation (SAA) has been updated to reflect the recommendations of the 2020 Investment Strategy Review.

2.6 The Fund continues to remain underweight to Property, Private Credit, Infrastructure, and Multi Asset Credit and overweight to Global and Emerging Markets Equity, which will remain until the private markets portfolio is fully drawn down. The 5% allocation to Social Impact is yet to be implemented.

2.7 The following graph illustrates the Fund's market value trend over the past 5 ½ years and as at 30 June 2021. It shows that in this period the Fund value has appreciated by £277m or 30%.



3.0 Market Background/Outlook

3.1 Global equities had a positive month in June, capping a strong second quarter. Meanwhile, US Treasury yields declined as worries over a sustained rise in inflation eased.

3.2 Inflation data continued to rise, reflecting base effects, higher energy prices, and COVID-19 pandemic-related supply disruptions. But markets appeared confident that the rise in inflation will not be sustained and is unlikely to force central banks to tighten monetary policy prematurely.

3.3 More market update on individual asset classes is available on the quarterly performance report –Appendix 1

4. OTHER ISSUES AFFECTING THE FUND

4.1 None

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

5.1 All relevant implications are included in the report.

6. LEGAL AND STATUTORY IMPLICATIONS

6.1 All relevant implications are included in the report.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

7.1 N/A

8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

8.1 Risk management is an integral part of designing the investment portfolio of the fund.

9. BACKGROUND PAPERS

9.1 Hymans Robertson LLP – quarterly performance report.

London Borough of Merton Pension Fund

Q2 2021 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant
Kameel Kapitan – Investment Associate Consultant
Jamie McLaughlan – Investment Analyst

HYMANS ROBERTSON

Dashboard

Executive Summary

The Fund's assets returned 4.8% over Q2 2021. To provide context, we have assessed total returns against a composite benchmark - a weighted average of the underlying manager benchmarks. Against this comparator, the Fund was comfortably ahead (top left chart). We have also shown performance against the Fund's actuarial target (top right chart).

Owing to the positive performance, assets grew from £898.8m to £926.1m.

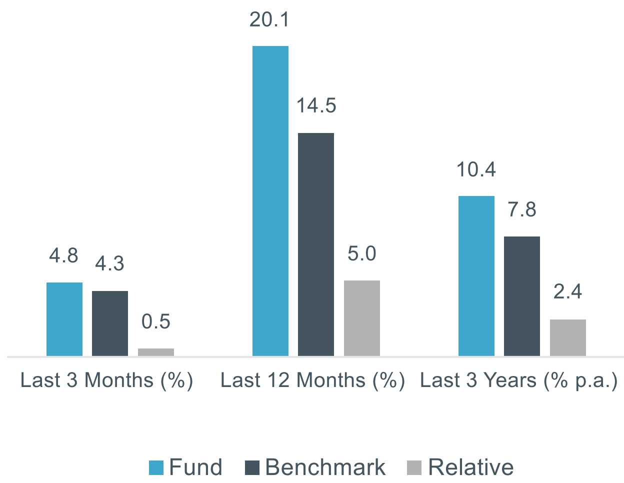
In markets, global equities rose 7.3% during the second quarter, buoyed by positive signs of the vaccine rollout. Inflation expectations remained a concern, with year on year inflation spiking during the quarter. Property markets enjoyed an easing of lockdown restrictions with valuations continuing to improve, perhaps with the exception of retail.

Within fixed income markets, nominal gilts yields pushed lower whilst a narrowing of credit spreads reflected an improvement in overall market sentiment.

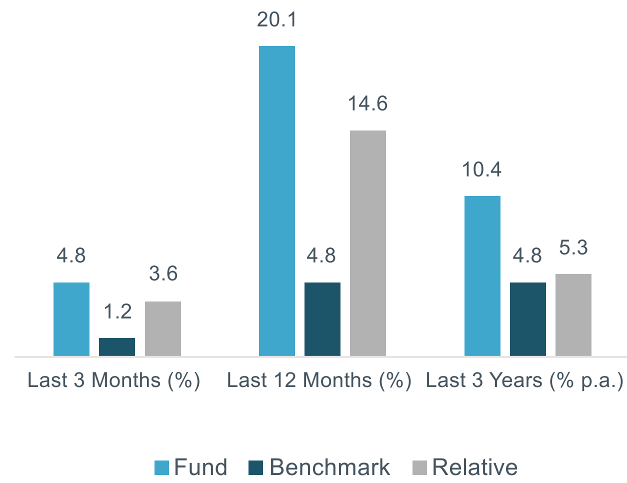
From a fund mandate perspective:

- The equity mandates delivered positive absolute returns as markets continued to recover.
- The LCIV Diversified Growth Fund delivered strong positive relative returns.
- The Property funds contributed positively in absolute terms to overall Fund performance.
- The Risk Management Framework contributed positively to returns due to yields moving lower.

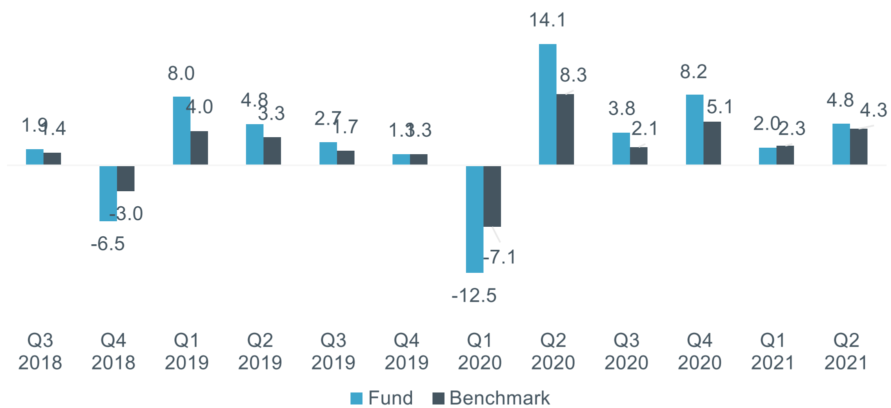
Fund performance vs benchmark/target



Fund performance vs actuarial target



Relative quarterly performance vs benchmark/target



Asset Allocation

Following the 2019 strategy review the agreed long-term target allocation for the Fund is as follows:

Global equities: 30%
Emerging market equities: 10%
Diversified growth fund: 8%
Property: 5%
Private credit: 6.5%
Infrastructure: 11.5%
Social Impact: 5%
Multi-asset credit: 9%
Risk management framework: 15%

In time the Fund will transition towards this target allocation. As it does, the benchmark (as agreed with Officers) shown in the table and used in the benchmark performance calculation on the next will be gradually updated to reflect progress to date.

Commitments to infrastructure and private credit investments continued to be drawn down over time.

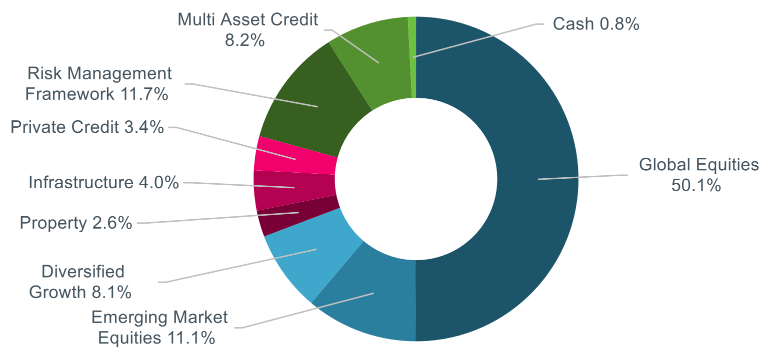
The Fund's allocation to social impact investment is still to be considered.

In the meantime, the Fund will continue to carry a larger growth allocation which in itself carries risk. Fund Officers and Panel members are in the process of considering options available to them to address this and potentially reduce the level of risk within the current allocation.

Asset Allocation

Mandate	Valuation (£m) Q1 21	Valuation (£m) Q2 21	Actual Proportion	Benchmark	Relative
UBS World Equity Tracker Fund	54.1	36.5	3.9%	0.0%	3.9%
UBS Alternative Beta	88.0	95.2	10.3%	10.0%	0.3%
LCIV RBC Sustainable Equity Fund	104.4	113.7	12.3%	10.0%	2.3%
LCIV Baillie Gifford Global Alpha Growth Fund	109.6	117.4	12.7%	10.0%	2.7%
BlackRock World Low Carbon Equity Tracker	94.2	101.1	10.9%	10.0%	0.9%
Global Equities	**450.3**	**463.8**	**50.1%**	**40.0%**	**10.1%**
UBS GEM HALO	60.6	61.8	6.7%	5.0%	1.7%
LCIV JP Morgan Emerging Market Equity Fund	39.5	40.8	4.4%	5.0%	-0.6%
Emerging Market Equities	**100.1**	**102.6**	**11.1%**	**10.0%**	**1.1%**
LCIV Ruffer Absolute Return Fund	37.4	37.6	4.1%	5.0%	-0.9%
LCIV Baillie Gifford Diversified Growth Fund	35.4	37.1	4.0%	5.0%	-1.0%
Diversified Growth	**72.8**	**74.8**	**8.1%**	**10.0%**	**-1.9%**
UBS Triton Property Fund	16.8	16.6	1.8%	2.5%	-0.7%
BlackRock UK Property Fund	7.6	7.8	0.8%	2.5%	-1.7%
Property	**24.4**	**24.3**	**2.6%**	**5.0%**	**-2.4%**
MIRA Infrastructure Global Solutions II L.P Fund	7.6	8.2	0.9%	3.0%	-2.1%
Quinbrook Low Carbon Power LP Fund	11.8	11.7	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	18.0	17.0	1.8%	3.0%	-1.2%
Infrastructure	**37.5**	**36.9**	**4.0%**	**7.5%**	**-3.5%**
Permira Credit Solutions IV Fund	14.9	14.8	1.6%	4.5%	-2.9%
Churchill Middle Market Senior Loan II Fund	16.3	16.7	1.8%	3.0%	-1.2%
Private Credit	**31.3**	**31.5**	**3.4%**	**7.5%**	**-4.1%**
Wells Fargo RMF Fund	106.4	108.2	11.7%	10.0%	1.7%
Risk Management Framework	**106.4**	**108.2**	**11.7%**	**10.0%**	**1.7%**
LCIV CQS MAC Fund	74.8	76.3	8.2%	10.0%	-1.8%
Multi Asset Credit	**74.8**	**76.3**	**8.2%**	**10.0%**	**-1.8%**
Cash	1.2	7.5	0.8%	0.0%	0.8%
Total Fund	**898.8**	**926.1**	**100.0%**	**100.0%**	

Asset class exposures



Source: Investment Managers

During Q2 2021, the Total Fund return was 4.8%, outperforming its benchmark with relative returns of 0.5%. Over the longer time periods of 12 months and 3 years, performance in relative terms was positive with the Fund recording 5.0% and 2.4% p.a. respectively.

The main drivers of performance were the Fund's equity mandates during the quarter. In particular, the LCIV Sustainable Equity Fund returned 8.9% in absolute terms making it the highest performing equity mandate during the quarter. The worst performing global equity mandate was the BlackRock World Low Carbon Tracker despite still achieving a 7.3% absolute return.

Both of the emerging market funds struggled during the quarter with neither able to match its benchmark.

Ruffer's defensive positioning and limited (c40% allocation) to equities saw the portfolio narrowly under performance its target.

Both property funds recorded positive absolute returns despite both failing to meet benchmark. Rental income streams remained robust whilst capital appreciation was prevalent – particularly in the logistics and warehouse sectors.

Following discussions with WFAM, as the mandate has no stated benchmark, we have chosen to benchmark against passive bonds and currency - reflecting the nature of its mandate.

Manager performance

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	7.5	7.5	0.0	25.0	25.0	-0.1	-	-	-
UBS Alternative Beta	7.1	7.0	0.1	22.0	22.0	0.0	-	-	-
LCIV RBC Sustainable Equity Fund	8.9	7.6	1.2	29.6	24.4	4.2	17.0	13.3	3.3
LCIV Baillie Gifford Global Alpha Growth Fund	7.1	7.5	-0.4	30.9	25.5	4.3	18.8	13.4	4.7
BlackRock World Low Carbon Equity Tracker	7.3	7.8	-0.5	24.7	25.3	-0.5	-	-	-
Global Equities									
UBS GEM HALO	1.8	4.9	-2.9	22.9	25.9	-2.4	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	3.2	4.9	-1.6	30.6	26.0	3.7	-	-	-
Emerging Market Equities									
LCIV Ruffer Absolute Return Fund	0.7	0.8	-0.1	5.5	1.4	4.0	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	4.9	0.9	4.0	14.3	3.6	10.3	4.6	4.0	0.5
Diversified Growth									
UBS Triton Property Fund	3.5	3.8	-0.3	10.0	8.5	1.3	4.1	3.0	1.0
BlackRock UK Property Fund	2.8	3.8	-1.0	8.2	8.5	-0.3	2.9	3.0	-0.2
Property									
MIRA Infrastructure Global Solutions II L.P Fund	-0.7	1.8	-2.5	8.2	7.4	0.7	-	-	-
Quinbrook Low Carbon Power LP Fund	4.5	1.8	2.6	5.2	7.4	-2.1	-	-	-
JP Morgan Infrastructure Fund	0.9	2.5	-1.6	6.1	10.4	-3.9	-	-	-
Infrastructure									
Permira Credit Solutions IV Fund	2.0	1.7	0.3	9.1	7.0	2.0	-	-	-
Churchill Middle Market Senior Loan II Fund	1.5	1.7	-0.2	4.4	7.0	-2.4	-	-	-
Private Credit									
Wells Fargo RMF Fund	1.6	1.6	0.0	25.5	25.5	0.0	-	-	-
Risk Management Framework									
LCIV CQS MAC Fund	2.0	1.1	0.9	13.4	4.3	8.7	4.0	4.7	-0.7
Multi Asset Credit									
Cash	-	-	-	-	-	-	-	-	-
Total Fund	4.8	4.3	0.5	20.1	14.5	5.0	10.4	7.8	2.4

Note: 12-month performance for the LCIV Ruffer Absolute Return Fund is since inception on 13 January 2021.

Source: Fund performance provided by Investment Managers and is net of fees.
Benchmark performance provided by Investment Managers and DataStream

Market Background

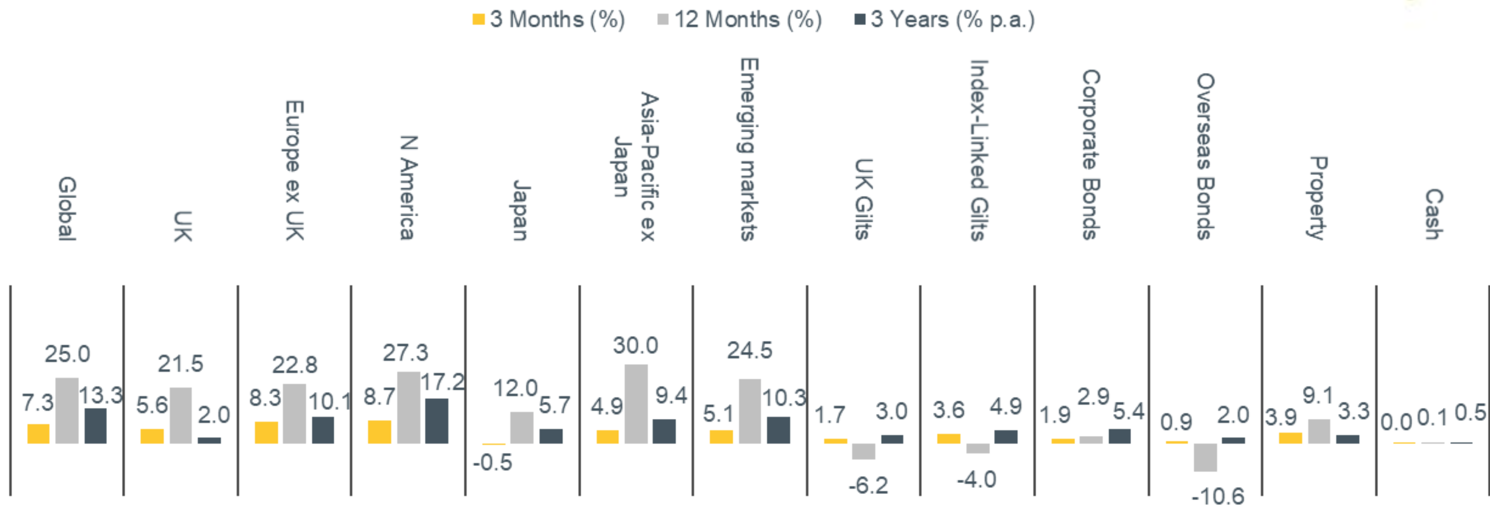
Amid accumulating evidence of the effectiveness of vaccines, the deployment of large US fiscal stimulus, and greater economic resilience to the latest waves of COVID-19, growth forecasts continued to see upwards revisions. A very sharp rebound in global GDP growth is expected to have been recorded in Q2 as restrictions eased in the major advanced economies. Leading indicators, such as PMI business surveys, have reached multi-year highs and suggest growth momentum remains strong.

Global equities have risen 7.1% (Local Currency) in Q2. Cyclical, shorter-duration sectors, such as financials, industrials and basic materials, and styles, such as value and small-cap, have underperformed, having outperformed significantly since the initial positive vaccine news in November last year. Conversely, technology, with its longer-duration growth characteristics, outperformed during Q2.

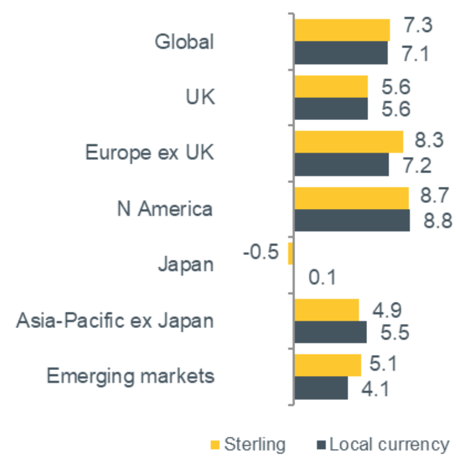
From a regional perspective, Japan has materially underperformed as a resurgence in new COVID-19 cases led to new restrictions. Outperformance by the technology sector helped North America to outperform.

Supply and demand imbalances, largely due to pandemic-induced shortages, and a weak base of comparison in 2020 suggest UK headline CPI will increase above May’s 2.1% year-on-year rise. June’s 5.0% year-on-year increase in US headline CPI exceeded expectations. However, most forecasters and central bankers expect the inflationary spike will prove temporary.

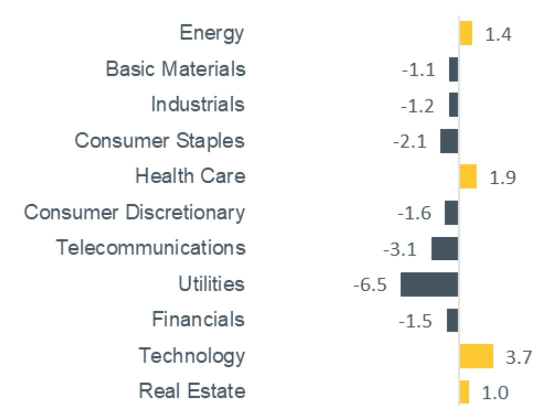
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

On news that the Fed expects to increase its policy rate twice in 2023, short-term yields rose, and longer-term yields fell. Despite upside inflation surprises, US 10-year treasury yields fell 0.3% p.a. to 1.5% p.a. and UK yields fell 0.1% p.a. to 0.7% p.a. The gathering pace of vaccine roll out in the eurozone helped equivalent German yields rise 0.1% p.a.

UK 10-year Implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell from 3.7% p.a. to 3.5% p.a. as nominal yields fell relative to real yields.

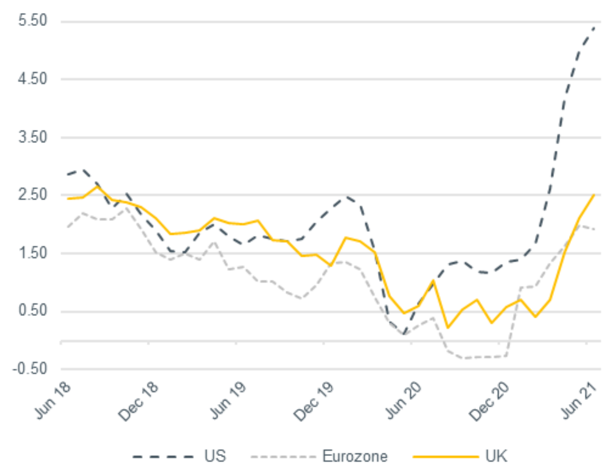
Despite rising 1.4% in June on the back higher near-term rate expectations, the trade-weighted dollar has weakened 1.6% since the end of March, as the global economic recovery became broader based. Sterling has weakened marginally in trade-weighted terms, down 0.5% since the end of March.

Despite slipping 7% in the wake of the Fed meeting in June, gold prices were still up 3.6% over the quarter while oil prices rose strongly.

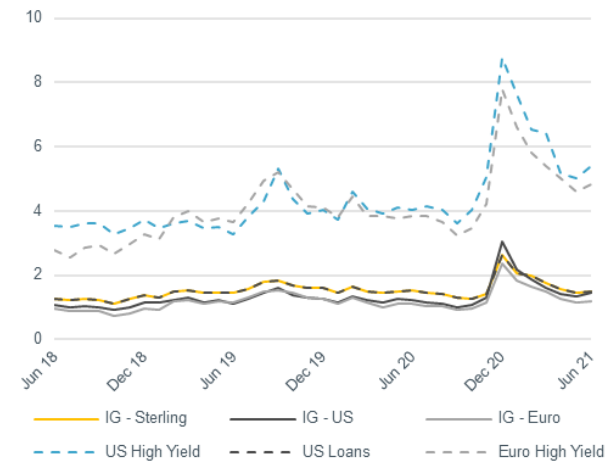
Global credit spreads continued to trend lower in-line with declining default rates and improving credit fundamentals.

Rolling 12-month UK Monthly Property Index metrics have improved as March 2020 values fell out of the comparison. The rolling 12-month total return on the index was 9.1% to end-June, with monthly returns positive since July 2020. Capital values, in aggregate, have risen 3.4% over the last 12 months, with values rising month-on-month since November 2020: Industrial capital values are responsible for the rise, having risen 17.9% over the last 12 months, while retail and office values have fallen, by 5.4% and 3.4%, respectively. The office sector has been experiencing the largest capital declines in recent months.

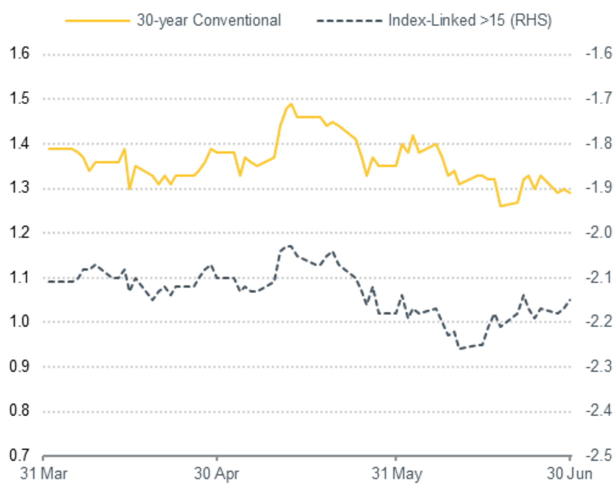
Annual CPI Inflation (% p.a.)



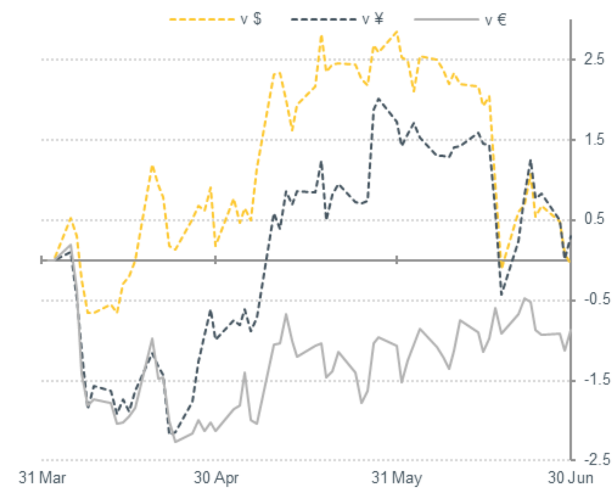
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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