

Merton Council

Pensions Committee Agenda

Membership

Councillors:

Laxmi Attawar (Chair)
John Braithwaite (Vice-Chair)
Billy Christie
Gwyn Isaac

Co-opted members:

Gwyn Isaac
Emma Price

Date: Thursday 30 March 2023

Time: 7.00 pm

Venue: Council chamber - Merton Civic Centre, London Road, Morden SM4 5DX

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](tel:02085453458).

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

Pensions Committee Agenda

30 March 2023

- 1 Apologies for absence
- 2 Declarations of pecuniary interest
- 3 Minutes of the previous meeting 1 - 2
- 4 Merton Pension Fund Audit - EY update 3 - 58
 - 2021-22 Audit Results Report
 - 2022-23 Audit Plan
- 5 Quarterly Performance Review (October - December 2022) 59 - 72
- 6 AOB
- 7 Future meeting dates
 - 29 June 2023
 - 12 October 2023
 - 30 November 2023
 - 20 March 2024
- 8 Exclusion of the public
To RESOLVE that the public are excluded from the meeting during consideration of the following report(s) on the grounds that it is (they are) exempt from disclosure for the reasons stated in the report(s).
- 9 Minutes of the previous meeting (exempt) 73 - 74
- 10 Quarterly Fund and Investment Managers Performance Review (October - December 2022) 75 - 106
- 11 Presentation by Fund Manager
Update to be provided at the meeting.
- 12 Investment Strategy Implementation Statement 107 - 130
- 13 Pension Administration - Annual Update 131 - 134
- 14 AOB

Note on declarations of interest

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 matter 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 Pensions Committee

Minutes of the meeting held on

17 November 2022

Attendance:

Cllr Laxmi Attawar (Chair)
Cllr John Braithwaite (Vice Chair)
Cllr Billy Christie
Gwyn Isaac (GMB Union Rep)
Roger Kershaw (LBM)
Nemashe Sivayogan (LBM)
Emma Price (Pensioner Rep)

External attendees:

Investment Consultant - Hymans Robertson
Fund Actuary- Barnet Waddingham
Elizabeth Jackson - Ernst and Young

1.0 MEETING (Part 1)

- 1.1 Introduction made by Chair.
- 1.2 Members Declaration of Interest – None.

2. Minutes of Last Meeting Held (Part 1) – 15 September 2022

- 2.1 Agreed as true record.

3. Merton Pension Fund – Audit Results Report- EY

- 3.1 NS gave a summary of the numbers on P4 of the report.
- 3.2 EJ mentioned the Level 3 cash testing was outstanding.
- 3.3 The accounts not signed by 30 November 2022 due to the Councils accounts having outstanding infrastructure valuation issues.
- 3.4 NS questioned why fees had risen. EJ fees were previously set by PSAA in 2018 since which the accounts have become more complex. The risk and profile of the fund had changed which meant additional fees.

4. Quarterly Fund Performance Review (July-Sept 2022)

- 4.1 RK presented the Q2 2022 Fund performance report and informed the Committee that over the 3 months to 30 September 2022, total Fund assets returned 3.5% compared to the benchmark of 4.6%. This equates to an underperformance of 1.1%.

- 4.2 The Fund's total market value decreased by £3m over the quarter, from £851m to £848m.
- 4.3 Over the last 12 months, the Fund performance was -11.8%, and 3-year annualised performance was 3.3%. The annual Actuarial performance target is 4.8%.
- 4. AOB**
- None.

Committee: Merton Pension Committee

Merton Pension Committee

Date: 30 March 2023

Merton Pension Board

Date: 28 March 2023

Wards: All

Subject: Merton Pension Fund – 2021/22 Final Audit Results Report and 2022-23 Audit Plan

Lead officer: Roger Kershaw -Executive Director of Finance and Digital

Lead member: Cllr. Billy Christie -Cabinet Member for Finance

Contact officer: Nemashe Sivayogan- Head of Treasury and Pensions

This is a Public Document

RECOMMENDATION

Members are asked to note the Merton Pension Fund's 2021-22 Final audit report and the 2022/23 Audit plan from Ernst and Young that relates to the Fund's financial accounts, as set out in Appendix 1 and 2

That Committee notes the preparatory activity undertaken and underway by Officers, as set out in the main report.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMAR

- 1.1. This report presents the Merton Pension Fund's 2021-22 final audit report following the completion of the audit and issuing an unqualified audit opinion on the 7 February 2023
- 1.2 The 2022-23 Audit plan is prepared by the Council's external auditors Ernst and Young LLP sets out the details of their proposed audit scope for the Merton Pension Fund for the year ending 31 March 2023.

2. DETAIL

- 2.1 the **2021/22** Final audit report have no major change from the report presented to the committee on the 17 November 2022. Please note the delay in signing the Pension fund Accounts and the annual report is solely due to the infrastructure accounting issues related to the main Council's audit and not the Pension Fund.
- 2.2 Following the completing of the audit, the 2021/22 Annual report is now published on our website.

- 2.3 The 2022/23 audit plan sets out to the key considerations of planning for this year's audit with a view to ensuring that the year-end activities can be managed smoothly.
- 2.4 The responsibilities of the auditors are set out in Appendix 1 – Merton Pension Fund Audit Plan- Briefing on Audit Matters.
- 2.5 The auditors are asked to treat the Local Government Pension Scheme as a Stand-alone body, with a separate audit plan and report to the Pension Committee.

Preparatory Activity for 2022-23 Statement of Accounts

- 2.6 The preparations for financial year-end have commenced already. The officers have started having regular meetings with the auditors in relation to Interim and the final audit.
- 2.7 Compared to many Pensions Funds audit Merton Pension Fund is in a fortunate position. We will be closing the 2022-23 ledger and compiling the statement of account with our any previous years' accounts open and audit on going. This is mainly due to the effectiveness of the team and working closely with the auditors.
- 2.8 However at the audit plan meeting EY has indicated to us that they will not be able to start the 202-23 audit up until Sept 2023. This means we are in a very unlikely position to complete the audit and sign off by the 30 Sept deadline. This is mainly to complete all outstanding previous audit.
- 2.9 The officers have raised our concerns with the auditors. The Fund which worked so effectively and got its accounts signed should be punished for the other audit delay. Diverting the resources and time from the Merton audit. The officers are waiting for a response the auditors.
- 3.0 We are in the process of drafting the audit time when EY have more information of the audit field work and resources.

3. ALTERNATIVE OPTIONS

- 3.1. N/A

4 CONSULTATIONS UNDERTAKEN OR PROPOSED

- 4.1. Although the Pension Fund's Statement of Accounts and Annual Report are statutory documents whose formats are dictated by statute and regulation, they are produced by the pension team at Merton by closely working with pension shared services and input from the Fund's investment managers and the Fund custodian.

5 TIMETABLE

- 5.1. The 2022-23 reporting cycle opens formally with this report and will be continued with the presentation of the final Pension Fund Statement of Accounts and Annual Report based on the external audit timetable.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 6.1 There are no direct financial implications in agreeing the recommendations in this report. The annual audit fee of £16,170.00 will be paid by the Pension Fund. However, there are some additional charges by EY will make up the total audit fee. Please see the table below for the breakdown.

	Planned fee 2022/23	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale Fee – Code work (1)	16,170	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	-	16,078
Increased fee for carrying out the audit (see Note 2)	35,397	35,397	-
Risk based scale fee variation not yet quantified (see Note 3)	TBC	TBC	-
IAS 19 work on the 2019 triennial valuation of the Fund	TBC	8,500	8,000
Total	TBC	TBC	37,970

All fees exclude VAT

Note 1 -The 2020/21 additional fees have been determined by PSAA at £16,078.

Note 2 -In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £35,397. EY remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete.

Note 3 –EY have yet to quantify our proposed risk-based scale fee variation for 2021/22. EY will report our proposed 2021/22 scale fee variation to management and the Standards and General Purposes Committee in due course.

7 LEGAL AND STATUTORY IMPLICATIONS

- 7.1. The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with proper practice.
- 7.2 The Pension Fund accounts are governed by the overall financial framework for local authorities, and in conjunction with the full Code of Practice on Local Authority Accounting in the United Kingdom: 2022-23 Accounts ('The Code').

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 8.1. N/A.

9 CRIME AND DISORDER IMPLICATIONS

- 9.1. N/A.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1. N/A.

11 APPENDICES

- 11.1 EY – Pension Fund audit plan 2022-23.

12 **BACKGROUND PAPERS**

12.1. 2022-23 CIPFA Sample accounts and Disclosure checklist.

Merton Pension Fund Audit results report

Year ended 31 March 2022

10 November 2022

Updated 31 January 2023

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letter.

Building a better
working world



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

31 January 2023

Dear Committee Members

2021/22 Final 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 2021/22. Updated matters in this report are included in italics for clarity of the changes since the report was presented to the Committee on 28 November 2022.

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 and we welcome the opportunity to discuss the contents of this report with you at the Committee meeting.

Yours faithfully

E. Jackson.

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

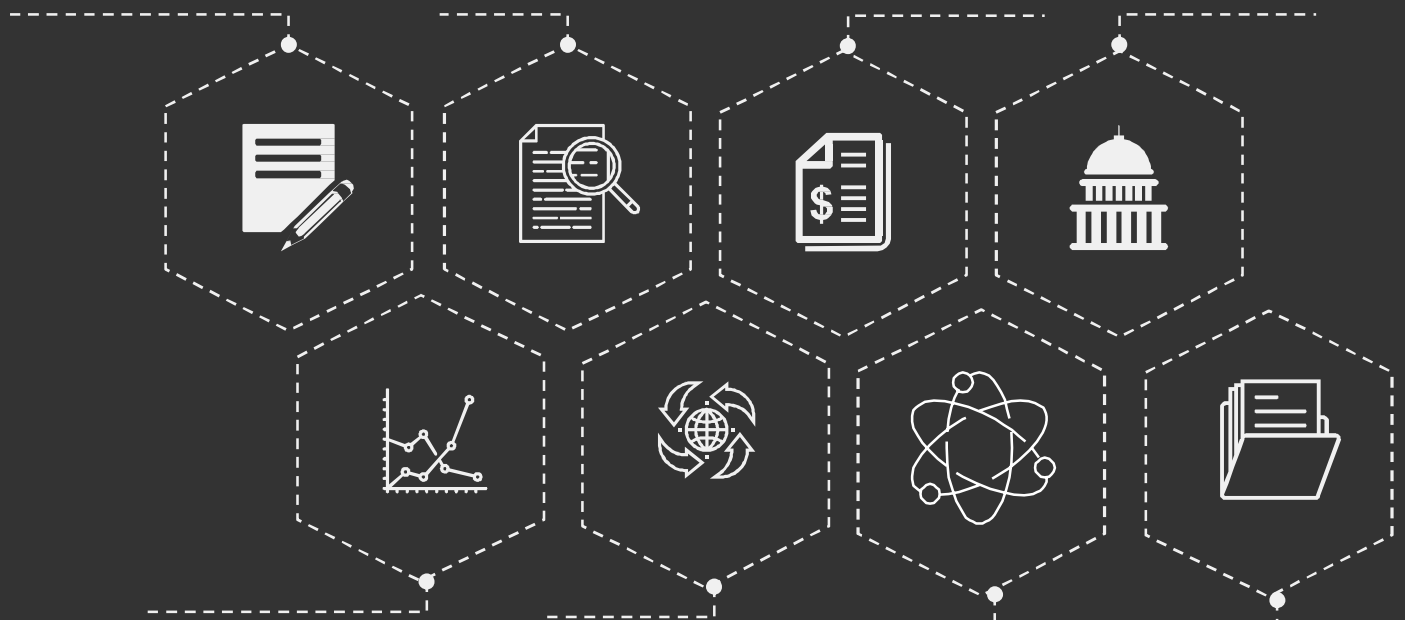
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 Committee and 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 dated 26 May 2022, 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:

Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

There were no changes required to the materiality that was included within in our audit plan as this was based on the draft financial statements. Planning materiality was set at £9.2m, performance materiality at £6.9m and an audit differences threshold of £0.46m

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*

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 as final year end figures were notified to the Fund after the draft accounts were prepared. We include further details in Section 4.



Executive Summary

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.

- *Agreement of all final amendments to the financial statements and annual report*
- *Update of our subsequent events procedures to the date of our opinion*
- *Receipt of a signed letter of management representation.*

Subject to the satisfactory completion of these procedures and receipt of authorised financial statements we are proposing an unqualified opinion - see Section 3.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the 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. We linked this risk to the manipulation of Investment income and valuation through posting of investment journals.
Valuation of Level 3 investments	<p>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 Level 3 investments which are disclosed as level 3 in the fair value hierarchy and therefore inherently more difficult to value.</p> <p>There was a late adjustment to the valuations of Level 3 investment assets resulting in a £4.4m understatement of the fund. Management have subsequently amended this.</p> <p>Our work in this area is ongoing.</p> <p>Update – Our work in this area is now complete and there are no further matters to bring to your attention.</p>
Other area of audit focus	Findings & conclusions
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits (Inherent risk)	<p>We carried out procedures as set out in our Audit Plan to gain assurance over the IAS 26 actuarial statement and the associated disclosure of the actuarial present value of promised retirement benefits as a note to the accounts.</p> <p>We have completed our work in this area and have no other matters to bring to your attention.</p>
Going concern (Area of focus)	<p>We are in the process of reviewing the cashflow to support the Fund's disclosure.</p> <p>Update - 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.</p>

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 2021 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

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.

We have considered where this risk manifests and we consider this to be in the manipulation of Investment income and valuation of assets (see slide 11).

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What did we do?

- To address this risk we confirm that we have performed the following procedures:*
- We inquired of management about risks of fraud and the controls put in place to address those risks;*
 - We obtained an understanding the oversight given by those charged with governance of management's processes over fraud;*
 - We considered the effectiveness of management's controls designed to address the risk of fraud;*
 - We performed mandatory procedures regardless of specifically identified fraud risks, including;*
 - testing of journal entries and other adjustments in the preparation of the financial statements;*
 - reviewing accounting estimates for evidence of management bias; and*
 - evaluating the business rationale for significant unusual transactions.*
 - We utilised our data analytics capabilities to assist with our work, including journal entry testing; and*
 - We assessed journal entries for evidence of management bias and evaluate 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 Fund's normal course of business.



Areas of Audit Focus

Significant risk

Risk of manipulation of Investment income and valuation (Misstatements due to fraud and error)

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.



Areas of Audit Focus

Significant risk

Valuation of Level 3 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. Valuation of these assets 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 and may also be made more difficult because of current market volatility.

What judgements are we focused?

The Fund's level 3 investments include investments that require the fund to make judgements, often using the work of a fund manager or custodian, to value those investments whose prices are not publicly available. The material nature of investments means that any error in judgement and estimate could result in a material valuation error.

Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

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 £4.4m.

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

Our work in this area is ongoing and we will verbally update the Committee.

Update – Our work in this area is now complete and there are no other matters to report.



Areas of Audit Focus

Significant risk



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.*

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audited financial statements supporting valuations were only available to 30 June 2021 and 31 December 2021. 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 2022, 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 2021 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.*

Inherent risks and other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on.

What is the risk/area of focus?

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits (Inherent risk)

We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.

Going Concern Disclosure (Area of focus)

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 its 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.

What did we do?

We have:

- Agreed the disclosure to the IAS 26 actuarial statement and reporting requirements
- Engaged auditor's specialists to review the IAS 26 calculation approach and comment on the underlying assumption
- Reviewed the work of the management specialist (Barnett Waddingham, the actuary) and auditor's specialist
- Considered the controls used by Barnett Waddingham in undertaking the calculation
- Performed IAS 19 procedures, which give us assurance over the data input into the calculation

We have completed our work in this area and have no matters to bring to your attention.

We are currently in the process of reviewing the Fund's cashflow forecast in support of the going concern assumption.

We will provide the Committee with a verbal update with our progress in this area.

Update - 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.

We are also satisfied that the disclosure in the financial statements meets the requirements of the revised auditing standard.



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 2022 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 2021/22.

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 2022 and the amount and disposition of the fund's assets and liabilities as at 31 March 2022, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Acting Executive Director of Finance and Digital 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 Acting Executive Director of Finance and Digital with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

- The other information comprises the information included in the London Borough of Merton Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Acting Executive Director of Finance and Digital is responsible for the other information contained within the Statement of Accounts 2021/22.
- 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.



Audit Report

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 Acting Executive Director of Finance and Digital
As explained more fully in the Statement of the Acting Executive Director of Finance and Digital' Responsibilities set out on page 188, the Acting Executive Director of Finance and Digital 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 2021/22, and for being satisfied that they give a true and fair view. The Acting Executive Director of Finance and Digital is also responsible for such internal control as the Acting Executive Director of Finance and Digital 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 Acting Executive Director of Finance and Digital is responsible for assessing the 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 Administering Authority either intends to cease operations, or has 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.



Audit Report

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 Acting Executive Director of Finance and Digital. Our approach was as follows:

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 Fund is complying with those frameworks by making enquiries of management. We corroborated this through [our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.

Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.

We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.

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. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

To address our fraud risk of manipulation of investment income and valuation we:

- O Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences;*
- O Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;*
- O Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and*
- O Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk.*

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



Audit Report

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

Our opinion on the financial statements

The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team including the use of specialists where appropriate, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

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

Use of our report

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



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 audit differences greater than £6.9m 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.

There were no uncorrected audit differences.



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 London Borough of Merton Pension Fund Annual report and the audited Financial Statements 2021/22 included within the London Borough of Merton Financial Statements 2021/22.

We are satisfied that the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of the London Borough of Merton for the year ended 31 March 2022.

Our work in this area is ongoing.

Update – We have no issues to bring to your attention as a result of our work.

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.



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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 2021 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 2022 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 2021/22	Final Fee 2020/21
	£	£
Scale Fee – Code work (1)	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	16,078
Increased fee for carrying out the 2021/22 audit (see Note 2)	35,397	-
2021/22 Risk based scale fee variation not yet quantified (see Note 3)	TBC	-
Additional fee for IAS19 assurance work on behalf of admitted bodies	8,500	8,000
Total	TBC	40,248

All fees exclude VAT

Note 1 - The 2020/21 additional fees have been determined by PSAA at £16,078.

Note 2 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £35,397. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete.

Note 3 - We have yet to quantify our proposed risk based scale fee variation for 2021/22. We will report our proposed 2021/22 scale fee variation to management and the Standards and General Purposes Committee in due course.

Other communications

EY Transparency Report 2022

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 2022:

[EY UK 2022 Transparency Report | EY UK](#)



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08 Appendices

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 
March 2022	Meeting	Agreement of the significant risks, planned scope, timing of the audit and indicative audit plan with the Director of Corporate Services.
November 2022	Meeting	Discussion regarding the key findings from our audit of the financial statements and agreement of the audit results report with the Assistant Director of Resources.
Throughout the year	Meetings, calls and emails.	The Partner and Senior Manager has been in regular contact with the Director of Corporate Services and the Assistant Director of Resources in respect of the Fund's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The 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	<p>The 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.</p> <p>Specific reports issued and communications with the Committee are detailed in Appendix C.</p>

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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.

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:

		 Our Reporting to you
Required communications	 What is reported?	 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 May 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated May 2022
Significant findings from the audit	<ul style="list-style-type: none"> • 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 November 2022 and updated February 2023



Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 – November 2022 and updated February 2023
Subsequent events	<ul style="list-style-type: none"> • 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 – November 2022 and up to date of our report.
Fraud	<ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 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 – November 2022 and updated February 2023





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Fund's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 – November 2022 and updated February 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> • 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 May 2022 and Audit Results Report – November 2022 and updated February 2023

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit Results Report – November 2022 and updated February 2023

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	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report – November 2022 and updated February 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report – November 2022 and updated February 2023
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report – November 2022 and updated February 2023
Fee Reporting	<ul style="list-style-type: none"> 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 May 2022 and Audit Results Report – November 2022 and updated February 2023

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Draft management representation letter

Management Rep Letter

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 2022. 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 2021 to 31 March 2022 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2022, 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 2021/22.

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 2021/22.*
- 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 2021/22, 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 2021/22 that are free from material misstatement, whether due to fraud or error.*

- 6. 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.*

- 7. We have disclosed to us any significant changes in our processes, controls, policies and procedures that you have made to address the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on your system of internal controls. That you do not believe that there are any significant changes.*

- 8. 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.*

Draft management representation letter

Management Rep Letter

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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.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance 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.

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 and to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

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 2021/22 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 2021/22.

Draft management representation letter

Management Rep Letter

10. From the date of our last management representation letter 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, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus 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 2021/22.
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. Estimates

1. We confirm that the significant judgments made in making the IAS26 disclosure and fair value hierarchy level 3 investment asset valuations have taken into account all relevant information and the effects of the COVID-19 pandemic 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 accounting estimate.

3. We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action 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, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimate.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic, or related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

(Acting Executive Director of Finance & Digital)

(Chair of the Standards and General Purposes Committee)

About EY

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Merton Pension Fund Outline Audit Plan

Year ended 31 March 2023

25 February 2023

25 February 2023



Merton Pension Fund
Standards and General Purposes Committee
Civic Centre
Morden
SM4 5DX

Dear Committee Members
Outline Audit Plan

We are pleased to attach our Outline Audit Plan for Merton Pension Fund. Its purpose is to provide the Standards and General Purposes Committee with an overview of our plans and fee for the 2022/23 audit before detailed planning work commences.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for Merton pension Fund. Due to the late completion of our 2021/22 audit, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee at the next meeting, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2022/23 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

E. Jackson.

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

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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.psa.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 Committee and management 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 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 to the Standards and General Purposes Committee, and management of the 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.



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01 2022/23 Audit



2022/23 financial statements audit

Planning for 2022/23

We have met the Interim Executive Director of Finance and Digital and members of the finance team during January and February 2023 to discuss the conclusion of our 2021/22 audit and have a detailed planning meeting for the 2022/23 audit on 2 March 2023.

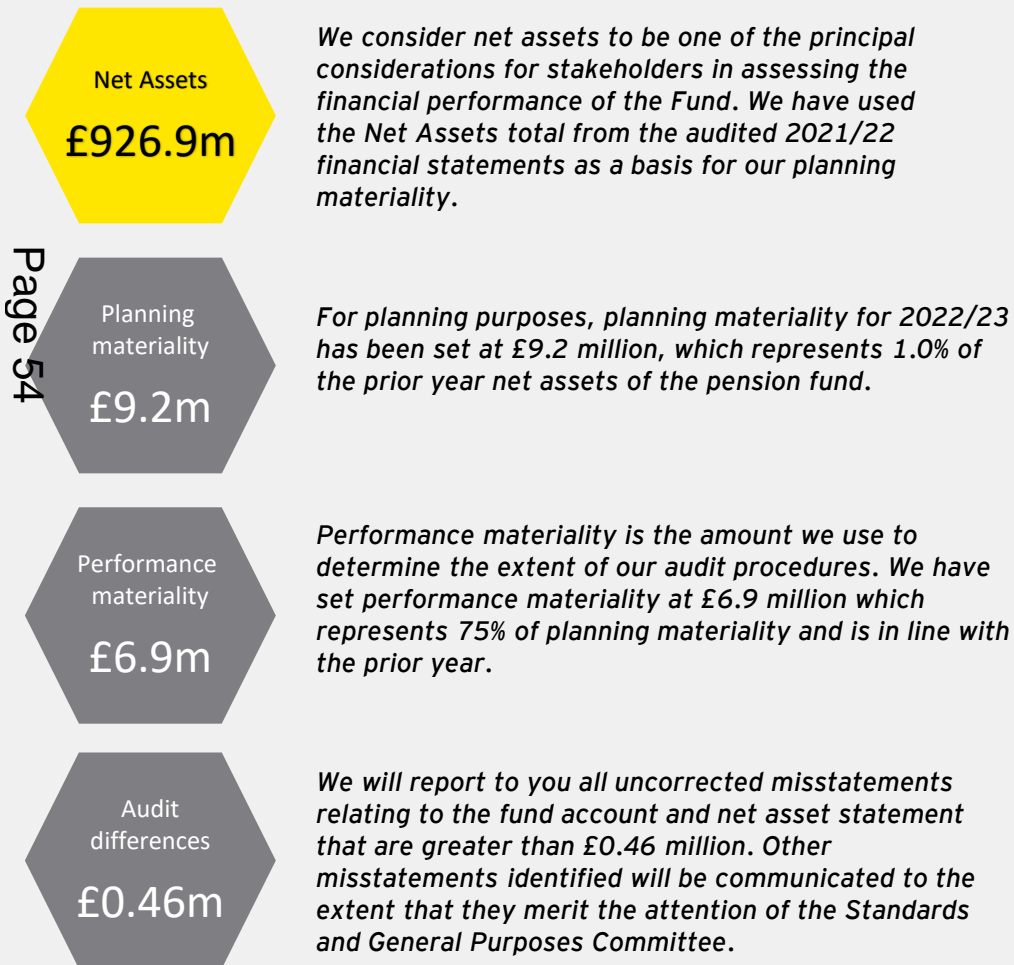
We have not yet commenced our initial planning work for the 2022/23 audit. However, we set out in this report our initial considerations of the risks for the audit - these are broadly similar to those identified in 2021/22. We will update these risks as our planning progresses and new issues emerge during the course of the year.

We have arranged regular liaison meetings throughout the year to inform our continuous audit planning. We will also take in to account any updated CIPFA guidance for the 2022/23 year.

Materiality

Our application of materiality

When establishing our overall audit strategy, we determine the magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole.



These figures will be updated upon receipt of the draft 2022/23 financial statements.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements. Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality.

At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to Fraud or Error - Posting of investment journals	Fraud risk / Significant risk	No change in risk or focus	<p>As identified in ISA (UK) 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.</p> <p>There is a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.</p>
Valuation of private debt and infrastructure investments (level 3 investments)	Significant risk	No change in risk or focus	<p>The Fund holds a material value of private debt and infrastructure investments which are not publicly quoted.</p> <p>The Fund will make judgements when valuing those investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.</p> <p>Current market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year-end. Such variations could have a material impact on the financial statements.</p> <p>As these investments are more complex to value, we have identified the valuation of the Fund's Level 3 investments as a significant risk.</p>

Overview of 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Standards and General Purposes Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables. While IAS 26 does not inform the primary statements, there is stakeholder interest in this disclosure due to its nature.
Going concern disclosure	Area of focus	No change in risk or focus	The financial landscape for the Fund's admitted and scheduled bodies remains challenging and as a result, the Fund will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.



02

Fees





Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The table sets out our expected fees for 2020/21 and 2021/22. However, these figures could change, and need to be agreed with officers and the PSAA.

	Planned fee 2022/23	Planned fee 2021/22	Final Fee 2020/21
	£	£	£
Scale Fee - Code work (1)	16,170	16,170	16,170
Final 2020/21 scale fee variation determined by PSAA (see Note 1)	-	-	16,078
Increased fee for carrying out the audit (see Note 2)	35,397	35,397	-
Risk based scale fee variation not yet quantified (see Note 3)	TBC	TBC	-
IAS 19 work on the 2019 triennial valuation of the Fund	TBC	8,500	8,000
Total	TBC	TBC	37,970

All fees exclude VAT

Note 1 - The 2020/21 additional fees have been determined by PSAA at £16,078.

Note 2 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our bid to PSAA for this contract, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £35,397. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to complete.

Note 3 - We have yet to quantify our proposed risk based scale fee variation for 2021/22. We will report our proposed 2021/22 scale fee variation to management and the Standards and General Purposes Committee in due course.

Committee:

Merton Pension Committe

Date: 30 March 2023

Wards: All

Subject: Merton Pension Fund Performance – December 2022

Lead Officer: Roger Kershaw – Interim Executive Director of Finance and Digital

Lead Member: Councillor Billy Christie - Cabinet Member for Finance

Contact Officer: Nemashe Sivayogan – Head of Treasury and Pensions

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 quarter ending 31 December 2022, 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 December 2022. 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 31 December 2022. 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 Robertson provides useful analysis and insights of the Pension Fund activities and results for the quarter ending 31 December 2022.

The following table shows the total Fund valuation for the quarter ended December 2022.

VALUATION SUMMARY PERIOD ENDING 31 DECEMBER 2022

- 2.2 The Fund's total market value decreased by £2.9m over the quarter, from £851.1 m to £848.2m.
- 2.3 Over the 3 months to 31 December 2022, total Fund assets returned 3.5% compared to the benchmark of 4.6%. This equates to an underperformance of 1.1%. Over the last 12 months, the Fund performance was -11.8% and 3 year annualised performance was 3.3%. The annual Actuarial performance target is 4.8%.

Mandate	Valuation (€m)		Actual Proportion	Benchmark	Relative
	Q3 22	Q4 22			
UBS Alternative Beta	45.1	47.6	5.3%	5.0%	0.3%
LCIV RBC Sustainable Equity Fund	64.5	64.1	7.6%	10.0%	-2.4%
LCIV Barile Gifford Global Alpha Growth Paris Aligned Fund	70.4	71.5	8.4%	10.0%	-1.6%
BlackRock World Low Carbon Equity Tracker	101.1	101.6	12.0%	10.0%	2.0%
Global Equities	301.1	304.7	35.3%	35.0%	0.3%
UBS GEM HMO	47.5	47.6	5.6%	5.0%	0.6%
LCIV JP Morgan Emerging Market Equity Fund	33.3	34.1	4.0%	5.0%	-1.0%
Emerging Market Equities	80.8	81.6	9.6%	10.0%	-0.4%
LCIV Ruffer Absolute Return Fund	59.4	62.3	7.3%	5.0%	2.3%
LCIV Barile Gifford Diversified Growth Fund	48.5	34.0	4.0%	5.0%	-1.0%
Diversified Growth	107.9	96.4	11.4%	10.0%	1.4%
UBS Trilon Property Fund	19.8	16.8	2.0%	2.0%	0.0%
BlackRock UK Property Fund	8.7	7.4	0.9%	2.0%	-1.1%
Property	28.5	24.2	2.9%	5.0%	-2.1%
Hanley Secure Income Property Fund II	13.3	22.4	2.6%	1.0%	1.6%
Social Impact	13.3	22.4	2.6%	1.0%	1.6%
MIRA Infrastructure Global Solutions I LP Fund	18.8	20.4	2.4%	2.0%	0.4%
Quinbrook Low Carbon Power LP Fund	16.1	16.5	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	33.1	14.3	1.7%	3.0%	-1.3%
JP Morgan Infrastructure Fund	64.8	64.9	7.8%	5.0%	2.8%
Infrastructure	133.0	116.2	13.1%	11.5%	2.2%
Pemira Credit Solutions IV Fund	23.5	23.7	2.8%	4.5%	-1.7%
Churchill Middle Market Senior Loan II Fund	20.0	21.8	2.6%	3.0%	-0.4%
Private Credit	43.5	45.5	5.4%	7.5%	-2.1%
Alpining RMF Fund	49.9	60.7	7.2%	10.0%	-2.8%
Risk Management Framework	49.9	60.7	7.2%	10.0%	-2.8%
LCIV CQS / PIMCO MAC Fund	68.9	71.8	8.5%	10.0%	-1.5%
Multi Asset Credit	68.9	71.8	8.5%	10.0%	-1.5%
Cash	24.1	24.7	2.9%	0.0%	2.9%
Total Fund	851.1	848.2	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Pemira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q3 2022 respectively. The FX rate used is lagged and at each of these dates also.

PERFORMANCE SUMMARY

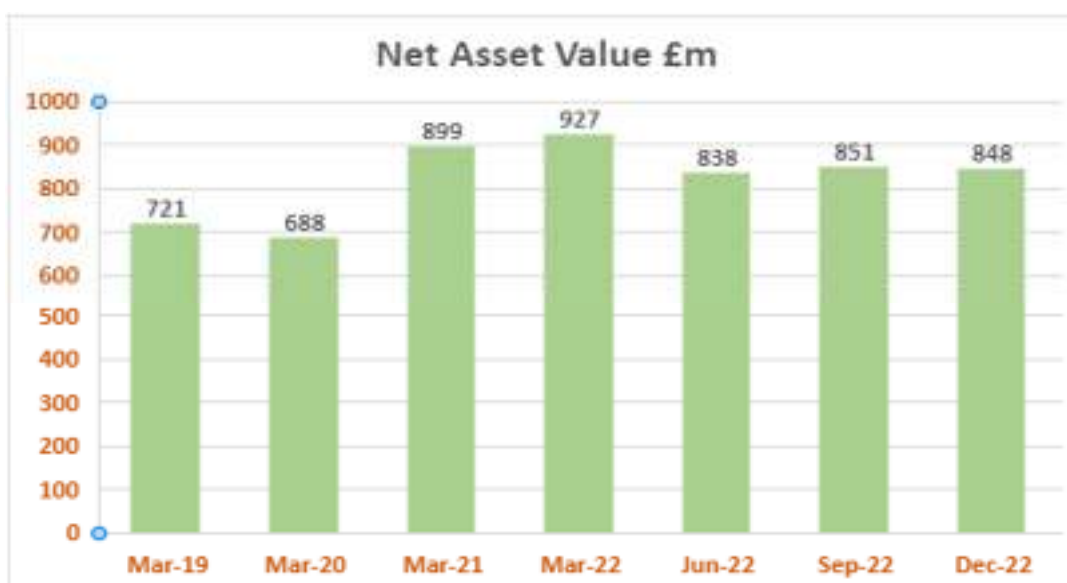
1 OCTOBER 2022 TO 31 DECEMBER 2022

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 5 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS Alternative Beta	5.5	5.4	0.0	-0.4	-0.4	0.0	6.4	6.4	0.0	1.3	1.3	0.0
LCV RBC Sustainable Equity Fund	-0.5	2.4	-2.9	-15.6	-6.0	-10.3	7.9	9.3	-1.3	4.6	7.7	-3.0
LCV Baillie Gifford Global Alpha Growth Paris Aligned Fund	1.2	1.8	-0.4	-	-	-	-	-	-	-7.8	-4.1	-3.8
BlackRock World Low Carbon Equity Tracker	0.5	2.4	0.1	-8.4	-8.0	0.5	8.2	8.0	0.2	11.5	11.2	0.2
Global Equities												
UBS GENFALO	0.2	1.8	-1.6	-15.3	-10.0	-5.5	-2.4	0.4	-2.8	2.9	3.4	-0.5
LCV JP Morgan Emerging Market Equity Fund	2.8	2.4	-0.2	-8.5	-7.8	-0.9	3.0	1.5	1.4	2.9	1.3	1.4
Emerging Market Equities												
LCV Ruffer Absolute Return Fund	4.9	1.4	3.4	6.9	4.4	2.4	-	-	-	7.4	3.8	3.5
LCV Baillie Gifford Diversified Growth Fund	1.5	1.6	-0.1	-15.8	5.1	-21.3	-2.1	4.2	-6.0	2.2	3.8	-1.5
Diversified Growth												
UBS Trion Property Fund	-16.2	-14.1	-1.3	-8.0	-8.5	0.6	2.4	2.2	0.2	0.8	0.7	0.1
BlackRock UK Property Fund	-14.2	-14.1	-0.1	-10.0	-8.5	-0.6	1.2	2.2	-0.9	1.1	1.4	-0.3
Property												
Heidex Secure Income Property Fund II	3.9	1.5	2.4	-	-	-	-	-	-	1.8	3.0	-1.4
Social Impact												
MIRA Infrastructure Global Solutions II L.P. Fund	-2.3	1.8	-4.0	4.3	7.4	-2.8	8.1	7.4	0.8	4.4	5.7	-1.2
Quinbrook Low Carbon Power LP Fund	1.5	1.8	-0.3	16.8	7.4	8.7	5.8	7.4	-1.5	5.7	5.6	0.1
Quinbrook Net Zero Power Fund	-	-	-	-	-	-	-	-	-	-3.0	5.0	-8.4
JP Morgan Infrastructure Fund	8.0	2.5	5.4	14.6	10.4	3.8	8.2	10.4	-2.0	7.6	5.6	-1.8
Infrastructure												
Perma Credit Solutions IV Fund	0.7	1.7	-1.0	2.3	7.0	-4.4	-	-	-	4.0	5.3	-1.3
Churchill Middle Market Senior Loan II Fund	1.3	1.7	-0.4	4.1	7.0	-2.7	5.8	6.7	-1.1	3.7	5.0	-2.2
Private Credit												
Aisling RWF Fund	36.5	36.5	0.0	-42.8	-42.8	0.0	-	-	-	-5.0	-5.0	0.0
Risk Management Framework												
LCV Q&S / PMCO MAC Fund	4.1	1.8	2.3	-6.0	5.9	-11.1	-0.1	5.0	-4.8	1.2	4.6	-3.2
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	3.5	4.5	-1.1	-11.6	-6.1	-6.2	-3.8	4.7	-1.4	5.7	4.3	0.8

Note: Q4 2022 performance figures for MIRA, Quinbrook LCP & NZPF, Perma and Churchill are lagged by 3-months due to lack of manager information at the time of writing (see comment on left). As such, the performance shown is reflective of Q3 2022.

- 2.5 The fourth quarter brought resilient data on economic activity, a peak in headline inflation, reduced risk of European energy rationing and China's economic re-opening. This eased concerns about the downside risks to global growth this year.
- 2.6 Global equities rallied strongly from their October low, credit spreads tightened significantly, and the dollar fell sharply from its peak early in the fourth quarter.
- 2.7 From an asset class perspective:
- The majority of equity mandate also contributed positively to returns.
 - The diversified growth funds also contributed positive returns
 - The UK property funds detracted
 - The Risk Management Framework contributed positively as gilt yields fell and dollar weakened.

- The majority of equity mandate also contributed positively to returns.



3.0 Market Background/Outlook

- 3.1 As we entered the fourth quarter of 2022, a challenging winter lay ahead. Major markets struggled and the global economy faced multiple headwinds which seemed increasingly likely to end in recession. Russia already faced a sharp recession due to Western sanctions; China's economy contracted due to their stringent zero-Covid policies and in Europe the energy price hikes looked hawkish to the prospects of the economy.
- 3.2 The global equity market rally that started in October ran out of the steam in the last month of the year, amid renewed anxiety over the pace of central bank tightening and the deteriorating growth outlook.
- 3.3 Global equities lost ground in December, as worries over the pace of central bank tightening resurfaced. All major markets except China moved lower. The largest decline was in the S&P 500, with a total return of minus 5.8%. Japan was also among the biggest losers for the month after the BoJ surprised markets by saying it would tolerate a higher yield on 10-year government bonds. The MSCI Japan lost 5.2%. More defensive markets fared better, with the MSCI UK giving a negative total return of 1.4%. The Swiss market lost 3.6%. China was a bright spot. The market was boosted by a swift move toward reducing COVID-19 restrictions.
- 3.4 More market background information and LGPS updates can be found in the Hymans Quarterly performance report.

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.

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London Borough of Merton Pension Fund

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Q4 2022 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant
Jamie McLaughlan – Associate Investment Consultant
Sally Ji – Investment Analyst

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Executive Summary

The Fund's assets returned 3.5% during the final quarter of 2022. 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 behind the benchmark by -1.1% (top left chart). We have also shown performance against the Fund's actuarial target (top right chart), on the 3-year measure the Fund is behind with relative returns of -1.5% p.a.

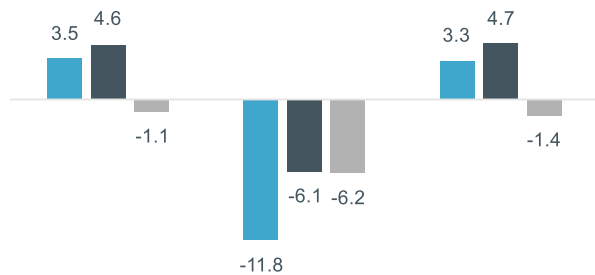
Overall, the Fund's assets decreased by £1.2m from £851.1m to £849.9m.

The fourth quarter brought resilient data on economic activity, a peak in headline inflation, reduced risk of European energy rationing and China's economic re-opening. This eased concerns about the downside risks to global growth this year. Global equities rallied strongly from their October low, credit spreads tightened significantly, and the dollar fell sharply from its peak early in the fourth quarter.

From an asset class perspective:

- The majority of equity mandate also contributed positively to returns.
- The diversified growth funds also contributed positive returns
- The UK property funds detracted
- The Risk Management Framework contributed positively as gilt yields fell and dollar weakened.

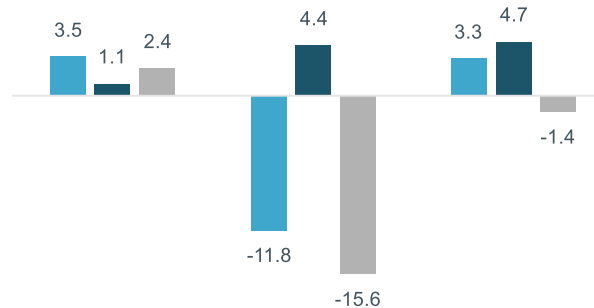
Fund performance vs benchmark/target



Last 3 Months (%) Last 12 Months (%) Last 3 Years (% p.a.)

■ Fund ■ Benchmark ■ Relative

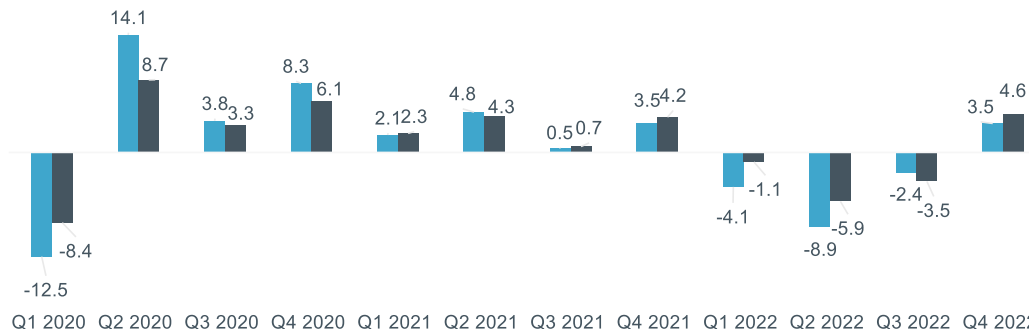
Fund performance vs actuarial target



Last 3 Months (%) Last 12 Months (%) Last 3 Years (% p.a.)

■ Fund ■ Benchmark ■ Relative

Relative quarterly performance vs benchmark/target



Q1 2020 Q2 2020 Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 Q1 2022 Q2 2022 Q3 2022 Q4 2022

■ Fund ■ Benchmark

Asset Allocation

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

- Global equities: 30.0%
- Emerging market equities: 10.0%
- Diversified growth fund: 8.0%
- Property: 5.0%
- Private credit: 6.5%
- Infrastructure: 11.5%
- Social Impact: 5.0%
- Multi-asset credit: 9.0%
- Risk management framework: 15.0%

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.

We are currently in the process of reviewing the investment strategy following completion of the triennial valuation.

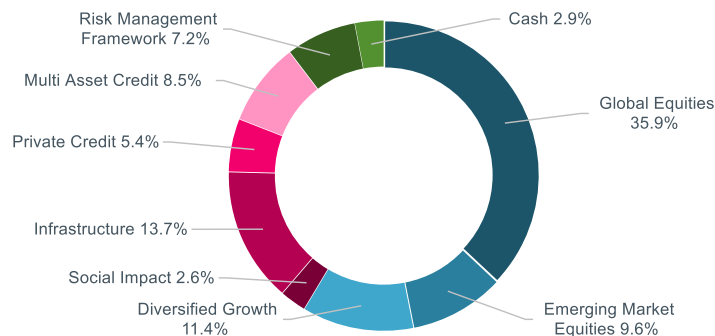
Commitments to social impact infrastructure and private credit investments continued to be drawn down over time.

The Fund disinvested £14,900,000 from LCIV Baillie Gifford Diversified Growth Fund during this quarter. Proceeds were used to help fund commitments with Permira and Henley.

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q3 22	Q4 22			
UBS Alternative Beta	45.1	47.6	5.6%	5.0%	0.6%
LCIV RBC Sustainable Equity Fund	84.5	84.1	9.9%	10.0%	-0.1%
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	70.4	71.5	8.4%	10.0%	-1.6%
BlackRock World Low Carbon Equity Tracker	101.1	101.6	12.0%	10.0%	2.0%
Global Equities	301.1	304.7	35.9%	35.0%	0.9%
UBS GEM HALO	47.5	47.6	5.6%	5.0%	0.6%
LCIV JP Morgan Emerging Market Equity Fund	33.3	34.1	4.0%	5.0%	-1.0%
Emerging Market Equities	80.8	81.6	9.6%	10.0%	-0.4%
LCIV Ruffer Absolute Return Fund	59.4	62.3	7.3%	5.0%	2.3%
LCIV Baillie Gifford Diversified Growth Fund	48.5	34.0	4.0%	5.0%	-1.0%
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Social Impact	13.3	22.4	2.6%	1.0%	1.6%
MIRA Infrastructure Global Solutions II L.P Fund	18.9	20.4	2.4%	2.0%	0.4%
Quinbrook Low Carbon Power LP Fund	16.1	16.5	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	33.1	14.3	1.7%	3.0%	-1.3%
JP Morgan Infrastructure Fund	64.9	64.9	7.6%	5.0%	2.6%
Infrastructure	133.0	116.2	13.7%	11.5%	2.2%
Permira Credit Solutions IV Fund	23.5	23.7	2.8%	4.5%	-1.7%
Churchill Middle Market Senior Loan II Fund	20.0	21.8	2.6%	3.0%	-0.4%
Private Credit	43.5	45.5	5.4%	7.5%	-2.1%
Allspring RMF Fund	49.9	60.7	7.2%	10.0%	-2.8%
Risk Management Framework	49.9	60.7	7.2%	10.0%	-2.8%
LCIV CQS / PIMCO MAC Fund	68.9	71.8	8.5%	10.0%	-1.5%
Multi Asset Credit	68.9	71.8	8.5%	10.0%	-1.5%
Cash	24.1	24.7	2.9%	0.0%	2.9%
Total Fund	851.1	848.2	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Permira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q3 2022 respectively. The FX rate used is lagged and at each of these dates also.

Asset class exposures



Manager performance

During the last quarter of 2022, the Fund delivered an absolute return of 3.5%, underperforming the composite benchmark with relative returns of -1.1%.

Over the longer time periods shown, the Fund has recorded positive absolute returns for the last 3 years and since inception, however relative return are more varied at -1.4% p.a. and 0.8% p.a. respectively.

All equities with the exception off LCIV RBC Sustainable Equity fund contributed positively to the overall absolute performance.

Of the two diversified growth funds, the LCIV Ruffer fund was the stand out contributor during the quarter.

The performances within real assets were more varied. Henley, Quinbrook LCP and JP Morgan Infrastructure brought positive returns to the portfolio, while UBS Triton, BlackRock UK Property, and MIRA detracted from overall returns.

The Risk Management Framework was the biggest contributor to performance. Rising yields coupled with a strengthening pound-sterling relative to dollar contributed positively.

At time of writing, MIRA, Quinbrook LCP & NZPF, Permira and Churchill reporting information was unavailable. For performance reporting purposes we have lagged performance and valuations shown within our report by 3 months. We expect, given the illiquid nature of these mandates, this will be a regular occurrence.

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS Alternative Beta	5.5	5.4	0.0	-0.4	-0.4	0.0	6.4	6.4	0.0	1.3	1.3	0.0
LCIV RBC Sustainable Equity Fund	-0.5	2.4	-2.8	-15.6	-6.0	-10.3	7.9	9.3	-1.3	8.6	7.7	0.8
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	1.2	1.6	-0.4	-	-	-	-	-	-	-7.6	-4.1	-3.6
BlackRock World Low Carbon Equity Tracker	0.5	0.4	0.1	-9.4	-9.9	0.5	8.2	8.0	0.2	11.5	11.2	0.2
Global Equities												
UBS GEM HALO	0.2	1.8	-1.6	-15.3	-10.0	-5.9	-2.4	0.4	-2.8	2.9	3.4	-0.5
LCIV JP Morgan Emerging Market Equity Fund	2.3	2.4	-0.2	-9.5	-7.8	-1.9	3.0	1.5	1.4	2.9	1.5	1.4
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	4.9	1.4	3.4	6.9	4.4	2.4	-	-	-	7.4	3.8	3.5
LCIV Baillie Gifford Diversified Growth Fund	1.5	1.6	-0.0	-15.8	5.1	-20.0	-2.1	4.2	-6.0	0.2	3.8	-3.5
Diversified Growth												
UBS Triton Property Fund	-15.2	-14.1	-1.3	-9.0	-9.5	0.6	2.4	2.2	0.2	0.8	0.7	0.1
BlackRock UK Property Fund	-14.2	-14.1	-0.1	-10.0	-9.5	-0.6	1.2	2.2	-0.9	1.1	1.4	-0.3
Property												
Henley Secure Income Property Fund II	3.9	1.5	2.4	-	-	-	-	-	-	1.6	3.0	-1.4
Social Impact												
MIRA Infrastructure Global Solutions II L.P Fund	-2.3	1.8	-4.0	4.3	7.4	-2.9	8.1	7.4	0.6	4.4	5.7	-1.2
Quinbrook Low Carbon Power LP Fund	1.5	1.8	-0.3	16.8	7.4	8.7	5.8	7.4	-1.5	6.7	6.6	0.0
Quinbrook Net Zero Power Fund	-	-	-	-	-	-	-	-	-	-3.0	6.0	-8.4
JP Morgan Infrastructure Fund	8.0	2.5	5.4	14.6	10.4	3.8	8.2	10.4	-2.0	7.6	9.6	-1.8
Infrastructure												
Permira Credit Solutions IV Fund	0.7	1.7	-1.0	2.3	7.0	-4.4	-	-	-	4.0	5.3	-1.3
Churchill Middle Market Senior Loan II Fund	1.3	1.7	-0.4	4.1	7.0	-2.7	5.6	6.7	-1.1	3.7	6.0	-2.2
Private Credit												
Allspring RMF Fund	36.6	36.6	0.0	-42.8	-42.8	0.0	-	-	-	-9.0	-9.0	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	4.1	1.8	2.3	-8.0	5.9	-13.1	-0.1	5.0	-4.8	1.2	4.6	-3.2
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	3.5	4.6	-1.1	-11.8	-6.1	-6.2	3.3	4.7	-1.4	5.7	4.8	0.8

Note: Q4 2022 performance figures for MIRA, Quinbrook LCP & NZPF, Permira and Churchill are lagged by 3-months due to lack of manager information at the time of writing (see comment on left). As such, the performance shown is reflective of Q3 2022.

Q4 growth outturns surprised to the upside as US labour and consumer demand remains resilient while the economic impact of potential European gas shortages abated more recently. Despite more recent upwards revisions for some economies, global growth forecasts for 2023 fell over the quarter, as high inflation and tighter monetary policy weigh on the outlook.

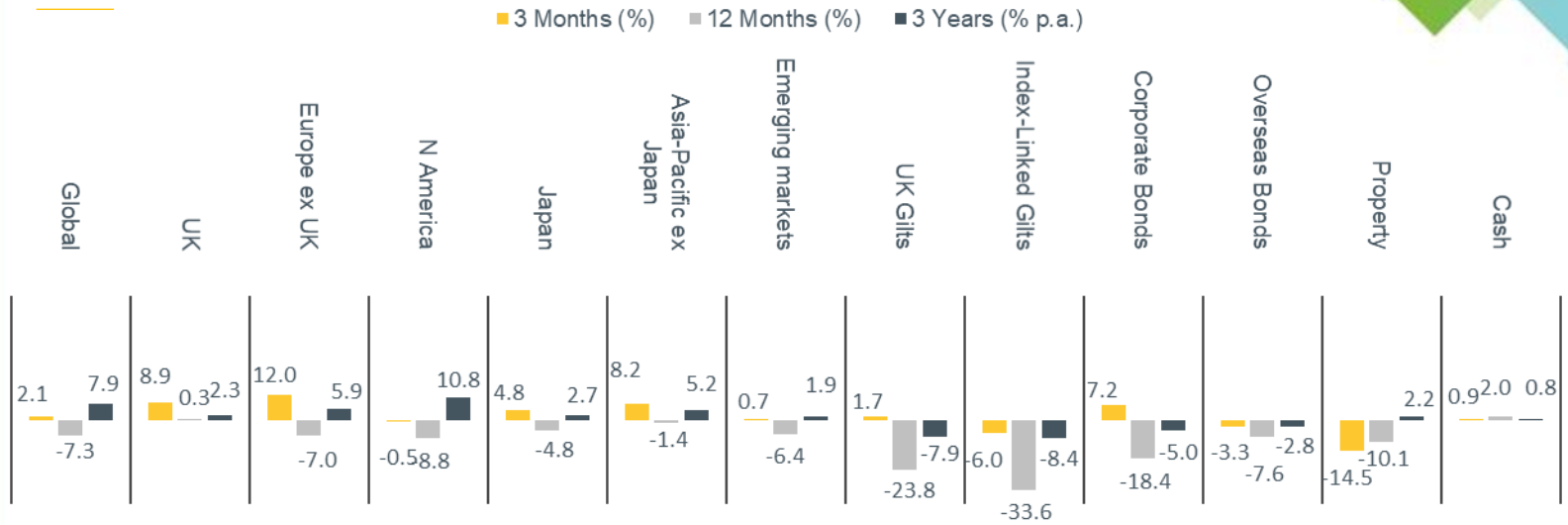
Downside CPI surprises, support the idea that inflation peaked in Europe and the US. Year-on-year headline CPI inflation fell to 7.1%, 10.7%, and 10.1% in the US, UK, and Eurozone, respectively, in November.

After a round of 0.75% p.a. interest rate rises, major central banks shifted down to smaller 0.5% p.a. increases in December. The 1.25% p.a. of rate rises delivered by each of the major central banks in Q4 takes policy rates in the US, UK, and Eurozone to 4.5% p.a., 3.5% p.a., and 2.0% p.a., respectively.

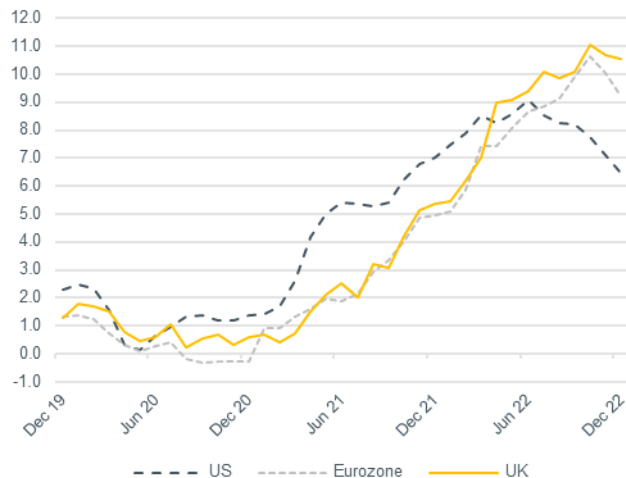
UK 10-year yields ended the period at 3.7% p.a., 0.5% p.a. below end-September levels. Equivalent US yields rose 0.1% p.a., to 3.9% p.a., and German yields rose 0.5% p.a., to 2.6% p.a., respectively. Japanese yields rose 0.2% p.a., to 0.4% p.a., as the Bank of Japan loosened the target range for 10-year yields under its yield curve control policy.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.6% p.a. to 3.4% p.a. Equivalent US implied inflation rose 0.1% p.a., to 2.3% p.a.

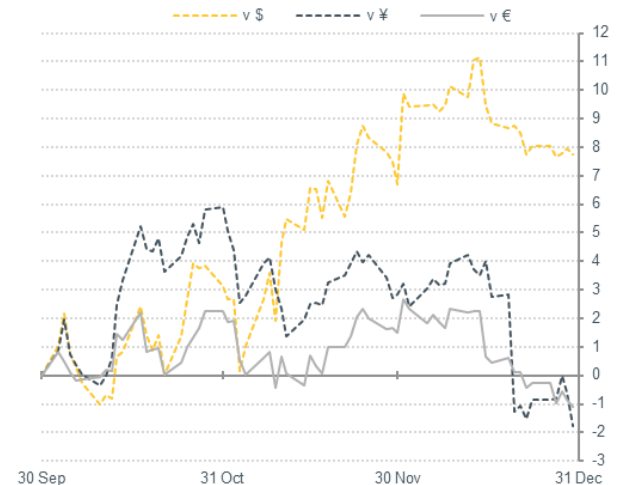
Historic returns for world markets ^[1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

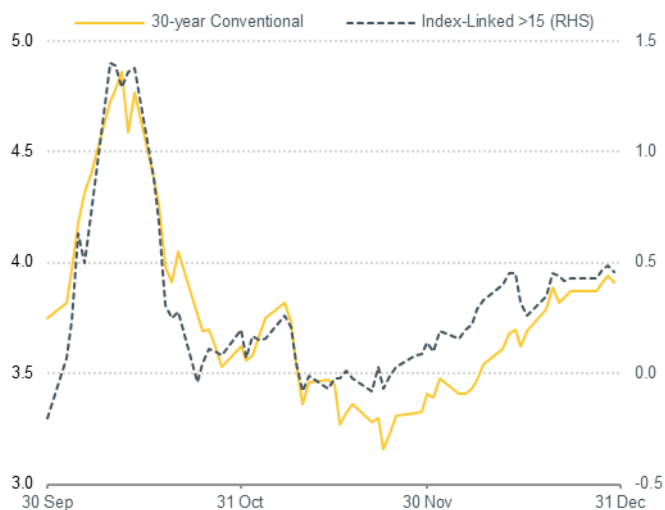
Global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.0% p.a., to 5.1% p.a. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average levels.

The FTSE All World Total Return Index rose 7.6% (local currency). The energy sector outperformed amid record earnings reports, as did Industrials and basic materials. Consumer discretionary and technology stocks underperformed as the cost-of-living squeeze intensified. Europe ex-UK outperformed the most while Japan notably underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.

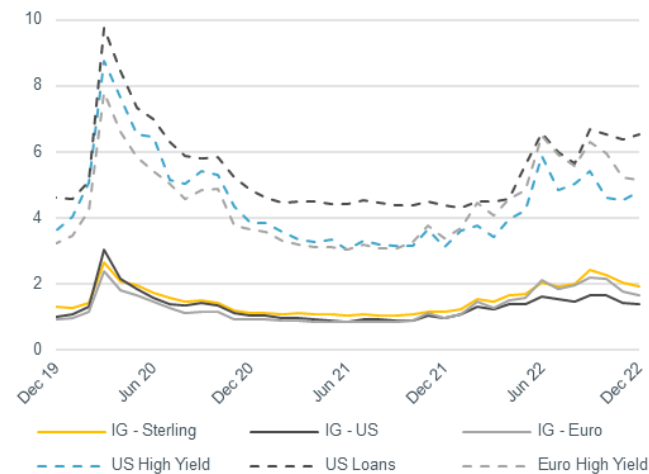
Easing inflation in the US saw the US dollar fall 4.8% in trade-weighted terms, reducing its year-to-date gains to 6.3%. Equivalent sterling, euro, and yen measures rose 1.9%, 4.4%, and 5.2%, respectively.

MSCI UK Monthly Property Index declines slowed from falling 0.5% in November to falling 0.03% in December. The extent of recent declines in capital values, which are now 20% below their June peak, has been the primary driver. Capital values have fallen across the 3 main commercial sectors but have been most notable in the industrial sector, where they have fallen 27% since the end of June.

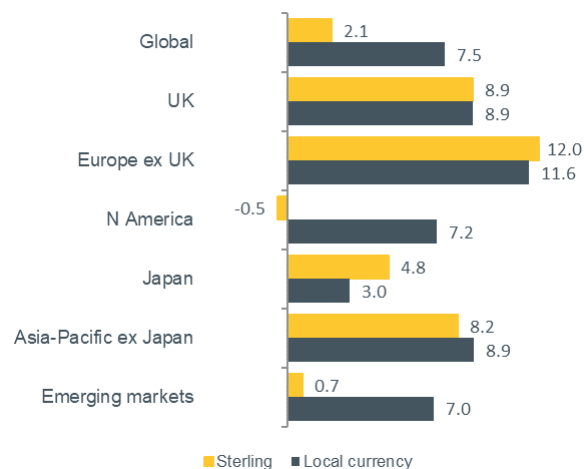
Gilt yields chart (% p.a.)



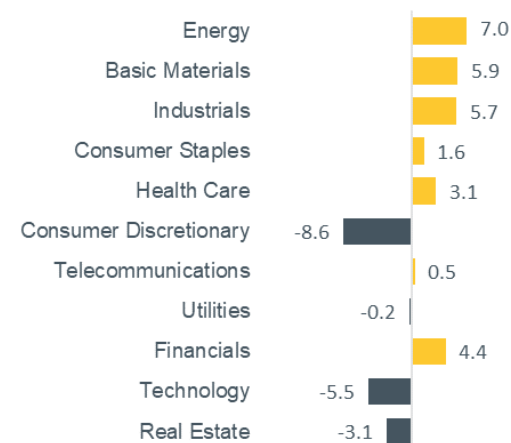
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

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.

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Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

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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