MEETING
PENSION FUND COMMITTEE
DATE AND TIME
WEDNESDAY 18TH JANUARY, 2017
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall MA (Hons)

Councillors

Rohit Grover	Andreas Ioannidis	Peter Zinkin
Arjun Mittra	Jim Tierney	

Substitute Members

Pauline Coakley Webb	Dean Cohen	Anthony Finn
Adam Langleben	Stephen Sowerby	Ross Houston

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10AM on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is Friday 13 January October at 10AM. Requests must be submitted to paul.frost@barnet.gov.uk

You are requested to attend the above meeting for which an agenda is attached.

Andrew Charlwood – Head of Governance

Governance Services contact: Paul Frost

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Paul Frost. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by Committee staff or by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

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Decisions of the Pension Fund Committee

31 October 2016

Members Present:-

AGENDA ITEM 1

Councillor Mark Shooter (Chairman)
Councillor John Marshall (Vice-Chairman)

Councillor Rohit
Councillor Andreas Ioannidis
Councillor Jim Tierney
Councillor Peter Zinkin
Councillor Arjun Mittra

Also in attendance
James Kennedy (Middlesex University)

1. MINUTES

RESOLVED that the minutes of the meeting held on 13 September 2016 be agreed as a correct record subject to amendments on pages 50 and 53 to reflect that Councillor John Marshall is Vice-Chairman of the Pension Fund Committee and not Councillor Peter Zinkin.

2. ABSENCE OF MEMBERS

Apologies for lateness were received for Councillor Andrea Ioannidis.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS

The following declarations were made:

Member	Agenda Item	Interests Declared
Councillor Mark Shooter	7 and 8	Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor John Marshall		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor Rohit Grover		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor Arjun Mittra		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor		Non Disclosable Pecuniary Interest by virtue

Peter Zinkin		of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY)

None.

5. REPORT OF THE MONITORING OFFICER (IF ANY)

None.

6. MEMBERS' ITEMS (IF ANY)

None.

7. BARNET COUNCIL PENSION FUND PERFORMANCE FOR QUARTER APRIL TO JUNE 2016

The Pension Fund Committee's independent Investment Advisor from Hyman Robertson LLP introduced the report and summarised the Pensions Fund Performance for Quarter April to June 2016.

The Committee was addressed by representatives of the one of the fund management companies, Partners Group. The Committee questioned the fund managers on their presentations, their performance for the quarter April 2016 to June 2016 and their plans for the coming months.

Councillor Peter Zinkin, seconded by Councillor John Marshall moved the following additional recommendation;

If following a decision of this Committee to invest money with a Fund Manager and before the investment is made, the Fund Manager has their rating downgraded by 2 or more points by the independent investment advisor, the Chief Finance Officer should review the decision to invest. Before making a decision, the Chief Finance Officer will seek advice from the independent investment advisor and will consult with the Chairman of the Committee.

Upon being put to the vote the recommendation was unanimously carried.

RESOLVED –

1. **That having considered the performance of the Pension Fund for the quarter to 30 June 2016, the Committee instruct the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.**
2. **If following a decision of this Committee to invest money with a Fund Manager and before the investment is made, the Fund Manager has their rating downgraded by 2 or more points by the independent investment advisor, the Chief Finance Officer should review the decision to invest. Before making a decision, the Chief Finance Officer will seek advice from the independent investment advisor and will consult with the Chairman of the Committee.**

8. PENSION BOARD BUDGET 2016-17

The Head of Treasury introduced the report. Having considered the report the Committee;

RESOLVED - That Pension Fund Committee note the proposed workplan for the Local Pension Board and approve the proposed Pension Board budget for 2016-17.

9. ANNUAL REPORT OF THE LOCAL PENSION BOARD

The Head of Treasury introduced the report. Having considered the report the Committee;

RESOLVED - That the Committee note the Annual Report of the Local Pension Board.

10. UPDATE ON ADMITTED BODY ORGANISATIONS

The Head of Treasury introduced the report which provides the Committee with an update since its last meeting on admitted bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBB). He further confirmed that Committee would be provided with an update on the protocol/action plan in place should an admitted body fail to make payments.

RESOLVED -

1. **That the Pension Fund Committee note the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.**
2. **That the Pension Fund Committee approve the two new Admitted Bodies to the Fund, namely Allied Healthcare 2 and Aquaflo.**

11. TRAINING POLICY AND KNOWLEDGE UNDERSTANDING AND SKILLS FRAMEWORK

This Chairman introduced the report sets out a training policy for both the Members of the Pension Fund Committee and the Local Pension Board.

The Committee RESOLVED;

1. **To adopt the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Pensions Knowledge and Skills Framework and;**
2. **That a proposed programme of training and development is presented to the next meeting of the Pension Fund Committee.**

12. PENSION FUND COMMITTEE FORWARD WORK PROGRAMME

The Chairman introduced the report which is a standing item on the agenda and which sets out the Committee's business items for 2016-2017. The Committee requested the

Actuary's attendance at the next meeting when the 2016 Actuarial Valuation report will be considered. The Head of Treasury added that Members would be provided with training on the actuarial valuation.

RESOLVED - That the Committee note and comment on the items included in the Forward Work Programme Appendix A.

13. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT

None.

The meeting finished at 8.25 pm

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 7

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By virtue of paragraph(s) 2 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 2 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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	AGENDA ITEM 8 **Pension Fund Committee** **18 January 2017**
Title	**Pension Fund Actuarial Review**
Report of	Interim Chief Executive Officer and Section 151 Officer
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Hymans Robertson LLP:2016 Formal Valuation – Setting the Funding Target
Officer Contact Details	Iain Millar iain.millar@barnet.gov.uk 0208 359 7126

Summary

Thepurpose of this report is to inform the Pension Fund Committee of the assumptions to be used by the actuary, Hymans Robertson, to set the funding target in preparing the 2016 actuarial valuation and of the changes in assumptions from the 2013 actuarial valuation.

Recommendations

1. **That the actuarial assumptions to be used in the 2016 actuarial valuation of the Pension Fund be noted.**

1. WHY THIS REPORT IS NEEDED

1.1 The purpose of this report is to present the Pension Fund Committee with the assumptions used in preparing the 2016 actuarial valuation and the changes from the 2013 actuarial valuation. The final report will be presented to the next Pension Fund Committee in March 2017.

2. REASONS FOR RECOMMENDATIONS

2.1 It is a regulatory requirement of the Local Government Pension Scheme that the administering authority instructs the actuary to undertake a triennial valuation. The main purpose of the valuation is to review the financial position of the Fund and to determine the minimum rate at which the employers of the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

2.2 Hymans Robertson LLP was appointed to provide actuarial services to the LB Barnet Pension Fund, following a tender exercise using the National Local Government Pension Scheme Framework for Actuarial and Benefit Consultancy Services. The contract started on 1 April 2016.

2.3 The primary purpose of the figures produced as part of the triennial valuation is for “budgeting” or setting the future levels of employer contributions payable to the Fund.

2.4 The previous valuation of the fund was undertaken by the previous actuaries, Barnett Waddingham as at 31 March 2013 and showed that the past service funding level of the Fund as a whole has increased from 76% to 79% between 31 March 2010 and 31 March 2013. The contribution rate for the average employer, including payments to target full funding (100%), increased from 23.5% to 24% of pensionable pay.

2.5 The London Borough of Barnet pool contribution rate is based on a deficit recovery period of 18 years (previously 13 years). The LB Barnet employer pool contribution rate had increased from 24.8% in 2010 to 25.8% in 2013, a combination of 13% minimum employer contribution and a minimum annual lump sum (£9.548 million in 2016/17).

9.7 The actual contribution rate for 2016 will differ for each scheduled and admitted body. The main reasons for variations in individual results are due to differences in:-

- Maturity profile of members;
- Experience of employers since 2013 including mortality rates, salary increases, early retirements and workforce changes.

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable. The actuarial valuation of the Pension Fund is a statutory requirement.

4 POST DECISION IMPLEMENTATION

4.1 The results of the 2016 actuarial valuation will be reported to Pension Fund Committee in March 2017. Employers will be informed of any change in employer contribution rates, which will be applied from 2017/18.

5 IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.

5.1.2 The objectives of the Pension Fund Funding Strategy Statement include ensuring the long term solvency of the fund and identification of the share of the Fund attributable to individual employers.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The recommended minimum employer contribution rate will be incorporated into the draft budget and any variation agreed by the committee will impact on the draft budget.

5.2.2. There are no procurement, performance and value for money, staffing, IT, Property or Sustainability implications.

5.3 Social Value

5.3.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it.

5.4 Legal and Constitutional References

5.4.1. This report is based on the on the provisions of (i) the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme Regulations (Transitional Provisions , Savings and Amendments) Regulations 2014 which have their basis in the Superannuation Act 1972.

5.4.2 As a local authority, the Council's employees have the right to be members of the Local Government Pension Scheme and, therefore, the Council is statutorily required to make employer contributions.

5.4.3 The Council's Constitution – Part 15, Annex A, Responsibility for Functions details the responsibilities of the Committee. The Council's Constitution, Part

3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, empowers the Pension Fund Committee to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.4.4 The terms of reference of the Pension Fund Committee include consideration of actuarial valuations and their impact on the Pension Fund.

5.5 Risk Management

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies. This risk has been mitigated by a thorough review of the data by officers and a series of reasonableness and data integrity tests applied by the actuary.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 Equalities and Diversity

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to all those eligible, as provided by the criteria set out within the relevant Regulations.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups

The broad purpose of this duty is to integrate considerations of equality into day business and keep them under review in decision making, the design of policies and the delivery of services.

5.7 Consultation and Engagement

5.7.1 Not applicable.

6 BACKGROUND PAPERS

6.1 None

2016 Formal Valuation: Setting the Funding Target

Executive Summary

The London Borough of Barnet Pension Fund ("the Fund") will undertake a triennial valuation as at 31 March 2016. The valuation is a statutory requirement of the Regulations[1] which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience and therefore, over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2016 valuation, we have carried out analysis to help set the assumptions used to set the funding target. The 2016 assumptions and reasoning are summarised below. Please note that these are influenced by the change in actuarial advisor from Barnett Waddingham to Hymans Robertson LLP.

Assumption	2013 assumption	2016 assumption	Reason for change
Discount rate[2] - Methodology - AOA	Weighted average of assumed future investment returns	Gilts plus 1.6%	Change in approach from change of actuarial advisor
Pension Increases - RPI-CPI gap	CPI = RPI – 0.8%	CPI = RPI – 1.0%	Increased gap due to emerging evidence
Salary increases - Inflationary	2 years at CPI then RPI + 1.0%	RPI – 0.7%	Continued public sector pay restraint, closure of final salary scheme to accrual of new benefits
Longevity - Baseline - Future Improvements	110% of S1PA tables 2012 CMI model with long term rate of improvements of 1.5% p.a.	Club Vita analysis 2013 CMI model, peaked improvements, long term rate of improvements of 1.25% p.a.	Change to baseline as Fund is now a Club Vita subscriber Updated CMI model for future improvements
Withdrawal	Reflects recent LGPS experience		
Ill health retirements	Reflects recent LGPS experience		
Promotional salary increases	Removed distinction between genders and extended increases up to age 50 to reflect national trends and equal pay commitments		
50:50 take up option	10%	5%	Reduced to take account of emerging experience
Commutation	No proposed change from 2013 valuation assumption		
Pre-retirement mortality	Reflects recent LGPS experience		
Proportions married	80% / 70% of males / females at retirement	85% / 90% of males / females at age 65	Change to Hymans LGPS assumption

Addressee and Purpose

This paper has been commissioned by the London Borough of Barnet in its capacity as Administering Authority to the London Borough of Barnet Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as actuaries to the Fund.

The purpose of this paper is to inform the Pensions Committee of the assumptions to be used to set the funding target for the Fund's formal valuation as at 31 March 2016.

Background

Pension schemes exist to pay benefits earned by their members during their years of eligible service. In the LGPS, the scheme is split into separate funds which pay benefits earned by employees of participating employers. The London Borough of Barnet Pension Fund is one such fund. The actual cost of paying all the benefits cannot be known with certainty until the final benefit payment is made to the last remaining member. In funded schemes, like the LGPS, the benefits must be paid for out of funds set aside in advance. In order to determine how much money to set aside, it is therefore necessary to make assumptions about the level of the benefits and the returns that will be achieved on the Fund's assets (financial assumptions) and when benefits will be paid to members (demographic assumptions). These assumptions are agreed by the officers based on advice from its actuary and are used to set the funding target.

The Fund will undertake a triennial valuation as at 31 March 2016. The valuation is a statutory requirement of the Regulations[1] which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience and therefore, over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2016 valuation, we have carried out a review of the assumptions used by Barnett Waddingham to set the funding target at the 2013 valuation. The results of our review are summarised below. Where we have suggested a change in assumption from 2013 we have also noted the reason.

The following sections examines the main financial and demographic assumptions in detail.

Financial assumptions

Broadly speaking, financial assumptions relate to the level of benefits (i.e. the amount in £) when they are in payment and their equivalent value in today's terms.

Discount rate

The discount rate is the name given to the assumed rate of investment returns that the Fund will achieve in the long-term. It determines the money or assets needed today such that future investment returns and contributions will be sufficient to pay members' benefits.

Whilst considering the discount rate, the Fund should always consider:

- How likely are the Fund's assets able to return the rate assumed in the discount rate over the long term?
- Does the choice of discount rate tie up with the Fund's objectives and level of investment risk?
- Does the discount rate reflect the changing nature of the Fund?

Based on analysis we have carried out, the officers have decided to set the discount rate equal to the long-dated UK government bond yield (fixed interest) at 31 March 2016 plus an asset out performance assumption of 1.6%.

[1] Local Government Pension Scheme Regulations 2013.
[2] See Appendix A for full details of the analysis underlying the recommendation.

This is a change in approach to setting the discount rate from the 2013 valuation, from a weighted average of assumed future investment returns to a gilts plus approach.

The paper previously provided to the officers containing Fund-specific modelling, results and reliances and limitations is available on request.

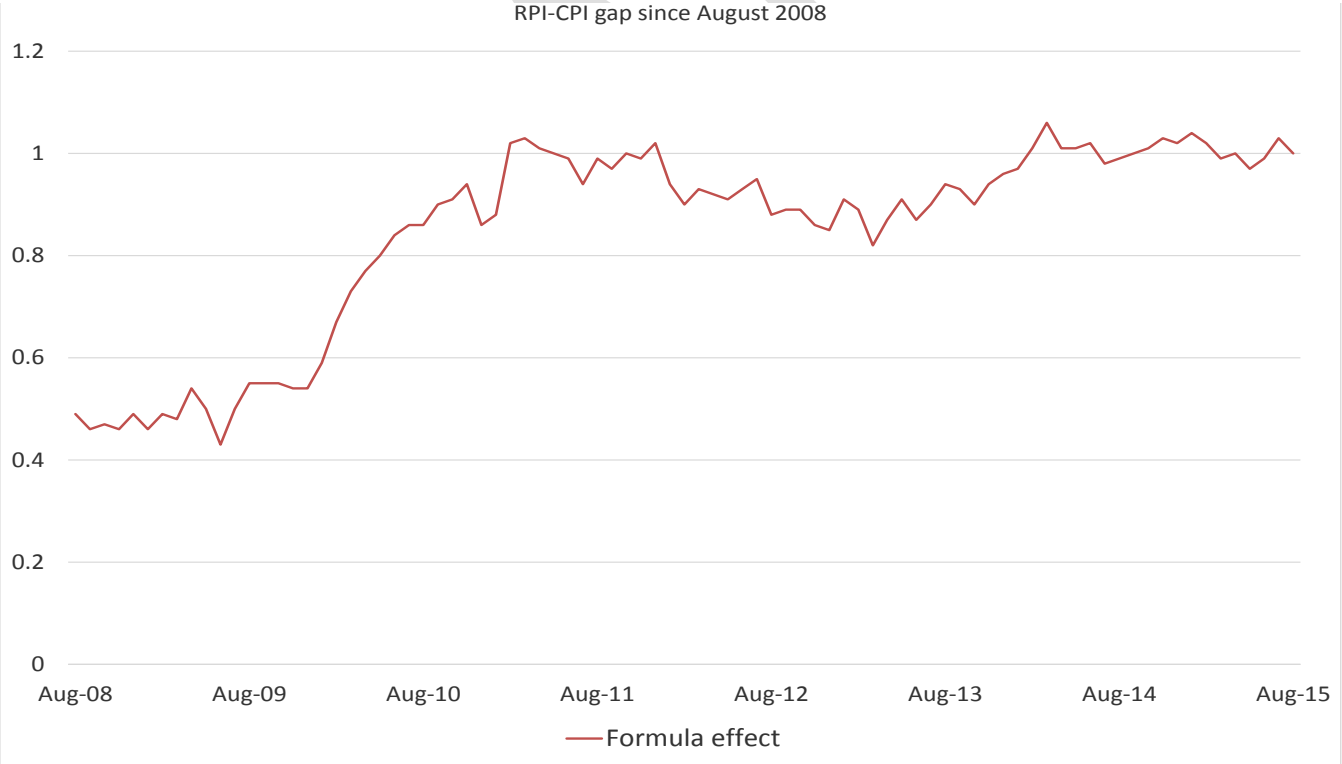
Inflation / pension increases

LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. The best way to measure future financial values is to use information from the financial markets. As no market in CPI linked bonds exists, we calculate the market-implied value of future RPI ("Retail Price Inflation") increases and adjust it downwards to get an assumption for CPI.

The two main differences between RPI and CPI are:

- The 'basket' of goods that each measure is based on (e.g. CPI doesn't include mortgage payments and RPI doesn't include the cost of new cars); and
- The 'formula effect' which is related to the way the index is calculated from the price changes of the goods in the basket.

At the 2013 valuation, CPI was assumed to be 0.8% less than RPI. At the 2016 formal valuation we are proposing to increase this long-term gap between RPI and CPI to 1.0% p.a. The main reason for the increase in this assumption is the steady increase in the formula effect over the last few years, as monitored and published by the Office for National Statistics on a regular basis. The chart below shows this increase:



Salary increases

All benefits accrued prior to 1 April 2014 are linked to the member's final salary before they leave active service. In calculating the cost of these benefits, it is therefore important to estimate the increase in salaries for active members until they leave active service.

Over recent years, annual pay growth in the public sector has in general been lower than the rate of inflation. In addition, the government has stated that public sector pay growth will be no more than 1% p.a. over the next four years (essentially until 31 March 2020). With members' benefits being linked to their salary at retirement, the salary increase assumption, is derived on a long term view of future salary increases. However, with the introduction of CARE benefits for service earned after 1 April 2014, the final salary element of the Fund's liabilities will gradually lose its importance in future years, as the final salary benefits run off and come in to payment.

The salary increase assumption that we will use for the 2016 valuation of the Fund is 1% p.a. until 2020 then RPI going forward: this was agreed after discussion with the Fund's officers. Taking these factors into account and assuming that half of the Fund's liabilities remain linked to final pay come 2020, the assumption can be expressed as a single blended long term rate of RPI less 0.7%.

Demographic assumptions

Broadly speaking, demographic assumptions relate to the timing of benefits, i.e. when they start and for how long they are paid.

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty. As the Fund is now a subscriber to Club Vita it will benefit from a greater understanding of longevity risk, in particular the specific risk relative to its own members.

There are two components when setting an assumption for longevity:

1 How long people live for based on current observed life expectancies ('baseline longevity'); and

2 An allowance for possible future improvements to longevity ('future improvements').

We proposed a change to methodology for the 2016 valuations in the form of a move away from the standard SAP tables to ClubVita which, based on their analysis of LGPS Funds and the London Borough of Barnet Pension Fund in particular, sets a bespoke longevity assumptions for the Fund's membership. Details of the underlying tables and model adopted will be discussed with the Officers in due course.

The Fund should note we advocate a long-term approach to funding for longevity improvements in assessing the contributions payable by employers in the Fund. This is a "wait and see" approach: in other words, the assumption adopted for future improvements is not as prudent as most private sector schemes would adopt but is, we believe, a best estimate. This is the most appropriate as:

- The longevity risk faced by funds is mitigated in part by the link between Normal Retirement Age to State Pension Age for future service benefits (which in turn, is expected to increase in the future in line with increases in life expectancy);
- The LGPS 'employer cost cap' is expected to include longevity as a cost control mechanism, thus mitigating the impact of future longevity improvements; and

Local authority funds have a long term time horizon over which to fund improvements in longevity if they emerge.

We will continue to review the appropriateness of this assumption at future valuations.

Other demographics

The starting point for our proposed 2016 valuation assumptions was to analyse past experience over 2010 to 2013 for all the LGPS funds Hymans Robertson advises (40 funds in England & Wales). We use such a large

data set to give us a big enough sample size for our analysis to be statistical credible. Some of the experience we analyse is rare, therefore we need a sufficiently large number of events to enable sound analysis.

Assumptions for withdrawals (excluding ill health), ill health early retirements, promotional salary scale, promotions married and pre-retirement mortality have been set to reflect emerging experience. Each of these assumptions will also reflect a small change due to the change in actuarial advisor in the inter-valuation period.

The assumption for commutation is unchanged from the 2013 valuation.

50:50 take-up option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98). This benefit is known as the *50:50 benefit*.

At the 2013 valuation Barnett Waddingham assumed that 10% of members would choose to take up the 50:50 option.

In the two years since the option was made available, the Fund, and the LGPS as a whole, has seen take-up levels far below 10% (the nationwide the figure is c. 0.2%). However, it is not clear whether take-up will remain low or increase in future due to the impact of auto-enrolment, cessation of contracting out and lower tax allowances is felt.

We will therefore use an assumption of 5% in the 2016 valuation initial results.

Reliances and limitations

This information is addressed to London Borough Barnet as Administering Authority to the London Borough Barnet Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of presenting the 2016 valuation assumptions to the Pensions Committee. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS R – Reporting; and
- Pensions TAS.

Peter Summers FFA

For and on behalf of Hymans Robertson LLP

17 October 2016

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	AGENDA ITEM 9 **Pension Fund Committee** **18 January 2017**
Title	**Pension Fund: Admission Body Agreement**
Report of	Interim Chief Executive Officer/Section 151 Officer
Wards	All
Status	Public
Enclosures	Appendix A - Pre Amalgamation Deed of Agreement draft
Officer Contact Details	Iain Millar, Head of Treasury, Customer Support Group, iain.millar@barnet.gov.uk 0208 359 7126

Summary

This report recommends that the Committee approves the admission into the pension fund of an amalgamated body formed between an existing admitted body (Viridian) and AmicusHorizon. The amalgamation has not yet taken place. However, in order for the new body to become an admitted body pre and post amalgamation deeds of agreement (the Deeds) between the Barnet Council and Viridian need to be finalised.

Recommendations

1. **That the Pension Fund Committee approves, subject to amalgamation taking place, the admission into the Pension Fund of a body formed following the amalgamation of Viridian and AmicusHorizon.**

2. **That the Pension Fund Committee delegates to the Section 151 officer:**

   - **To approve the pre and post amalgamation deeds of agreement between the London Borough of Barnet as administering authority for the London Borough of Pension Fund and Viridian Housing a registered provider**

3. That the Pension Fund Committee note the requirement of the amalgamated company to provide a bond for the admitted body.

1. WHY THIS REPORT IS NEEDED

1.1 Viridian is an admitted employer in the Barnet LPS Pension Fund. Amiscus Horizon and Viridian are in advanced negotiations to form a new group structure by 31st March 2017.

1.2 It is anticipated that, subject to all relevant approvals and consents being obtained, Viridian Housing will initially become a subsidiary of Amicus Horizon (Stage 1). Stage 1 will have no consequence on Viridians admission to the pensions scheme.

1.3 The next stage (Stage 2) would be the amalgamation of Amiscus Horizon and Viridian. In essence, both organisations are seeking to ensure that by combining, no material pensions liability will crystallise in any pension scheme and the ongoing Admission Agreement shall continue as if it were between the new amalgamated company and Barnet Council. The name of the new company has yet to be decided.

1.4 A statutory amalgamation is effectively the coming together of two or more registered societies by a special resolution of each society, together forming one registered society. The effect of a statutory amalgamation on the amalgamating societies is that the property (assets and liabilities) of each amalgamating society vests in the post-amalgamation society without the need for any conveyance

1.5 The impact of a statutory amalgamation on pensions is that the current Admission Agreement would continue and no pension liability will crystallise. As such, the Admission Agreement would simply vest in the new society and Regulation 64 of the Local Government Pensions Scheme Regulations 2013 would not apply (requirement of an exit payment from an exiting scheme employer).

1.6 To ensure transparency and clarity of this arrangement, the Council will enter into a legal agreement with Viridian confirming this arrangement which reflects the fact that Viridian's liabilities and obligations will vest in the new company.

1.7 As the new company will take on the existing admission agreement it will effectively become an admitted body. Therefore, this report is needed to approve its admission. In order for this to take effect Deeds of Agreement are required to transfer a Pension Fund admission agreement on the merger of two registered housing providers to ensure continuity of pension obligations and to admit the new admitted body to the pension scheme subject to amalgamation.

2. REASONS FOR DECISIONS

2.1 Viridian Housing, an admitted body of the London Borough of Barnet Pension Fund is merging with Amiscus Horizon to form a new amalgamated company. The amalgamation has not yet taken place

2.2 This report is to approve pre and post-amalgamation deeds of agreement between the Barnet Council and Viridian Housing. The deeds confirm that on amalgamation the new company will enter into an admission agreement with the LB Barnet Pension Fund and provide a bond.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.1 No other options applicable

4. POST DECISION IMPLEMENTATION

4.1 The Deeds will be signed and sealed and the decision will be reported to Pension Fund Committee.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The actuary will set the bond levels required for the admitted body which will act as guarantee for the Pension Fund liabilities.

5.3 Social Value

5.3.1 None in the context of this report.

5.4 Legal and Constitutional References

5.4.1 Schedule 2 of the Local Government Pension Scheme Regulations 2013 provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2 With respect to an admission agreement, the Regulations further provide for an assessment of the level of risk arising on premature termination of the

provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified. However, the Regulations do allow in some circumstances for the scheme employer to act as guarantor.

5.4.3 The Council's standard admissions agreement makes provision for the admitted body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

5.4.4 Under the Council's Constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.5 Risk Management

5.5.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that admissions agreements and bonds (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant admission agreement.

5.6 Equalities and Diversity

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups.

The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services.

5.7 **Consultation and Engagement**

5.7.1 None in the context of this report.

5.8 **Insight**

5.8.1 None in the context of this report.

6. BACKGROUND PAPERS

6.1 None

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Dated 2017

THE MAYOR AND BURGESSES OF THE LONDON BOROUGH OF BARNET

(in the capacity of administering authority of the London Borough of Barnet Pension Fund)

And

VIRIDIAN HOUSING

PRE AMALGAMATION DEED OF AGREEMENT

This Deed **is made on** **2017** between:

(1) **The Mayor and Burgesses of the London Borough of Barnet** of North London Business Park, Oakleigh Road South, London, N11 1NP (the "**Administering Authority**"); and

(2) **Viridian Housing** a registered society under the Co-operative and Community Benefit Societies Act 2014 (registered number 12752R) with registered address Colwell Housing, 376 Clapham Road, London, SW9 9AR (the **"Registered Provider"**).

Background

1. The Registered Provider and Middlesex University Higher Education Corporation entered into a contract for the Registered Provider to manage university accommodation on behalf of Middlesex University Higher Education Corporation with effect from 21 April 2006 (the "**Contract"**). Middlesex University Higher Education Corporation was an admitted employer in the Pension Fund as run by the Administering Authority in accordance with 2 below. Pursuant to the terms of the Contract, the parties to the Contract and the Administering Authority entered into an Admission Agreement.

2. The Administering Authority is an administering authority within the meaning of the Local Government Pension Scheme Regulations 2013 (as amended from time to time) and any other regulations from time to time applicable to the Local Government Pension Scheme (the "**Scheme**") (the "**Regulations**") and administers the Scheme and maintains the London Borough of Barnet Pension Fund (the "**Pension Fund**"). The Registered Provider (under its previous name of Servite Houses) was admitted to the Scheme and the Pension Fund under an admission agreement dated 21 April 2006 (the "**Admission Agreement**") in the form attached at Schedule 1.

3. Section 109 of the Co-operative and Community Benefit Societies Act 2014 ("**the Act**") (amalgamation of societies) provides that any two or more registered societies may by special resolution of each of those societies become amalgamated together as one society, with or without any dissolution or division of the funds of those societies or any of them; and the property, of each of those societies shall become vested in the amalgamated society without the need for any form of conveyance other than that contained in the special resolution.

4. It is intended that the Registered Provider will, subject to all relevant consents being obtained, merge with AmicusHorizon Limited by way of an amalgamation under

section 109 of the Act (the "**Amalgamation**") which shall not be effective before [31 March 2017] (the "**Amalgamation Date"**). Neither the Registered Provider nor AmicusHorizon Limited or their funds shall be dissolved or divided by reason of the Amalgamation and the effect of the Amalgamation will be to create a new registered society within the meaning of the Act ("**[insert name of NewCo[1]]**").

5. As a result of this Amalgamation, all of the real and personal property, assets and choses in action of each of the Registered Provider and AmicusHorizon Limited shall become vested in **[insert name of NewCo]** without the need for any form of conveyance or transfer other than that contained in special resolutions, a draft of which in respect of the Registered Provider is attached at Schedule 2. All of the liabilities (actual, contingent and prospective) of the Registered Provider and AmicusHorizon Limited immediately before the Amalgamation Date (including without limitation all of the liabilities of the Registered Provider arising under the Admission Agreement) will vest in **[insert name of NewCo]** and the Admission Agreement will continue and have effect as between **[insert name of NewCo]** and the Administering Authority.

Entry into Post amalgamation Deed of Agreement

6. The parties agree that, on or after the Amalgamation Date, the Administering Authority and **[insert name of NewCo]** shall enter into the Post amalgamation Deed of Agreement in the form attached at Schedule 3 to this Deed to confirm their understanding as to the legal effect of the amalgamation. In doing so, the parties agree that the Admission Agreement shall be treated for all purposes as if it were and had been at all times made between the Administering Authority and **[insert name of NewCo]**. **[insert name of NewCo]** shall assume all rights, obligations and liabilities that the Registered Provider would otherwise have or have had under the Admission Agreement.

7. Nothing in this Deed shall affect or prejudice any claim or demand that the Administering Authority may have against the Registered Provider under or in connection with the Admission Agreement with respect to matters occurring before the Amalgamation Date. In respect of any matters arising on or after the Amalgamation Date, the Registered Provider will by virtue of the Amalgamation have become **[insert name of NewCo]** and will be liable as provided for by the terms of this Deed.

This Deed has been executed and delivered as a Deed by the Administering Authority and the Registered Provider on the date stated at the beginning of this Deed.

The common seal of the
Mayor and Burgesses of the
London Borough of Barnet was

[1] Has not yet been decided

affixed to this deed in the
presence of

Authorised by:

Authorised signatory

Executed as a deed by affixing
the Common Seal of: Viridian
Housing

in the presence of:

Authorised signatory

Authorised signatory

Schedule 1

Admission Agreement

Schedule 2

Draft special resolution

Schedule 3

Post Amalgamation Deed

THE MAYOR AND BURGESSES OF THE LONDON BOROUGH OF BARNET

and

[insert name of NewCo]

POST AMALGAMATION DEED OF AGREEMENT

This **DEED** is made on day of 2017

BETWEEN:

1. **The Mayor and Burgesses of the London Borough of Barnet** of North London Business Park, Oakleigh Road South, London, N11 1NP in its capacity as administering authority of the Pension Fund (the "**Administering Authority**"; and

2. **……..** [Amalgamated Body]

BACKGROUND

a) The Mayor and Burgesses of the London Borough of Barnet is the Administering Authority within the meaning of the Local Government Pension Scheme Regulations 2013 **("the Regulations")** at Part 1 of Schedule 3 and administers and maintains the London Borough of Barnet Pension Fund (**"the Pension Fund"**).

b) On [INSERT DATE.] ("the **Amalgamation Date**") Viridian Housing and AmicusHorizon Limited amalgamated (without legal dissolution) pursuant to section 109 of the Co-operative and Community Benefit Societies Act 2014 ("the **Act**") to form **[insert name of NewCo]**, a new registered society under the Act (the "**Amalgamation**"), as exhibited by the resolutions in Appendix 2. Neither Viridian Housing nor AmicusHorizon Limited nor their funds were dissolved or divided by reason of the Amalgamation. As a result of the Amalgamation, the property (real, personal and choses in action), assets and liabilities of Viridian Housing and AmicusHorizon Limited became vested in **[insert name of NewCo]**.

c) Viridian Housing was admitted to the Pension Fund under an Admission Agreement dated 21 April 2006 in the form attached at Appendix 1.

d) The parties enter into this Post Amalgamation Deed of Agreement to confirm their understanding that from and including the Amalgamation Date, **[insert name of NewCo]** will as a consequence of the Amalgamation become responsible for the past service liabilities, share of the assets and liabilities of Viridian Housing in the Pension Fund as provided for by the Admission Agreement. As such, on and from the Amalgamation Date, all liabilities and obligations of Viridian Housing under the Admission Agreement will become liabilities and obligations of **[insert name of NewCo]** and the obligations of the Administering Authority as provided for by the Admission Agreement shall also continue.

e) This Post Amalgamation Deed of Agreement confirms the understanding and arrangement that has been agreed between the parties.

NOW IT IS HEREBY AGREED as follows:

1. From (and including) the date of the Amalgamation, the Admission Agreement shall be treated for all purposes as if it were and had been at all times made between the Administering Authority and **[insert name of NewCo]**. **[insert name of NewCo]** shall assume all rights, obligations and liabilities and agrees to perform the Admission Agreement and be bound by its terms in every way as if it were the original party to it in place of Viridian Housing and the rights and obligations of the Administering Authority as set out in the Admission Agreement will continue.

2. For the avoidance of doubt, this Post Amalgamation Deed of Agreement shall not be treated as terminating the Admission Agreement, which shall be treated as continuing as modified in accordance with this Deed.

3. This Post Amalgamation Deed of Agreement shall be governed by and construed in accordance with English Law and the parties hereby submit to the exclusive jurisdiction of the English Courts.

4. No party other than the parties to this Post Amalgamation Deed of Agreement save for Viridian Housing shall have any rights hereunder and the provisions of the Contracts (Third Party Rights) Act 1999 are hereby excluded.

This Deed has been executed and delivered as a Deed by the Administering Authority and **[insert name of NewCo]** on the date stated at the beginning of this Deed.

The common seal of
the Mayor and Burgesses of the London Borough of Barnet was affixed to this deed in the presence of

Authorised by:

Authorised signatory

Executed as a deed by affixing the Common Seal of: **[insert name of NewCo]**

in the presence of:

Authorised signatory

Authorised signatory

Appendix 1

Admission Agreement

Appendix 2

Special Resolutions

AGENDA ITEM 10

Pension Fund Committee

18 January 2017

Title	**Barnet Council Pension Fund Performance for Quarter July to September 2016**
Report of	Chief Executive Officer/Section 151 Officer
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 30 September 2016 Appendix B – Hymans Robinson Performance Report to 30 September 2016 Appendix C - Asset Allocation to 31 December 2016 (to be tabled at meeting)
Officer Contact Details	Iain Millar, Head of Treasury Services Iain.Millar@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' performance for the July to September quarter 2016, based on the performance monitoring report provided by Hymans Robertson. An update on fund performance to 31 December 2016 will be tabled at the Committee meeting

Recommendations

1. **That having considered the performance of the Pension Fund for the quarter to 30 September 2016, the Committee instruct the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.**

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the Fund Managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Executive Officer and Chief Finance Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and short term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the extreme market volatility experienced in June 2016. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yields

5.2.2 On 22 October 2015 (Item 11), Pension Fund Committee reviewed and revised the pension fund asset allocation. It agreed to adopt an investment strategy based on 36% overseas equity, 21.5% diversified growth, 12% corporate bonds, 0.5% cash; 20% 'multi asset credit; and 10% illiquid alternatives. Pension Fund Committee agreed to fund the asset re-allocation by reducing the weighted allocation in diversified growth funds and corporate bonds .This included selling the Newton Corporate Bond fund to re-invest in the Schroder Strategic Bond Fund.

5.2.3 On 15 March 2016, the Pension Fund Committee considered proposals for allocating funds to illiquid credit and multi asset liquid credit. The Committee resolved to make an allocation of 8% of the fund to illiquid credit strategies through investing with new fund managers, 4% to Partnership Group and 4% to Alcentra. The Committee also agreed an allocation of 7% to multi-asset credit strategies through investing 3.5% with Babson Capital and 3.5% with Alcentra. Officers were instructed to implement the re-allocation. The May 2016 funding target dates with the new credit managers were met. The asset re-allocation was made from the sale of Corporate Bonds.

5.2.4 The total market value of externally managed investments rose by £45.2 million over the quarter from £937.5 million to £982.7 million. The graph in Appendix A shows how the market value of the fund has grown since 2008. The total market value of externally managed investments as at 31 December was £1, 003.9 million.

5.2.5 **Performance Summary**: Over the quarter, at a total scheme level, the Fund's externally managed investments returned 4.8% (gross of fees), outperforming the combined benchmark for the period by 0.5% (excluding passive investments). See performance summary page 6, of the attached Hymans Robertson performance report for Quarter 3, 2016. All mandates (excluding passive investments) outperformed their respective benchmarks in the quarter, with the exception of Newton's real return fund which produced a positive absolute return though slightly below benchmark, reflecting its current defensive position.

5.2.6 The Performance fees are shown gross.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 This report is based on the provisions of Regulation 10 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 made under the powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972.

5.4.2 Constitution - Under Part 15, Annex A Responsibility for Functions one of the terms of reference of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles in general and investment performance benchmarks and targets in particular.'

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund

investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.5.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the Brexit decision in the UK. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. A report on the impact to date of the Brexit decision will be made to the March meeting of Pension Fund Committee.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

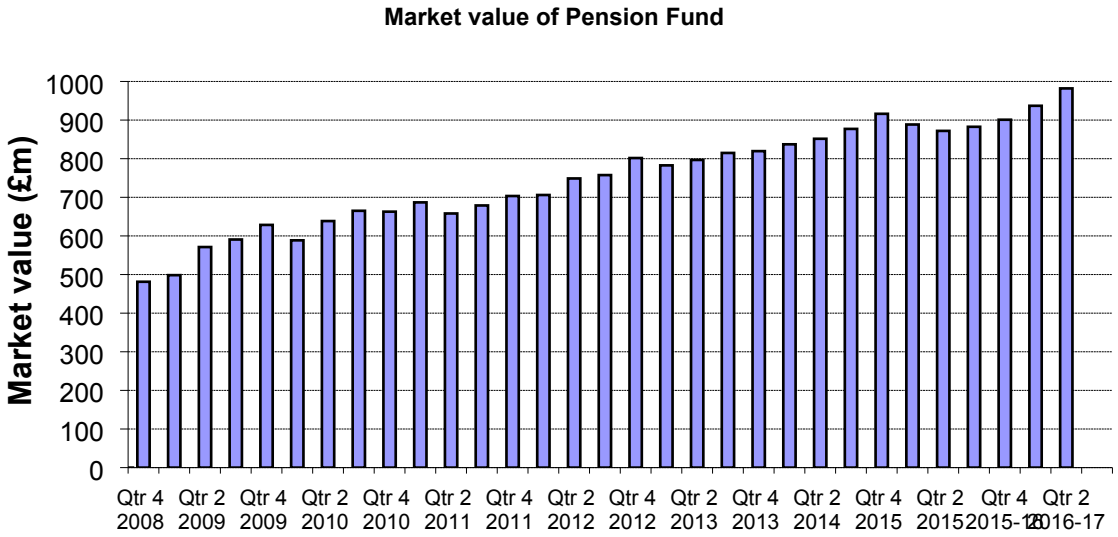
5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Pension Fund Market Value of Investments as at 30 September 2016.



Appendix B – Hymans Robinson Performance Report to 30 September 2016

Appendix C Asset Allocation to 31 December 2016

Appendix C
LB Barnet Pension Fund
Total value of externally managed Investments as at 31.12.2016

		Allocation as at 30.9.2016 £	%		%	Target Allocation £
Equities				**41.42**	**36.00**	
	LGIM Global	213,331,916	21.25		18.00	180,699,623
	LGIM RAFI	202,514,837	20.17		18.00	180,699,623
Diversified Growth				**27.12**	**22.00**	
	Schroder	141,129,149	14.06		11.00	110,427,548
	Newton	131,087,654	13.06		11.00	110,427,548
Multi Credit Liquid				**15.29**	**17.00**	
	Schroder	93,699,701	9.33		10.00	100,388,680
	Babson Capital	28,146,133	2.80		3.50	35,136,038
	Alcentra	31,649,160	3.15		3.50	35,136,038
Corporate Bonds				**11.11**	**12.00**	
	Schroder	111,554,249	11.11		12.00	120,466,416
Illiquid Alternatives				**5.06**	**13.00**	
	Alcentra	13,640,970	1.36		4.00	40,155,472
	Partners Group	37,133,027	3.70		4.00	40,155,472
	Manager X TBC	0	0.00		5.00	50,194,340
Total		**1,003,886,79**	**100.00**		**100.0**	**1,003,886,79**

	6		**0**	**6**

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HYMANS ROBERTSON

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Third Quarter of 2016

Prepared By:

Andrew Elliott - Senior Investment Consultant
Mufaddal Jamali - Investment Analyst

For and on behalf of Hymans Robertson LLP
December 2016

Contents

Executive Summary

Market Summary

Global equity markets rose over the quarter – the FTSE All World index returned 5.1% in local currency terms. In the UK the FTSE 100 rose by 7.1%, boosted by weak sterling and robust UK economic data.

Equities continued to be supported by accommodative monetary policy, although the direction of policy of the major central banks is diverging.

Despite forecasting above-target inflation in the next couple of years, the Bank of England cut interest rates from 0.5% p.a. to 0.25% p.a. and extended its quantitative easing (QE) programme. Responding to intensifying deflation, the Bank of Japan reaffirmed its 2% p.a. inflation target and beefed up its own QE programme. In the US following some signs of flagging economic momentum, the Fed voted (not unanimously) to leave interest rates unchanged in September, but left open the possibility of a rise before the end of the year.

Government bond yields reflected these divergences. 10-year US Treasury yields rose over the quarter as investors priced in an above-evens chance of a rate rise in December. In contrast, the growing expectation that UK rates will not rise for several years saw 10-year gilt yields plunge as low as 0.6% p.a. in August.

UK property valuations, as measured by the IPD Monthly Index, took a post-referendum hit in July. They drifted lower at a more modest rate in August to stand around 4% below year-end levels.

Valuation and Performance Summary

Fund assets totalled c. £983m at the end of Q3 2016, an increase of c.£45m from the start of the quarter.

The Fund's assets returned 4.8% (gross of fees) over the quarter, outperforming the combined benchmark for the period by 0.5%.

All mandates, other than Newton's absolute return mandate (and excluding passive funds), posted modest to significant outperformance relative to their performance targets. Over the period from the 31 December 2010 to 30 September 2016, the Fund has returned 6.5% p.a. (gross) underperforming the combined benchmark by 1.0% p.a. This is largely due to the Schroder Diversified Growth Fund's underperformance versus its ambitious outperformance target which can be difficult to achieve during volatile market conditions.

Manager Ratings Summary

Manager	Fund Name	Rating
Legal & General	Equity index funds	
Newton	Real Return Fund	
Schroder	Diversified Growth Fund	
Schroder	ISF Strategic Bond Fund	
Schroder	All Maturities Corporate Bond Fund	
Partners Group	Multi-Asset Credit 2015 Fund	
Barings	Global High Yield Credit Strategies Fund	
Alcentra	European Direct Lending Fund II	
Alcentra	Global Multi-Credit Fund	

Actions and Recommendations

Over the second quarter of 2016, four new mandates were implemented as part of the Fund's move to its new long term investment strategy. The final stage in the move to the Fund's new long term strategic target is for the Committee to agree an additional 5% allocation to another illiquid alternative asset class. In line with this, a training session will be held in early January 2017 to consider the following:

a) Investment in infrastructure
b) Longer term investment in property
c) A relative value assessment of whether some of the Fund's bond assets might be invested more efficiently in other sectors of the market

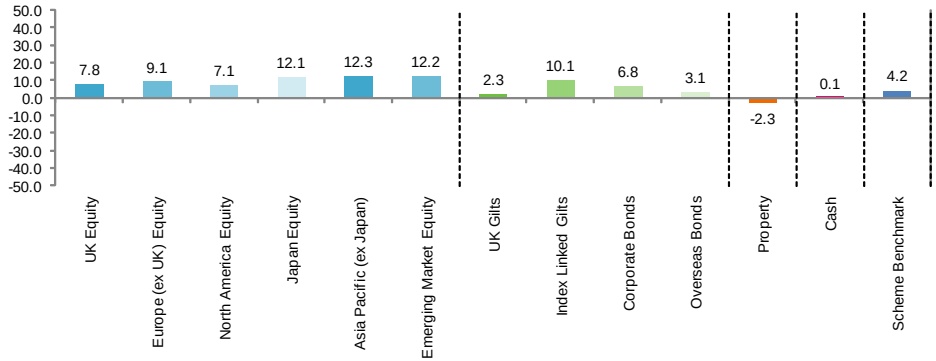
Our actuarial colleagues are currently working on the actuarial valuation of the Fund at 31 March 2016. Once the valuation has been agreed and cashflows are available from this exercise, we recommend that an updated asset liability modelling exercise is carried out to assess whether the Fund's strategy remains on track. This was discussed and agreed in principle at the most recent meeting of the Pension Fund Committee.

All of the Fund's investment managers are currently rated either a '4 –Retain' or '5 –Preferred strategy'. There were no significant changes over the quarter to warrant any changes in rating.

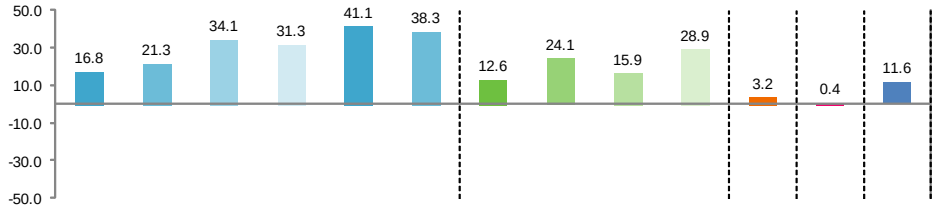
Historic Returns for World Markets to 30/09/2016

Historic Returns [1] [i]

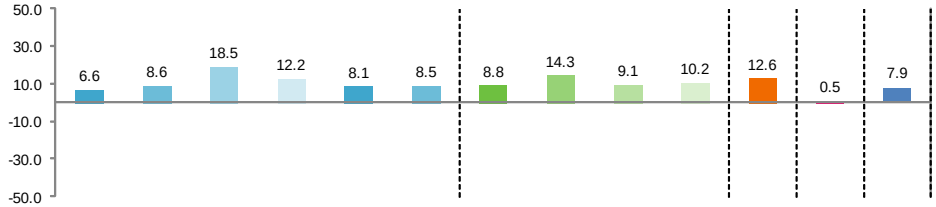
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

Global equity markets rose over the quarter – the FTSE All World index returned 5.1% in local currency terms. In the UK, the FTSE 100 rose by 7.1%, boosted by weak sterling and robust UK economic data.

Equities continued to be supported by accommodative monetary policy, although the direction of policy of the major central banks is diverging. Despite forecasting above-target inflation in the next couple of years, the Bank of England cut interest rates from 0.5% p.a. to 0.25% p.a. and extended its quantitative easing (QE) programme. Responding to intensifying deflation, the Bank of Japan reaffirmed its 2% p.a. inflation target and beefed up its own QE programme. In the US, following some signs of flagging economic momentum, the Fed voted (not unanimously) to leave interest rates unchanged in September, but left open the possibility of a rise before the end of the year.

Government bond yields reflected these divergences. 10-year US Treasury Bond yields rose over the quarter as investors priced in an above-evens chance of a rate rise in December. In contrast, the growing expectation that UK rates will not rise for several years saw 10-year gilt yields plunge as low as 0.6% p.a. in August.

UK property valuations, as measured by the IPD Monthly Index, took a post-referendum hit in July. They drifted lower at a more modest rate in August to stand around 4% below year-end levels.

Key events during the quarter included:
· The UK's manufacturing PMI reached its highest level since June 2014 in September.
· Oil prices rallied at the end of the period as OPEC reached an agreement to cut production. Brent Crude finished the quarter little changed at $49 per barrel.

Equities
· The strongest sectors relative to the FTSE All World Index were Technology (+7.6%) and Basic Materials (+4.2%); the weakest were Telecommunications (-6.5%) and Utilities (-7.6%).
· In local currency terms, the UK and Emerging Market equities were the strongest performers during the quarter whilst US equities lagged.

Bonds and currencies
· UK gilt yields fell (prices rose), with real yields falling further than nominal yields.
· UK investment-grade credit spreads continued to tighten, narrowing to their lowest levels for over a year.
· Sterling continued to weaken against the other major currencies, finishing close to its lowest trade-weighted level since Q1 2009.

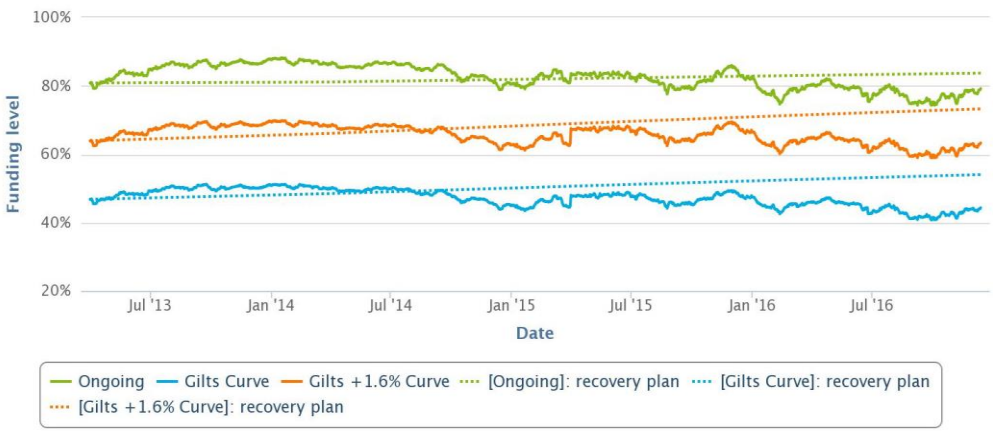
[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

96

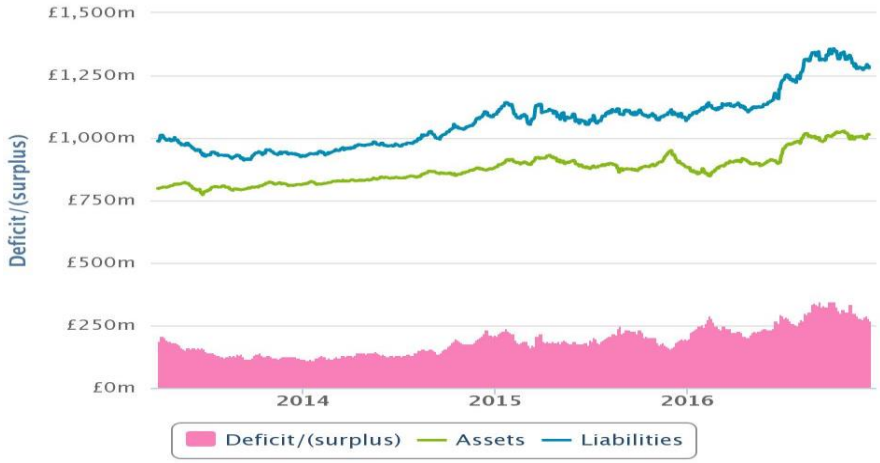
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Funding update

Progression of funding level (on different bases)



Funding position (gilts + 1.6% p.a. basis)



Comments

We have estimated the progression of the Fund's funding position (on different bases) since the last actuarial valuation at 31 March 2013. The analysis is based on the 2013 actuarial valuation report and subsequent funding updates provided by the Fund's previous actuary, Barnett Waddingham. The liabilities have been "rolled forward" allowing for changes in gilt yields over time.

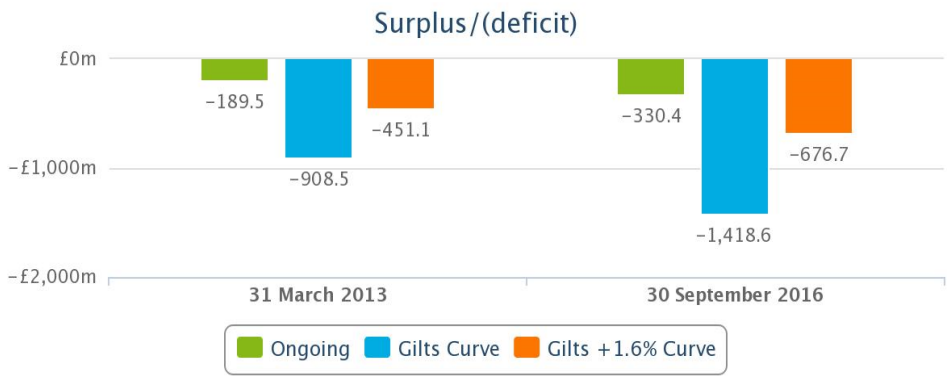
We estimate that since 31 March 2013 the Fund's funding level (on a gilts + 1.6% p.a. basis) has fallen from c. 61% to c. 59% as at 30 September 2016.

As at 30 September 2016, we estimate that the Fund's deficit on a gilts + 1.6% basis is around £677m, an increase of c. £227m since 31 March 2013.

Since the end of September 2016, we estimate the Fund's funding level (on a gilts + 1.6% p.a. basis) has increased to 63% (as at 12 December 2016).

Please note that the Fund's funding position estimated here will differ from that calculated by the previous Fund Actuary, Barnett Waddingham. This is due primarily to the roll forward of the Fund's liabilities and also due to differences in our assumptions used to calculate the funding level. This anomaly will disappear once the 2016 actuarial valuation has been agreed.

Surplus / deficit (on different bases)



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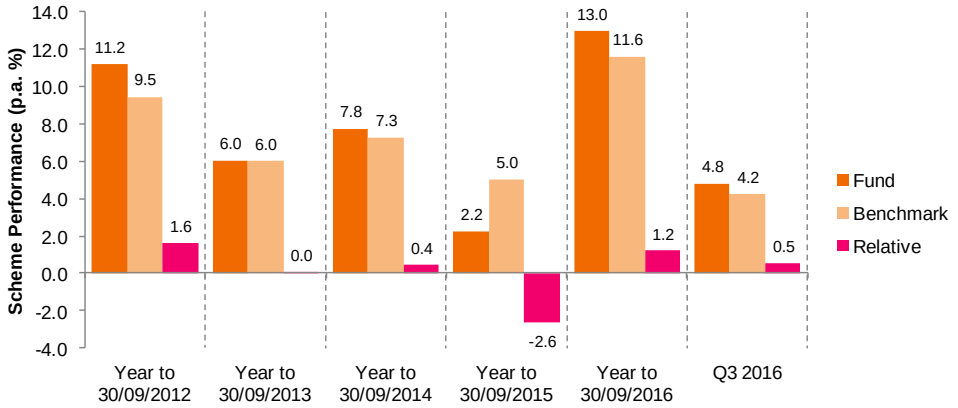
Fund Summary

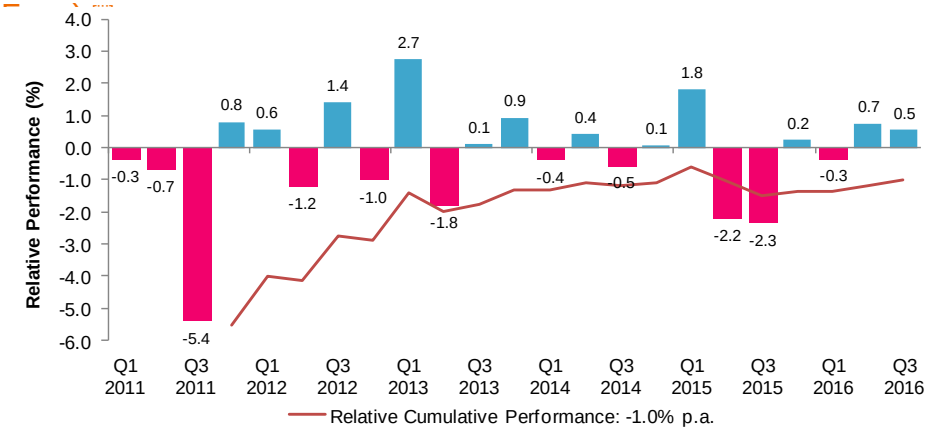
Valuation Summary [1] [i]

Asset Class	Values (£m) Q2 2016	Q3 2016	Actual Proportion %	Target Proportion %	Difference %
Global Equity	359.9	386.1	39.3	36.0	3.3
Absolute Return Funds	271.0	275.3	28.0	27.0	1.0
Multi-Credit	146.4	150.7	15.3	17.0	-1.7
Corporate Bonds	107.6	115.0	11.7	12.0	-0.3
Illiquid Credit	52.6	55.6	5.7	8.0	-2.3
Total Client	**937.5**	**982.7**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of



[1] Excludes operating cash held in Fund bank account.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	15	
Alcentra Multi-Credit	Active	£ 3 month LIBOR + 4% p.a.	50	
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59	
Schroder Life Diversified Growth Fund	Active	RPI + 5% p.a.	60	
Barings Multi-Credit	Active	£ 3-month LIBOR + 5% p.a.	53	
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18	
Schroder ISF Strategic Bond Fund	Active	3 month £ LIBOR + 2% p.a.	52	
Alcentra Direct Lending	Active	-	100	
Partners Group MAC 2015	Active	-	73	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Valuations [1] [i]

Manager	Value (£m) Q2 2016	Q3 2016	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	359.9	386.1	39.3	36.0	3.3
Alcentra Multi-Credit	30.1	31.2	3.2	3.5	-0.3
Newton Real Return Fund	136.7	137.7	14.0	13.5	0.5
Schroder Life Diversified Growth Fund	134.3	137.6	14.0	13.5	0.5
Barings Multi-Credit	25.9	27.2	2.8	3.5	-0.7
Schroder All Maturities Corporate Bond Fund	107.6	115.0	11.7	12.0	-0.3
Schroder ISF Strategic Bond Fund	90.4	92.3	9.4	10.0	-0.6
Alcentra Direct Lending	17.0	18.6	1.9	4.0	-2.1
Partners Group MAC 2015	35.6	37.0	3.8	4.0	-0.2
Total	**937.5**	**982.7**	**100.0**	**100.0**	0.0

[1] Excludes operating cash held in Fund bank account

Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Gross of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	7.3	4.1	0.8	2.5	5.5	6.9	2.0	4.8
	Benchmark	7.3	1.1	1.1	1.9	1.4	6.0	0.6	4.2
	Relative	0.0	3.0	-0.3	0.6	4.0	0.8	1.4	0.5
12 Months (%)	Absolute	19.4	N/A	11.5	6.5	N/A	16.0	N/A	13.0
	Benchmark	19.4	N/A	4.5	7.0	N/A	14.3	N/A	11.6
	Relative	0.0	N/A	6.6	-0.5	N/A	1.5	N/A	1.2
3 Years (% p.a.)	Absolute	10.8	N/A	5.7	5.2	N/A	9.4	N/A	7.6
	Benchmark	10.8	N/A	4.5	6.7	N/A	8.7	N/A	7.9
	Relative	0.0	N/A	1.1	-1.4	N/A	0.6	N/A	-0.3
Since Inception (% p.a.)	Absolute	9.4	4.7	4.7	4.6	4.9	8.4	1.9	6.5
	Benchmark	9.4	1.9	4.6	7.6	1.7	8.2	2.1	7.6
	Relative	0.0	2.7	0.2	-2.8	3.2	0.2	-0.2	-1.0

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund.

Source: [i] DataStream, Fund Manager

Performance Summary (Net of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	7.2	4.0	0.6	2.4	5.4	6.8	1.9	4.7
	Benchmark	7.3	1.1	1.1	1.9	1.4	6.0	0.6	4.2
	Relative	0.0	2.9	-0.5	0.4	3.9	0.8	1.3	0.5
12 Months (%)	Absolute	19.2	N/A	10.8	5.9	N/A	15.8	N/A	12.6
	Benchmark	19.4	N/A	4.5	7.0	N/A	14.3	N/A	11.6
	Relative	-0.1	N/A	6.0	-1.0	N/A	1.3	N/A	0.8
3 Years (% p.a.)	Absolute	10.6	N/A	5.1	4.6	N/A	9.2	N/A	7.1
	Benchmark	10.8	N/A	4.5	6.7	N/A	8.7	N/A	7.9
	Relative	-0.1	N/A	0.5	-1.9	N/A	0.4	N/A	-0.7
Since Inception (% p.a.)	Absolute	9.2	4.5	4.2	4.0	4.8	8.2	1.5	6.1
	Benchmark	9.4	1.9	4.6	7.6	1.7	8.2	2.1	7.6
	Relative	-0.1	2.6	-0.4	-3.4	3.1	0.0	-0.6	-1.4

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund.

Source: [i] DataStream, Fund Manager

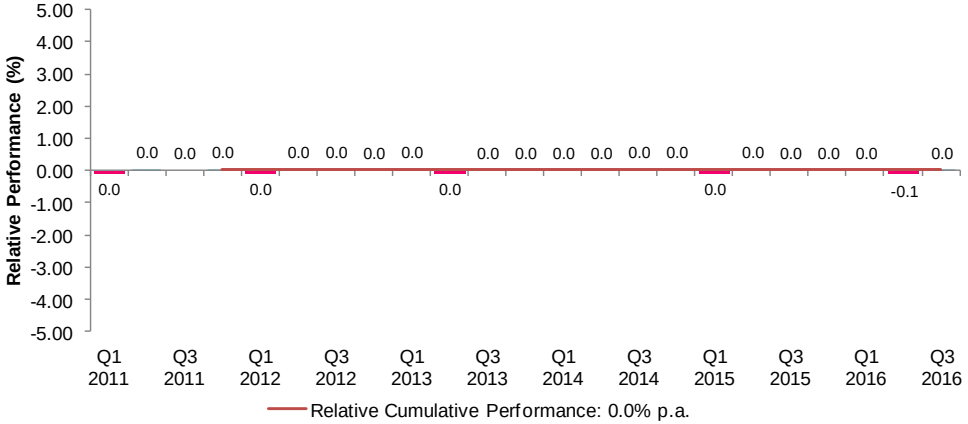
LGIM Global Equity

HR View Comment & Rating

We rate Legal and General Investment Management's market cap and fundamental index-tracking equity capability at '5 – Preferred strategy'.

In October LGIM announced some changes to the standard conditions for its unit-linked pooled life fund insurance policies. We have reviewed these changes and are comfortable that they bring LGIM's conditions into line with industry practice and may provide some marginal benefit to clients in certain pricing scenarios. Clients are not required to take any action in respect of these changes.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

Long term performance shown has been retained to include the performance of the World (ex UK) Equity Index fund since 31 December 2010.

LGIM's global equity mandate has been set up to broadly hedge 50% of its overseas currency exposure.

The third quarter of 2016 was positive for equity markets, with the Fund's overall equity portfolio returning 7.3%, in line with the index as expected of a passive manager.

Performance Summary (Gross of fees) [1] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	7.3	19.4	10.8	9.4
Benchmark	7.3	19.4	10.8	9.4
Relative	0.0	0.0	0.0	0.0

* Inception date 31 Dec 2010.

[1] Long term performance returns includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015.

Source: [i] DataStream, Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Hymans Robertson LLP

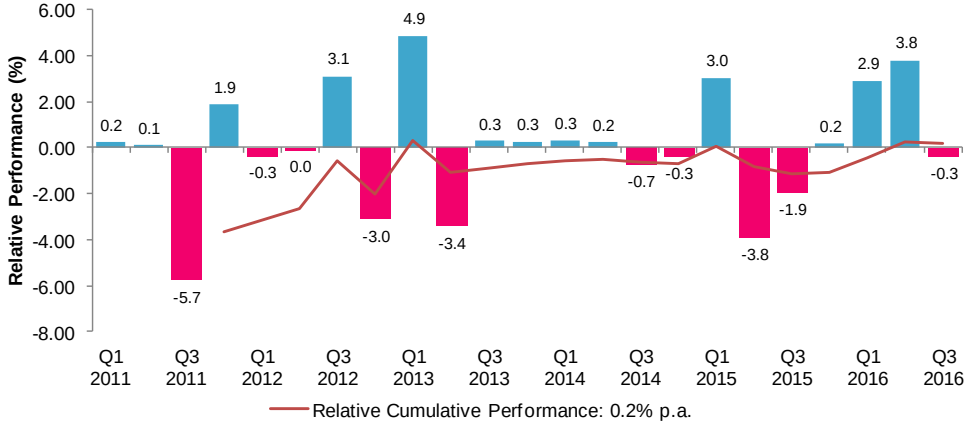
Newton Real Return Fund

HR View Comment & Rating

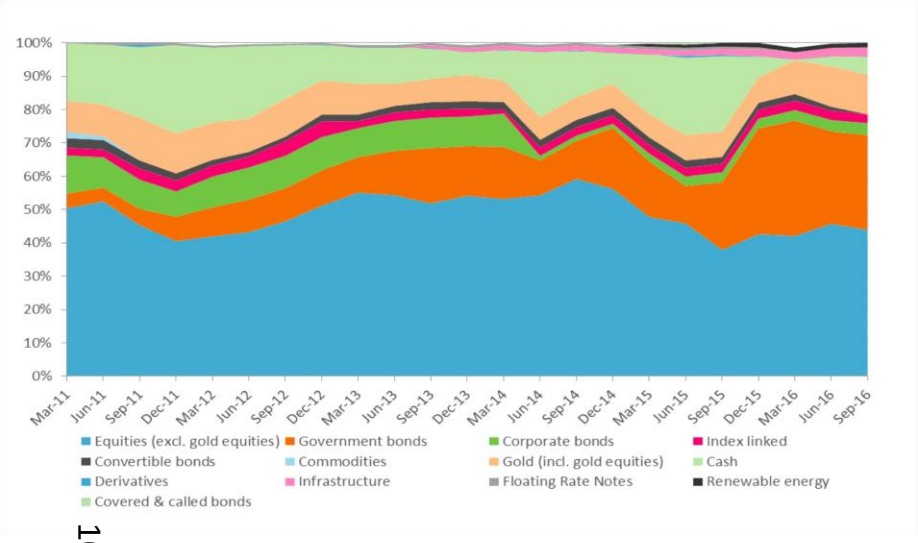
We rate Newton at '5 - Preferred strategy'. The Real Return Fund is an unconstrained multi-asset strategy that seeks to generate a return through both dynamic asset allocation and security specific selection.

In August Newton announced that Helena Morrissey (the current CEO) is moving to the role of non-executive chair on the board of directors. Hanneke Smits has been appointed as the new CEO and the handover is expected to be completed over the next few months (BNY Mellon's Mitchell Harris is acting as interim CEO over the handover period). Smits previously served as CIO of Adam Street Partners and has strong credentials in the private equity area. Although this role is a significant step for Smits given her background, we are comfortable with this change.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

The Newton fund delivered a positive absolute return of 0.8% over the quarter, slightly behind its performance target of LIBOR + 4% p.a. However, the fund remains well ahead of its performance benchmark over the 1 and 3 year periods.

Over the third quarter the fund's return-seeking core provided the largest contribution to the total return, with equity holdings in the technology, media and industrial holdings performing notably well. The fund's positive return was also founded on strong performance by its government bond exposure, with higher-yielding corporate bond holdings proving beneficial. On the downside currency hedging back to sterling was a cost to the fund as sterling continued to weaken. Derivative protection against the S&P 500 index was also detrimental to returns as were some of the fund's healthcare stocks.

Over the quarter Newton took profits from a number of its equity positions that had produced strong recent returns. With the proceeds, Newton initiated new positions in food and beverage firm Suntory, semi-conductor manufacturer Maxim Integrated and Adecco, an international employment business. Newton also restructured its exposure to commodities/precious metals over the quarter by crystallising some of the profits on the fund's gold mining equities (Newton classify these as commodity holdings rather than equities) with the proceeds used to purchase the physical assets. Newton remains a believer that the current market environment requires a focus on capital preservation rather than the pursuit of short-term gains. Consequently, the fund remains very defensively positioned. Newton expects fundamental analysis will once again come to the fore (as opposed to markets being driven by central-bank interventions) and therefore patience should prove beneficial.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

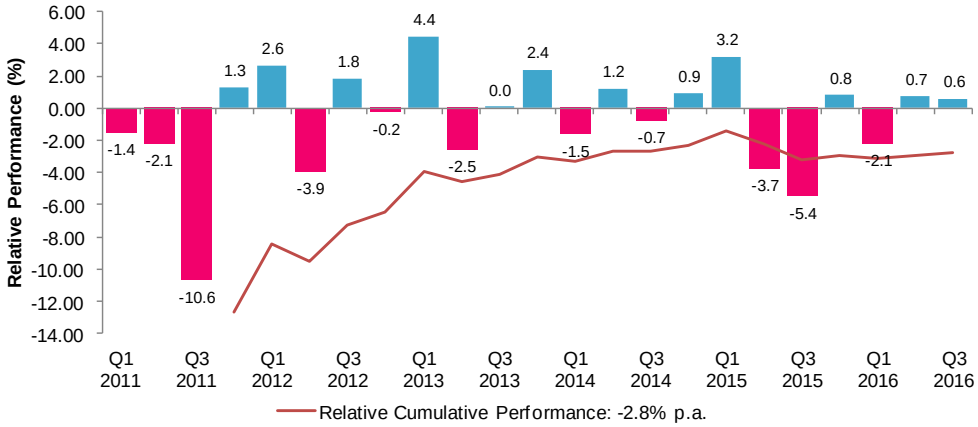
Schroder Diversified Growth Fund

HR View Comment & Rating

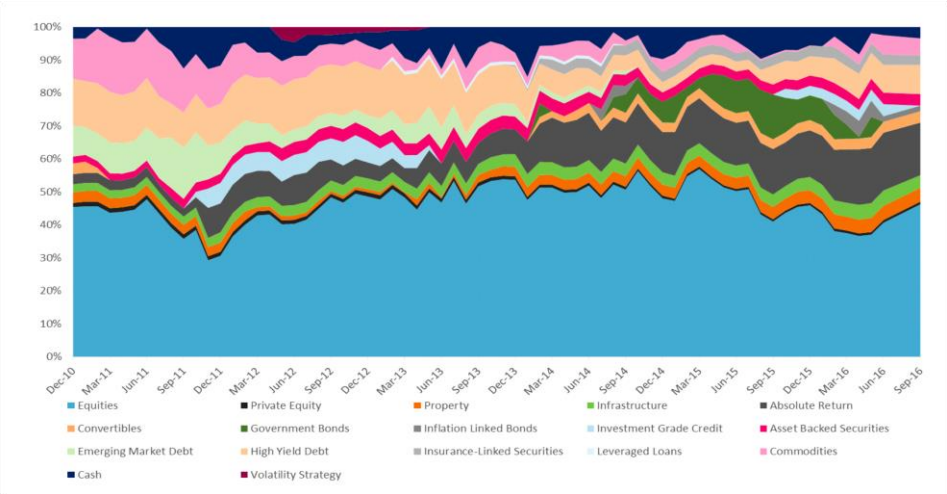
In September 2016 Schroders announced the acquisition of the securitised credit business of Brookfield Investment Management. We believe this is a positive development that can potentially widen the opportunity set at the disposal of the multi-asset team, particularly in asset-backed and mortgage-backed securities.

Following the departure of Nico Marais, Johanna Kyrklund is leading from both an investment and business perspective. Garth Taljard has been brought in from their Hong Kong office to focus on taking some of the business-themed workload off Kyrklund, such as product development. Remi Olu-Pitan, a Portfolio Manager in the DGF, has been promoted to the Global Asset Allocation Committee, replacing Richard Coghlan. We view both of these as positive developments for Schroder and also for the DGF, with clearer accountability for both Kyrklund and Olu-Pitan going forward and allowing Kyrklund to focus on what matters most - delivering on the return objectives for the DGF. We continue to rate the Schroder DGF as '4 - Retain'.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

Over the third quarter Schroder's DGF posted an absolute return of 2.5%, outperforming its RPI + 5% p.a target by 0.6%. The fund remains behind its performance target over all longer term periods.

Gains were made across the portfolio with positive returns over the quarter with global equities leading the way. Emerging market equities in particular delivered strong returns on the back of global central banks maintaining an accommodative policy - this marked the fund's first significant move into emerging market equities for a number of years as they believe this market has more growth momentum now than its developed peers. The portfolio's fixed income and alternative assets also contributed positively to performance, with the former benefitting from the fall in yields in Europe over the quarter. Currency shifts continue to be a strong driver of equity returns for unhedged UK investors.

Property and commodities slightly detracted from returns over the quarter, as did US treasuries. US bond values fell as investors anticipated a more than likely interest rate hike by the US Fed before the end of the year.

Performance (relative to objectives) has rebounded over the past couple of quarters but continues to lag on a return basis over the long term. The manager has admitted that there needs to be a much heavier reliance on dynamic asset allocation to add value and hit the intended return objective going forward as expected returns from markets will be "lower-for-longer". In the past, their dynamic asset allocation has detracted from returns.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Schroder ISF Strategic Bond Fund

HR View Comment & Rating

Schroders have announced that Gareth Isaac, portfolio manager in the global multi sector team, is leaving the business. His fund management responsibilities will be assumed by Paul Grainger, senior portfolio manager, working closely with Bob Jolly, Head of Global Macro Strategy. Both Jolly and Grainger report into Phillipe Lespinard, Global Head of Fixed Income. Earlier this year, Schroders made some changes to the structure of the Global Multi-Sector team devoting extra resources to the strategy function under the leadership of Bob Jolly. Jolly subsequently handed over some of his lead manager responsibilities to the fund management function. Schroders also strengthened the team through hiring James Lindsay-Fynn as a portfolio manager based in London and added three senior members to the Credit & Global Fixed Income teams based in New York.

Although we do not explicitly rate the ISF Strategic Bond Fund, we continue to rate Schroders Sterling Corporate Bond Fund a '4 - Retain'.

Performance Summary (Gross of fees) [i]

	3 Months (%)	6 Months (%)	Since Inception* (% p.a.)
Fund	2.0	3.1	1.9
Benchmark	0.6	1.3	2.1
Relative	1.4	1.8	-0.2

* Inception date 01 Oct 2015.

Fund Commentary

The fund has a stated performance target of LIBOR + 4% p.a. over a market cycle which is typically c. 5 years. We view this performance target as ambitious given the type of strategy being employed. For the purposes of our reporting, we have therefore chosen to measure the fund against a benchmark of LIBOR + 2% p.a., at least over the shorter term, as we believe this level of outperformance to be a more realistic target for the fund to achieve.

Over Q3 2016 the fund outperformed its performance target of LIBOR + 2% p.a by 1.4%, delivering an absolute return of 2.0%.

Despite market volatility, the initial negative impact from a surprise Brexit vote passed quickly. There was a mixed picture for bond performance across the globe - yields fell in the UK as the Bank of England cut interest rates, remained relatively unchanged overall in the Eurozone, and rose in the US as investors expected the Fed to raise interest rates in December. The most notable contributors to performance were credit and currency strategies, as well as global corporate bonds.

Source: [i] Fund Manager

Hymans Robertson LLP

Barings Global High Yield Credit Strategies Fund

HR View Comment & Rating

Barings (previously Babson) have been re-instated at '5 - Preferred strategy" having previously being downgraded to '3 - On Watch', following the high profile departures of Zak Summerscale, European CIO and Head of European High Yield and Kam Tugnait, Portfolio Manager for European High Yield.

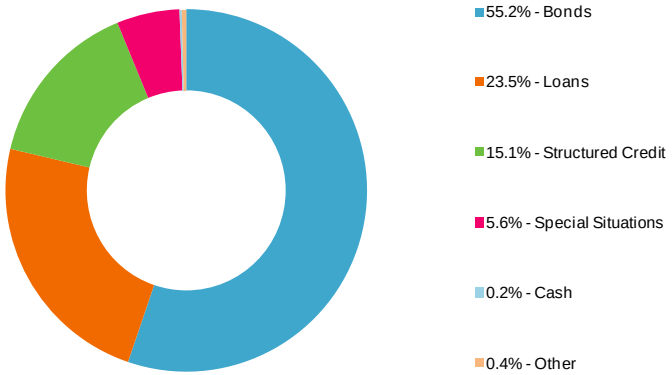
We have been monitoring the situation at the manager closely over the last six months and have had a number of meetings with the US and European senior investment teams, including meeting with the recent hire Craig Abouchar. We are comfortable that the investment teams remain stable and strong, Craig is a seasoned High Yield investor and the key individuals for the Global High Yield Credit Strategies Fund remain in place, including Martin Horne and Mike Freno, both of whom we rate highly. Asset flows have been net positive over the period and the investment philosophy and process remains unchanged. We have therefore made the decision to move the manager's rating back to "5 - Preferred strategy".

Performance Summary (Gross of fees) [ii]

	3 Months (%)	Since Inception* (% p.a.)
Fund	5.5	4.9
Benchmark	1.4	1.7
Relative	4.0	3.2

* Inception date 10 Jun 2016.

Asset Allocation [i]



Fund Commentary

Barings delivered an absolute return of 5.5% over the quarter, outperforming its performance target of LIBOR + 4% p.a. by 4.0%. It is important to note, however, that this sort of performance objective is in line with our long-term expected return for equities and hence the expectation of 'equity-like returns with lower risk'. Whilst we still believe this to be an appropriate target it is less than helpful for measuring short and medium-term performance.

Performance in the high yield market remained resilient with September marking the eighth consecutive month of positive performance for the asset class. The BoAML Non-Financial Developed Markets High Yield Constrained Index returned 5.3% over the quarter whilst the Global Loan Index returned 3.11%. Strong performance in the high yield market was largely driven by the recovery in commodity-related industries and lower rated credits, with the Energy and Metals & Mining sectors returning over 30% year-to-date.

The top contributors to returns were Peabody Energy, a miner, broker and trader of coal; Constellium, a designer and manufacturer of aluminium products; and Wind, an Italian mobile telecom operator. Notable detractors from returns include Vivarte, a French fashion retailer who restructured in 2014, resulting in the lenders taking control of the company; BrightHouse Group, a leading rent-to-own retail chain in the UK; and AVR, a Dutch waste management company focused on domestic and commercial waste incineration.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager

Hymans Robertson LLP

Alcentra Global Multi-Credit Fund

HR View Comment & Rating

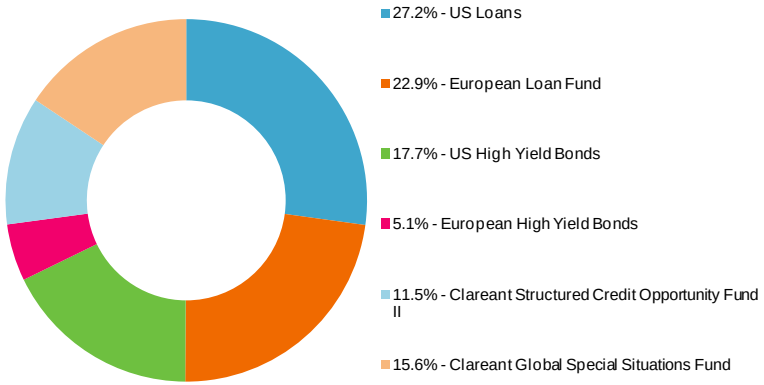
There was no significant business news to report over the quarter to 30 September 2016.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	Since Inception* (% p.a.)
Fund	4.1	4.7
Benchmark	1.1	1.9
Relative	3.0	2.7

* Inception date 03 May 2016.

Asset Allocation by Strategy [i]



Fund Commentary

The Fund's allocation to Alcentra's multi-credit fund has a made strong start since inception back in May this year. The third quarter of 2016 was positive across almost the entire sub-investment grade universe with the fund delivering a return of 4.1% for the quarter.

Over the period lack of issuance and strong CLO (collateralised loan obligations) demand drove performance in the US and European loan markets. Further inflows into the US loan market also aided performance whilst the US high yield market benefitted from an improving trend in energy and commodity prices. Only the fund's European high yield allocation detracted from returns which struggled over the quarter due to significant new supply within the sector. As a result of the slight fall in European high yield markets, the manager decided to take the opportunity to marginally increase its allocation to c. 5%, however, this is still the lowest of the manager's allocations due to better relative valuations elsewhere.

As part of the fund's strategy the manager is also able to invest in both Alcentra's Special Situations fund and Structured Credit Opportunity fund. The former focuses on investing in undervalued, sub-investment grade opportunities, primarily in Europe which potentially have higher return targets without a corresponding increase in risk. The latter focuses on accessing CLOs which are tranches of debt securities backed by senior secured loans to US and European corporates. Both of these funds contributed positively to overall fund performance for the quarter.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager

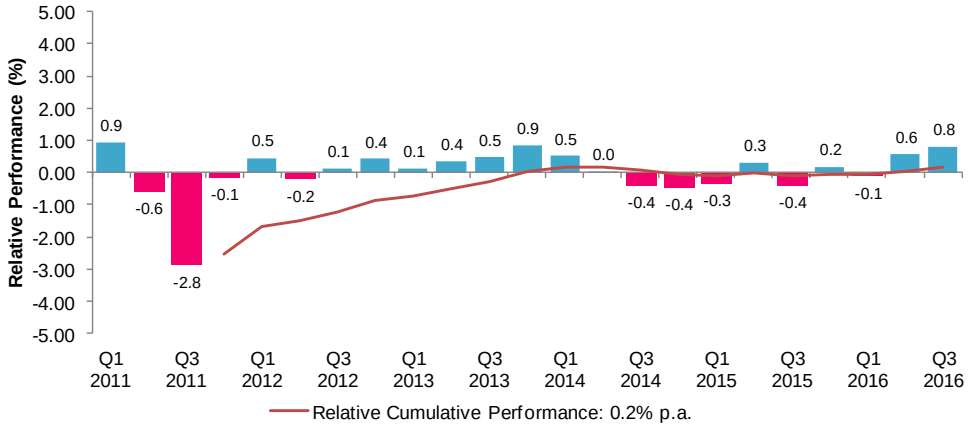
Hymans Robertson LLP

Schroder Corporate Bond Fund

HR View Comment & Rating

Please see business comments for Schroders on page 13. We continue to rate Schroders at '4 - Retain'.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

The Schroder All Maturities Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period.

The fund delivered an absolute return of 6.9% over the third quarter of 2016, outperforming its benchmark by 0.9%. The inclusion of high quality sterling denominated corporate bonds in the Bank of England's quantitative easing programme led to an increase in their values due to strong demand. On a total return return basis, industry, healthcare, and utilities were the main outperformers for the fund, whilst automotive and mortgage-backed securities detracted from performance.

Positive performance over Q3 has continued to improve the fund's longer-term numbers with the fund now ahead over the past 3 years and since inception.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	6.9	16.0	9.4	8.4
Benchmark	6.0	14.3	8.7	8.2
Relative	0.8	1.5	0.6	0.2

* Inception date 31 Dec 2010.

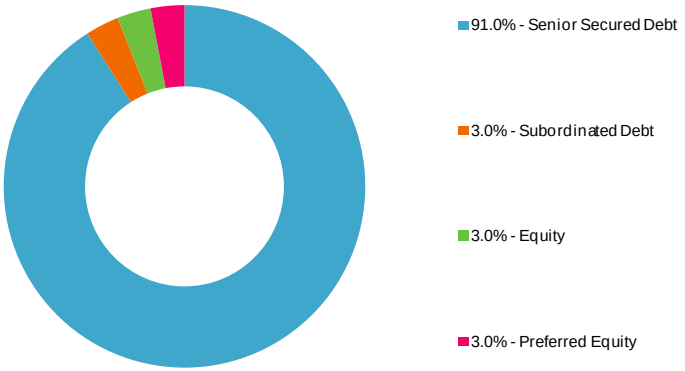
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager, Hymans Robertson

Partners Group Private Market Credit Strategies 2015 Fund

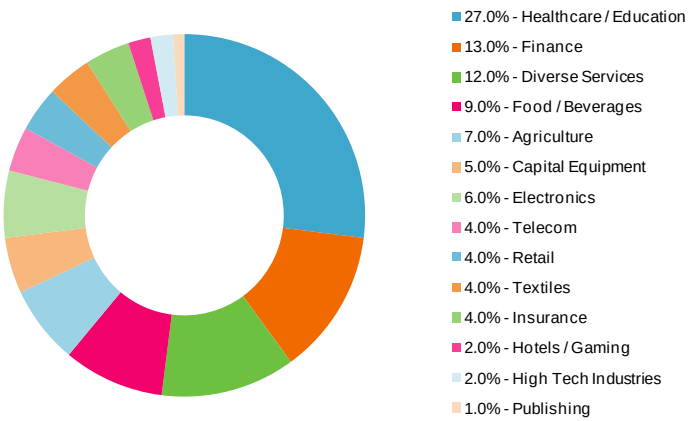
Fund Summary [i]

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Value Created	Net Multiple	Net IRR
MAC 2015	£35,000,000	£35,000,000	11.6%	£36,992,905	£1,992,905	1.04x	4.3%

Asset Allocation [ii]



Sector Allocation [iii]



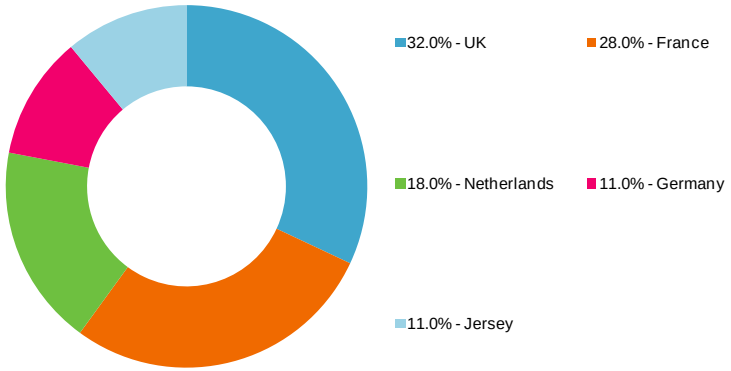
Source: [i] Fund Manager, [ii] Fund Manager, [iii] Fund Manager

Alcentra European Direct Lending Fund

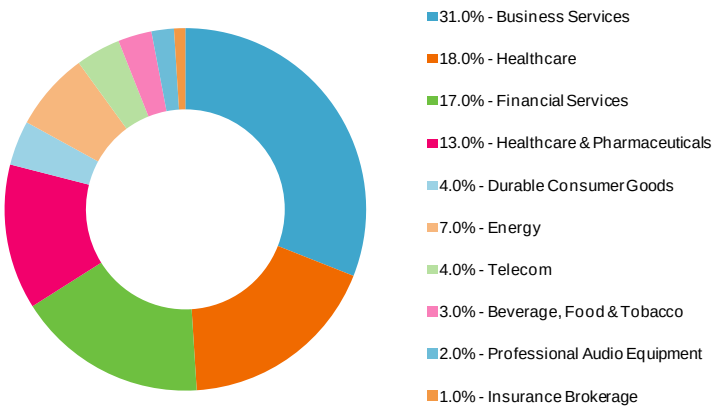
Fund Summary

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Value Created	Net Multiple	Net IRR
EDL II	£17,622,857	£35,000,000	3.1%	£18,581,339	£958,482	1.05x	-

Geographic Allocation [i]



Sector Allocation [ii]



Source: [i] Fund Manager, [ii] Fund Manager

Performance Calculation

Geometric vs Arithmetic Performance

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

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

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AGENDA ITEM 11

Pension Fund Risk Register

18 January 2017

Title	**Pension Fund Risk Register**
Report of	Interim Chief Executive Officer/Section 151 Officer
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Risk Register
Officer Contact Details	Iain Millar 020 8359 7126, iain.millar@barnet.gov.uk

Summary

The report sets out the arrangements for managing risk in the Pension Fund.

Recommendations

That the Pensions Fund Committee:

1. **That the arrangements in place to manage risk within the pension fund are noted.**

2 **Instructs the appropriate Officer(s) to address any issues that it considers necessary.**

1. WHY THIS REPORT IS NEEDED

1.1 To provide the Pension Fund with details of the arrangements in place to manage risk within the Pension Fund.

2. REASONS FOR RECOMMENDATIONS

2.1 The Interim Chief Executive/Section 151 Officer has delegated responsibility with appropriate officer and professional advisor support to ensure that risk management arrangements are in place for the Pension Fund. This includes maintaining a Pension Fund risk register

2.2 Pension Fund Committee and Pension Board will review the risk register at least annually.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None in the context of this report.

4. POST DECISION IMPLEMENTATION

4.1.1 The Pension Fund Risk register will be updated to reflect new and emerging risks with action plans to manage those risks.

4.1.2 Pension Fund Committee will review the updated risk register at least annually.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The Pension Fund Committee supports delivery of Council's strategic objectives and priorities as expressed through the Corporate Plan 2015-2020 A risk management approach ensures that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 None in the context of this report.

5.3 Social Value

5.3.1 None in the context of this report.

5.4 Legal and Constitutional References

5.4.1 Council Constitution, Responsibility for Functions, Annex A, set out the terms of reference for the Pension Fund Committee, The scope of responsibilities of the Pension Fund require a risk management approach.

5.4.2 Council Constitution, Responsibility for Functions, Annex A, set out the terms of reference for the Local Pension Board, which include:

- Ensure the Pension Fund's internal Risk Register is in place and reviewed at least annually

5.5 **Risk Management**

5.5.1 The London Borough of Barnet has a Risk Management Framework which seeks to ensure that risks of all types are adequately managed by the organisation (and, where relevant, jointly with its partners).. A key component of this is the Corporate Risk Register which combines the strategic and business risks and escalated service risks affecting the authority and is reported quarterly to the Performance and Contract Monitoring Committee. As a separate entity it is appropriate that the London Borough of Barnet Pension Fund has its own Risk Register.

5.5.2 The objectives of the risk management process are to:

- identify key current risks to the achievement of the Fund's objectives
- assess the likelihood of the risk occurring and the potential impact should the risk occur
- respond to the risk, e.g. treat, terminate, tolerate or transfer,
- monitor, report and escalate risks - if treating the risk, assess the effectiveness of controls and/or mitigations in place and consider whether further action is required, including escalating to the corporate risk register
- Record the findings in the pension fund risk register

5.5.2 The Risk register will be kept under review and updated to reflect the direction of travel for each risk.

5.5.3. It is intended to report at least annually to the Pension Board with significant changes reported more regularly.

5.6 **Equalities and Diversity**

5.6.1 There are no Equalities and Diversity issues arising from this report.

5.7 **Insight**

5.7.1 None in the context of this report

5.8 **Consultation and Engagement**

5.8.1 None in the context of this report

6. BACKGROUND PAPERS

6.1 None.

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Appendix 1

London Borough of Barnet Pension Fund Risk Register December 2016

Risk		Current Assessment Impact Probability Rating			Control Actions	Risk Status	Committee Assurance (timing)
Long-term investment strategy for the Pension Fund has low chance of delivering return required to meet fully funded objectives		Major 4	Likely 4	High 16	Review current fund specific benchmarks based on asset-liability -modelling of liabilities. Revise investment strategy through investment diversification and asset class re-allocation	Treat	Quarterly
Investment managers under perform relative to the benchmark over the medium term.		Major 4	Possible 3	Medium High 12	Quarterly investment monitoring in place to analyse market performance against the performance of the investment manager. Investment strategy under review. Review meetings held with managers if concern over performance	Treat	Quarterly
Fund assets fail to deliver returns in line with actuarial assumptions		Major 4	Possible 3	Medium High 12	Annual actuarial review and triennial valuation on all employers anticipate long term returns on prudent basis	Tolerate	Quarterly

Effect of possible increase in employer's contribution rate on service delivery and affordability for scheme employers		Major 4	Possible 3	Medium High 12	Manage impact by deficit spreading and phasing in of contributions rises. Deficit funding through monetary contributions	Tolerate	Quarterly
Significant reduction in funding level following triennial actuarial valuation		Major 4	Possible 3	Medium High 12	Triennial review of funding strategy statement investment strategy and actuarial assumptions following actuarial valuation to maximise funding levels in context of affordability to the Council and other scheme employers.	Tolerate	Actuarial valuation reporting in January and March 2017
Rebalancing of portfolios to approved asset allocations delayed due to market volatility		Major 4	Possible 3	Medium High 12	Scheduled timetable for sale and transfer of assets to ensure transition completed in agreed timeframe	Treat	Quarterly
Strength of covenant of new employers /risk of financial loss to Pension Fund		Major 4	Unlikely 2	Medium High 12	Ensure Bond arrangements maintained and renewed. Pension Fund Committee monitors Admission agreements bond renewals	Treat	Quarterly

Target assessment		
Impact Probability Rating		
Major 4	Unlikely 2	Medium High 8
Major 4	Possible 3	Medium High 12
Major 4	Possible 3	Medium High 12

Major 4	Possible 3	Medium High 12
Major 4	Possible 3	Medium High 12
Major	Possible	12
Major 4	Unlikely 2	Medium High 12

AGENDA ITEM 12

Pension Fund Committee

18 January 2017

Title	**Update on Admitted Bodies Organisations**
Report of	Interim Chief Executive
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Admitted Bodies Monitoring Sheet
Officer Contact Details	Karen Scott, Service Delivery Manager, Capita Karen.scott2@capita.co.uk 07785 454929

Summary

This report updates the Committee on the admitted bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBOB).

Recommendations

1. **That the Pension Fund Committee note the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.**

1. WHY THIS REPORT IS NEEDED

1.1 The report is to update the Pension Fund Committee on the current position in relation to admitted bodies to the London Borough of Barnet Pension Fund.

2. REASONS FOR RECOMMENDATIONS

2.1 In accordance with the Best Value Authorities Staff Transfer Direction 2007, issued under s.101 of the Local Government Act 2003, former Council employees must be offered the same pension benefits and rights or a Government Actuary Department approved broadly comparable scheme.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

4.1 Once any recommendations in terms of admitted bodies have been approved, the Pension Fund will take appropriate action to update records and obtain bond information.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 Appendix 1 notes the bond levels required for each admitted body which will act as guarantee for the Pension Fund liabilities.

5.2.2 All organisations that have been paying their contributions in a timely way in line with the terms of their admittance to the Pension Fund have been rated green in Appendix 1 apart from the newest admissions that are in the process of setting up payments.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Schedule 2 of the Local Government Pension Scheme Regulations 2013 provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2 With respect to an admission agreement, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified. However, the Regulations do allow in some circumstances for the scheme employer to act as guarantor.

5.4.3 The Council's standard admissions agreement makes provision for the admitted body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

5.4.4 Under the Council's Constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.5 **Risk Management**

5.5.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that admissions agreements and bonds (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant admission agreement.

5.6 **Equalities and Diversity**

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups.

The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services

5.7 **Consultation and Engagement**

5.7.1 Not Applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Admitted Body Monitoring Spreadsheet
Appendix 1

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Housing 21 (2) New (employer 68)	56	06/09/2010	Barclays Bank	778	30/09/2015	NA	G	Housing 21 is no longer an admitted body in the fund from 01/08/2016. Actuary has confirmed that a cessation valuation is required. CEB (Capita) currently collating data.
Viridian Housing	11	22/04/2006	Euler Hermes UK	65	16/08/2016	R	G	Awaiting confirmation of agreed actuarial assumptions before bond value can be calculated by actuary
Fremantle Trust (2)	83	28/03/2014	Royal Bank of Scotland	770	27/03/2017		G	Contact will be made with this employer early in January 2017
Greenwich Leisure	22	31/12/2002	Zurich Insurance PLC	328	30/09/2017		G	

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Birkin Cleaning Services (St James Catholic) Approved	6	24/10/2011	Technical & General Guarantee Company SA	13	30/08/2015	R	G	Await actuarial report in terms of alternatives.
Mears Group Approved	19	10/04/2012	Euler Hermes	320	30/09/2017		G	
NSL Approved	31	01/05/2012	Lloyds TSB	412	30/04/2017		G	Contact will be made with this employer early in January 2017
Music Service (BEAT) Approved	2	01/03/2013	N/A	24	28/02/2016	R	G	Await actuarial report in terms of alternatives.
Capita (NSCSO) Approved	412	01/09/2013	Barclays Bank PLC	4,731	01/09/2017		G	

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Capita (DRS) Approved	261	01/10/2013	Barclays Bank PLC	3,813	01/10/2017		G	
OCS Group Approved	13	31/05/2014	HSBC	102	31/05/2017		G	Contact will be made with this employer early in January 2017
Ridgecrest Cleaning Approved	4	03/11/2014	HCC International	14	03/11/2017		G	
Green Sky (2)(Claremont School) Approved	4	19/01/2015	TBC	23		R	G	Await actuarial report in terms of alternatives.
Hartwig Approved	1	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBOB - no bond required
Allied Healthcare Approved	4	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBOB - no bond required

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Absolutely Catering (Queenswell School Catering Contract) Approved	1	01/09/2015	TBC	17	01/09/2018		G	21/12/2016 no Bond or Admission Agreement has ever been received despite many chasers, CEB have now been advised this contract has been re-procured and awarded to Pride Catering. CEB have contacted the school for confirmation of the current situation. Cessation calculation will be required for Absolutely Catering 1
Green Sky (3) (St Michaels School cleaning contract) Approved	5	01/09/2014	TBC	16		R	G	Await actuarial report in terms of alternatives.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Absolutely Catering (2) (St James' Catholic School) (previously on report as Brookwood) Approved	8	01/01/2016	TBC	33	01/01/2019		G	Absolutely Catering have been conversing with CEB in terms of the paperwork and expect to send the Bond document shortly, currently awaiting final information from their insurer
Servest (Henrietta Barnet School) Approved	1	01/10/2015	TBC	7	01/10/2018	R	G	Servest have been conversing with CEB in terms of the paperwork and expect to send the Bond document shortly. Currently awaiting final information from their insurer.
ISS (Education and Skills – LBOB Catering) Approved	233	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Awaiting signed Admission Agreement

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Cambridge Education (Mott Macdonald) (Education and Skills LBOB non-catering) Approved	113	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Admission Agreement received and sent to legal for sealing
Hestia (Domestic violence service) Approved	1	18/04/2016	TBC	£15K	TBC		G	Admission Agreement received and sent to legal for sealing. Still awaiting Bond document but details are provided in the Admissions Agreement so it can be considered to be in place.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Allied Healthcare 2 (Home Care Procurement – Healthcare) (split between AH2 and Hartwig 1 & 2 which are being joined to form Hartwig 3) Approved	5	01/08/2016	NA	No Bond required LBOB guarantor	NA	R	G	Admission agreement and bond prepared and issued by legal advisor, CEB advised advisor is actively chasing and will forward shortly

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Aqualfo (Home Care Procurement – Enablement) Approved	31	01/08/2016	TBC	£572K	TBC		G	Admission Agreement and Bond has not been received. CEB have now been advised that this contract has been terminated due to service issues and the contract re-procured with Your Choice. A cessation valuation will be required, CEB currently liaising with legal advisor
APCOA	1	14/11/2016						CEB have just been informed that one member of staff has TUPE'D from NSL. Currently awaiting details as have had no involvement previously.

For information only (current activities)

Street Scene

We have been made aware there is a possible large re-procurement (500+ members) named Street Scene. We have now received the membership data and are currently collating the pensions information required by the actuary

Leisure Contract Management Operator

At initial stage, effective from 1/1/2018 (8 members). The membership data has been sent to the actuary to calculate the employer contribution rate and Bond level

Possible conversion to Academies

Bishop Douglas	Currently awaiting membership data from school
Oak Lodge School	Currently collating pensions information for the actuary
Oak Hill Campus	Currently awaiting membership data from school
JCOSS	Currently awaiting membership data from school

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London Borough of Barnet

Pension Fund Committee Work Programme

March 2017 – May 2017

AGENDA ITEM 13

Title of Report	Overview of decision	Report Of *(officer)*	Issue Type (Non key/Key/Urgent)
14 March 2017			
Barnet Council Pension Fund Performance for Quarter	That having considered the performance of the Pension Fund for the quarter, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary.	Interim Chief Executive (Director of Finance / Section 151 Officer)	Non – Key
Investment Strategy Statement	To approve Investment Strategy Statement	Interim Chief Executive (Director of Finance / Section 151 Officer)	Non-Key
Pension Fund Performance – impact of Brexit	That the Committee consider the update report which sets out the impact that Brexit has had on the performance of the Pension Fund.	Interim Chief Executive (Director of Finance / Section 151 Officer)	Non-Key
2016 Actuarial Valuation	To approve 2016 actuarial valuation recommendations	Interim Chief Executive (Director of Finance / Section 151 Officer	Non-Key